

## **Mercy Investment Services, Inc. Proxy Voting Guidelines**

### **Introduction**

As stated in the Mercy Investment Services Social Responsibility Philosophy and Policy Statement, “Mercy Investment Services, Inc. will actively promote changes in corporate practices to achieve social and economic justice, a sustainable Earth and the common good.” As part of the comprehensive Shareholder Advocacy program described in the Social Responsibility Philosophy and Policy Statement, the Social Responsibility Committee is empowered to approve proxy voting guidelines for use in voting company proxies that address “appropriate governance, social and environmental criteria, with a focus on issues of importance to the Sisters of Mercy.” These proxy voting guidelines are intended to be used by Mercy Investment Services in its voting of company proxies, whether done directly, through a proxy voting service or by its investment managers. These guidelines are not intended to be an exhaustive list nor do they anticipate all voting issues that may be presented over time. These guidelines are intended to present principles of importance concerning areas of particular concern to the Sisters of Mercy, which will be applied as proxies are voted.

### **Guiding Principles**

Mercy Investment Services is a member of several shareholder advocacy groups, including the Interfaith Center on Corporate Responsibility (ICCR). In collaboration with these groups and other investors who share our commitment to a just and sustainable world, we pursue active ownership through proxy voting and shareholder engagement with the companies owned in our investment portfolios. We support corporate board directors that judiciously and wisely oversee companies’ executives, operations and impacts. We vote for social, governance and environmental shareholder proposals that are intended to create accountable, transparent companies or that enhance long-term shareholder and stakeholder value and rights. Areas of concern, both locally and globally, include equality and workplace issues, human rights, use of capital, environmental stewardship, corporate governance, weapons, consumer issues, access to health care, public safety and sustainability. Resolutions calling for greater disclosure and accountability on sustainability, financial and governance matters are generally supported. We will evaluate proposals that ask companies to cease certain actions that the proponent believes are detrimental to society with a special attention to the company’s legal and ethical obligations, its ability to remain profitable, and potential negative publicity from continuing these actions. We support shareholder proposals that are intended to improve the company’s public image and reduce exposure to liabilities.

With these general principles in mind, the following are voting guidelines on the specific issues identified below:

## **Social Issues**

### **Diversity**

Women and underrepresented persons, including indigenous persons, have long been subject to discrimination in the workplace, including as part of management and other high-income positions, whether through failure of promotion or hire. Companies are required to file federal Equal Employment Opportunity (EEO) reports with the federal government, reporting the diversity composition of their workforce at different levels. Underrepresented persons have also long been subject to discrimination in society and companies should not engage in activities which disparage them or discriminate against them.

- ❖ We support resolutions regarding equal employment opportunity and the elimination of discrimination against underrepresented persons, including assessments of leadership team diversity as well as the preparation of an annual diversity report.
- ❖ We support resolutions seeking company disclosure of EEO report filings or calling on companies to report compliance with EEO mandates.
- ❖ We support resolutions seeking companies to disassociate themselves from disparagement of women and underrepresented persons.
- ❖ We support resolutions requesting a company report on the use of and risk of racial discrimination in their current hiring and promotional practices including criminal background checks for the company's employees, independent contractors, and subcontracted workers.

### **Workplace Issues**

Treatment of workers is an important element of corporate social responsibility. Workers should be treated fairly, no matter their location, and be provided with fair wages and safe working conditions. Companies should not participate in the use of forced labor, human trafficking, child labor or the exploitation of poor persons.

- ❖ We support resolutions asking companies to adopt and/or report on codes of conduct addressing global labor and human rights practices including addressing the UN Guiding Principles for Business and Human Rights.
- ❖ We support resolutions requesting companies avoid exploitative labor practices, including child labor, human trafficking and other forms of forced labor and modern-day slavery.
- ❖ We support resolutions calling companies to commit to safe workplaces, including the expansion or implementation of worker benefits such as paid sick leave.

### **Vendor/Supplier Standards**

Similarly, companies who use offshore and domestic vendors as part of the production of their products can have a significant impact on workers if they do not have satisfactory workplace

practices and conditions. Examples include sweatshop conditions, inadequate wages, forced labor and child labor.

