

# Egan-Jones Proxy Services

## Proxy Voting

### Principles and Guidelines

#### Egan-Jones Proxy Voting Principles

##### Introduction

Our Proxy Voting Principles serve as the background for our Proxy Voting Guidelines, which, in turn, act as general guidelines for the specific recommendations that we make with respect to proxy voting. It is important to recognize that such principles are not intended to dictate but guide. Certain of the principles may be inappropriate for a given company, or in a given situation. Additionally, the principles are evolving and should be viewed in that light. Our principles are and will be influenced by current and forthcoming legislation, rules and regulations, and stock exchange rules. Examples include:

- the Sarbanes-Oxley Act of 2002 and implementing rules promulgated by the U.S. Securities & Exchange Commission
- revised corporate governance listing standards of the New York Stock Exchange and resulting SEC rules
- corporate governance reforms and subsequent proposed rule filings made with the SEC by The NASDAQ Stock Market, Inc. and resulting SEC rules

In general:

- Directors should be accountable to shareholders, and management should be accountable to directors.
- Information on the Company supplied to shareholders should be transparent.
- Shareholders should be treated fairly and equitably according to the principle of one share, one vote.

##### **Principles**

###### A. Director independence

It is our view that:

- A two-thirds majority of the Board should be comprised of independent directors.
- Independent directors should meet alone at regularly scheduled meetings, no less frequently than semi-annually, without the Chief Executive Officer or other non-independent directors present.

- When the Chairman of the Board also serves as the company's Chief Executive Officer, the Board should designate one independent director to act as a leader to coordinate the activities of the other independent directors.
- Committees of the Board dealing with the following responsibilities should consist only of independent directors: audit, compensation, nomination of directors, corporate governance, and compliance.
- No director should serve as a consultant or service provider to the Company.
- Director compensation should be a combination of cash and stock in the company, with stock constituting a significant component.

In our opinion, an independent director, by definition, has no material relationship with the Company other than his or her directorship. This avoids the potential for conflict of interest. Specifically such director:

- should not have been employed by the Company or an affiliate within the previous five years;
- should not be, and should not be affiliated with, a company that is an adviser or consultant to the Company or affiliate, or to a member of the Company's senior management;
- should not be affiliated with a significant customer or supplier of the Company or affiliate;
- should have no personal services contract with the Company or affiliate, or a member of senior management;
- should not be affiliated with a not-for-profit organization that receives significant contributions from the Company or affiliate;
- within the previous five years, should not have had any business relationship with the Company or affiliate which required disclosure in the Company's Form 10-K;
- should not be employed by a public company at which an executive officer of the Company serves as a director;
- should not be a member of the immediate family of any person described above.

#### B. Board operating procedures

- The Board should adopt a written statement of its governance principles, and regularly re-evaluate them.
- Independent directors should establish performance criteria and compensation incentives for the Chief Executive Officer, and regularly review his or her performance against such criteria. Such criteria should align the interests of the CEO with those of shareholders, and evaluate the CEO against peer groups.
- The independent directors should be provided access to professional advisers of their own choice, independent of management.
- The Board should have a CEO succession plan, and receive periodic reports from management on the development of other members of senior management.
- Directors should have access to senior management through a designated liaison person.
- The Board should periodically review its own size, and determine the appropriate size.

#### C. Requirements for individual directors

We recommend that:

- The Board should provide guidelines for directors serving on several Boards addressing competing commitments.
- The Board should establish performance criteria for itself and for individual directors regarding director attendance, preparedness, and participation at meetings of the Board and of committees of the Board, and directors should perform satisfactorily in accordance with such criteria in order to be re-nominated.

#### D. Shareholder rights

- A simple majority of shareholders should be able to amend the company's bylaws, call special meetings, or act by written consent.
- In the election of directors, there should be multiple nominees for each seat on the Board
- "Greenmail" should be prohibited.
- Shareholder approval should be required to enact or amend a "poison pill" (i.e., "shareholder rights") plan
- Directors should be elected annually.
- The Board should ordinarily implement a shareholder proposal that is approved by a majority of proxy votes.
- Shareholders should have effective access to the director nomination process.

