

Proxy Voting Guidelines

2009 Tenth Edition

Northwest & Ethical Investments L.P.



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Proxy Voting Guidelines 2009

1.0 Introduction

As the owners of common stock, shareholders have the right to propose and vote on a wide variety of company policies and practices. Shareholder votes on these policies are conveyed directly to the highest levels of the company: its board of directors. This is called proxy voting.

The opportunity to exercise the shareholder vote comes every year as companies organize for their annual general meeting (AGM). By law, companies are required to submit management proposals to a shareholder vote. The content of these proposals ranges from amending articles of incorporation to electing board directors to setting executive compensation among many other things. In addition, in certain jurisdictions, companies are required to submit proposals sponsored by shareholders to a vote. With rising shareholder activism in the US, Canada, Europe and Asia shareholder proposals are showing up on the ballot in greater numbers.

Proposals from management and shareholders appear as items in the company's "management proxy circular." This is a document mailed to every shareholder prior to the company's AGM. The proxy circular sets out the time and place for the meeting and provides a financial, operational, and strategic report. If shareholders cannot attend the meeting they can vote on these issues directly or sign their votes over to another individual or institution to vote on their behalf by "proxy" (hence the name "proxy voting"). The management proxy circular provides a form that encourages shareholders to follow this practice.

Mutual fund unit holders do not directly own the shares of the companies invested in by the mutual fund. Rather they own "units" in the mutual fund. As such, mutual fund investors have conveyed the responsibility for proxy voting to the mutual fund managers. In practical terms, this means that mutual fund unit holders do not receive the management proxy circular from each company in the mutual fund's portfolio. Instead, proxy circulars go to the mutual fund portfolio manager.

The disadvantage to a mutual fund investor is that you do not have the opportunity to specify how you would like to see shares voted on each proxy issue with each company. An advantage is you do not have

to sort through hundreds of management proxy circulars and thousands of proxy issues. Investors can add their voice to the hundreds of thousands of people from across Canada and around the world, supporting high standards of corporate governance and corporate social responsibility.

Historically, mutual funds did not disclose proxy voting guidelines or proxy votes, and were viewed as passive investors reluctant to challenge corporate management on such issues as corporate governance or executive compensation. Funds typically followed the so-called "Wall Street rule" or "Wall Street walk," according to which an investor should either vote as management recommends or, if dissatisfied with management, sell the stock.

Some observers criticized this practice, noting both the enormous influence of mutual funds and the potential conflict of interest that arises when a mutual fund manager also seeks to manage the retirement plan assets of a company whose securities are held by the fund. In these situations, a mutual fund may have an incentive to support management recommendations to further its business interests rather than the interests of the mutual fund unit holder. Further, ongoing corporate governance scandals have underscored the continued need for mutual funds and other institutional investors to play a more active role in corporate governance. The wide-ranging nature of these scandals demonstrates the folly of the Wall Street rule and indicates that institutional investors must embrace a higher standard of duty and care, as stockholders and as fiduciaries. As noted by Graham and Dodd in their 1934 classic, *Security Analysis*, "The choice of a common stock is a single act; its ownership is a continuing process. Certainly there is just as much reason to exercise care and judgment in being a stockholder as in becoming a shareholder."

In 2003, the United States Securities and Exchange Commission (SEC) responded to socially responsible mutual fund lobbying and adopted a new rule requiring mutual funds to disclose the policies and procedures they use to vote proxies, and to file with the SEC and make available to shareholders the specific proxy votes they cast.

On August 31, 2006, mutual funds in Canada were required, for the first time, to publicly report their proxy voting policies and to disclose their proxy voting records.

This requirement was the result of a change in securities regulation proposed by the Canadian Securities Administrators (CSA) and implemented throughout the country by the provincial and territorial securities regulators.

2.0 General Principles

2.1 Voting Authority

These guidelines are used for voting proxies of all funds managed by Northwest & Ethical Investments L.P. (NEILP).

NEILP retains the right to vote proxies and regards the proxies we hold on behalf of our unit holders as significant corporate assets. NEILP makes use of external research providers for proxy voting analysis. Our Sustainability Analysts review proxy information and third party analyses and execute the proxy voting process for our funds.

Items on the agenda are individually reviewed and analyzed. The final voting decision is based on our proxy voting guidelines and internal analysis. Whenever possible, individual explanatory notes for each issue voted are provided. This information is publicly disclosed on the funds' Web site, along with the voting record.

2.2 Geographical Limitations on Proxy Voting

All proxies are voted for both Canadian and US securities. NEILP cannot guarantee the ability to vote shares of companies domiciled outside Canada and the US at all times.

In many countries, proxy voting can be complicated and onerous. For example, in some countries proxy materials are not generally available until 15 days prior to an AGM. Shareholders are thus unable to review proxy issues and company materials thoroughly. In many countries, there is no procedure for mailing in proxy votes; shareholders must attend the meeting in person in order to exercise their vote. Many countries also allow companies to engage in "share-blocking" whereby the trading of company stock within a given period of time on or around a meeting date is prohibited if a shareholder votes the shares. In some countries, the shareholder resolution process is limited and there are few investment institutions with the capacity to sponsor resolutions of interest to socially responsible shareholders.

2.3 Application of these Guidelines

Our Proxy Voting Guidelines are designed to be responsive to the wide range of issues that can be raised in proxy situations. Because we cannot anticipate every proxy item for the upcoming shareholder resolution season, for those issues not covered in these guidelines, we look to our Core Values and sustainable investment criteria for direction. NEILP has a responsibility to provide competitive rates of return to our investors. NEILP will not support resolutions that are likely to harm a company's long-term financial health.

2.4 Caveat

No set of guidelines can guarantee board effectiveness. The implementation of these guidelines will help encourage, rather than guarantee, effective governance, the adoption of progressive social and environmental policies, and advance social and environmental performance records.

2.5 Proxy Voting Disclosure

Revised proxy voting guidelines are published on our Web site each February. NEILP discloses our voting activity, by fund, on specific proxy items on our Web sites, for each company's annual general meeting. NEILP aims to provide, whenever possible, explanatory voting notes for each issue voted. Ethical Funds Inc., the predecessor manager of Ethical Funds, was the first mutual fund company in Canada to disclose this information to our investors and the general public. NEILP aims to provide investors with the best and most transparent proxy voting disclosure.

We update our vote disclosure daily on our English sites and semi-annually on our French site.

3.0 Corporate Governance Issues

3.1 Board of Directors – General Philosophy

Corporate governance is the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation: the board, managers, shareholders, and other stakeholders. Corporate governance provides the structure for setting company objectives, establishing the means of attaining those objectives, and monitoring performance.

Corporate governance issues include such items as election of the board of directors, independence of

directors and key committees, appointment of auditors, compensation, and takeover bids. Company directors have a clear set of duties: to set and monitor overall company strategy and direction; to select, compensate, monitor, and evaluate the CEO; and to ensure the integrity and clarity of the company's reporting to key stakeholders.

For NEILP, good corporate governance means that directors are able to direct, monitor, and supervise the conduct and operation of the company and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction, and control. NEILP believes that the governance framework should recognize the rights of stakeholders (employees, communities, customers, suppliers, and future generations) and encourage active participation between corporations and stakeholders in creating long-term wealth, employment, safe workplaces, and healthy environments.

NEILP supports shareholder resolutions that prompt companies to adopt policies consistent with this philosophy.

3.1.1 Governance Standards Reporting

NEILP supports proposals that require companies to include in their annual reports a comparison of how well their corporate governance practices comply with an authoritative set of corporate governance standards, such as the *OECD Principles of Corporate Governance* or the *Canadian Coalition for Good Governance's Corporate Governance Guidelines for Building High Performance Boards*, or any proposed new regulations in Canada or the US.

3.1.2 Amendments to Articles of Incorporation or Articles of Association

In general, all major changes in a corporation should be submitted to a vote by shareholders.

Proposals to amend a corporation's articles of incorporation or association are usually made as a response to changes in the rules, laws, or regulations affecting the corporation, such as changes in stock exchange listing rules. Most of these changes are technical and administrative matters that will not affect shareholders' interests. However, the wording of these amendments must be carefully considered because small changes in the wording of an article can have a significant effect on corporate governance.

Management will often combine all of the amendments into one item to be voted on in the proxy form. This makes it impossible for shareholders to approve some amendments but vote against others that may be not in their interests. NEILP encourages companies to give shareholders the opportunity to vote separately on all amendments.

NEILP will assess proposals to amend Articles of Incorporation or Articles of Association on a case-by-case basis, with primary consideration given to how they affect the long-term interests of all stakeholders.

3.1.3 Capitalization and Issuance of Shares

NEILP recognizes that directors need the flexibility to issue stock to address a company's financial needs and conditions. However, it does not support giving directors unlimited discretion to increase the amount of stock issued without the consent of shareholders. NEILP will support proposals to issue capital on a case-by-case-basis. However, in cases where the potential aggregate dilution is greater than 5%, particular attention will be given to the frequency of the company's requests for additional shares.

3.1.4 Approval of Financial Reports and Discharge of Directors and Auditors

Proposals to approve the company's financial reports and to discharge the directors and/or auditors from liability are routine matters at companies outside North America. However, some companies present the reports for which approval is sought only at the shareholders' meeting, rather than sending them to shareholders before the meeting. As a result, shareholders who are not present at the meeting do not see the report they are being asked to approve. NEILP finds this unacceptable.

NEILP will support proposals to approve financial or directors' reports only if the reports are provided to all shareholders before the shareholders meeting and that do not limit shareholder rights for future legal action against the corporation.

NEILP will vote against proposals to discharge auditors and/or directors from liability if there are concerns about the actions of either and if discharging the company's directors and auditor may limit shareholders' rights to take legal action against them in the future.

3.1.5 Votes to Approve “Other Business”

Sometimes companies include the approval of “other business” as an item on the proxy ballot, without specifying what the “other business” consists of. NEILP believes this constitutes giving the company broad discretion to act without specific shareholder approval on issues that would otherwise require such approval.

NEILP will vote against the approval of unspecified “other business.”

3.2 Board of Directors

3.2.1 Independent Board of Directors

Management is responsible for day-to-day operations of the company and is responsible to the board of directors. The board, in turn, is responsible for overseeing management performance. In order to fulfill its responsibilities, the board must be independent of management and represent all shareholders. Directors are not able to perform this role credibly if they depend on the corporation for any benefit or consideration.

The Council of Institutional Investors (CII) defines an independent director as someone whose only non-trivial professional, familial or financial connection to the corporation, its chair, CEO or any other executive officer is his or her directorship. For the purposes of proxy voting, NEILP uses the CII definition of director independence.

Additional guidance and clarity on the specific circumstances under which a director will not be deemed independent can be found on the CII’s web site at http://www.cii.org/resources/governance_glossary#i

NEILP supports proposals that require annual disclosure of criteria for determining the independence of directors and whether or not directors meet such criteria.

NEILP supports proposals to make at least a majority of the board directors independent.

If a board is not at least two thirds independent and individual voting is allowed, NEILP votes against individual directors who are not independent. If corporate by-laws do not allow for shareholders to vote on each director, NEILP votes against the entire slate.

¹ In the US and Canada there is usually no option for voting against individual directors. Shareholders can only withhold their vote.

3.2.2 Separation of Chair of the Board and Chief Executive Officer

The chair of the board must be independent of management in order to guide the board in its responsibility to oversee management’s performance.

The separation of powers between the chairman of the board of directors and chief executive officer is a fundamental tenet of good corporate governance. The role of the board of directors is to represent shareholder interests. An autonomous chair is more likely to ask tough questions and to ensure that shareholder interests are protected.

NEILP supports proposals splitting the position of chair and chief executive officer. In cases of smaller companies, where the executive office is small, or companies are undergoing re-organization, NEILP may acknowledge the need for one person to fill the two offices. In such cases, a lead director should be identified and a clear rationale provided to shareholders as to why this structure is appropriate. In general, NEILP does not consider “lead directors” to be an acceptable substitute for an independent chair.

NEILP will vote against directors who are both chair of the board and chief executive officer.

We will support proposals to prevent affiliated directors from becoming chair of the board of their corporations.

3.2.3 Independent Nominating Committee

Boards should have a nominating committee to identify, recruit, nominate, and orient new directors. The nominating committee’s mandate should be clearly described in terms of authority to act for the board or to make recommendations.

The nominating committee should function independently of management and should thus be composed entirely of independent directors as defined by guideline 3.2.1.

NEILP supports proposals to create nominating committees made up entirely of independent directors.

NEILP votes against directors who are not independent and who sit on the nominating committee.

3.2.3.1 Nominating Procedures and Disclosure

Securities regulators in Canada and the US require that companies provide information in their proxy statements:

- if a company does not have a separate nominating committee, why not, and who then determines nominees for director;
- whether the nominating committee has a charter and, if so, where it is available to shareholders on the company Web site;
- whether the company pays any fees to a third party to assist in the nominating process;
- the minimum qualifications that the company seeks for director nominees;
- whether the company considers director candidates put forth by shareholders and, if so, its procedures for such consideration;
- a statement as to which persons in the following categories recommended each nominee: security holder, non-management director, chief executive officer, other executive officer, third-party search firm or other, specified source;
- whether the company has rejected any candidates recommended by a shareholder or shareholder group owning more than 5% of the company's voting stock for at least one year; in such cases the company must disclose the name of the nominee and the security holder(s) who submitted the nomination so long as they consent to being identified.

NEILP supports shareholder proposals to disclose this information.

NEILP also supports proposals to establish separate nominating committees with specified charters disclosed on the company Web site.

NEILP supports proposals to disclose minimum qualifications for directors.

3.2.4 Independent Audit Committee

Boards should have an audit committee responsible for the annual external audit of the corporation. All members of the audit committee should be independent directors as defined by guideline 3.2.1. As with the nominating committee, the mandate of this committee should be clearly described, and should include the retention and remuneration of an outside auditor.

