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Via electronic submission: www.esma.europa.eu

European Securities and Markets Authority
103 Rue de Grenelle
75007 Paris
France

Discussion Paper – An Overview of the Proxy Advisory Industry. Considerations on Possible Policy Options.

Dear Sir / Madam:

Glass, Lewis & Co. (“Glass Lewis”) appreciates the opportunity to comment on the Discussion Paper (“DP”) issued by the European Securities and Markets Authority (“ESMA”) regarding the proxy advisor (“PA”) industry and possible policy options related to PA conduct

Founded in 2003, Glass Lewis is a leading independent governance services firm that provides proxy voting research, recommendations and custom services to institutional investors from around the world. While, for the most part, clients use Glass Lewis’ research to help them make their proxy voting decisions, they also use Glass Lewis research when engaging with companies before and after shareholder meetings. Through Glass Lewis’ Web-based vote management system, ViewPoint, Glass Lewis also provides investor clients with the means to receive, reconcile and vote ballots according to custom voting guidelines and record-keep, audit, report and disclose their proxy votes.

Based in San Francisco, California, Glass Lewis’ 300-person team provides research and voting services to investors that collectively manage US \$15 trillion from branches and subsidiaries in the United States, Europe, the UK and Australia.

Through its DP, ESMA seeks feedback from market participants on three key issues raised its DP: i) accuracy, independence and reliability of the proxy advice issued by PAs; ii) potential conflicts of interest; and iii) transparency of advisors’ management of conflicts, communication with issuers, voting policies and procedures for developing vote recommendations. In addition, ESMA seeks feedback on policy options that fall into four areas ranging from no EU-level action at this stage to binding EU-level legislative instruments.

Glass Lewis welcomes ESMA’s examination of the proxy voting process and the role of advisors in that process. Glass Lewis commends ESMA for the significant work it has done in preparing its thoughtful, balanced and comprehensive view of the industry, providers and options for enhancing the independence and integrity of advisors’ research.

Please find below Glass Lewis comments’ on particular matters raised in the DP, including responses to the specific questions posed. In addition, please find comments regarding *ESMA’s Discussion*

Paper on Proxy Advisors – Opinion of the SMSG (ESMA/2012/SMSG/25).

II. Introduction

Aim of the Discussion Paper

II.5 ESMA states here that “proxy advice is typically used by large institutional investors, which have stockholdings in listed companies throughout Europe.” Glass Lewis provides proxy research, custom policy implementation and voting services to hundreds of investors whose assets under management range in size from a few million dollars to several trillion dollars US. These clients seek advice on as few as 20 companies a year in a single market to several thousand equities spanning the globe. While the larger institutions comprise the majority of assets under management represented by Glass Lewis’ clients, several hundred of Glass Lewis’ clients have less than US \$1 billion in AUM.

III. Description of the proxy advisory industry

III. 12. In Glass Lewis’ experience, among institutional investors of all types (pension funds, mutual funds, asset managers and hedge funds), particularly in Europe, North America and Asia-Pacific, the propensity for voting has increased dramatically over the past decade. This trend is not particular to those with activist or active-investing strategies. Moreover, investors of all types and strategies are increasingly tapping Glass Lewis for customised research services. Glass Lewis supports not only the implementation of market-specific custom policies but increasingly is supporting client requirements for issue-specific policies that are nuanced to address sector-, industry- or security-specific guidelines. The trend toward engagement, which has been widespread in Europe, the UK and Australia for many years, is also expanding rapidly in North America. Many Glass Lewis clients across all investor types are now engaging with European companies directly or in collaboration with other investors.

III.14. Given the expertise, relationships and investment required to do this work, especially for investors with global investments that want to exercise their ownership rights across all holdings, it is in the best interest of their beneficiaries for investors to make use of the services offered by PAs. PAs can help clients manage voting responsibilities in an accurate, timely and cost-effective manner, particularly for global securities.

III.I Proxy advisors and their roles

III.I.18. As stated here and described in the 2012 study by Tapestry Networks and the IRRIC Institute, PA guidelines and recommendations are used by investors in different ways. While most respondents to the recent study employ custom policies and may use Glass Lewis recommendations as “a point of reference,” some investors have adopted Glass Lewis’ policy as their policy. Contrary to some observers’ comments, investors that elect to adopt a PA’s policy are not abdicating their fiduciary responsibility. It is a decision that is made only after significant analysis and consideration of the advisor’s research methodologies, operations and controls. Issues typically covered by investors during their initial and annual diligence include: voting policies, models used in the analysis of remuneration, market-by-market regulatory reviews, research oversight, quality control, research personnel, conflict-management

procedures and error management, among others. The due diligence by investors often is conducted by people from various parts of the organization, including investment management, compliance and/or risk management departments, as well as proxy committees and fund trustees, among other groups.