### **Egan-Jones Proxy Voting Guidelines**

Consistent with the above-listed principles, the proxy voting guidelines outlined below are written to guide the specific recommendations that we make to our clients. Ordinarily, we do not recommend that clients ABSTAIN on votes; rather, we recommend that they vote FOR or AGAINST proposals (or, in the case of election of directors, that they vote FOR ALL nominees, AGAINST the nominees, or that they WITHHOLD votes for certain nominees). In the latter instance, the recommendation on our report takes the form ALL, EXCEPT FOR and lists the nominees from whom votes should be withheld.

Whether or not the guideline below indicates "case-by-case basis," every case is examined to ensure that the recommendation is appropriate.

## **Board of Directors**

### **Election of Directors in Uncontested Elections**

Case-by-case basis, examining composition of board and key board committees, attendance history, corporate governance provisions and takeover activity, long-term company financial performance relative to a market index, directors' investment in the company, etc..

WITHHOLD votes for nominees who:

are affiliated outside directors and sit on the Audit, Compensation, or Nominating committees

are inside directors and sit on the Audit, Compensation, or Nominating committees

are inside directors and the company does not have Audit, Compensation, or Nominating committees

attend less than 75 percent of the board and committee meetings. Participation by phone is acceptable.

ignore a shareholder proposal that is approved by a majority of the shares outstanding

ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years

fail to act on takeover offers where the majority of the shareholders have tendered their shares

implement or renew a “dead-hand” or modified “dead-hand” poison pill

sit on more than four boards

In cases in which an issuer has engaged in the practice commonly referred to as “options backdating,” Egan-Jones may recommend that votes be withheld from nominees serving on the issuer’s compensation committee, the issuer’s entire board of directors, and/or its chief executive officer. Such recommendations will be made on a case-by-case basis, taking into consideration such matters as intent of the individuals involved, scope and timing of the practice, significance of financial restatement required, and corrective action taken.

Furthermore, we may recommend withholding votes from either members of an issuer’s compensation committee, its entire board of directors and/or its chief executive officer where the issuer has engaged in what we judge to be other unsatisfactory compensation practices. Considerations may include such factors as “pay-for-failure” executive severance provisions, change-in-control payments which are either excessive or which are not tied to loss of job or significant reduction in duties, excessive executive perquisites, unjustified changes in the performance standards applied to performance-based compensation, and executive compensation out of proportion to performance of the issuer.

FOR responsible shareholder proposals calling for the company to name as directors only those who receive a majority of shareholder votes.

### **Separating Chairman and CEO**

Case-by-case basis on shareholder proposals requiring that positions of chairman and CEO be held separately.

### **Independent Directors**

FOR shareholder proposals asking that a two-thirds majority of directors be independent.

FOR shareholder proposals asking that board’s Audit, Compensation, and/or Nominating committees be composed exclusively of independent directors.

Case-by-case basis on proposals asking that the Chairman be independent.

### **Stock Ownership Requirements**

AGAINST shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board.

### **Term Limits**

AGAINST shareholder proposals to limit tenure of outside directors.

### **Age Limits**

AGAINST shareholder proposals to impose a mandatory retirement age for outside directors.

### **Director and Officer Indemnification and Liability**

Case-by-case basis on director and officer indemnification and liability, using Delaware law as the standard.

AGAINST proposals to eliminate entirely directors and officers liability for monetary damages for violating the duty of care.

AGAINST indemnification proposals that would expand coverage beyond legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligation than mere carelessness.

FOR only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if (1) the director was found to have acted in good faith and in a manner that he or she reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered.

### **Charitable Contributions**

AGAINST proposals regarding charitable contributions.