NEILP supports proposals to create audit committees in which all members are independent. NEILP votes against directors who are not independent of management and who sit on the audit committee.

3.2.4.1 Auditor Independence

Auditor independence is vital to shareholders. A company's financial statements are often the only information shareholders access to evaluate company performance and financial condition. Shareholders must be confident that they can rely on this information and that the auditors who produced the information are free from conflict of interest.

In many cases, companies hire external auditors as consultants to provide other services. Some auditing firms use auditing services as loss-leaders and give their auditors commissions for selling consulting and other services to clients. NEILP believes these practices compromise auditor independence. We strongly prefer auditors who have not performed other services for the corporation and who do not hold contracts to perform services other than the annual audit.

NEILP supports proposals to ensure the external auditor has no relationship with the company other than the performance of the annual audit, except in cases where a company's location, the nature of its business, or some other factor severely limits the number of accounting firms it can work with.

NEILP votes against the ratification of auditors if 25% or more of the fees paid to them in the previous year were for services other than the annual audit.

NEILP votes against audit committee members when non-audit fees exceed 25% of the total fees paid, or audit fees are not disclosed in publicly filed documents.

NEILP supports proposals requiring disclosure of total audit fees along with a breakdown of the fees paid to external auditors for non-audit or consulting services. We also support disclosure of fees paid to subsidiaries and other enterprises in which the auditing firm holds a substantial interest.

NEILP supports proposals calling for a cap on the percentage of fees paid to auditors for non-audit consulting services if the percentage is under 25% or proposals to limit the auditor's contracts to audit-related services only.

NEILP includes auditors' fees for tax services as part of their non-audit fees.

Auditor rotation is one corporate governance reform under discussion in the wake of a series of accounting scandals. Proponents claim that auditor rotation provides a fresh perspective and ensures that auditors do not develop inappropriate relationships with management.

Opponents to auditor rotation argue that auditor rotation could trigger problems because each new auditor has to learn the specifics of a company's business. With new auditors, it may be easier, not more difficult, for management to "pull the wool" over the auditor's eyes. Recent studies indicate that regular rotation of the audit firm may negatively affect audit quality and service while increasing expense.

To strike a balance between these two perspectives, NEILP supports proposals for partner rotation within auditing firms every five years or more. Partner rotation has the benefit of ensuring that a different auditor is reviewing financial statements, even if that person is from the same firm.

We will review proposals to establish a policy for audit firm rotation on a *case-by-case* basis, taking into account the tenure of the audit firm, the proposed audit rotation period, and whether the company regularly reviews the auditor for both quality and cost.

We will also examine the process a company has in place to review their auditor and correct any audit-related issues that may arise.

3.2.4.2 Ratification of Auditors

With increased investor scrutiny of the fees paid to corporate auditors, some companies that had previously allowed shareholders to vote on ratification of auditors have pulled this item from the AGM agenda. NEILP views this as a backward step in terms of shareholder rights and corporate governance standards.

NEILP votes against audit committee members where companies have pulled auditor ratification from their agendas.

NEILP supports shareholder proposals that ask companies to place auditor ratification on the agenda.

3.2.5 Independent Compensation Committee

Every board should have a compensation committee. All members of the compensation committee should be independent directors as defined by guideline 3.2.1. As with the nominating and audit committees, the mandate of this committee should be clearly described.

NEILP supports proposals to require boards to create compensation committees in which all members are independent directors. NEILP votes against directors who are not independent and who sit on the compensation committee. NEILP supports proposals to provide training in executive compensation for directors. We vote against directors who sit on the compensation committee and serve as the CEO of another company for fear that interlocking directorships could tempt support for inappropriate compensation packages in expectation of a quid pro quo.

NEILP votes against directors who sit on the compensation committee when CEO compensation has increased but one to three year shareholder returns have been negative. Exceptions will be made if the compensation committee can provide a solid rationale as to why CEO compensation has increased, such as meeting other objective targets that have positively affected the company.

NEILP votes against directors who sit on the compensation committee where poor compensation practices exist. Such practices include but are not limited to:

- egregious employment contracts, including excessive severance provisions;
- excessive benefits that dominate compensation;
- large bonus payouts without performance linkage;
- large salary increases without a performance linkage;
- excessive options granted to senior executives;
- company loans to executives;
- egregious SERP (Supplemental Executive Retirement Plans) payouts;
- internal pay disparity; and
- other excessive or inappropriate compensation payouts or poor pay practices of the company.

NEILP votes against directors who are not independent of management and who sit on the compensation committee.

NEILP supports proposals to require companies to disclose fees paid to compensation consultants, along with any potential conflict of interest embodied by the consultant firm. The compensation consultant's independence must be maintained at all times, clearly disclosed, and reviewed annually.

NEILP supports proposals to require companies to explain in a summary and analysis section of their proxy statement the goals and objectives behind executives' pay and the various factors directors weigh when establishing compensation.

3.2.6 Independent Governance Committee

A board of directors should have a corporate governance committee responsible for oversight of the governance of the corporation. The committee should function independently and should have at least a majority of independent directors.

NEILP supports proposals to create an independent corporate governance committee.

NEILP votes against directors who are not independent of management and who sit on the governance committee.

3.2.7 Voting Policies

In general, NEILP will vote for directors nominated by management unless the long-term performance of the corporation has been unsatisfactory or they do not satisfy the independence requirements. A non-exhaustive list of reasons for NEILP to vote against nominees' includes:

- the board of directors has consistently not responded to shareholder proposals approved by a majority vote;
- the board of directors consistently acts in the interests of a group of shareholders, rather than in the interests of all shareholders;
- an individual director has a conflict of interest, a conviction for financial, corporate, or securities crime, or a history of serious misconduct, regulatory sanctions, or ethical violations relating to corporate responsibilities;
- an individual director has failed to attend 75% of board meetings;
- there is evidence that directors have purposely misstated or concealed the financial condition of the company;
- the board of directors has demonstrated a lack of duty of care;

- the board of directors has refused to provide information to which shareholders are entitled or;
- an individual director has received a high level (50%) of withhold votes in the previous year.

3.3 Board Effectiveness

3.3.1 Training

Directors should be knowledgeable in areas such as finance and accounting, executive compensation, and management. The role of directors is becoming more complex and the field of corporate governance is expanding to include areas where directors often have little training, such as social and environmental assessment of corporate operations. Even knowledgeable directors may find that they need additional training in order to guide the company effectively.

NEILP supports proposals or other efforts by boards to improve their performance and the training available to directors.

NEILP supports proposals to nominate directors to environment, health and safety, audit, and compensation committees who have received appropriate training and who have requisite qualifications.

NEILP supports disclosure of training efforts.

3.3.2 Directors' Ability to Devote Sufficient Time and Energy

Candidates for director must be able to devote a sufficient amount of time and energy to the board to oversee the corporation effectively and represent shareholders' interests. Although attendance at board meetings is not the sole determinant of a director's performance, poor attendance makes it difficult for a director to fulfill his or her responsibilities to the board. Boards customarily schedule meetings at least a year in advance. Those who agree to be nominated for director should be prepared to attend all meetings.

NEILP votes against directors if they have missed 25% or more of the board's meetings, including committee meetings, unless there are extenuating circumstances.

Many companies fail to report director attendance to shareholders. NEILP supports proposals to require companies to disclose individual directors' attendance.

NEILP supports proposals to limit the number of boards on which directors may serve and votes against directors if they serve on more than four boards of publicly-traded companies.

3.3.3 Board Diversity

As the overseer of management and agent of shareholders, boards should mirror the diversity of the workforce and society, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making. Various studies have shown a positive correlation between the presence of women on boards and financial performance. For example, in 2007, Fortune 500 companies with the highest number of women board directors attained significantly higher financial performance than those with the lowest number. On average, companies with the top quartile number of women board directors outperformed those in the bottom quartile by 53%.

NEILP supports proposals to encourage companies to pursue diversity on their boards, and will vote for such well-qualified candidates unless doing so violates another guideline.

NEILP votes against the members of a nominating committee if there does not appear to be at least one woman or minority director on the board.

3.3.4 Size of Boards of Directors

The number of directors on a board is a factor in the board's effectiveness. A board needs enough directors to maintain diversity in opinion and expertise, but not so many that the board becomes unwieldy, or that individual directors lose the opportunity to be heard or their sense of responsibility and accountability. In general, an appropriate board size is between five and sixteen directors, though this will vary with the size and nature of the corporation.

Fixing the number of directors on a board prevents management from changing the number of directors in order to maintain or enhance its control of the board. Proposals to increase or decrease the number of directors will be considered on a case-by-case basis, with particular attention given to the reasons for the change and the consequences for the long-term health of the corporation.

NEILP supports proposals to fix the number of directors. The number of directors to be set will be considered on a *case-by-case* basis.

3.3.5 Director Indemnification

Directors are indemnified when the company pays the expenses of directors who become involved in litigation as a result of their actions as directors. This is different from director liability, since the director may still be liable for their actions as a result of such litigation. The determination of a director's liability resulting from a breach of the duty of care, including acts or omissions that constitute gross negligence, willful neglect, or fraud, is a matter that should be decided by courts.

NEILP supports proposals to indemnify directors (1) when the company makes a persuasive argument that it is necessary to attract and retain directors, (2) for actions undertaken in good faith and with a well-founded belief that the actions are lawful, (3) when litigation is unwarranted. NEILP votes against proposals to indemnify directors when doing so would insulate directors from the consequence of actions they have already taken.

NEILP supports proposals asking for public disclosure of director's compensation following the same disclosure guidelines used for executive compensation.

3.3.6 Performance Evaluations of Boards of Directors

Boards of directors must evaluate their own performance, as a board, as committees, and as individual directors. This presents potential conflicts of interest. In order to evaluate themselves effectively, boards should adopt a written statement of governance principles as guidelines for their own conduct. They should stay informed about developments in corporate governance, and revise their statement of governance principles as needed. They should also establish performance criteria for themselves and their committees, collectively and as individuals, and periodically review their performance against those criteria.

It is the responsibility of the chair of the board to ensure that evaluations are conducted on a regular basis. A summary of the board's collective evaluations should be included with disclosure of directors' compensation in the annual proxy circular.

NEILP supports proposals to institute and develop annual performance evaluations for boards of directors, and to include collective evaluations in the annual proxy circular.

NEILP supports proposals asking for public disclosure of director's compensation following the same disclosure guidelines used for executive compensation.

3.3.7 Code of Business Ethics and Conduct

On January 16, 2004, the Ontario Securities Commission released new guidelines urging companies to adopt a code of business ethics and conduct, applicable to directors, officers, and employees. The new standard also requires companies that have a code of ethics to file them publicly with regulators. The New York Stock Exchange (NYSE) has a similar provision in the corporate governance listing standards released November 4, 2003. The NYSE also requires companies to issue a media release to announce any waivers to the code of ethics that have been granted.

NEILP supports proposals to adopt and disclose codes of business ethics and conduct. We also support proposals to issue a media release to require companies to announce any instance where a board of directors has waived application of the code of ethics for directors and officers.

3.3.8 CEO Succession Planning and Selection Criteria

Identifying, assessing, and developing leadership potential, as well as building a sustainable leadership pipeline, are critical components of a sustainable business model.

Boards should have detailed guidelines that define criteria for selecting the next CEO. They should include detailed requirements clearly tailored to the company's business model, corporate strategy, and culture. When developing the criteria, boards should engage the CEO, all board members, and key company executives in comprehensive one-on-one interviews about CEO requirements and their link to overall business strategy.

NEILP supports proposals asking companies to implement and disclose guidelines that outline CEO succession planning activity and selection criteria.

3.4 Shareholder Democracy

Shareholder democracy is defined as a form of corporate governance whereby power resides in the shareholders

and is exercised by them either directly or by means of elected representatives.

3.4.1 Annual Election of Directors and Classified Boards

All directors of publicly listed companies should stand for election annually. NEILP supports proposals to institute annual election of directors at corporations where this is not the practice.

On a classified (or "staggered") board, directors are elected for a term longer than one year and the terms are staggered so that only one-third of the directors come up for election each year. In most cases, directors of classified boards are elected for a term of three years. Proponents maintain that classified boards promote continuity and a focus on the long term in corporate governance and planning. Opponents argue that classified boards reduce corporate accountability and make it difficult for shareholders to remove directors and nearly impossible to change control of a board if corporate performance warrants such a change. Further, they argue that long-term thinking and continuity do not depend upon a staggered board.

NEILP supports proposals to repeal classified boards and elect directors annually. NEILP votes against proposals to classify the board.

3.4.2 Majority Vote Standard

Under the plurality system, which is currently the most common practice, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee "wins" the seat.

Under the majority vote standard, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board.

NEILP will vote for resolutions requesting that the board change the company bylaws to stipulate that directors need to be elected with an affirmative majority of votes cast. NEILP also supports proposals asking directors that do not receive a majority of votes to resign from the board.

3.4.3 Contested Elections

Management usually presents nominees for directors as a slate. NEILP prefers to vote for directors on an individual basis.

NEILP supports proposals calling for individual votes for each nominee where this option does not exist. Management usually presents only one nominee for each director seat. This represents a fundamental violation of most Canadians' definition of democratic elections.

NEILP supports proposals calling for companies to adopt a policy of requiring at least two nominees for each position on the board of directors.

NEILP votes case by case in contested elections. In deciding how to vote, NEILP will assess how the change in corporate policy advocated by opposing candidates will affect the corporation, employees, and other stakeholders. Alternative slates of directors will be given consideration when there is compelling evidence that the company has performed poorly over time, the incumbent management has been unresponsive to shareholders, and/or existing directors have clearly failed to perform their duties. In order to support a dissident slate, new directors must have a viable strategy for enhancing stakeholder value and satisfy the independence and qualification requirements.