- ❖ We support resolutions calling on companies to adopt codes of conduct regarding vendor/supplier workplace practices and/or report on compliance with codes.
- ❖ We support resolutions calling for human rights impact assessments.
- ❖ We support resolutions calling on companies to develop ethical recruitment and ethical contracting policies.

### **Access to Health Care**

Access to health care is a basic human right, and its accessibility and affordability is a worldwide challenge. In the United States, many lack health insurance coverage and are unable to afford even basic health care to avoid or treat illness. In the developing world, medications to treat life-threatening diseases such as HIV, AIDS, tuberculosis and malaria are unavailable and costly. There are numerous initiatives to address the affordability and access issues in developing countries, and it is essential that pharmaceutical companies be active participants in ensuring these drugs are available.

- ❖ We support resolutions calling on pharmaceutical companies to take steps to make drugs more affordable and accessible for treatment of serious diseases in both least-developed and middle-income countries.
- ❖ We support resolutions calling on companies to support reform of the United States health system to be more just and accessible.
- ❖ We support resolutions calling for policy and/or phasing out of the routine use of antibiotics in meat production.
- ❖ We support resolutions that call for governance and oversight practices to mitigate the risk of drug abuse and/or encourage appropriate drug use.
- ❖ We support resolutions calling on companies to address the use of nicotine delivery products by young people.

### **Access to Capital**

Access to capital on fair terms is essential to economic justice and realizing economic opportunity in our society. Lenders may engage in unfair lending practices, such as excessive fees, unaffordable rates of interest and unfair payback terms, for those unable to afford the loan or understand its terms and conditions. The effects of the 2008 global financial crisis continue to deserve attention due to significant impacts on people, communities and the economy. Dodd-Frank legislation strengthens oversight and authorizes regulators to aggressively pursue financial fraud, conflicts of interest and manipulation of the financial system. Understanding board and management oversight of bank practices, including compliance with regulatory standards, will help investors evaluate risk management.

- ❖ We support resolutions calling on companies to develop policy and/or report on predatory lending practices, mortgage servicing and foreclosures, securitization and other products used in domestic and international lending, and credit card policy.

- ❖ We support resolutions that promote fair and equal credit opportunity and access to capital.
- ❖ We support resolutions on lending policies to include human rights and environmental assessments and reports.
- ❖ We support resolutions that address responsible investment practices seeking transparency on governing structure and processes in place regarding risk management.

### **Sustainability**

Sustainability has become a major focus of shareholders to assure that their companies are anticipating and addressing environmental, social and governance issues in their operations. Producing a sustainability report demonstrates that the company is aware, managing its business risks related to environmental, social and governance issues, and focusing on its long-term viability.

- ❖ We support resolutions asking companies to prepare sustainability reports, including reports based on reasonable and accepted standards.
- ❖ We support resolutions requesting companies develop community engagement policy and community impact reporting.

### **Weapons and Nonviolence**

As stated by the American Red Cross, “the greater availability of arms, the greater the violations of human rights and international humanitarian law.” Weapons sold in one country can result in a threat to security of many people and countries, well beyond the borders of the buying country. In addition, gun violence in the United States is a public health crisis with extraordinary human and financial costs.

- ❖ We support resolutions requesting companies issue reports that increase transparency on issues such as foreign military sales and space-based weapons.
- ❖ We support resolutions calling on companies to adopt ethical criteria for military contracts.
- ❖ We support resolutions that are intended to result in the reduction and/or elimination of handguns, cluster bombs, landmines, nuclear and other weapons.
- ❖ We support resolutions requesting companies issue a report on activities related to gun safety measures and the mitigation of harm associated with gun products.
- ❖ We support resolutions requesting a company issue a report on actions taken based on the Sandy Hook Principles.

### **Information/Technology**

As Pope Francis tells us, artificial intelligence is at the heart of the epochal change we are experiencing, and we know that it can make a better world possible if it is joined to the common good. However, if technological progress increases inequalities, it is not true progress. Future advances should be oriented toward respecting the dignity of the person and of Creation.