## **Proxy Contests (Contested Elections)**

### **Election of Directors in Contested Elections**

Case-by-case basis for voting for directors in contested elections, considering long-term financial performance of the target company relative to its industry, management's track record, background to the proxy contest, qualifications of director nominees on both slates, evaluation of what each side

is offering shareholders as well as likelihood that proposed objectives and goals will be met, and stock ownership positions.

### **Reimburse Proxy Solicitation Expenses**

Case-by-case basis for reimbursement of proxy solicitation expenses. FOR reimbursing proxy solicitation expenses where EGAN-JONES recommends in favor of the dissidents.

## **Auditors**

### **Ratifying Auditors**

FOR proposals to ratify auditors, unless:

Non-audit fees exceed 50% of total fees.

Auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position.

## **Proxy Contest Defenses**

### **Classified Board vs. Annual Election**

AGAINST proposals to classify the board.

FOR proposals to repeal ("de-stagger") classified boards and to elect all directors annually.

### **Removal of Directors**

AGAINST proposals that provide that directors may be removed only for cause.

FOR proposals to restore shareholder ability to remove directors with or without cause.

AGAINST proposals that provide that only continuing directors may elect replacements to fill board vacancies.

FOR proposals that permit shareholders to elect directors to fill board vacancies.

### **Cumulative Voting**

FOR proposals to eliminate cumulative voting.

### **Calling Special Meetings**

AGAINST proposals to restrict or prohibit shareholder ability to call special meetings.

FOR proposals that remove restrictions on the right of shareholders to act independently of management.

### **Acting by Written Consent**

AGAINST proposals to restrict or prohibit shareholder ability to take action by written consent.

FOR proposals to allow or make easier shareholder action by written consent.

### **Altering Size of the Board**

FOR proposals to fix the size of the board.

AGAINST proposals that give management the ability to alter size of the board without shareholder approval.

## **Tender Offer Defenses**

### **“Poison Pills”**

FOR shareholder proposals that ask the company to submit its “poison pill” for shareholder ratification.

Case-by-case basis for shareholder proposals to redeem a company's existing “poison pill.”

Case-by-case basis for management proposals to ratify a “poison pill.”

### **Fair Price Provisions**

Case-by-case basis for adopting fair price provisions, considering vote required to approve the proposed acquisition, vote required to repeal the fair price provision, and mechanism for determining the fair price.

AGAINST fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

### **“Greenmail”**

FOR proposals to adopt anti-“greenmail” charter or bylaw amendments or otherwise restrict the company's ability to make “greenmail” payments.

Case-by-case basis for anti-“greenmail” proposals which are bundled with other charter or bylaw amendments.

### **“Pale Greenmail”**

Case-by-case basis for restructuring plans that involve the payment of pale greenmail.

### **Unequal Voting Rights**

AGAINST dual-class exchange offers and dual-class recapitalizations.

### **Supermajority Requirement to Amend Charter or Bylaws**

AGAINST management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.

FOR shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

### **Supermajority Requirement to Approve Mergers**

AGAINST management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

FOR shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

### **Placement of Equity with “White Squire”**

FOR shareholder proposals to require approval of “blank check preferred stock” issues for other than general corporate purposes.

## **Other Governance Proposals**

### **Confidential Voting**

FOR shareholder proposals that request that the company adopt confidential voting, use independent tabulators, and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: In the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.

FOR management proposals to adopt confidential voting.

### **Equal Access**

FOR shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.

### **Bundled Proposals**

Case-by-case basis for bundled or "conditioned" proxy proposals. Where items are conditioned upon each other, examine benefits and costs. AGAINST in instances when the joint effect of the conditioned items is not in shareholders' best interests. FOR if the combined effect is positive.

## **Shareholder Advisory Committees**

Case-by-case basis for establishing a shareholder advisory committee.