3.4.4 Cumulative Voting

Cumulative voting is a method of voting for directors that enables shareholders to multiply the number of shares held by the number of directors to be voted on and to cast the total for any single director or group of directors. For example, a holder of 10 shares normally casts 10 votes for each of the 12 nominees to the board. This gives the shareholder a total of 120 votes. Under cumulative voting, the shareholder may cast all 120 votes for a single nominee or divide up their voting power among any combination of nominees.

Opponents argue that cumulative voting gives a minority of shareholders disproportionate control over the board. Minority-controlled boards may be preoccupied with the agenda of a special interest group rather than the welfare of all shareholders and the long-term health of the corporation.

NEILP believes that history provides scant evidence to support the opponents' view. Cumulative voting is a reasonable mechanism for minority shareholders to win representation on the board of directors; this is a right to which shareholders are entitled.

NEILP supports proposals that call for implementation of cumulative voting. NEILP votes against proposals to eliminate cumulative voting.

3.4.5 Term Limits for Directors

Some investors maintain that term limits for directors are an important method to ensure that boards maintain openness to new ideas and a willingness to review current policies and strategies.

Opponents insist that term limits impose an arbitrary limit on board tenure and can force valued, experienced directors to leave a board, solely on the basis of length of service.

In general, NEILP does not favour term limits. Instead, NEILP supports annual election of board directors and clear processes for evaluation of board performance. In our view, these are superior methods for ensuring that directors are carrying out their responsibilities effectively. NEILP accepts there may be instances in which term limits are in the best long-term interests of shareholders and will conduct an evaluation when the average director tenure on the board exceeds 15 years. We also believe that boards with limited turnover may lack new perspectives that can add value to the boardroom, directors who serve on a board concurrently for many years may become less independent from management and, as such, less willing to act as advocates for stakeholders.

NEILP assesses votes on term limits on a *case-by-case* basis.

NEILP supports shareholder resolutions calling for term limits when the board has failed to implement annual elections of board directors and/or other policies and procedures for assuring effective board performance.

3.4.6 Unequal Voting Shares and Dual Classes of Stock

Common stock traditionally carries one vote per share. Dual class stock structures with subordinate or unequal voting shares contain a class of common stock with inferior voting rights or no voting rights. This stock usually pays a higher dividend and can be transferred more easily than shares with full voting rights, making them attractive to some investors. This structure allows management to maintain control of the corporation by keeping the shares with full voting rights.

NEILP votes against the creation or issuance of shares that do not have full voting rights. We will vote for replacement of dual class shares with common stock carrying one vote per share, unless circumstances make this contrary to the long-term interests of the majority of shareholders. In cases where a dual class share structure is already established, NEILP supports proposals for a mandatory review of the stock structure and re-approval by the shareholders every five years.

In order to send a strong signal to company management about our displeasure towards unequal voting rights, NEILP will vote against the entire slate of directors where dual class shares exist.

3.4.7 Blank Cheque Preferred Share Issues

Blank cheque preferred shares give the board of directors broad discretion to determine the voting, dividend, conversion, and other rights of these shares. These shares carry a fixed dividend and are better secured by company assets than common shares.

Although NEILP supports the authorization of additional shares for sound business reasons, it opposes the issuance of blank cheque preferred stock because this stock gives directors complete discretion over the conditions of the stock, and because it can be used to thwart takeover bids without presenting the bid to shareholders.

NEILP votes against proposals to authorize blank cheque preferred stock.

3.4.8 Dividends and Share Buybacks

NEILP favours regular dividend increases because they provide a return to shareholders. Under certain conditions, share buybacks can also benefit shareholders. When stock market values are high, share

buybacks provide less benefit to shareholders and tend to inflate the value of stock options making executive compensation more expensive to the company. Share buybacks can also contribute to share price volatility.

NEILP supports declarations of dividends. NEILP evaluates share buybacks on a *case-by-case* basis.

3.4.9 Supermajority Approval of Transactions

Supermajority approvals require the vote of more than a simple majority – usually two-thirds of the vote – to approve a decision or transaction. NEILP believes supermajority requirements can have a legitimate purpose, but can also be subject to misuse. NEILP votes to support or oppose supermajority requirements on a *case-by-case* basis.

3.4.10 Linked Proposals

Linked proposals combine two issues into a single proposal, which is presented to shareholders for a yes or no vote. These proposals often combine an issue shareholders are likely to support, such as payment of a dividend, with one they are unlikely to support.

NEILP votes against linked proposals, unless both issues in the proposals are likely to benefit shareholders and the long-term health of the corporation. NEILP supports proposals to prohibit the use of linked proposals.

3.4.11 Shareholder Nominations to Corporate Boards

While shareholder power to replace directors is supposed to be an important element of our corporate governance system, it is largely a myth. Attempts to replace directors are extremely rare, even in firms that systematically underperform over a long period of time. By and large, directors nominated by the company (often at the behest of management or affiliated directors) run unopposed and their election is thus guaranteed.

Shareholders can nominate directors only through an expensive proxy fight using their own proxy materials. This process creates an inherent conflict of interest in allowing management to select the directors who will oversee their activities. During 2007, the United States SEC devoted considerable attention to the issue of proxy access that would allow shareholders to place alternative independent nominees for director on a company's proxy ballot. Institutional investors and legal experts believe that allowing for independent director nominations, as is the case with the proxy

rules that apply in nearly all other industrialized countries, significantly improves a company's corporate governance practices. Having some influence over director selection is necessary for shareholders to be able to exercise meaningful oversight over corporate decision-making and to hold directors and management accountable for corporate performance.

Despite a strong show of support, the SEC ruled on November 28, 2007 to restrict the "proxy access" of shareholders—particularly the right to place director nominees on corporate ballots. The decision was a setback for shareholder rights advocates, who wish to hold management to account for poor earnings performance.

NEILP supports shareholder proposals asking for companies to adopt a policy of open access to the proxy circular. NEILP also supports proposals for companies to adopt more democratic triggering events for providing shareholders the ability to nominate directors to the board via the management proxy circular. Such rules may include:

- failure by the board of directors to implement any shareholder resolution receiving majority support at the previous year's AGM;
- bankruptcy;
- de-listing by a market exchange;
- criminal indictments of company managers, directors or affiliated parties (e.g., auditors);
- imposition of civil fines, penalties, damages or sanctions for violating federal, state, or international law;
- significant or recurrent restated earnings;
- significant or prolonged share price decline;
- lagging a peer index for more than three years; and
- significant increases in CEO or top executive compensation without commensurate increase in the performance of the firm.

3.4.12 Shareholder-called Meetings

Shareholders have a fundamental right to call special meetings. This right should not be eliminated or abridged without the approval of shareholders. NEILP votes against proposals to limit or deny shareholders' rights to call special meetings.

3.4.13 Shareholders' Meetings

Participation in shareholder meetings is a basic right of shareholders. Companies should encourage share-

holder attendance at the AGM. Shareholder convenience should be a primary consideration in determining when and where to hold AGMs. Some companies have sought authorization to hold shareholders' meetings entirely by electronic means, without any shareholders being physically present.

Although electronic means, such as teleconferencing, can supplement shareholders' meetings by making it easier for shareholders to observe proceedings, NEILP believes electronic meetings could inhibit shareholder participation, and are not an adequate substitute for meetings in which shareholders are physically present. NEILP votes against proposals to hold shareholders' meetings entirely by electronic means.

3.4.14 Quorum

Directors attend meetings in order to represent shareholders. It is crucial that a sufficient number of directors be present to execute this responsibility. NEILP supports proposals requiring that a majority of directors be present to establish quorum. We vote against proposals to set the requirement for quorum at less than 25%.

3.5 Director Compensation

Salary and non-salary compensation for directors and executives has become one of the most sensitive and visible corporate governance issues. Directors are in the awkward position of having to establish their own compensation. To avoid conflicts of interest and assure transparency and shareholder control, NEILP uses the guidelines outlined in this section for proxy votes on director compensation.

3.5.1 Director Compensation and Evaluations of Effectiveness

Directors' compensation packages should be explicitly linked to board and director performance evaluations. Evaluations should include social and environmental performance criteria.

NEILP supports resolutions to include social and environmental performance criteria in director evaluations. NEILP supports compensation packages that are tied to evaluations. NEILP votes against compensation packages that reward poor performance or provide greater compensation than performance warrants.

3.5.2 Director Compensation Disclosure

Compensation should be fully disclosed and explained to shareholders in the company's annual proxy circular and be subject to shareholder approval.

NEILP supports proposals to disclose individual compensation packages for shareholder approval.

3.5.3 Stock Ownership and Deferred Share Units

Many compensation packages include stock ownership for directors or the granting of deferred share units.

DSUs are not actual shares but their value is tied to the value of a publicly-valued share.

The value of the DSUs is paid out when directors terminate their position on the board.

In principle, stock ownership and DSUs help align director interests with the interests of shareholders. In practice, stock ownership and DSUs reward directors for the performance of the market as a whole, or sector performance, rather than the performance of the company. In many cases, stock price is driven by factors well beyond the control of directors.

NEILP believes that stock price performance and stock or DSU ownership should be one component of director evaluations and compensation packages, but should not be the dominant factor in determining director compensation.

NEILP supports proposals to require directors to own common stock or DSUs after one year of service. We support proposals to require directors to own a multiple of the most recent stock award over a five year period, to encourage a long-term perspective.

The magnitude of this multiple will be decided on a *case-by-case* basis. NEILP votes against directors who do not continue to own common stock in the company or hold no stock after the first year of service.

3.5.4 Directors and Stock Options

Stock option plans tend to be the focus of shareholder concern, because these plans have the potential to transfer significant amounts of wealth to directors and executives. Accounting treatments of stock option plans have created the illusion that the options do not impose a cost to the company. Stock options do not

carry the same downside risk as the shares owned by stockholders. Therefore, director compensation plans that include stock options are not aligned with investor interest.

NEILP prefers that directors not be granted stock options. NEILP realizes, however, that there may be some cases, such as small, start-up companies that need to recruit well-qualified directors, where providing stock options to directors may be best for shareholders.

In all cases, director compensation must be structured in a way that will preserve the independence of the board of directors and promote the long-term interests of shareholders and the corporation.

At a minimum, directors should not be included in the same stock option plan or compensation plan provided to management or employees of the company. NEILP will vote against such plans. Plans to compensate directors with stock should not be structured to encourage short-term holdings, and are subject to the same concerns about appropriateness, dilution, and so forth, as stock option plans for management. NEILP will vote against granting stock options to directors, except in those cases where doing so is in the best interests of shareholders, as described above. We will vote against any stock option plan whose structure encourages short-term holdings. Approval of directors' stock options will also be subject to the same limitations concerning dilution, repricing, etc. as stock option plans for management.

3.5.5 Retirement Benefits for Directors

In general, NEILP believes that retirement benefits are not appropriate for directors, because they increase reliance on the corporation and may compromise director independence.

NEILP votes against proposals to provide retirement plans for directors.

In the United Kingdom, director pensions are occasionally awarded to professional non-executive directors. NEILP considers such awards on a *case-by-case* basis.

3.6 Executive Compensation

3.6.1 Excessive Compensation

In recent years, executive compensation has achieved the status of scandal and serves as one of the most significant challenges for re-establishing investor confidence in capital markets and publicly-traded corporations.

NEILP supports executive compensation plans tied to objective parameters of company performance, such as earnings, return on capital, returns to shareholders, and other relevant measures. If stock prices are used as a parameter, they should be compared to the value of stock in the industry as a whole, rather than as absolute gain or decline in value.

3.6.2 Executive Compensation and Environment, Social, and Governance (ESG) Factors

The size, disclosures, and structure of executive compensation has become a contentious public issue. NEILP believes that executive compensation should be linked to factors that lead to long-term wealth creation and long-term health for society. According to a survey conducted in 2006 by McKinsey & Company for the Canadian Coalition for Good Governance (CCGG), nearly 90% of directors in Canada and 82% of investors also believe that executive compensation should be directly tied to sustainable development.

In support of this approach to executive compensation, shareholders have begun to ask boards to study the relationship between ESG performance and overall company performance. Resolutions recommend that ESG performance measures be used as one of the variables in establishing compensation packages of senior officers. NEILP supports these resolutions. NEILP also supports proposals asking companies to compare total compensation packages of top executives with lowest or average paid workers.

3.6.3 Stock Options Plans

Stock awards and stock options should be one component of compensation packages, but should not dominate. Stock option plans need particular attention in order to harmonize management and shareholders' interests, and to avoid excessive compensation to executives.

NEILP requires that all stock options that are granted to senior executives as part of their compensation package be performance based.

Performance-based options do not vest or become exercisable unless specific stock price or business performance goals are met.

NEILP does not favour giving compensation committees broad discretion to set the terms of stock options, establish new awards, and cancel old ones, or make midterm changes to performance goals. Instead, the board should submit a formula for the plan to shareholders for approval, and rely on that formula in designing and administering the plan.

NEILP supports proposals to require boards to submit a formula for designing and administering stock option plans to shareholders for approval as well as requiring companies to disclose in its proxy circular the number and the approximate market value of the options granted.

NEILP supports proposals to require that all stock options granted to senior executives as part of their compensation package be performance based.

3.6.3.1 Price and Expiry

Stock options should be issued at the fair market price of the stock at the time of issuance, and should expire within five years.

NEILP votes against "evergreen" plans that have no expiry date, and discounted options that offer the stock at a price below market rates.

3.6.3.2 Dilution

Stock option plans dilute the earnings and voting strength of shares not in the plan. The level of acceptable dilution is relative to the size of the company. Small companies may have a dilution rate of as much as 10%, but larger companies should have less dilution.

NEILP votes against stock option plans in which the total dilution is more than 10%. Plans with dilution of more than 5% should meet at least one of the following criteria:

- the plan is open to all or a large proportion of employees;
- the company is a growth company;
- the company is in a difficult financial situation;

- the company's compensation policy is below competitive levels for the industry;
- the plan is consistent with competitive compensation levels in the industry;

There may be instances in which a slightly higher dilution rate than 10% may be in the best interests of shareholders; these are determined on a *case-by-case* basis.