- ❖ We support resolutions asking companies to report on the impacts of the use of artificial intelligence across all their platforms, including facial surveillance technology, as it may violate civil rights by unfairly and disproportionately targeting and surveilling people of color, immigrants, and civil society organizations.
- ❖ We support resolutions asking companies to issue a report assessing the potential sexual exploitation of children across the company's businesses.

## **Environmental Issues**

### **Environmental Sustainability**

Corporations, through their operations, impact the environment, which can have a material effect on their public perception, financial performance and sustainability, and thus on shareholder and stakeholder rights and value. Environmental impact mitigation, setting of environmental goals and targets, and disclosing of environmental and climate change actions assist in environmental risk analysis and management of a corporation. All companies face issues of increasing energy efficiency and reducing their energy footprint. In particular, energy companies (such as oil, gas, mining and utility companies) contribute significantly to greenhouse gas emissions, which in turn contribute to global warming. Water availability has become an increasing concern. The United Nations states: "The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses." The lack of consistent availability of water throughout the world has led to calls for companies to acknowledge accessibility to safe and adequate water as a basic human right.

- ❖ We support resolutions that address the risks posed by climate change including disclosing emissions in a manner consistent with the guidelines of the Task Force on Climate-related Financial Disclosures.
- ❖ We support resolutions calling for reports addressing environmental impact and risks resulting from company operations, such as greenhouse gas emissions, climate change, water usage and health risks.
- ❖ We support resolutions requesting a company reduce its environmental impact and/or environmental footprint where the proponent demonstrates potential negative impact on the environment from the company's operations.
- ❖ We support resolutions requesting the company adopt recognized principles and accords related to the environment and climate change.
- ❖ We support resolutions requesting companies set goals and develop plans to reduce greenhouse gas emissions that align with the "net zero" goals of the Paris Climate Agreement or take specific actions to reduce emissions, such as developing/using renewable or less-polluting sources of energy.
- ❖ We support resolutions requesting the company to adopt and/or implement a policy acknowledging water as a basic human right.
- ❖ We support resolutions calling for the company to issue a report on its water use, footprint and risks.

- ❖ We support resolutions requesting companies respect the rights of local and indigenous communities in matters affecting their environment and to avoid destruction of their natural resources and environment.
- ❖ We support resolutions asking for a board member with environmental expertise to be nominated and for a board committee to be chartered to oversee environmental and sustainability efforts.
- ❖ We support resolutions calling for reporting on asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change.
- ❖ We support resolutions calling for a "shareholder say on climate," which give investors the opportunity to signal support or lack of support for a company's goals and plans to adapt its business model to a net zero economy, where global warming is limited to well below 2°C, consistent with the Paris Climate Agreement.

### **Toxic Chemicals**

Toxic chemicals, such as PVC, may be used by companies in making consumer products, and scientists have raised serious health and safety concerns about the use of some chemicals. Companies face risk from harm to consumers and affected communities, particularly where dangerous chemicals are released into the environment. Due to recent reports on the serious impacts of plastics on water and our oceans, investors are urging companies to reduce their reliance on plastics and seek alternatives.

- ❖ We support resolutions asking companies to issue a report on risks and phaseout of chemicals and pesticides that present health and safety concerns.
- ❖ We support resolutions asking companies to issue a toxic/chemical footprint report.
- ❖ We support resolutions addressing plastic pollution including development of policy, reports, and reduction targets.

### **Governance Issues**

#### **Board of Directors**

A company's board of directors is responsible for representing the interests of shareholders. The board plays a key role in ensuring that a company's practices are in accordance with long-term shareholder interests and that executive compensation aligns the interests of management and shareholders. We believe that diversity at the board of directors and top level of management influences company culture. We use our vote to promote structures that create and reinforce accountability.

- ❖ We oppose all nominees when a minimum of 30% of the board of directors is not inclusive of women and/or underrepresented persons in countries where reliable information on board member gender and ethnic diversity is available to Mercy's proxy voting service.