## **Capital Structure**

### **Common Stock Authorization**

Case-by case basis for increasing the number of shares of common stock authorized for issuance.

AGAINST increasing the number of authorized shares of the class of stock that has superior voting rights in companies that have dual-class capitalization structures.

### **Stock Distributions: Splits and Dividends**

FOR management proposals to increase common share authorization for a stock split, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance, considering the industry and company's returns to shareholders.

### **Reverse Stock Splits**

FOR management proposals to implement a reverse stock split when the number of shares will be proportionately reduced to avoid delisting.

Case-by-case basis on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorized for issuance.

## **Preferred Stock**

AGAINST proposals authorizing creation of new classes of "blank check preferred stock" (i.e., classes with unspecified voting, conversion, dividend distribution, and other rights)

FOR proposals to create "blank check preferred stock" in cases when the company specifically states that the stock will not be used as a takeover defense.

FOR proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms are reasonable.

Case-by-case basis on proposals to increase the number of "blank check preferred shares" after analyzing the number of preferred shares available for issuance considering the industry and company's returns to shareholders.

### **"Blank Check Preferred Stock"**

FOR shareholder proposals to have placements of "blank check preferred stock" submitted for shareholder approval, except when those shares are issued for the purpose of raising capital or making acquisitions in the normal course.

## **Adjustments to Par Value of Common Stock**

FOR management proposals to reduce the par value of common stock.

## **Preemptive Rights**

Case-by-case basis on shareholder proposals that seek preemptive rights, considering size of the company and shareholder characteristics.

## **Debt Restructurings**

Case-by-case basis on proposals to increase number of common and/or preferred shares and to issue shares as part of a debt restructuring plan, considering dilution, any resulting change in control

FOR proposals that facilitate debt restructurings except where signs of self-dealing exist.

## **Share Repurchase Programs**

FOR management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

## **Tracking Stock**

Case-by-case basis for creation of tracking stock, considering the strategic value of the transaction vs. adverse governance changes, excessive increases in authorized stock, inequitable distribution method, diminution of voting rights, adverse conversion features, negative impact on stock option plans, and other alternatives, such as spin-offs.

## **Compensation of Officers and Directors**

Case-by-case basis for director and officer compensation plans, but generally favoring responsible proposals calling for more use of performance-based equity in compensation plans. The term “performance-based equity” will not be interpreted to include conventional stock options, but will include such tools as indexed options, restricted stock, performance-contingent options, and premium-priced options.

## **Management Proposals Seeking Approval to Re-price Options**

Case-by-case basis on management proposals seeking approval to re-price options.

## **Director Compensation**

Case-by-case basis on stock-based plans for directors.

## **Employee Stock Purchase Plans**

Case-by-case basis on employee stock purchase plans.

## **Amendments that Place a Maximum limit on Annual Grants or Amend Administrative Features**

FOR plans that amend shareholder-approved plans to include administrative features or place maximum limit on annual grants that any participant may receive to comply with the provisions of Section 162(m) of the Omnibus Budget Reconciliation Act (OBRA).

### **Amendments to Added Performance-Based Goals**

FOR amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of OBRA.

### **Amendments to Increase Shares and Retain Tax Deductions Under OBRA**

Case-by-case basis on amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m).

### **Approval of Cash or Cash & Stock Bonus Plans**

FOR cash or cash & stock bonus plans to exempt compensation from taxes under the provisions of Section 162(m) of OBRA.

### **Limits on Director and Officer Compensation**

FOR shareholder proposals requiring additional disclosure of officer and director compensation.

Case-by-case basis for all other shareholder proposals seeking limits on officer and director compensation.

### **“Golden Parachutes” and “Tin Parachutes”**

FOR shareholder proposals to have “golden and tin parachutes” submitted for shareholder ratification.

Case-by-case basis on proposals to ratify or cancel “golden or tin parachutes.”