3.6.3.3 Burn Rate

The burn rate is the number of options granted in one year. In most cases this rate should be less than 1% of the company's outstanding shares.

NEILP opposes plans with a burn rate of 1% or more.

3.6.3.4 Re-pricing

When the market price of a stock is lower than the price offered in the stock option ("underwater" options), companies often re-price the stock option to match the lower market price, or withdraw the option and re-issue it at the lower rate at a later time. These practices separate shareholders' and option holders' interests since the former cannot re-price their shares.

NEILP votes against re-pricing stock options, or the re-issue of underwater options. NEILP votes against stock option plans that do not specifically prohibit re-pricing or replacing underwater options.

3.6.3.5 Vesting

Stock options should have a minimum holding period before they can be exercised. NEILP votes against all accelerated vesting plans and plans that are 100% vested when granted. NEILP supports stock option plans that vest as specific performance targets are met ("performance-vesting"). NEILP supports proposals to disclose criteria for performance-vesting.

3.6.3.6 Reloading

A reload grant gives the recipient additional stock options to replace the options that have already been exercised. The typical reload stock option is for the same amount of stock as the recipient has already purchased under the original option, at the market price on the date the reload option is granted. The term of the grant may be the same as the original stock option, or it may be accelerated. Reloading options make it possible for the recipient to lock in increases in stock price with no attendant risk, a benefit not available to other shareholders.

NEILP votes against stock option plans that include reloading.

3.6.3.7 Concentration of Stock Options

NEILP votes against plans that allocate 10% of the stock available for options in a given year to a single individual. This includes grants of "super options" with more restrictive vesting and performance provisions. Exceptions to this may be made for small companies that have few employees with stock options.

3.6.3.8 Company Loans to Executives

NEILP votes against plans that provide for lending to employees for any purpose, including loans for stock purchases. This practice may leave the company with uncollectible debt and inhibit the termination of employees who have outstanding loans with the company.

3.6.3.9 Change in Control Provisions

NEILP votes against stock option plans with change-in-control provisions if they allow options holders to receive more for their options than shareholders receive for their shares.

NEILP votes against provisions that are developed in the midst of a takeover fight.

NEILP votes against change-in-control options granted to directors.

3.6.3.10 Awards for Consultants and Contractors

NEILP votes against stock option plans that include consultants, contractors, or other short-term employees.

3.6.3.11 Other Kinds of Stock Awards

Alternatives to stock options include stock appreciation rights, phantom stock, and restricted stock plans. Restricted stock plans award shares directly to recipients after a vesting period, effectively rewarding recipients for their tenure rather than their performance. Stock appreciation rights give recipients the difference between the exercise price and the market price of the stock on the date of exercise. Stock appreciation rights do not involve the actual purchase or sale of stock. Phantom stock also awards recipients bonuses for increases in the value of stock without owning any stock. Both kinds of awards do not cause any dilution and may discourage insider trading, but they do not encourage recipients to own stock in the company.

NEILP supports alternatives to stock options if the awards are based on the executive's performance, but votes against them otherwise.

Exceptions may be made if management can demonstrate that doing so is in the best long-term interests of the shareholders and the corporation.

3.6.3.12 Stock Options Expensing

In Canada, the Canadian Accounting Standards Board requires companies to include the value and cost of stock options in statements of earnings. In the US, the Federal Accounting Standards Board (FASB) issued new rules requiring the expensing of stock options in December 2004. The new rules came into effect for large public companies for the reporting period beginning after June 15, 2005.

Although Canadian regulation requires options expensing in earnings statements, we would prefer to also see the value of options disclosed in a company's proxy circular where compensation is outlined for investors. Therefore, NEILP supports proposals to disclose the value of stock options granted in the proxy circular.

3.6.3.13 Stock Options Back Dating

Stock options are intended to give executives an incentive to improve their company's share price so that investors' and executives' financial interests are aligned. Generally, each option represents the chance to buy a share of company stock at a certain "strike" price on a future date. The strike price is usually the share price on the date the option is granted. Thus, a recipient stands to gain only if the share price has risen between the grant date and the date the option is exercised. Options backdating involves changing a grant date to an earlier time, usually when the share price was lower. The lower the share price on the grant date, the greater the options holder's profit will be when he or she exercises the options and sells the underlying shares. A variant of this is "options spring-loading," where the options date is set anticipating the future release of favorable news known only to the options recipients that is likely to cause share prices to rise when disclosed.

- NEILP withholds votes from compensation committee members directly involved in problematic stock option grants.
- NEILP supports shareholder resolutions asking

companies to adopt a policy prohibiting the practice.

- NEILP supports equity plan proposals that prohibit options backdating and include specific language to this effect in their compensation policy.
- NEILP supports proposals to claw-back inappropriate bonuses awarded through options back dating.
- NEILP supports proposals asking for an independent investigation when credible allegations of stock options back dating have been presented.
- NEILP supports proposals asking for adoption of fixed grant date schedules that provide for stock option grants on a periodic basis. We also encourage the adoption of "blackout" periods to preclude stock grants when company executives have access to material, non-public information similar to the rules applicable to stock purchases and sales by insiders.

3.6.4 Golden Parachutes

Golden parachutes are severance arrangements for executives and directors contingent upon a change in control of a company. Golden parachutes are intended to ease managers' and directors' fears about losing their jobs in the event of a successful takeover, and thus help them make decisions in the best interests of the company, in those circumstances. The amounts of compensation in these packages, however, are often excessive, especially in light of other compensation that executives typically receive.

NEILP votes against golden parachutes, except in those cases where management can demonstrate that the arrangements are in the shareholders' long-term interest and do not create a conflict of interest for the recipients, and that the amounts involved are reasonable compared to similar benefits for all employees of the company. NEILP votes against a golden parachute that is not contingent on a change in the ownership of more than 50% of the company.

3.6.5 Shareholder Approval for Executive Severance and Retirement

In some cases, executives have negotiated retirement benefits that promise a lifetime of income far exceeding what they would be entitled to under the retirement plans of rank and file employees. The promise of such lucrative plans, regardless of what happens to the company or stock price, undermines the goal of pay linked to performance.

NEILP supports proposals to require severance packages for executives and directors to be approved by shareholders and clearly disclosed in a company's proxy circular.

Supplemental Executive Retirement Plans (SERPs), also referred to as "top hat" plans, are designed to restore benefits lost to regulatory restrictions on compensation used to calculate qualified pension benefits. In some versions, executives do not defer current salary or bonus because the dollars used are provided entirely by the employer. SERPs provide pension pay beyond that provided to rank and file employees. In some cases, executives have received these extraordinary retirement benefits at the same time that workers are being asked to bear increased risk for their retirement security.

Few rules govern the funding, value or qualifications for such executive plans. In determining the payout, companies can include salary, bonus, and deferred compensation awards and can increase the number of years with which an executive is credited under the plan. The greatest difference between plain vanilla employee pension plans and SERPs is that a company need not set aside any assets to fund its liability under the executive plan.

NEILP supports proposals to require a shareholder vote on such plans unless they are no different than plans offered to all employees.

NEILP supports proposals to require disclosure of company obligations under such plans as part of total pension's obligations.

3.6.6 Bonuses

Executives should be awarded bonuses when they exceed their performance goals or standards. NEILP votes against compensation plans that provide bonuses for executives whose performance is average or below goals, or where the company's performance has been average or poor. NEILP supports bonuses and compensation plans that reward those executives whose performance have been excellent.

3.6.7 Disclosure of Executive Compensation

In order to vote wisely on compensation issues, shareholders must understand the company's executive compensation plan and philosophy.

In addition to required disclosures of executive compensation, companies should describe their executive compensation plans clearly in the proxy circular, including the rationale for salary levels, incentive payments and bonuses, as well as the size and market value of the stock options granted to executives.

In January 2006, the SEC in the US proposed an overhaul of pay disclosure rules that would require companies to disclose the monetary value of stock options grants in the proxy statement and provide a total compensation figure. The proposed rules also lower the threshold at which the value of perks must be disclosed so that executive perks totalling more than \$10,000 would be outlined in the proxy statement, rather than the previous threshold of \$50,000. The new disclosure rules became final on November 7, 2006.

Similarly, the Canadian Securities Administrators (CSA) have made sweeping amendments to executive and director compensation disclosure rules with the goal of making it easier for investors to assess the total compensation paid to executives, and to understand how compensation decisions are made. The new Form 51-102F6 will significantly change the information that must be disclosed about executive and director pay in management information circulars. Subject to the completion of provincial approval processes, the new rules will take effect for financial years ending on or after December 31, 2008.

NEILP supports proposals to require companies to disclose and fully explain their executive compensation to shareholders in their proxy circular.

3.6.8 Employee Share Purchase Plans

An increasing number of companies are implementing employee share purchase plans to increase broad-based share ownership among employees. By offering employees the opportunity to acquire partial ownership of the company where they work and by engaging them in the day-to-day challenge of improving company performance, employee share ownership programs can help align the interests of employees with those of shareholders and serve as an important element of corporate development. Studies have found that employee ownership can have a positive impact on

sales growth, employment growth, and overall corporate productivity. This is particularly true when combined with participatory management techniques that provide employees with information and training, and give them some control over their work environment.

NEILP supports employee share purchase plans with dilution levels up to 10% of outstanding share capital, as long as discounts do not exceed 30%.

3.6.9 Shareholder Vote on Executive Compensation

We believe that existing corporate governance arrangements in Canada do not provide shareholders with mechanisms for providing input to boards on senior executive compensation. In contrast to Canadian and US practices, public companies in the United Kingdom allow shareholders to cast an advisory vote on the “directors’ remuneration report,” which discloses executive compensation. Such a vote is not binding, but gives shareholders a clear voice that could help shape senior executive compensation. Such a vote would provide companies with an indication of how shareholders view executive compensation practices.

NEILP supports proposals asking the board of directors to adopt a policy that shareholders be given the opportunity at each annual meeting to vote on an advisory resolution, proposed by company’s management, in order to affirm the compensation of its named executive officers.

3.6.10 Pay for Superior Performance

A senior executive compensation plan based on sound pay-for-superior-performance principles will help moderate excessive executive compensation and create competitive compensation incentives that will focus senior executives on building sustainable long-term corporate value. The compensation committee should establish and disclose financial, non-financial, and stock price performance criteria used to compare its performance against defined peer group-related performance benchmarks. The compensation should only be awarded when the company’s performance exceeds the median of its peer group.

NEILP supports proposals asking that the board of director’s executive compensation committee establish a pay-for superior-performance standard in the company’s executive compensation plan for its senior executives.

3.7 Mergers and Acquisitions

In the normal course of business affairs, companies can become the targets of take-over bids. In some cases, the would-be acquirer makes a direct offer to the board of directors. Boards may approve of the offer, complete a friendly transaction, and present the take-over bid to shareholders. If the board does not approve of the offer, the acquirer can make a tender offer for company shares directly to the targeted corporation’s shareholders, in a hostile takeover attempt.

Shareholders must be vigilant about protecting their interests during takeovers. In some cases, takeovers may pay a premium to shareholders. Takeovers can also be accompanied by efforts to depress the price of the stock. Takeover battles can also distract attention from the business of the corporation and damage the company’s long-term profitability. Measures designed to protect companies from hostile takeovers often protect directors and managers, regardless of whether or not the takeover is in the shareholders’ interest.

3.7.1 Shareholder Rights Protection Plans or “Poison Pills”

Poison pills often involve issuing stock purchase rights. These rights are usually not exercisable unless a hostile takeover offer is tendered or a potential acquirer of the company purchases a specified percentage of the shares. If the company cannot fend off the takeover, the plan allows holders of the rights to buy additional shares or sell shares at very favourable prices. This imposes significant costs on the potential acquirer, making the takeover less attractive.

Shareholder rights plans may be intended to force hostile bidders to negotiate with a company’s board of directors, and/or to give the board time to consider alternatives to the takeover bid. This can help the board ensure that shareholders receive the best price for their stock and that they are treated equally in a change of control of the company. These are legitimate purposes for having a shareholder rights plan.

It is common, however, for the plan to stop the takeover attempt, and for the price of the company’s stock to drop significantly. Like other takeover defenses, shareholder rights plans tend to elevate the interests of directors and the managers over the interests of shareholders. Plans must be designed to protect shareholder value, rather than to protect the board and management.

In Canada, companies must submit plans to a vote by shareholders within six months of their adoption. In the US, boards can adopt plans without shareholder approval or participation, although some companies have submitted their plans to shareholders.

NEILP votes against directors who adopted plans without shareholder approval.

NEILP assesses shareholder rights plans on a *case-by-case* basis. NEILP supports plans when they ensure that shareholders will receive a good price for their stock in a takeover, without protecting management or the board at the expense of the shareholders' interest.

3.7.2 Crown Jewels

Under a crown jewel defence, a company sells its assets to a friendly third party. In Canada, crown jewels usually require the approval of shareholders.

Shareholders can also seek the fair value of their shares from the potential acquirer if substantially all of the company's assets are included or if the takeover would change the essential nature of the company's business. This is called the "appraisal remedy."

Crown jewel transactions usually occur on very short notice, giving shareholders little time to assess how the sale will affect the value of their shares or control of the company.

NEILP votes against crown jewel defences unless the company can show that shareholders' interests will be protected.

3.7.3 Leveraged Buy-Outs and "Going Private" Transactions

In a leveraged buyout, a group of buyers – often the company's management or a controlling shareholder – borrows funds in order to purchase a controlling interest in the company. A "going private" transaction is one in which the buyer will turn the company into a privately-held one. In both kinds of transactions, shareholders may not be offered a fair price for their stock. The outstanding shares may be priced at less than true value, especially if no other potential buyer has had an opportunity to make a competing bid.

