BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the voting of the non-routine shareholder proxy proposals for UW System Trust Funds, as presented in the attachment.
UW SYSTEM TRUST FUNDS
VOTING OF 2014 NON ROUTINE PROXY PROPOSALS

EXECUTIVE SUMMARY

BACKGROUND

Regent Policy 31-10 contains the proxy voting policy for UW System Trust Funds. Non-routine shareholder proposals, particularly those dealing with “social responsibility issues” (e.g., the environment, discrimination, or substantial social injury), are to be reviewed with the Business and Finance Committee so as to develop a voting position.

REQUESTED ACTION

Approval of Resolution I.2.c.2.

DISCUSSION AND RECOMMENDATIONS

The dominant social issues for the 2014 season are the following: corporate political contributions and lobbying, the environment and “sustainability,” and human rights issues. For most of the proxies related to these dominant issues, the Trust Funds’ investment managers will be directed to vote in the affirmative, as they fall under the 26 social issues or themes that the Business and Finance Committee has already approved for active voting.

The full report on shareholder proposals for the 2014 proxy season is attached. The report includes summaries of all pre-approved issues, as well as discussion of any new issues.

RELATED REGENT POLICIES

Regent Policy 31-10: Proxy Voting
Regent Policy 31-13: Social Responsibility and Investment Considerations
UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS

Shareholder Proposals and
Recommended Votes for 2014 Proxy Season

Background

This annually-provided report is intended to highlight significant "non-routine" proposals, from shareholders or management, which will be voted on by shareholders during the 2014 proxy season. Regent Policy 31-10, "Proxy Voting," stipulates that significant non-routine issues are to be reviewed by the Business and Finance Committee so as to develop a voting position on them. Non-routine issues are defined as the following: acquisitions and mergers; amendments to corporate charters or by-laws which might affect shareholder rights; shareholder proposals opposed by management; and “social responsibility” issues dealing with the environment, discrimination, or substantial social injury (issues addressed under Regent Policy 31-13).

The majority of significant non-routine proposals are those dealing with social responsibility issues and corporate governance-related proposals which are often opposed by management. To the extent possible, similar shareholder proposals are grouped into identifiable "issues." Generally, it will be these issues (covering similar or identical proposals at various companies) that are reviewed and potentially approved for support by the Committee. On occasion, individual, company-specific proposals not falling under a broad “issue” will also be presented.

UW Trust Funds subscribes to the Institutional Shareholder Services (ISS) for proxy research and voting data. The data and statistics included in this report have been provided by ISS. All proxy resolutions are individually reviewed by Trust Funds staff, including the actual company proxy statements.

The 2014 Proxy Environment

As of early March, shareholders concerned with companies’ management of social and environmental issues have filed an all-time high number of proposals (approximately 428) for the annual meetings of U.S. firms in 2014. By comparison, 396 proposals were filed in all of 2013. The dominant social issues for the 2014 season are the following: corporate political contributions and lobbying, the environment and “sustainability,” and human rights issues. The following chart depicts the 2014 proxy proposals by major category, in terms of both the number of proposals by category and the percentage of all proposals.
For the third straight year, political contributions, along with a continuing campaign on the disclosure of spending for corporate lobbying, represented the largest single category of social issue proposals. So far in 2014, 126 proposals relating to political contributions have been filed, versus 123 in all of 2013. The majority of these resolutions included requests for disclosure of lobbying expenditures in addition to political contributions. The proposals in this category generally ask the target company to prepare an annual report disclosing “a listing of political contributions (both direct and indirect, including payments to trade associations) and payments used for lobbying, including the amount of the payment and the recipient. In addition, the report should include company policy, procedures, and the decision-making process governing political expenses and lobbying.

The diverse environmental category (shown in the chart under “Global Warming,” “Nuclear/Renewables,” “Natural Gas Fracturing,” “Pollutants/Other” and “Genetically Modified Organisms”) included 105 proposals, an all-time high for the category. Resolutions on global warming are up substantially with 55 proposals so far this year as compared to just 17 proposals in both 2012 and 2013. This significant re-engagement of investors concerned about global warming has apparently been spurred by recent studies finding that in order to keep climate change at “manageable” levels, the majority of fossil fuel reserves would have to be left unburned.
Other top categories for 2014 include human rights issues and sustainability reporting. The human rights category, which was down to just 16 proposals two years ago, included 42 resolutions this year which address a broad range of concerns including company- and industry-specific proposals. The sustainability reporting category accounted for 41 proposals.