### **Employee Stock Ownership Plans (ESOPs)**

FOR proposals that request shareholder approval in order to implement an ESOP or to increase authorized number of shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is "excessive" (i.e., greater than five percent of outstanding shares).

### **401(k) Employee Benefit Plans**

FOR proposals to implement a 401(k) savings plan for employees.

## **State of Incorporation**

### **State Takeover Statutes**

Case-by-case basis on proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze-out provisions, fair price

provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-“greenmail” provisions, and disgorgement provisions).

### **Reincorporation Proposals**

Case-by-case basis on proposals to change the company's state of incorporation.

## **Business Combinations and Corporate Restructurings**

### **Mergers and Acquisitions**

Case-by-case basis on mergers and acquisitions, considering projected financial and operating benefits, offer price, prospects of the combined companies, negotiation process, and changes in corporate governance.

### **Corporate Restructuring**

Case-by-case basis on corporate restructurings, including minority squeeze-outs, leveraged buyouts, spin-offs, liquidations, and asset sales.

### **Spin-offs**

Case-by-case basis on spin-offs, considering tax and regulatory advantages, planned use of proceeds, market focus, and managerial incentives.

### **Asset Sales**

Case-by-case basis on asset sales, considering impact on the balance sheet and working capital, and value received.

### **Liquidations**

Case-by-case basis on liquidations considering management's efforts to pursue alternatives, appraisal value, and compensation for executives managing the liquidation.

### **Appraisal Rights**

FOR providing shareholders with appraisal rights.

## **Mutual Fund Proxies**

### **Election of Directors**

Case-by-case basis for election of directors, considering board structure, director independence, director qualifications, compensation of directors within the fund and the family of funds, and attendance at board and committee meetings.

WITHHOLD votes for directors who:

- are interested directors and sit on key board committees (Audit, Nominating or Compensation committees)

are interested directors and the company does not have one or more of the following committees: Audit, Nominating or Compensation.

attend less than 75 percent of the board and committee meetings. Participation by phone is acceptable.

ignore a shareholder proposal that is approved by a majority of shares outstanding

ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years

sit on more than 10 fund boards

serve as Chairman but are not independent (e.g. serve as an officer of the fund's advisor)

### **Converting Closed-end Fund to Open-end Fund**

Case-by-case basis for conversion of closed-end fund to open-end fund, considering past performance as a closed-end fund, market in which the fund invests, measures taken by the board to address the market discount, and past shareholder activism, board activity, and votes on related proposals.

### **Proxy Contests**

Case-by-case basis on proxy contests, considering past performance, market in which fund invests, and measures taken by the board to address issues raised, past shareholder activism, board activity, and votes on related proposals.

### **Investment Advisory Agreements**

Case-by-case basis on investment advisory agreements, considering proposed and current fee schedules, fund category and investment objective, performance benchmarks, share price performance relative to that of peers; and magnitude of any fee increase.

### **New Classes or Series of Shares**

FOR creating new classes or series of shares.

### **Preferred Stock Authorization**

Case-by-case basis for authorization for or increase in preferred shares, considering financing purpose and potential dilution for common shares.

### **1940 Act Policies**

Case-by-case basis for 1940 Act policies, considering potential competitiveness, regulatory developments, current and potential returns, and current and potential risk.

### **Changing a Fundamental Restriction to a Non-fundamental Restriction**

Case-by-case basis on changing fundamental restriction to non-fundamental restriction, considering fund's target investments, reasons for change, and projected impact on portfolio.

### **Changing Fundamental Investment Objective to Non-fundamental**

AGAINST proposals to change the fund's fundamental investment objective to non-fundamental.

### **Name Rule Proposals**

Case-by-case basis for name rule proposals, considering the following factors: political/economic changes in target market; bundling with quorum requirements or with changes in asset allocation, and consolidation in the fund's target market.

### **Disposition of Assets, Termination, Liquidation**

Case-by-case basis for disposition of assets, termination or liquidation, considering strategies employed, company's past performance, and terms of liquidation.

