



UNITED STATES

CATHOLIC FAITH-BASED PROXY VOTING GUIDELINES UPDATES 2024 Policy Recommendations

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Executive and Director Compensation

Criteria for Evaluating Executive Pay

Problematic Pay Practices

Current Catholic Advisory Services Policy:	New Catholic Advisory Services Policy:
<p>Problematic pay elements are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The focus is on executive compensation practices that contravene the global pay principles, including:</p> <ul style="list-style-type: none"> ▪ Problematic practices related to non-performance-based compensation elements; ▪ Incentives that may motivate excessive risk-taking or present a windfall risk; and ▪ Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements. <p>The list of examples below highlights certain problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:</p> <ul style="list-style-type: none"> ▪ Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options); ▪ Extraordinary perquisites or tax gross-ups); ▪ New or materially amended agreements that provide for: <ul style="list-style-type: none"> ▪ Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus); ▪ CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition; ▪ CIC excise tax gross-up entitlements (including "modified" gross-ups); ▪ Multi-year guaranteed awards that are not at risk due to rigorous performance conditions; 	<p>Problematic pay elements are generally evaluated case-by-case considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The focus is on executive compensation practices that contravene the global pay principles, including:</p> <ul style="list-style-type: none"> ▪ Problematic practices related to non-performance-based compensation elements; ▪ Incentives that may motivate excessive risk-taking or present a windfall risk; and ▪ Pay decisions that circumvent pay-for-performance, such as options backdating or waiving performance requirements. <p>The list of examples below highlights certain problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:</p> <ul style="list-style-type: none"> ▪ Repricing or replacing of underwater stock options/SARs without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options); ▪ Extraordinary perquisites or tax gross-ups); ▪ New or materially amended agreements that provide for: <ul style="list-style-type: none"> ▪ Excessive termination or CIC severance payments (generally exceeding 3 times base salary and average/target/most recent bonus); ▪ CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) or in connection with a problematic Good Reason definition; ▪ CIC excise tax gross-up entitlements (including "modified" gross-ups); ▪ Multi-year guaranteed awards that are not at risk due to rigorous performance conditions;

<ul style="list-style-type: none"> ▪ Liberal CIC definition combined with any single-trigger CIC benefits; ▪ Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible; ▪ Severance payments made when the termination is not clearly disclosed as involuntary (for example, a termination without cause or resignation for good reason); ▪ E&S Incentives: A lack of any LTI and STI performance metrics and/or a lack of disclosure on LTI and STI performance metrics related to E&S criteria. ▪ Any other provision or practice deemed to be egregious and present a significant risk to investors. <p>The above examples are not an exhaustive list. Please refer to the U.S. Compensation Policies FAQ document for additional detail on specific pay practices that have been identified as problematic and may lead to negative vote recommendations.</p>	<ul style="list-style-type: none"> ▪ Liberal CIC definition combined with any single-trigger CIC benefits; ▪ Insufficient executive compensation disclosure by externally-managed issuers (EMIs) such that a reasonable assessment of pay programs and practices applicable to the EMI's executives is not possible; ▪ Severance payments made when the termination is not clearly disclosed as involuntary (for example, a termination without cause or resignation for good reason); ▪ E&S Incentives: A lack of any LTI and STI performance metrics, incentives, and/or a lack of disclosure on LTI and STI performance metrics related to E&S criteria. ▪ Any other provision or practice deemed to be egregious and present a significant risk to investors. <p>The above examples are not an exhaustive list. Please refer to the U.S. Compensation Policies FAQ document for additional detail on specific pay practices that have been identified as problematic and may lead to negative vote recommendations.</p>
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Rationale for Change:

Investors are increasingly concerned about ESG risks as a corporate governance issue and over the past few years, ESG metrics have been increasingly used to evaluate company performance. Over the past three years, there have been some shareholder proposals raised requesting the feasibility of incorporating ESG metrics into the company's compensation program, but beyond that, for some investors, there is has been increased interest in incorporating ESG risks and E&S metrics as part of their sustainable investment strategy. According to some investors, incorporating ESG risks and E&S metrics into executive compensation presents an opportunity for companies to signal to investors their commitment to long-term shareholder value, sustainability, and financial performance.

During 2023 Specialty Roundtable discussions and in the previous 2022 Specialty Roundtable conversations, investors insisted that ESG is a material governance concern and therefore should be used as a compensation metric. Additionally, investors asserted the importance of evaluating board responsiveness to ESG concerns. Clients asked for meaningful and effective metric disclosure that will promote increased E&S focus in the long term while continuing to accurately award compensation to directors. Flagging company disclosure on specifically LTI performance metrics concerning ESG topics in executive compensation has brought greater attention to the value of E&S issues. Further expanding the evaluation of the scope of STI and LTI performance metrics disclosure to STI and LTI performance incentives can pave the path forward toward the variety of ways to measure that performance, whether that be a modifier, weighted metric, sub-metric, or general consideration.

Shareholder Proposals on Compensation

Severance Agreements/Golden Parachutes

Current Catholic Advisory Services Policy:	New Catholic Advisory Services Policy:
<p>Catholic Advisory Services Recommendation: Vote for shareholder proposals requiring that golden parachutes or executive severance agreements be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts.</p>	<p>Catholic Advisory Services Recommendation: Vote case-by-case on shareholder proposals requiring that executive severance (including change-in-control related) arrangements or payments be submitted for shareholder ratification.</p> <p>Factors that will be considered include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ The company’s severance or change-in-control agreements in place, and the presence of problematic features (such as excessive severance entitlements, single triggers, excise tax gross-ups, etc.); ▪ Any existing limits on cash severance payouts or policies which require shareholder ratification of severance payments exceeding a certain level; ▪ Any recent severance-related controversies; and ▪ Whether the proposal is overly prescriptive, such as requiring shareholder approval of severance that does not exceed market norms.

Rationale for Change:

The current policy is being updated to reflect Catholic Advisory Services' case-by-case approach when analyzing shareholder proposals requiring that executive severance arrangements or payments be submitted for shareholder ratification. The updated policy (i) harmonizes the factors used to analyze both regular termination severance as well as change-in-control related ("golden parachute") severance; and (ii) clarifies the key factors considered, including the company's existing severance provisions and whether the company has already implemented adequate safeguards against the potential for problematic or excessive severance.

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