NEILP votes against leveraged buyouts and going private transactions unless competing buyers have had an opportunity to bid on the company, and the transaction gives shareholders the best value available.

3.7.4 Private and Targeted Share Placements

Management and directors may protect a company from a takeover by placing a large block of shares in a safe place, such as their employee stock option plan or with a sympathetic firm or individual shareholder, so that those shares cannot be purchased. Private and targeted share placements do not benefit shareholders if they result in dilution or if the takeover would be in the best interests of shareholders.

NEILP supports proposals to require companies to seek shareholder approval before making any targeted or private share placements that involve more than 5% of the existing shares. NEILP supports private or targeted share placements if they are negotiated at arms length and are based on the fair market value of the stock.

3.7.5 Greenmail

A company pays "greenmail" when it buys the stock of a potential acquirer at a price above the market price of the shares. This transaction is conducted in exchange for the potential acquirer's agreement to end the takeover attempt.

In Canada, provincial securities laws do not permit greenmail payments. In the US, this practice is not prohibited by law. Greenmail is unfair to other shareholders who do not get the same price for their stock. The SEC has concluded that greenmail payments devalue a company's stock and denies shareholders the opportunity to assess the prospective takeover attempt.

NEILP votes against the payment of greenmail. NEILP supports anti-greenmail proposals.

3.7.6 Opting Out of Takeover Laws (US)

In the United States, some states have laws that protect corporations from hostile takeovers. Such laws prohibit prospective buyers from making well-financed bids for a company and provide a benefit to shareholders. In most states, takeover laws allow corporations to opt out of these protections. NEILP supports proposals to opt out of takeover protection laws.

3.7.7 Reincorporation

Companies may reincorporate in a different jurisdiction for sound business reasons, but also as a takeover defence or as a way to limit directors' liability.

NEILP supports reincorporation proposals when management can demonstrate there are sound financial or business reasons for the move.

NEILP votes against reincorporation as a takeover defence or to limit director liability.

3.7.8 Consideration of Environmental, Social, and Economic Impacts of Mergers and Acquisitions

According to KPMG Corporate Finance, the number of completed Canadian mergers and acquisitions (M&As) topped 2,000 for the first time in 2007, resulting in a total deal value of US\$268.6 billion. This represented a value increase of 50% over 2006.

The value of M&A deals in 2007 was triple the amount completed in 2005. Resource company transactions continue to dominate the largest Canadian M&A deals, and it is anticipated that the trend for resource transactions will continue, despite lingering concerns about an economic slowdown in 2008.

The empirical evidence shows that mergers seldom deliver value. For example, according to a KPMG study published in 2007, 83% of all M&As failed to produce any benefit for the shareholders, and over 50% destroyed value. Interviews with over 100 senior executives involved in such deals over a two-year period revealed that the overwhelming cause for failure "is the people and the cultural differences".

NEILP supports proposals requiring directors to consider the effects of mergers, takeovers or acquisitions on company stakeholders.

NEILP votes on a case by case mergers and acquisitions. NEILP looks for is strong evidence that it will deliver long-term benefits to the company and its stakeholders.

3.7.9 Shareholder Approval of Takeovers

Any action that alters the relationship between shareholders and the board, and any major changes in the structure or control of the corporation should be submitted to the shareholders for a vote.

NEILP supports proposals that require directors to submit to shareholders any changes in the structure or control of the corporation, or in the relationship between shareholders and the board.

3.8 Income Trusts

Income trusts aim to maximize the payout to shareholders in the form of dividends. The result of this focus on dividend distribution means that companies may not be investing cash back into the business in the form of additional capital, research and development, and corporate sustainability policies and procedures. Potentially, this has serious implications for Canadian economic growth, productivity, and the achievement of corporate sustainability.

On October 31st 2006, the Canadian Federal Government imposed a Distribution Tax on distributions from publicly traded income trusts. For income trusts that begin trading after that date, these measures will apply beginning with their 2007 taxation year. For existing income trusts and limited partnerships the government is proposing a four-year transition period. They will not be subject to the new measures until their 2011 taxation year.

On July 14, 2008, the government released the long-awaited draft amendments to the Income Tax Act (Canada) which facilitate the conversion of certain income trusts into corporations without unitholders or specified investment flow-throughs (SIFTs) facing adverse tax implications. We expect to see more conversions as 2011 approaches. NEILP will vote conversions on a case-by-case basis.

NEILP believes that income trusts are a legitimate investment vehicle for some business models, but one that should be used with extreme caution. When voting on a proposed conversion to an income trust, NEILP will vote on a case-by-case basis, exercising extreme caution and only after determining if this type of investment vehicle is suitable for the business model of the company and if a conversion is in the best interests of stakeholders and shareholders.

4.0 Sustainability and Corporate Social Responsibility Issues

4.1 Corporate Social Responsibility – General Philosophy

NEILP defines corporate social responsibility (CSR) as the management of corporate activities to produce an overall positive impact on company stakeholders (employees, communities, suppliers, customers, and future generations). NEILP believes that corporate social responsibility is consistent with long-term profitability and that a company's management of social, environmental, and ethical issues is critical to long-term business success.

Companies that ignore CSR are subject to heightened business risks, including litigation, fines, restrictive regulation, labour unrest, community opposition, restrictions on social license to operate, and damage to corporate and brand reputation. Companies that embrace progressive environmental and ethical policies can reduce operating costs, find it easier to meet the costs of compliance and increased regulation, and are positioned to take advantage of emerging opportunities related to the provision of ethical and environmentally-sound products and services. Progressive employee, human resources, and occupational health and safety policies make it easier to identify and retain good employees and operate high performance workplaces. CSR policies are generally consistent with improved organizational effectiveness, risk management, and the reduction of environmental and social liabilities. CSR can also enhance customer and supplier loyalty. In the post-Enron era, increased corporate transparency and accountability on financial, social, and environmental issues is becoming a prerequisite for acquiring investor confidence.

NEILP supports proposals relating to corporate social responsibility that are in the best interests of the shareholders and the long-term interests of the corporation.

4.2 Sustainability – General Philosophy

In the 1990s, the concept of sustainability has emerged as a response to the social and environmental challenges associated with globalization.

As technological advances in transportation and communication have increased trade and connectivity among people, many countries face external pressure to

attract investment by lowering wages, relaxing labour standards, and reducing environmental regulation. Thus, as trade has expanded, globalization has been associated with a widening income gap, environmental degradation, resource depletion, and the sense that as citizens in our communities we have a declining ability to influence the economic decisions that impact our lives.

To address these problems, governments, academia, non-governmental organizations, and businesses have come to recognize that sustainability is a crucially important conceptual and operational tool.

Defined as development that meets the needs of the present without compromising the ability of future generations to meet their needs, sustainability means restoring ecosystem integrity, addressing the link between poverty and environmental degradation, operating on a time scale that considers the needs of future generations and encouraging participation in decision-making from employees, communities, and everyone impacted by business activity.

Visionary business leaders see sustainability as a way to align business activities with society's needs. They also see sustainability as a business strategy that can help attract and retain the best employees, enhance corporate reputation, lower the risks of litigation, exploit opportunities in new environmental technologies, and create companies that are more competitive, more resistant to shocks, and more nimble in a fast-changing world.

For NEILP, socially responsible and sustainable investing in the 21st century is about ensuring that business manages activities to produce a positive impact on society putting in place the market incentives that encourage corporations to operate responsibly and fostering a more just and sustainable world.

While there will always be a great deal of debate concerning the meaning and implementation of sustainability, the concept directs companies to reduce overall material and energy demands and restore the integrity of ecological systems to embrace the precautionary principle to eliminate the "collateral damage" that it may inflict on communities to maximize the environmental, social, and economic benefits of its

operations and to encourage participation in decision-making from employees, communities, and those impacted by corporate activity.

NEILP believes that corporate sustainability is connected to the economic sustainability of the company, employees, and communities where companies operate.

NEILP supports proposals asking companies to adopt and integrate a sustainability policy throughout operations.

4.3 Environmental Issues

Ecosystems are essential to our society. Corporations must maximize efficient use of non-renewable resources and minimize pollution. Loss of plant and animal species must be avoided.

The concept of corporate environmentalism is evolving rapidly. Companies at the leading edge know it is not enough to comply with environmental regulations. These companies are embracing strategic environmental management, full-cost accounting, life cycle assessment (LCA), design for the environment (DfE), industrial ecology, the Natural Step, and sustainable development.

NEILP supports proposals that call upon companies to consult with organizations with expertise in environmental issues when undertaking these and other corporate environmental activities.

NEILP looks to the UN Convention on Biological Diversity and the environmental principles articulated in the UN Global Compact (business should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility, and encourage the development and diffusion of environmentally friendly technologies) for further guidance on our proxy voting activity.

NEILP supports proposals to create an environmental committee of the board in sectors where environmental risks are significant or to assign environmental responsibilities to an existing board committee in sectors where such risks are less significant.

4.3.1 Precautionary Principle

Corporate decision-making on the environment should be guided by the precautionary principle. The precautionary principle is a tool for managing risk

when reliable knowledge about the identity, character, and magnitude of risks is lacking. The precautionary principle states that when an activity raises threats of harm to human health or the environment, precautionary measures should be taken, even if some cause and effect relationships are not fully established scientifically.

The process of applying the precautionary principle should be open, informed, and democratic and must include an examination of the full range of alternatives, including no action. Risk managers should implement a “proportionality rule”: the presumption in favour of safety should increase to the extent that the potential harm to health and the environment may be irreversible, not remediable, and of catastrophic proportions. The presumption in favour of safety can decrease to the extent that harms are reversible and less probable, and the costs of precaution are excessively high. The burden of proof is upon those who would engage in activities posing risks to human health and the environment, in demonstrating reliably that those activities do not pose unacceptable risks.

The precautionary principle does not mean technological paralysis. It does mean accepting limits in our current knowledge and understanding of complex biological and ecological systems. It means that those who wish to move forward with an activity should be responsible for reducing uncertainty and removing theoretical unknowns.

NEILP supports proposals to incorporate the precautionary principle into project decisions, environmental assessments, environmental policy, and environmental management systems.

4.3.2 Robust Economies are Sustained within the Context of Healthy Ecosystems

Corporations must recognize ecosystem limits and operate accordingly. Empowered and healthy human populations and communities are more likely to play a leadership role in sustaining healthy ecosystems, maintenance of culture and robust economies. While it is true that ecosystem health alone is not sufficient for human wellbeing, it is equally true that society can not exist without the essential elements provided by our ecosystems. The debate is no longer framed as a “trade-off” between people and the environment, but that both ecological integrity and human well being

are critical and equal. While any practical application has hundreds of small trade-offs, it must be recognized that maintaining or improving one at the expense of the other is unacceptable because the foundation of life is undermined.

This is sometimes referred to as the “First Among Equals” Principle and its application demands an understanding of cumulative impacts to ecosystems. NEILP supports resolutions that are guided by the recognition of the First Among Equals Principle and include assessment of cumulative impact in relation to project decisions, environmental assessments, environmental policy and environmental management systems.

4.3.3 Disclosure of Environmental Risks and Liabilities

For many companies in the resource sector, operations or products run a high risk of inflicting environmental damage. NEILP encourages companies to develop and maintain contingency plans for preventing, mitigating, and controlling damage to the environment and risks to human health, including plans for accidents or emergencies. These plans should be approved by relevant government authorities, such as disaster management, environmental safety, or public health agencies.

NEILP supports proposals to assess and disclose company financial and legal risks and liabilities associated with toxic chemicals, potentially hazardous processes, and operations, including independent verification of audits, environmental assessments, and environmental impact statements.

4.3.4 Global Reporting Initiative

Corporate sustainability reporting is becoming increasingly prevalent both internationally and in Canada. Reporters are responding to increased demands for transparency and to the benefits of disclosure. They are realizing that reputation, as a key corporate asset, can be affected by performance in a range of environmental, social, and economic areas.

The Global Reporting Initiative (GRI) is a standardized reporting format sponsored by the United Nations Environmental Programme (UNEP). The GRI Sustainability Reporting Guidelines provide companies with (1) a set of reporting principles (such as balance, comparability,

accuracy, timeliness, reliability and clarity) essential to producing a balanced and reasonable report, and (2) guidance for report content, and quality in the areas of materiality, stakeholder inclusiveness, sustainability context, and completeness as related to the company’s profile, vision, and strategy, governance structure and management systems, and performance against core indicators in six categories (direct economic impacts, environmental, labour practices and decent work conditions, human rights, society, and product responsibility).

The GRI is elevating sustainability reporting to the higher levels of rigour and comparability. It has incorporated the active participation of thousands of businesses, accountancy, environmental, human rights, and labour organizations from around the world. The GRI has employed a consensus-based process to design voluntary reporting practices that are harmonized with other emerging national and global standards and disclosure programs.

NEILP supports proposals asking companies to produce a sustainability report detailing company policies and practices related to social, environmental, and economic sustainability.

NEILP believes all stakeholders will benefit from the standardized format offered by the GRI. NEILP therefore also supports proposals asking companies to adopt the GRI as a sustainability reporting format.

4.3.5 Phase out PCBs

Polychlorinated biphenyls are mixtures of up to 209 individual chlorinated compounds. There are no known natural sources of PCBs. PCBs are either oily liquids or solids that are colourless to light yellow.

Some PCBs can exist as a vapour in air. PCBs have no known smell or taste.

From the 1930s to the 1970s, PCBs were widely used as ingredients in a number of industrial materials, including sealing and caulking compounds, inks, and paint additives. PCBs have also been used as coolants and lubricants in transformers, capacitors, and other electrical equipment because they do not burn easily and are good insulators.