### **Charter Modification**

Case-by-case basis for changes to the charter, considering degree of change, efficiencies that could result, state of incorporation, and regulatory standards and implications.

### **Change of Domicile**

Case-by-case basis for changes in state of domicile, considering state regulations of each state, required fundamental policies of each state; and the increased flexibility available.

### **Change in Sub-classification**

Case-by-case basis for change in sub-classification, considering potential competitiveness, current and potential returns, risk of concentration, and industry consolidation in the target industry.

### **Authorizing Board to Hire and Terminate Sub-advisors without Shareholder Approval**

AGAINST authorizing the board to hire and terminate sub-advisors without shareholder approval

### **Distribution Agreements**

Case-by-case basis for approving distribution agreements, considering fees charged to comparably sized funds with similar objectives, proposed distributor's reputation and past performance, and competitiveness of fund in industry.

### **Master-Feeder Structure**

FOR establishment of a master-feeder structure.

### **Changes to Charter**

Case-by-case basis for changes to the charter, considering degree of change implied by the proposal, resulting efficiencies, state of incorporation, and regulatory standards and implications.

## **Mergers**

Case-by-case basis for proposed merger, considering resulting fee structure, performance of each fund, and continuity of management.

## **Shareholder Proposals**

### **Independent Directors**

FOR shareholder proposals asking that a three-quarters majority of directors be independent.

FOR shareholder proposals asking that board's Audit, Compensation, and/or Nominating committees be composed exclusively of independent directors.

For proposals asking that the Chairman be independent.

### **Establish Director Ownership Requirement**

AGAINST establishing a director ownership requirement.

### **Reimbursement of Shareholder for Expenses Incurred**

Case-by-case basis for reimbursing proxy solicitation expenses.

FOR reimbursing proxy solicitation expenses in cases where EGAN-JONES recommends in favor of the dissidents.

### **Terminate the Investment Advisor**

Case-by-case basis for terminating the investment advisor, considering fund's performance and history of shareholder relations.

## **Social Issues**

### **Energy and Environment**

AGAINST on proposals that request companies to follow the CERES Principles.

FOR reports that seek additional information, particularly when it appears company has not adequately addressed shareholders' environmental concerns.

## **South Africa**

AGAINST on proposals related to South Africa.

FOR reports that seek additional information such as the amount of business that could be lost by conducting business in South Africa.

## **Northern Ireland**

AGAINST on proposals related to the MacBride Principles.

FOR reports that seek additional information about progress being made toward eliminating employment discrimination, particularly when it appears company has not adequately addressed shareholder concerns.

## **Military Business**

AGAINST on defense issue proposals.

FOR reports that seek additional information on military related operations, particularly when company has been unresponsive to shareholder requests.

## **Maquiladora Standards and International Operations Policies**

AGAINST on proposals relating to the Maquiladora Standards and international operating policies.

FOR reports on international operating policy issues, particularly when it appears company has not adequately addressed shareholder concerns.

## **World Debt Crisis**

AGAINST on proposals dealing with Third World debt.

FOR reports on Third World debt issues, particularly when it appears company has not adequately addressed shareholder concerns.

## **Equal Employment Opportunity and Discrimination**

AGAINST on proposals regarding equal employment opportunities and discrimination.

FOR reports that seek additional information about affirmative action efforts, particularly when it appears company has been unresponsive to shareholder requests.

## **Animal Rights**

AGAINST on proposals that deal with animal rights.

## **Product Integrity and Marketing**

AGAINST on ceasing production of socially questionable products.

FOR reports that seek additional information regarding product integrity and marketing issues, particularly when it appears companies have been unresponsive to shareholder requests.

Human Resources Issues

AGAINST on proposals regarding human resources issues.

FOR reports that seek additional information regarding human resources issues, particularly when it appears companies have been unresponsive to shareholder requests.