Noteworthy for the 2014 proxy season are the number of resolutions filed on data privacy and security. Nine resolutions have been proposed so far in 2014. The rise of this issue can likely be attributed to public awareness following Edward Snowden’s disclosure of surveillance by the National Security Agency, as well as recent security breaches of personal information at U.S. retailers. These proposals generally ask companies to report on board oversight of privacy and data security.

Also noteworthy this year are three proposals relating to the “Sandy Hook Principles”. The objective of the Sandy Hook Principles is to “influence the corporate behavior of gun and ammunition manufacturers, distributors, and retailers by establishing a baseline for responsible conduct.” The Principles ask for action towards eliminating inadequately regulated firearm use and list twenty principle statements, such as requiring universal firearm background checks which can be shared by all federal agencies. The resolutions generally ask companies to report on the Sandy Hook Principles.

The Trust Funds proxy voting list may change as more resolutions are filed or come to light. Moreover, some proponents are likely to withdraw their resolutions if the companies agree to some or all of their requests, and other resolutions will be omitted if the Securities and Exchange Commission finds them to be in violation of its shareholder proposal rules.

Specific New Issues for 2014

A new shareholder campaign for 2014 relates to the “Sandy Hook Principles” as mentioned above. The Sandy Hook Principles are modeled after the Global Sullivan Principles and were introduced by Philadelphia Mayor Michael Nutter in 2013. The Sandy Hook Principles include 20 principle statements whose application the authors and supporters believe “will improve the health, safety, and well-being of communities.” The principles include promoting automation of records and databases, requirement of universal firearm background checks which can be shared by all federal agencies, and development of technology-enhanced gun safety measures. A typical proposal in this campaign asks the company to report on the Sandy Hook Principles, including a list and summary of correspondence for all companies engaged in the policy.

For 2014, proposals have been presented at three companies: Amazon, Wal-Mart, and Allied Techsystems. We recommend the adoption of a new pre-approved issue, “Report/Act on Sandy Hook Principles.”
Issues Previously Approved

Given below is a list of those issues that the Business and Finance Committee has previously approved for support (i.e., voting in the affirmative). A brief re-cap of each of these issues then follows. Any company-specific proposals not falling under a pre-approved issue are given in the voting detail attachment.

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### 1. Pharmaceutical Policies

Proposals to drug companies on the affordability of AIDS, tuberculosis, and malaria drugs in poor countries began over a decade ago. The resolutions ask the companies to "develop and implement a policy to provide pharmaceuticals for the prevention and treatment" of the three diseases “in ways that the majority of infected persons in poor nations can afford.” Although proposals asking for reporting on the investigation, analysis and development of policies or programs to provide "affordable" drugs in Africa and other underdeveloped, pandemic-stricken areas should likely be universally supported, proposals requiring implementation of such policies or programs should be individually reviewed. There are no resolutions in this category thus far in the 2014 proxy season.

### 2. Genetically Modified Organisms (GMOs)

Food manufacturers are not required to label products made with bioengineered ingredients, and as a result many U.S. consumers may not be aware that they are eating foods made from GMOs. GMO developers, many farmers and the U.S. government all say that bioengineered plants are safe, but critics worry that the plants may threaten the environment, harm humans, and perhaps lead to the extinction of crops’ wild cousins, an important repository of plant genetics. The majority of related resolutions ask companies to label their foods made from bioengineered ingredients or to report to shareholders on their use of bioengineered plants and food ingredients made from these plants, as well as the company's position regarding the risks to which these uses may expose it. The GMO category continues to be an area of activity for shareholders. There are six GMO resolutions so far in 2014, down from eight in 2013.

### 3. Golden Parachutes

Large severance compensation agreements for executives, contingent on a change in corporate control have been the subject of shareholder and management interest for many years. Particularly during the 1980s, when hostile takeovers were commonplace, both shareholders and managers came to realize the costs and potential uses of these safety
Shareholder proposals typically ask for shareholder approval of future golden parachutes.