PCBs are considered a known animal carcinogen and a probable human carcinogen. Additional evidence suggests PCBs may affect the immune and reproductive systems, cause endocrine disruption, and have neurological effects. By 1977, evidence that PCBs accumulate in the environment and may cause harmful health effects led to a North American ban on manufacturing and importing PCBs. The 1977 ban did not cover existing PCBs that were used in electrical applications. Those applications are now being phased out and governments have set strict guidelines for the storage and disposal of PCBs. Products made before 1977 that may contain PCBs include old fluorescent lighting fixtures and electrical devices containing PCB capacitors, and old microscope and hydraulic oils.

Some companies have denied the health and environmental consequences of PCBs and delayed cleanup of sites contaminated by PCBs. Concerns have also been raised with regard to how corporations responsible for PCBs have engaged in public debate concerning phase out.

NEILP supports proposals to ensure safe management of wastes contaminated by PCBs. NEILP supports proposals to report annual expenditures on attorney's fees, expert fees, lobbying, and media relations relating to the health and environmental consequences of PCB exposure, as well as expenditures on actual remediation of PCB contaminated sites.

4.3.6 Phase out PVC

Polyvinyl chloride (PVC) plastic, the primary component in 25% of all plastic medical products, including enteral feeding products, IV and blood bags, dialysis tubing, and packaging, creates dioxin during the PVC production process. PVC can also produce dioxin when burned in a medical or solid waste incinerator. The Environmental Protection Agency (EPA) has determined that the US population already has dioxin levels in their bodies at or near the levels that have caused adverse effects in laboratory animals.

PVC can contain toxic chemical stabilizers such as lead and phthalate plasticizers to soften vinyl toys. In the last two years, major retailers have been obliged to remove from their shelves certain PVC products, such as jewelry, baby bibs and children's lunchboxes, because of excess levels of lead found in these products. Some of these companies were sued under California's Proposition 65 law.

New York and other major cities have enacted procurement policies to avoid purchase of materials such as PVC that lead to persistent toxic pollution. California is the first US state to ban phthalates in children's vinyl toys.

In addition, large quantities of chemicals called "phthalates" are used to manufacture flexible PVC medical products; a significant percentage of flexible PVC products may be comprised of di-ethylhexyl-phthalate (DEHP), a plasticizer that is a reproductive and developmental toxicant. DEHP can leach out of medical devices and into the fluids they are carrying, exposing vulnerable populations, including premature infants and pregnant women, to DEHP.

PVC in products and packaging has been targeted for reduction and elimination out of concern about its health and environmental impacts throughout the supply chain.

PVCs in the electronics supply chains have been a prominent concern in recent years, as stories in the media have highlighted hazards to human health and the environment from the production, use, and disposal of electronics products.

Public policies in the United States and overseas have begun to address these issues. For example, the European Union has adopted the Reduction of Hazardous Substances (RoHS) Directive limiting the use of specific chemicals such as lead and certain brominated flame retardants in electronics products.

NEILP supports proposals to phase out the use of PVC in packaging, medical and other products and electronic equipment when alternatives are available. NEILP also supports proposals that call for companies to produce a report disclosing practices and policies on product toxicity and summarizing which, if any, product lines may be affected by the product toxicity concerns described above.

4.3.7 Recycling

In the beverage industry, some companies fail to use containers with recycled content and have lobbied against bottle container deposit systems. The vast majority of these containers end up in landfills.

While the total number of plastic bottles recycled in the US has steadily increased over time, the recycling rate of the most widely sold and collected type,

polyethylene terephthalate (PET) commonly used in the beverage industry, has dropped in the last decade, according to the American Chemistry Council. The Container Recycling Institute notes that in 1995, one in four PET containers were recycled, but in 2006, less than one in five were recycled. This means that of the 72 billion PET plastic beverage bottles purchased in 2006, about 50 billion ended up in landfills, incinerators or as litter.

NEILP supports proposals to adopt comprehensive recycling strategies.

4.3.8 Product Take-Back

In the US, a study by the National Safety Council concluded that 20 million computers became obsolete in 1998 and that only 11% were recycled. The manufacture of one computer workstation can require more than 700 chemical compounds, about half of which are hazardous, including arsenic, brominated flame-retardants, cadmium, hexavalent chromium, lead, and mercury. Cathode ray tubes in monitors can contain several pounds of lead, and have been identified as hazardous waste and banned from landfills in California. The European Union has passed legislation mandating extended producer responsibility that requires manufacturers of electronic equipment marketed in Europe to reduce the use of hazardous components. Producer responsibility creates a powerful incentive to design products that are environmentally preferable, and easier to upgrade, disassemble, and recycle.

NEILP supports proposals asking companies to assess feasibility, adopt policies, and implement programs and auditing procedures that promote producer responsibility for their products.

4.3.9 Global Climate Change and Greenhouse Gas Emissions

In 2007, the Intergovernmental Panel on Climate Change's Fourth Assessment Report stated it is "very likely" that anthropogenic greenhouse gas (GHG) emissions have heavily contributed to global warming. Furthermore, "there is substantial economic potential for the mitigation of global greenhouse gas emissions over the coming decades that could offset the projected growth of global emissions or reduce emissions below current levels."

According to a February 2007 report by Lehman Brothers, *The Business of Climate Change*, "companies which are aware of the impact their business practices have on the overall environment, including climate change, and proactively take actions to mitigate any unfavorable impact, may create a significant competitive advantage compared with companies which, through a lack of awareness, become blindsided by regulations."

Global climate change has emerged as the most significant environmental threat to the planet today and as a major risk management challenge for corporations and investors. Prudent and forward-looking companies acknowledge these facts, taking steps to reduce emissions and explore energy alternatives.

Precautionary action to reduce the causes of climate change, notably emissions of greenhouse gases, will reduce the potential risks of climate change. The optimal approach is to take significant action now to reduce the risks as long as this does not involve disproportionate economic costs.

According to *The Stern Review: The Economics of Climate Change* (2006), though it is impossible to predict the consequences of climate change with absolute certainty, taking strong action to mitigate greenhouse gas emissions must be viewed as a cost incurred now and in the coming decades to avoid the risk of severe consequences in the future.

The Carbon Disclosure Project (CDP) is an independent not-for-profit organization which acts as an intermediary between shareholders and corporations on climate change related issues, providing primary climate change data from the world's largest corporations, to the global market place. The data is obtained from responses to CDP's annual Information Request, sent on behalf of institutional investors and purchasing organizations.

NEILP supports proposals that call for companies to respond to the annual CDP questionnaire.

NEILP supports proposals to report and reduce emissions, establish baseline emissions data, increase energy efficiency, and develop renewable sources of energy.

NEILP supports proposals that detail the range of potential financial liability associated with greenhouse gas emissions, and strategies to reduce this liability,

including an estimate of the costs and benefits of substantially reducing annual greenhouse gas emissions under a range of carbon pricing scenarios.

NEILP supports proposals to car manufacturers to report estimated total greenhouse gas emissions from the company's own operations and from its products how the company can reduce greenhouse gas emissions from its fleet of vehicle product and to evaluate new public policies that would enable and assist the company in achieving emissions reductions.

NEILP supports proposals that ask companies to explain the approaches being taken to comply with greenhouse gas emissions standards in applicable jurisdictions.

4.3.10 Natural Resources and Conservation

Natural resource consumption and ecosystem degradation pose a serious threat to biodiversity, human health, and development opportunities.

Specific regions of the world have been recognized as particularly sensitive and crucial for the long-term protection of rare ecosystems and endangered species.

High Value Conservation Forests (HVCF), defined by the Forest Stewardship Council as forests of outstanding and critical importance due to their high environmental, socio-economic, biodiversity or landscape values. HVCFs comprise the crucial forest areas and values that need to be maintained or enhanced in a landscape and are found within a wide range of forest conditions (largely intact to largely fragmented).

NEILP supports proposals seeking protection of HVCFs in regional jurisdictions.

Forest Stewardship Council (FSC) Certification is an international certification and labeling system that guarantees that the forest products come from responsibly managed forests and verified recycled sources.

Under FSC certification, forests are certified against a set of strict environmental and social standards, and fibre from certified forests is tracked to the consumer through the chain of custody certification system. The end result is products in the marketplace carrying the FSC 'check-tree' logo.

FSC certification is a voluntary and market-based mechanism. NEILP supports proposals seeking that companies be certified under this system.

The World Conservation Union, an international organization composed of governments, government agencies, and environmental non-governmental organizations, was established in 1948 to influence, encourage, and assist societies throughout the world to conserve the integrity and diversity of nature and to ensure that any use of natural resources is equitable and ecologically sustainable.

The World Conservation Union has two main goals: to face the extinction crisis and biodiversity loss; and to restore ecosystem integrity. In pursuit of these goals, the World Commission on Protected Areas has established a list of worldwide terrestrial and marine protected areas. The World Conservation Union has also established a list of species in greatest need of conservation attention. The "Red Lists" are widely recognized as the most comprehensive and balanced approach for evaluating the conservation status of plant and animal species.

In many cases biodiversity and species at risk are threatened by resource extraction and industrial development. NEILP supports proposals to assess these risks and, if risks are unmitigable and unacceptable, terminate development in areas identified by the World Commission on Protected Areas and/or in areas harbouring plant and animal species at risk. NEILP supports proposals to disclose social and environmental impacts of activities and take steps to control significant risks to shareholder value from operating in protected and sensitive areas, including IUCN Management Categories I-IV and Marine Management Categories I-V World Heritage Sites and national parks, monuments, and wildlife refuges.

4.3.11 Genetically Engineered Food Products and Agriculture

The process of genetic engineering involves extracting or copying DNA sequences originating in an organism of one species for reintroduction into an organism of another species. The objective is to take advantage of species variations in order to change the traits or functions of the recipient organism.

Genetic engineering differs from traditional breeding practices, which take advantage of genetic variation within species. Genetic engineering transfers genetic information across traditional evolutionary boundaries.

Concerns have been raised that food and agricultural products developed through genetic engineering technology have been introduced into the market – and into ecosystems – without due regard for human health, the environment, and the precautionary principle.

The US Department of Agriculture has acknowledged the need to develop a comprehensive strategy for evaluating long-term and secondary effects of genetically engineered products. In April 2000, the US National Academy of Sciences issued a report recommending development of improved methods for identifying potential allergens in genetically engineered pest-protected plants, finding that there are gaps in regulatory coverage. In August 2002, the National Academy of Sciences issued a report on animal biotechnology cautioning that the current regulatory system is inadequate to address “potential hazards, particularly in the environmental area.” The Royal Society of Canada has raised concerns regarding regulation of genetically modified organism (GMO) food products in Canada. In January 2003, the Center for Science in the Public Interest published a study concluding that biotechnology companies provide inadequate data to the Food and Drug Administration (FDA) to ensure that products are safe and that the FDA performs a “less-than-thorough” safety analysis of that data.

Consumer concerns are on the rise in Europe, North America, Australia, and New Zealand. Several food retailers are committed to removing genetically modified ingredients from store-brand products. In the US, a long tradition of a citizen’s “right to know” is expressed in laws requiring nutritional labelling of foods. Focus groups conducted by the FDA in spring, 2000 indicated strong public support for mandatory labelling. Polling data in Canada and the US confirms that the vast majority of citizens want genetically engineered foods to be labelled as such. The EU, Japan, New Zealand, South Korea, and Australia have passed regulations requiring the labelling of such foods.

NEILP supports proposals to improve GMO food safety testing.

NEILP supports proposals to label all food products that may contain genetically modified ingredients.

NEILP supports proposals to review and disclose policies for food products containing genetically modified ingredients, identifying the risks, financial costs (including opportunity costs) and benefits, and environmental impacts of the continued use of genetically modified ingredients in food products sold or manufactured by the company.

NEILP also supports resolutions asking companies to produce evidence of independent long-term safety testing demonstrating that genetically engineered crops, organisms, or products are safe for humans, animals, and the environment.

NEILP supports proposals to identify the scope of the company’s products that are derived from genetically modified ingredients and to outline a contingency plan for sourcing non-GMO ingredients should circumstances so require.

4.3.12 Treatment of Animals

From fast food restaurants to product testing laboratories, corporations are engaged in using animals to bring products to market. For many people, these activities are unacceptable. Survey data indicates that the vast majority of Canadians believe corporations should adopt the highest standards to ensure animals do not suffer needlessly.

NEILP supports proposals to fast food restaurant chains, cosmetic companies, and pharmaceutical companies to adopt the highest possible animal welfare standards and to report publicly on implementation.

4.3.13 Water Consumption and Conservation

Water is a critical resource that plays an indispensable role in human development and biodiversity protection. Poor management of global water resources, combined with the growing effects of climate change, population pressures, and heavy industrial use has greatly increased the scarcity of this vital resource. The problem is global, though it is particularly acute in arid regions and areas of high urban density that have traditionally had limited resources to begin with. Industrial processes from activities such as oil and gas extraction, food and beverage manufacturing, high tech manufacturing and

others can place a great load on local water supplies, negatively affecting the availability of water for local populations and ecosystems.

NEILP supports proposals to report on water use and efforts to reduce consumption to sustainable levels.

NEILP supports proposals to review and disclose risks associated with water consumption and access as well as proposals asking to reduce ground and surface water extraction.

NEILP supports proposals asking companies to refrain from locating manufacturing facilities in water scarce areas.

4.4 Relationships with Employees

4.4.1 General Workplace Practices

Progressive employee and human resource policies facilitate identification and retention of good employees and operate high performance workplaces.

Such practices include: exemplary environment, health, and safety policies and management systems; the development of corporate social responsibility programs; competitive employee compensation and benefits packages; policies to encourage the hiring and promotion of women and minorities; human resources policies that promote overall wellness and a balanced lifestyle; charitable donations programs that involve and are led by staff; concerted and consistent team-building exercises; participation by staff in establishing mission statements; employee involvement in strategic planning exercises; internal communications plans in which staff have input into major decisions and whereby decisions made by the board and senior management are explained; and maintenance of a general no layoff policy, along with plans to aid employees when layoffs are necessary.