- ❖ We support resolutions calling for board diversity policies and reporting to shareholders on efforts to ensure diversification.
- ❖ We withhold our vote for all nominees if the board does not include a majority of independent directors and withhold votes for non-independent directors who sit on key committees such as the executive, audit and compensation committees.
- ❖ We support resolutions asking that all board members be elected annually.
- ❖ We support resolutions that seek to separate the positions of chair of the board and CEO.
- ❖ We support development of performance-based compensation plans that include a broad array of both financial and nonfinancial measures.
- ❖ We withhold our vote for all nominees if the board has failed to act on a shareholder proposal that received the support of a majority of shares outstanding the previous year.
- ❖ On a case-by-case basis, we oppose reelection of responsible board members when a company has material, ongoing and insufficiently addressed environmental, social or governance impacts.

### **Auditors**

Reliability of financial statements is essential for shareholders to protect shareholder value, and auditors provide an impartial assessment of the company's financial performance and financial strength. Audit committees are subject to enhanced regulations, and it is essential that they have enhanced oversight of the company's independent auditors.

- ❖ We support resolutions calling for annual election of auditors.

### **Executive Compensation**

Investors increasingly are questioning escalating executive compensation packages, including incentive plans, which sometimes appear to be misaligned with creation of shareholder value. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires public companies to hold an advisory vote on executive compensation. Votes will be cast at company annual meetings, and the board of directors' vote recommendations will be included in proxy materials. Within the past few years, the Securities and Exchange Commission has required companies to disclose additional information about compensation and perquisites for top executives. We believe that since the board compensation committee makes its decisions yearly regarding salary and related items such as discretionary bonuses and severance, an annual shareholder vote offers proper shareholder oversight. Further, we believe a routine positive vote on pay each year affirms to the board that it has presented a clear and convincing case to investors. We, as a matter of social justice, are also concerned with the significant rate of increase in executive compensation during the past 20 years relative to the rate of increase in compensation for workers, and that gap has increased tenfold.

- ❖ We support resolutions calling for an annual shareholder advisory vote on executive compensation and for appropriate disclosure of compensation practices.
- ❖ We support resolutions calling for management to issue a compensation and/or benefit equity report or for a report on the ratio between CEO and worker compensation.

- ❖ We support resolutions asking companies to review executive compensation as it links to nonfinancial performance, such as labor and human rights, environment, diversity and other social issues.

### **Mergers and Acquisitions**

Mergers, acquisitions and corporate restructurings can increase concentration in industries, and may have a significant impact on company stakeholders, such as a loss of commerce in a local community, large employee layoffs and lack of benefit to the consumer. They also may have a potential impact on shareholder value. We will evaluate transactions on a case-by-case basis, given the potential negative impacts to stakeholder and shareholder value.

- ❖ We oppose the resolution when, in our judgment, one or more of the above effects seem likely.

### **Stock Increase and Splits**

Stock increases are designed to raise capital. They also may be used to implement compensation plans, to deter takeovers, or to protect present management. Stock splits attract investors as the price of the stock is reduced.

- ❖ We oppose any increase that is more than 50% or more than 2:1 and where the purpose is not stated or is for “unspecified future use.”

### **Political Contributions**

We support policies that apply transparency and accountability to corporate political giving, including to political campaigns, political action committees, social causes and government lobbying activities. Although companies are already required to disclose political contributions under federal and state laws, the filings and information are not readily available to shareholders who have a right to know how corporate assets are being deployed. In addition, political spending and corporate lobbying may undermine shareholder or stakeholder interests.

- ❖ We support resolutions asking for disclosure of political contributions made with corporate funds either directly or through political action committees, trade associations and/or other advocacy associations.
- ❖ We support resolutions asking for policy and disclosure of lobbying contributions either directly or through trade associations. These contributions include direct lobbying as well as grassroots lobbying.

### **Exceptions to Policy**

From time to time during a proxy year, responsible investors develop new tools or approaches for resolutions or other proxy voting actions that will support issues in the engagement plan and these proxy voting guidelines. These approaches generally relate to proxy votes on governance concerns. In such cases, the Social Responsibility Committee authorizes either the vice president

of social responsibility or senior director of shareholder advocacy to make the decision on voting. Such exceptions will be reported to the Social Responsibility Committee in the annual proxy season report.