### 4. Poison Pills

Under a typical plan, shareholders are issued rights to buy stock at a significant discount from the market price. The rights are exercisable under certain circumstances, such as when a hostile third party buys a certain percentage of the company’s stock. If triggered, the pill would dilute the value and voting power of the hostile party’s holdings to such an extent that the takeover attempt presumably would never be made. Pills are not intended to be triggered, but rather serve as a tool to deter any hostile takeover and force would-be acquirers to deal with the board of directors and potentially increase their purchase bid. Boards are not required to get shareholder approval to adopt poison pills, and they rarely do so. Various academic and institutional studies have not convincingly shown that poison pills generally work to the benefit of or detriment of existing shareholders from a purely economic standpoint. The adoption of poison pills can more unambiguously serve to entrench existing boards and management. Convincingly, critics say the overriding issue is the right of shareholder/owners to decide for themselves what protections they want.

### 5. Recycling

Many recycling proposals ask the target company to research how they could make substantive progress in the use of recycled content for their products. Other resolutions ask for a report on the means for achieving a specified percent recovery rate within a reasonable time period. These reports should provide a cost-benefit analysis of options and an explanation of the company’s position on recycling policies. In addition, reports should list all steps the company took in investigating options for the cost-effective use of recycled materials. For 2014, the recycling category proposals are focused on “extended producer responsibility,” a policy popular in Europe which shifts recycling accountability from governments and taxpayers to producers. The recycling category includes five proposals so far in 2014, down from seven last year.

### 6. Auditors

These proposals were prompted by concern from both investors and regulators about the provision by auditors of both audit and non-audit services to their audit clients, and the effects of these services on the independence of the audit process. The provision of certain non-audit services by a company’s auditor may impair the auditor’s independence and impartiality. There are no resolutions on this issue so far for the 2014 proxy season.

### 7. ILO Principles

The proposals ask companies to endorse core standards promoted by the International Labor Organization (ILO), a multilateral agency affiliated with the United Nations that represents national employer, labor, and government bodies of 185 member states. The
core standards represent commitments to uphold basic human values and worker rights. There are no resolutions on this issue so far for the 2014 proxy season.

### 8. Predatory Lending

Predatory lending, most often associated with the sub-prime sector, is a loosely defined term that encompasses any number of unethical and illegal practices inflicted upon unsuspecting borrowers, often causing them financial distress or ruin. The proposals primarily ask that the companies develop a policy to ensure against predatory lending practices and to report to shareholders on the enforcement of such policies. There are two predatory lending proposals for 2014, at Wells Fargo and Bank of America.

### 9. Executive Compensation

Institutional investors have expressed interest in ensuring that executive pay levels are linked to corporate performance. In fact, increasing pressure since the late 1980s to tie executive compensation more directly to a company's success is contributing to the surge in executive pay. CEO compensation is now steeped with stocks and options, which have become popular vehicles to more closely align management's interests with shareholders' interests. Shareholder groups are asking boards of directors to study and report on executive compensation, and to consider ways to link compensation to corporate financial, environmental, and social performance. The executive compensation category so far includes 13 proposals in 2014.

### 10. Global Warming

Global warming proposals take on various forms, however, a typical resolution on global warming asks for a report on (i) what the company is doing in research and/or in action to reduce greenhouse gas emissions, (ii) the financial exposure due to the likely costs of reducing those emissions, and (iii) actions which promote the view that global warming is exaggerated, not real, or that global warming may be beneficial. The category has re-emerged this year with 55 resolutions. The most common resolution in 2014 asks the target company to adopt greenhouse gas emissions reduction goals.

### 11. Equal Employment Opportunity

The shareholder resolutions generally ask companies to make available information that is gathered for and reported to the Equal Employment Opportunity Commission. The information required includes statistical information in defined job categories, summary information of affirmative action policies, and reports on any material litigation involving race, gender, or the physically challenged. The category includes 21 resolutions for the 2014 proxy season, up from ten in 2013.
12. International Lending Policies

The effect of international bank lending in developing nations has been an ongoing concern for shareholders. Proponents concerned about poverty and debt in developing countries are submitting resolutions relating to commercial bank operations and services. The concern is that people in developing countries have not benefited from the recent increased capital flows to emerging markets. Proposals often ask for the development of a policy toward debt cancellation and provisions for new lending to heavily indebted poor countries or ask companies to develop policies which promote financial stabilization in emerging market economies. There are no international bank lending resolutions for the 2014 proxy season as of early March.


Concern about conditions in third world factories that supply U.S. corporations has led to a proliferation of shareholder resolutions from a variety of proponents. Proxy proposals generally ask companies to take measures to ensure their global operations, or those of their suppliers, meet minimum labor and environmental standards. Proponents believe that companies that adopt favorable global labor policies will be less susceptible to negative impacts. The category includes six resolutions for the 2014 proxy season.