NEILP encourages companies to adopt such policies and supports proposals that ask companies to do so.

4.4.2 Occupational Safety and Health (OH&S)

According to the International Labour Organization (ILO), each year millions of workers die or are injured or fall ill as a result of workplace hazards. Ensuring the safety and health of employees is one of the most important responsibilities of companies. Improving

occupational safety and health is in the best interests of all employers.

The ILO has established “Guidelines for Occupational Health Management Systems” and “Code of Practice on Recording and Notification of Occupational Accidents and Diseases.” NEILP encourages companies to implement these guidelines.

NEILP supports proposals to enhance safety and health management systems and to disclose health and safety information to investors and the public. Such data may include health and safety policy and management systems, performance indicators (e.g., lost time injury rate), and cost indicators (e.g., fines for non-compliance, liabilities, and legal costs).

NEILP supports proposals to create an OH&S committee of the board in sectors where health and safety concerns are significant, or to assign OH&S responsibilities to an existing board committee in sectors where such concerns are less significant.

4.4.3 Layoffs

In the 1990s, corporate downsizing came to be seen as a strategy to gain the approval of investors. This short-term strategy imposed an intolerably high cost to employees and to the long-term health of many companies. A study by Watson Wyatt of 148 Canadian companies found that less than 40% of the firms that downsized had higher profits. Companies that downsize have been found to perform slightly better than stock market indices in the six months that follow the announcement, but lag behind in subsequent months. In one study, the stock prices of companies that downsized dropped by an average of 24% three years after the layoffs.

From time to time, layoffs may be necessary to ensure the long-term health of the corporation.

NEILP supports proposals to report how companies will respect workers’ rights during downsizing, to give employees adequate notice of layoffs and communities’ adequate notice of facility closures, and to provide services to ease employee transition, such as placement services.

4.4.4 Glass Ceiling Review

The term “glass ceiling” refers to the barrier to the advancement of women and minorities into corporate management positions. According to Catalyst, an

American firm that tracks the progress of women in corporate management positions, in 2008, women held 15.1% of board director positions, compared to 14.8% in 2007 and women of color held 3.2% of all board director positions. Women held 6.2% of top earner positions, compared to 6.7% in 2007. Little change occurred in the number of companies having zero, one, two, or three or more women corporate officers.

According to executive research firm Rosenzweig & Co., the percentage of women at the highest levels (either CEOs, CFOs or the next three highest compensated executives) at Canada's top 100 companies dropped to 5.8% in 2007. It was at 4.6% three years ago and hit a heady 6.9% in 2006.

A 2007 Catalyst survey found that in Canada women represent 13% of corporate board seats in the FP500, an increase of only one percentage point since 2005. Over 40% of FP500 companies in Canada have no women directors on their boards.

Management studies indicate that companies with high ratings for equal employment opportunity have performed better in the stock market than companies with poor performance in areas related to hiring and advancing women and minorities.

NEILP supports proposals to report on steps taken to adopt policies addressing leadership development, employee mentoring, workforce diversity initiatives, and family-friendly programs.

4.4.5 Discrimination and Equal Employment Opportunity

In the US, many companies provide complete information on workforce diversity in public reports to shareholders. The Equal Employment Opportunity Commission (EEOC) has established standards for reporting diversity data. The mission of the EEOC is to promote equal opportunity through enforcement of civil rights law. These includes:

- Civil Rights Act of 1964, which prohibits employment discrimination based on race, colour, religion, sex, or national origin;
- Equal Pay Act of 1963, which protects men and women who perform substantially equal work in the same establishment from sex-based wage discrimination;

- Americans with Disabilities Act of 1990, which prohibits employment discrimination against qualified individuals with disabilities in the private sector and in state and local governments;
- Rehabilitation Act of 1973, which applies the same provisions to persons working for the federal government and;
- Civil Rights Act of 1991, which provides monetary damages in cases of intentional employment discrimination.

More than 150 major employers publicly report on workforce diversity to their shareholders.

NEILP supports proposals to expand reporting capacity in this area and to follow standards established by the EEOC.

NEILP supports proposals to report on diversity in the workforce, and to adopt plans to improve diversity and equity in the workplace, as long as those plans do not set arbitrary or unreasonable goals, or require companies to hire people who are not well qualified for their positions.

NEILP supports proposals to create and implement employment equity policies.

NEILP votes against any proposal that would exclude any group of people from policies against discrimination.

4.4.6 Non-Discrimination

In Canada, section 15(1) of the Charter of Rights and Freedoms reads:

“Every individual is equal before and under the law and has the right to the equal protection and equal benefit of the law without discrimination and, in particular, without discrimination based on race, national or ethnic origin, colour, religion, sex, age or mental or physical disability.”

The Supreme Court of Canada has unanimously ruled that the Charter of Rights and Freedoms prohibits discrimination on the basis of sexual orientation.

The Human Rights Act of 1996 further prohibits discrimination on the basis of race, national or ethnic origin, colour, religion, age, sex, sexual orientation,

marital status, family status, disability, and conviction for which a pardon has been granted.

NEILP supports proposals to adopt policies specifically prohibiting discrimination.

4.5 Relationships with Communities

4.5.1 Predatory Lending

Sub-prime lending refers to loans made to consumers with low credit ratings. Sub-prime lending can be an important component of the economy for low-income communities. Without sub-prime lending, people with marginal credit would not have access to mortgages, second mortgages, and home improvement loans. Provided that the interest rates of sub-prime loans are in line with risk, and that these loans do not include high fees or abusive lending scenarios, they are a legitimate and necessary component of the lending market.

Predatory loans are a type of sub-prime mortgage, where the interest rates and points are often far higher than justified by the risk, and where there are often abusive lending practices. All predatory lending is sub-prime, but not all sub-prime lending is predatory. Predatory lending practices expose corporations to litigation and fines imposed by the Federal Trade Commission.

NEILP supports proposals asking financial institutions to ensure they do not engage in predatory lending practices.

4.5.2 Support for Microfinance and Community Loan Funds

Microfinance in emerging markets provides a route to bring large numbers of households, who are participating in the alternative economy, into the mainstream economy through development of their skills as small capitalists.

An important route to the development of this micro-finance is through the international capital markets, which can provide the funding for local microfinance groups. These local microfinance groups then provide the loans to the borrowers because they have intimate knowledge of the local market and of the enterprising borrowers who need to finance their small businesses.

Among developed countries, a number of the member countries of the European Union have provided the equivalent of \$4.5 billion of microfinance to assist the unemployed to start small businesses in an effort to stimulate their economies and relieve unemployment.

NEILP supports proposals to develop policies to participate in the funding of microfinance groups through use of capital markets and to report to shareholders on plans and achievements in this area.

4.5.3 Drug Pricing, Patent Extension, Marketing, Lobbying and Universal Health Care Policy

The provision of universal health care and the cost of prescription drugs have become widely debated topics in the US. The number of people in the United States without health insurance rose by more than 2 million in 2006, including about 700,000 million children, according to the US Census Bureau in 2007. Further, a total of 47 million people were without insurance coverage in 2006 up from 44.8 million in 2005.

This increase represents a 0.5% increase of Americans living without health coverage, totalling 15.8%. That is the highest percentage since 1998, when the rate was also 15.8% after a decade of increasing numbers. According to the Census Bureau, there were 8.7 million uninsured children in 2006, up from 8 million the previous year.

However, in 2007, the number of Americans without health insurance dropped by more than 1 million people representing the first annual decline in seven years.

A study published by the American Association of Retired Persons (AARP) Public Policy Institute notes that average annual increases in manufacturer prices charged to wholesalers for the 193 most widely used brand-name prescription drugs continued to substantially exceed the rate of general inflation of 3.2% in 2006.

On average, manufacturer prices for the 153 most commonly used prescription drugs that have been available on the market since the end of 1999 have risen by more than 53.6% during the subsequent seven-year period, compared with a general inflation rate of 20.1%. For a typical consumer taking four brand-name prescription drugs, the average increase in the cost of therapy for drugs used to treat chronic conditions increased by almost \$1,500 during this seven-year period.

In 2008 a study conducted in Florida, researchers found that drugstores in the poorest areas charge more, on average, for four widely used prescription medications than do pharmacies in wealthier neighborhoods. Patients who are uninsured and unable to shop around therefore pay more for prescription drugs which can have a significant financial impact especially if the drug is used to treat a chronic condition.

This raises the concerns that those least able to afford prescription drugs pay the highest prices. NEILP supports proposals to pharmaceutical companies to create and implement a combination of approaches to provide access to drugs for the under- and uninsured.

In the US, pharmaceutical companies engage in direct to consumer marketing, a practice that has resulted in tremendous growth in expenditures on marketing and advertising and allegedly, increases in drug prices, lawsuits, fraud, and predatory pricing. A National Health Institute for Care management study (2002) found that two-thirds of the drugs approved by the Food and Drug Administration (FDA) between 1989 and 2000 were simply modified or identical versions of existing products. These “me too” drugs were often more expensive than older counterparts, even where the FDA found that they offered no significant advantages. The Chair of the Federal Trade Commission has referred to such practices as “gaming the system.”

Demand for more stringent regulation and investigation of longstanding practices in patenting, promoting, and producing drugs is being expressed at the state level.

NEILP supports proposals asking companies to review pricing and marketing policies and report to shareholders on how they will respond to rising regulatory, legislative, and public pressure to increase access to and affordability of needed prescription drugs.

We also support proposals asking companies to develop ethical criteria for the extension of patents on prescription drugs and to issue a report to shareholders on the implications of such criteria.

In the 1970s, medical professionals became concerned about the marketing practices of pharmaceutical companies and infant formula manufacturers in developing countries. In response, the World Health Organization (WHO) established an International Code

of Marketing of Breast Milk substitutes and Ethical Criteria for Medicinal Drug Promotion. These guidelines help to ensure that pharmaceutical and breast milk substitutes are marketed ethically and in support of health care objectives.

NEILP supports proposals to adopt these standards.

The provision of health insurance is crucial to productivity. The HR Policy Association estimates that the annual cost of reduced productivity stemming from the lack of coverage is at least \$87 billion and can be critical to attracting and retaining talented workers. Employer-based coverage is an essential part of America’s health insurance system and will continue to be so for the near term.

However, the cost of employer-sponsored health plans has increased by nearly 75% since 2000, with premiums increasing more rapidly than either inflation or wage growth. Health insurance costs are now among the fastest growing business expenses for American corporations.

According to *Business Week*, “The biggest issue for Corporate America in 2005 and beyond is getting out from under the crushing burden of costly medical-care benefits.” Soaring costs are putting upward pressure on cost structures and cutting into profits. They also make it difficult for American companies to compete in the global market place.

NEILP supports proposals that request that the company report on the implications of rising health care expenses and how it is positioning itself to address this issue without compromising the health and productivity of its workforce.

4.5.4 Political Contributions and Lobbying

In recent years, the socially responsible investment community has become increasingly concerned about the influence corporate political contributions may have on elections and government. Political contributions are open to the interpretation of being an inducement for future beneficial treatment and interfering in the democratic process. Corporations should not be regarded as “citizens” with full democratic rights. We are also concerned that some companies support industry associations that pursue lobbying objectives that are inconsistent with claims made to good corporate

citizenship, corporate social responsibility, and sustainability.

NEILP supports proposals to disclose the amounts and recipients of any contributions companies make to political parties, candidates for public office, political action campaigns (including tax exempt organizations), and other political contributions, with the rationale for making each contribution. NEILP supports proposals to ban political contributions.

NEILP supports proposals asking companies to disclose payments made and resources devoted to lobbying activities, including fees paid to industry associations. These disclosures should include the objectives pursued and the rationale underlying these objectives.

4.5.5 Extractives Industry Transparency Initiative

Revenues from oil, gas, and mining companies, in the form of taxes, royalties, signature bonuses, and other payments, should be an important engine for economic growth and social development in developing and transition countries. The lack of accountability and transparency of these revenues can exacerbate poor governance and lead to corruption, conflict, and poverty.

Extractive industries are important in over 50 developing countries, home to some 3.5 billion people. Although a greater degree of transparency of payments is desirable in many sectors, there is a close correlation between the countries rich in natural resources and the countries with high levels of poverty. It is undeniable that countries rich in oil, gas, and minerals have often underperformed relative to other countries. Other industries have been able to relocate to countries with a more conducive enabling environment.

To help address this problem, NEILP has joined institutional investors representing \$3 trillion to publicly support a call for extractive companies to disclose the payments they make to host governments (e.g., taxes, royalties, signature bonuses, etc). The Extractive Industries Transparency Initiative (EITI) investor statement supplements a British government initiative to bring governments from developed and developing nations, oil and mining companies, international financial institutions, and non-government organizations (NGOs) together to form an agreement for greater transparency. The long-term goals are to create more transparency in corporate behavior, reduce corruption, and increase the social benefits of resource development in countries

where this activity often fails to improve the welfare of low income people.

NEILP supports proposals asking companies to support the EITI.

4.5.6 Reincorporation in Off-shore Tax Havens

So-called “tax havens” are countries with no taxes or nominal taxes, weak requirements for corporate transparency, no effective exchange of taxpayer information with other countries, and no requirement that a company engage in substantial activities in the country in order to incorporate there. Companies can reincorporate in these countries with a minimal investment and shield their finances from tax and regulatory authorities in other countries.

The Organization for Economic Cooperation and Development (OECD) calls these countries harmful preferential tax regimes, because they distort trade and investment patterns, erode national tax bases, and undermine the fairness of other countries’ tax structures by shifting more of the tax burden onto less mobile sectors of national economies, such as consumption and labour. By reincorporating in tax havens, companies escape paying taxes in the countries where they earn profits, and where they benefit from the infrastructure provided by taxpayers.

NEILP believes this practice undermines the economies of countries without harmful preferential tax regimes.