14. CERES Principles

The principles affirm that corporations have a "responsibility to the environment" and that they "must conduct all aspects of their business as responsible stewards of the environment." There are ten principle statements that address environmental protection and management commitment to the environment. A typical resolution on the environment and CERES (Coalition for Environmentally Responsible Economies) asks that the company endorse the CERES principles. There have been no CERES Principles resolutions over the past two proxy seasons.

15. Board Diversity

The shareholder resolutions relating to Board diversity ask companies to report on the following issues: a) efforts to encourage diversified representation on the board; b) criteria for board qualification; c) process of selecting board nominees; and d) commitment to a policy of board inclusiveness. The category remains important to a number of institutional investors, particularly those with a socially responsible investment focus. The category includes 25 resolutions this year, about the same as last year.

16. MacBride Principles

The MacBride Principles offer a statement of equal opportunity/affirmative action principles for operations in Northern Ireland. These principle statements offer a code of
conduct to combat religious discrimination in the Northern Irish workplace. There have been no McBride Principles resolutions over the past four proxy seasons.

17. Non-Discrimination: Sexual Orientation

These proposals typically ask target companies to “amend its equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity”. The category includes 14 resolutions so far in 2014, about the same as last year.

18. African Health Pandemics

The shareholder resolutions ask companies with substantial leverage in the labor markets of sub-Saharan Africa to report on the effect of deadly diseases on the company’s operations as well as on any measures taken in response. In addition, resolutions ask pharmaceutical companies to "establish and implement standards of response to the health pandemic of HIV/AIDS, tuberculosis, and malaria in developing countries, particularly Africa.” There are no resolutions on this issue so far in the 2014 proxy season.

19. Sustainability

A typical resolution asks firms to prepare a sustainability report at a reasonable cost. The most widely used definition of sustainability is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” The sustainability reporting issue remains one of the most prominent shareholder requests and the resolutions are often company specific, including concerns such as global warming, human rights, and water issues. The sustainability category includes 41 resolutions so far this year, approximately the same as last year.

20. Animal Welfare

A typical resolution asks firms to review or report on animal treatment or welfare practices, including slaughter methods, with the ultimate objective being to ensure more humane treatment of animals. The number of animal welfare resolutions has been on the decline in recent years and the category includes just 13 resolutions in 2014, down from 16 in 2013, and 29 as recently as 2010.


A typical resolution on this issue asks firms to report on their corporate political contributions, with the objective of holding companies accountable for how corporate political dollars are spent. In 2012, corporate lobbying language was added to many of the resolutions in this category and is now included in the majority of the proposals.
Political contributions represent the largest single category of social issue proposals in 2014 and includes 126 proposals, approximately the same number as last year.

### 22. Report on Product Toxicity

A typical resolution on this issue asks companies to review and report on the toxicity of their products. The diverse product toxicity category includes seven resolutions so far in 2014, down from nine in 2013.

### 23. Report on Internet Privacy

A typical resolution on this issue asks internet service providers for a report examining the effects of the company’s internet network management practices regarding public expectations of privacy and freedom of expression. This year, the proposals again focus on “net neutrality,” concern about the ability of the internet service providers to control access to information. The category has only one resolution so far this year, down from three resolutions in 2013.

### 24. Adopt Eurodad Charter on Responsible Lending

A typical resolution on this issue asks companies to adopt the Eurodad Charter. The charter was developed by a network of non-governmental organizations from 19 countries and outlines the essential components of a responsible loan. There are no resolutions for this issue so far in the 2014 proxy season.

### 25. Adopt Health Care Reform Principles

A typical resolution on this issue asks companies to adopt and support the Institute of Medicine’s Health Care Reform Principles. The reform principles include the following: health care should be universal, continuous, affordable, sustainable, and enhance the well-being of its members. There are no resolutions for this issue so far in the 2014 proxy season.


Given the broad environmental concerns expressed in Regent Policy 31-13, this pre-approved issue is for environmental resolutions which do not fall under other specific pre-approved issues.

**Recommended Action**

Trust Funds staff requests approval to vote in the affirmative for the 34 shareholder proposals presented in the attached list. The majority of these proposals can be viewed as falling under one of the 26 pre-approved issues. Furthermore, approval is requested to
vote in the affirmative on additional proxies coming to vote in 2014 if the proposals can be viewed as falling under one of these approved issues.