NEILP votes against proposals to reincorporate in countries that the OECD has identified as having harmful preferential tax regimes. NEILP supports proposals to block or prohibit companies from incorporating in tax havens.

4.5.7 Stakeholder Engagement

Corporations operate in increasingly complex and interconnected societies. Resource development companies, in particular, are becoming familiar with the benefits of engaging communities and other affected parties prior to and during project construction. Increasingly, “stakeholder” consultation is seen as a prerequisite for improved decision making, greater transparency and accountability, appropriate project design and implementation, sustainable development, and continuation of a company’s license to operate.

The World Commission on Dams report, *A New Framework for Decision-Making*, provides a set of core values for making project decisions (equity, efficiency, participatory decision making, sustainability, and accountability) and a “rights and risks” approach for identifying affected parties and balancing competing interests. The concept of “free, prior, and informed consent” from affected parties has been advanced as the standard for securing stakeholder approval when projects have social and environmental impacts. International Finance Corporation (IFC) has also updated their Good Practice Manual on stakeholder engagement. This manual contains valuable guidance for companies on the principles, practices and tools of stakeholder engagement.

In addition, the UK organization AccountAbility issued a stakeholder engagement standard called the AA1000 SES. This standard is a principles-based framework for improving the quality of the design, implementation, assessment, communication, and assurance of stakeholder engagement. The standard is currently an exposure draft that organizations will provide feedback on and contribute to its evolution.

NEILP supports proposals to engage communities and NGOs in a manner consistent with international and best practice standards and the concept of free, prior, and informed consent. NEILP supports proposals to establish management systems for stakeholder engagement. NEILP supports proposals to disclose to shareholders the substance of such systems and their application to specific projects.

NEILP supports proposals to benchmark a company’s stakeholder engagement framework to that of the AA1000 SES.

4.5.8 Toxics and Product Safety

It is a company’s responsibility to ensure that the products they sell are safe and do not expose consumers to toxic substances. Where certain chemicals have indicated a negative impact on health, safer alternatives should be found.

In February 2003, Europe banned the sale of cosmetics or personal care products containing any ingredients on a list of chemicals known or suspected of causing cancer, genetic mutation or birth defects under European Union (EU) Directive 2003/15/EC. The Campaign for Safe

Cosmetics has launched a compact for companies to sign on to stating their commitment to meet the standards set by the EU Directive and replace hazardous materials with safe alternatives.

In addition, the European Parliament approved legislation in November, 2005 that requires the safety testing of thousands of compounds in everyday products, ranging from computers to detergents to pesticides. The legislation is called REACH – Registration, Evaluation and Authorization of Chemicals – and will have wide impacts for companies exporting to the EU.

NEILP supports proposals to inventory those chemicals used by a company that are found within the EU Directive 2003/15/EC and pursue safer alternatives. NEILP supports proposals asking companies to phase out the use of toxic chemicals such as brominated flame retardants, perfluorooctanoic acid (PFPA), and Bishpenol A.

4.6 International Human Rights

The principles that guide our proxy voting activity in the area of international human rights are based upon international agreements and conventions. The Universal Declaration of Human Rights is the paramount document.

4.6.1 Safeguarding International Human Rights

The Universal Declaration of Human Rights was adopted by the United Nations (UN) General Assembly on December 10, 1948 and calls upon “every individual and every organ of society” to play its part in securing universal observance of human rights. The document contains 30 Articles including: all human beings are born free and equal; everyone is equal before the law; everyone has the right to life, liberty, and security of person; everyone has the right to the standard of living adequate for health and well-being, including medical care and necessary social services; no one shall be held in slavery; no one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment; no one shall be subjected to arbitrary arrest, detention or exile; and everyone has the right to freedom of thought, conscience, religion, opinion, and expression.

Business decisions made in Canada increasingly affect government policies and on the enjoyment of human rights in other countries. Many companies today conduct business in countries that have been accused of persistent and gross violations of human rights. If the

company also has a significant presence in the US or the UK, it may be vulnerable to tort lawsuits under the laws of those countries.

Companies that do business in countries with a record of systemic human rights violations may also be subject to consumer boycotts or campaigns, which can damage reputation and the long-term health of the corporation.

Human Rights Impact Assessments (HIRA) measures the impact of policies, programmes, projects and interventions on human rights.

The HRIA is a new approach to safeguarding human rights. HRIAs may be used for actions that are intended to have an impact on human rights, in which case it will be used to assess the maximum positive impact. HRIA's can also be used for activities that are not intended to impact on human rights but could do so indirectly.

HRIAs assist in systematically determining whether policies, programmes and activities take human rights sufficiently into account.

NEILP supports proposals to adopt, comply with, and report on company implementation and compliance with international human rights standards, including the Universal Declaration of Human Rights and the UN Norms.

NEILP supports proposals that call upon companies to consult with organizations with expertise in human rights as well as proposals that call upon companies to undertake human rights impact assessments.

4.6.2 Zones of Conflict

As a consequence of globalization, corporations have become more influential in the peace, security, and prosperity of developing countries. When violence erupts, many companies will opt for withdrawal, concluding that risks outweigh benefits. Resource companies are often in a different position when compared to other types of companies. Asset specificity and the length of resource development production cycles and investment recovery often provide high financial incentives for maintaining operations in countries experiencing

conflict. In maintaining their investment, these companies risk harm to employees and physical assets, damage to reputation, and exposure to possible litigation or divestment campaigns.

Corporations in this position should pay special attention to the impacts of security arrangements on local communities. In some cases, such arrangements have helped fund military or paramilitary units that exacerbate conflict and have been associated with human rights abuses. Corporations should also pay attention to the impact of financial flows and relations with the government, as taxes or royalty payments may further exacerbate conflict. In some cases, resource development may in and of itself be a cause for the violence. NEILP encourages companies to ensure that their operations do not exacerbate conflict.

Investors are paying particular attention to human rights violations in Sudan, and Burma, Darfur, which continues to experience human rights abuses on an unimaginable scale, including systematic and widespread murder, torture, rape, abduction, looting, and forced displacement. Since February 2003, hundreds of thousands of civilians have been killed by both deliberate and indiscriminate attacks, and 2.5 million civilians in the region have been displaced.

NEILP supports proposals to companies operating in zones of conflict to establish and disclose policies to avoid such risks, to monitor compliance with those policies, and to provide shareholders with independently verified reports on their adherence to those policies.

NEILP supports proposals for financial institutions to report on how their investment policies incorporate human rights concerns, including policies and procedures that apply when companies in the portfolio are identified as contributing to human rights violations or exacerbating mass atrocities or genocide.

4.6.3 Indigenous Peoples

The UN Declaration on the Rights of Indigenous Peoples was adopted on September 13, 2007. The Declaration sets out the individual and collective rights of the world's 370 million native peoples, calls for the maintenance and strengthening of their cultural identities, and emphasizes their right to pursue development in keeping with their own needs and aspirations:

"Indigenous peoples have the right to determine and develop priorities and strategies for the development or use of their lands, territories, and other resources, including the right to require that States obtain their free and informed consent prior to the approval of any project affecting their lands, territories, and other resources, particularly in connection with the development, utilization or exploitation of mineral, water or other resources. Pursuant to agreements with the indigenous peoples concerned, just and fair compensation shall be provided for any such activities and measures taken to mitigate adverse environmental, economic, social, cultural or spiritual impact."

NEILP supports proposals to adopt formal policies on the rights of indigenous peoples consistent with the UN Declaration and to establish the management systems necessary for policy implementation. We support proposals to disclose such policies and report on the effectiveness of management systems implemented to carry them out. We also encourage companies to disclose their current relations with the indigenous people in the communities where such an interaction exists.

4.6.4 Free Prior and Informed Consent

Free Prior and Informed Consent (FPIC) refers to the process of properly consulting indigenous peoples and local communities and receiving their consent before the initiation of resource extraction projects. FPIC is an emerging standard of best practices and one which has immense relevance in the Canadian context. Several court rulings have established the rights of Aboriginal communities to be consulted and accommodated about resource extraction projects on their traditional territories and there are numerous examples of projects that have been derailed due in part to the absence of a robust and responsive engagement process.

NEILP supports proposals that consider the benefits of applying policies or measures to ensure Free Prior and Informed Consent.

4.6.5 HIV/AIDS, TB, and Malaria

The HIV/AIDS pandemic is now a global crisis and constitutes one of the most formidable barriers to development and social progress. Twenty-five million people have died from AIDS since the early 1980s; forty million people are currently infected worldwide. The crisis is particularly acute in sub-Saharan Africa where it impacts vulnerable groups, particularly women and children. HIV/AIDS poses a formidable threat to employers as it affects the most productive segment of the labour force, imposing huge costs through declining productivity, increased labour costs, and loss of skill and experience.

Tuberculosis, one of the world's leading infectious causes of death, takes two million lives a year and is a leading killer of people with HIV/AIDS. Malaria causes more than 300 million acute illnesses; approximately one million deaths occur annually, 90% in sub-Saharan Africa, robbing sub-Saharan Africa of its economic strength.

Human rights organizations and health advocates are proposing codes of conduct and standards of response for pharmaceutical companies to address the challenges posed by HIV/AIDS and other infectious diseases. Under these standards companies should:

- publicly support increased access and supply of required drug treatments, primarily through the UN Global Fund for AIDS, largely achieved through substantially lower prices of all company products that can address the pandemic in developing countries;
- develop a policy for systematic, transparent, segmented, global pricing structure for HIV/AIDS products in Africa;
- refrain from enforcing patents in developing countries where this will exacerbate health problems, and issue a public statement of this intention;
- support lifting Trade-Related Intellectual Property Rights (TRIPS) restrictions on the export of generic versions of patented medicines to developing countries, where a patent is not in force, in line with the Doha Declaration;
- refrain from supporting or lobbying government for trade agreements which weaken the Doha Declaration, under which developing countries are permitted to take measures to protect public health, including the manufacture of generic drugs for the treatment of infectious diseases;

- disclose its expenditures and lobbying position on patents;
- engage in joint public private partnerships (JPPI) to focus on the most vulnerable sectors of society;
- ensure that such partnerships integrate with and strengthen national health systems;
- support research and development for infectious diseases; and,
- forego patent rights in developing countries for drugs developed under JPPIs.

NEILP supports proposals to pharmaceutical companies to adopt these standards of response.

NEILP supports proposals to other corporations requesting a report on the effect of the health pandemic on the company's operations and its response to the pandemic.

4.6.6 Financial Institutions and the Equator Principles

Investment banks play a major role in the development of Third World economies, acting as underwriters, lenders, and financial advisors for major development projects and large corporations. In many cases, however, questions can be raised as to the adequacy of the process used to assess social and environmental risks associated with these projects and these corporations. Governments and developers have systematically failed to assess the range of potential negative impacts and to put in place adequate mitigation and compensation measures.

To address this problem, the International Finance Corporation (IFC), the private sector arm of the World Bank, convened a meeting of major international banks in London in October, 2002 to discuss environmental and social issues in project finance. At that meeting, the banks present decided to develop a banking industry framework for addressing environmental and social risks in project financing. This led to the drafting of the Equator Principles, a set of environmental screening criteria and guidelines designed to improve the environmental and social performance of projects financed by signatories.

Under the Equator Principles, signatories will require borrowers to demonstrate in their environmental and social assessments, and in their environmental and so-

cial management plans, the extent to which they have met the applicable World Bank and IFC sector-specific pollution abatement guidelines and IFC safeguard policies, or to justify exceptions to them. Signatories will also insert into the loan documentation for high-and medium-risk projects covenants for borrowers to comply with their environmental and social management plans. If those plans are not followed, and if deficiencies are not corrected, banks will have the ability to declare the project loan in default.

NEILP supports proposals asking financial institutions to adopt the Equator Principles. We support proposals for financial institutions to adopt more stringent environmental and human rights-related criteria into risk assessment and project financing decisions, and to disclose to shareholders progress toward this integration.

4.7 Labour Rights

The principles that guide our proxy voting activity in the area of international labour rights are based primarily upon the International Labour Organization Fundamental Principles and Rights at Work and the International Labour Organization Tripartite Declaration of Principles on Multinational Enterprise and Social Policy.

4.7.1 International Labour Organization (ILO) Standards

The ILO is the United Nations' specialized agency promoting social justice and international human and labour rights. The ILO is a tripartite organization consisting of representatives of labour, employers, and government. The ILO formulates international labour standards in the form of Conventions and Recommendations, setting minimum standards of basic labour rights: freedom of association; the right to organize; collective bargaining; abolition of child and forced labour; equality of opportunity and treatment; and other standards regulating conditions of work-related issues. Fundamental labour rights are described in the ILO's Fundamental Principles and Rights at Work.

NEILP supports proposals to adopt the ILO Fundamental Principles and Rights and the ILO Tripartite Declaration on Principles on Multinational Enterprise and Social Policy.

4.7.2 Supply Chain

With globalization and flexible manufacturing, a large portion of overseas manufacturing is performed through contracting and sub-contracting, rather than facilities owned directly by companies. There are widespread reports that workers are subjected to unsafe and unhealthy conditions, human and labour rights violations, and wage rates that fall below subsistence levels. In response, churches, human rights organizations, labour unions, and socially responsible investors work with publicly-traded companies in the United States, Canada, and Europe to adopt policies to advance international human and labour rights and to establish decent workplace conditions. Over the years, shareholder resolutions in support of this general objective have taken various forms.

Typically, these resolutions call for an independent and transparent monitoring program involving local religious, human rights, and workers' organizations; a transparent reporting process; and incentives, rather than premature termination of contracts, to encourage suppliers to raise labour standards that encourage companies to respect, promote, and take steps to secure international human and labour rights.

In general, NEILP supports proposals to establish a monitoring process that includes independent verification of contractors' compliance with labour and human rights standards. Procurement policies to address these issues along with environmental concerns are also supported. We also support proposals asking companies to disclose the results of monitoring and verification through an independent and transparent process.

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