III.I.22. Exercising the rights of ownership with respect to voting is a monumental operational task, given the lack of global communication standards for the electronic distribution of proxies and the execution and confirmation of votes; the challenges investors and PAs face in sourcing proxy materials and other company disclosure, which is often available only in the company's native language; and the disconnect between the regulation governing disclosure deadlines and the vote cutoffs set by each link in the chain of intermediaries, including custodian banks, ballot distribution agents and vote tabulators. As it stands today, given the constraints and challenges inherent in the proxy voting system, PAs provide the data, research and tools that allow investors to focus on the most critical part of the engagement process. As such, any regulation that limits how investors use PAs for research or recommendations or prescribes how PAs must develop their research should take into consideration the regulatory and operational realities of being able to make informed voting decisions and execute votes in a timely fashion.

III.II Overview of the proxy advisor market

III.II.23. Glass Lewis was founded in 2003, six months following the signing into law of the Sarbanes-Oxley bill and in the wake of the Enron and WorldCom scandals. The purpose of the business was to meet a growing demand for contextual, objective analysis of proxy voting issues and to support voting shares according to more nuanced and/or custom policies, rather than simply voting with management or relying on a PA's policy for all issues. In 2003, Glass Lewis provided research on North American companies only. In 2004, it expanded its team and its coverage to include a select universe of MSCI EAFE Index companies and large-cap Japanese companies. Coverage of new markets was developed under the direction of analysts with relevant education and expertise. In 2005, under the direction of Carla Topino, Associate Vice President of European and Emerging Markets Policy at Glass Lewis, Glass Lewis continued to grow its European coverage universe, which now comprises thousands of companies. (Ms. Topino has a law degree from the University of Turin, where she graduated summa cum laude after completing her thesis on takeover bids. Ms. Topino's native language is Italian. She is also fluent in English and French.)

III.II.24. Glass Lewis, which is headquartered in San Francisco, California, is truly a global PA – with research and voting operations centers in Europe, the United States and Australia. Similar to the Europe-based PAs, Glass Lewis analyzes the proxies of all European companies in the context of relevant market-specific policies that take into consideration each market's regulations, laws and corporate governance codes. The analysis is managed and performed by research analysts that specialize in, and are in many cases natives of, their respective regions. These analysts also oversee the procurement of the data and/or creation of the analysis that allows for the implementation of clients' custom policies. The key difference between Glass Lewis and the Europe-based PAs is the number of companies under coverage (vs. specializing in a given market). Many local or regional PAs cover only specific indices, whereas Glass Lewis covers all companies held by its clients anywhere in the world. Given the complex operational realities of the vote management process (e.g. materials procurement challenges, information available only in native languages, disclosure and voting deadlines, lack of communication standards among custodians, ballot reconciliation to ensure that all ballots are received, reporting and

regulatory disclosure requirements, etc.), investors that vote in multiple markets usually opt to subscribe to at least one “global” service provider that can provide consistency on key aspects of the decision-making process across all holdings. Among other things, global service providers can aggregate, normalize, translate, code and consistently display data on all issues, including director elections and remuneration proposals, across all meetings. Global service providers also facilitate reporting of voting activity for regulatory and engagement purposes. However, it is also very typical for investors to supplement the research they get from their global provider with research from other providers that focus on specific markets or specific issues, such as environmental and social issues.

Box 1: Non-exhaustive list of some PAs active in Europe, including some data on employees, number of clients and research companies.

Glass Lewis: Glass Lewis employs more than 300 people in its offices in San Francisco; Washington, D.C.; New York, New York; Limerick, Ireland; Lugano, Switzerland; and Sydney, Australia. Glass Lewis provides research and voting services to more than 900 institutional investors globally that collectively manage more than US \$15 trillion in assets. With research focused on the long-term impact of proxy voting decisions, Glass Lewis provides institutional investors with the research, data and tools that help them make sound voting decisions by uncovering governance, business, legal, political and accounting risks at more than 20,000 companies worldwide. Glass Lewis is an independent governance services provider; unlike some other providers, Glass Lewis does not provide consulting services to the companies it analyzes.

Human Resources

III.II.28. All Glass Lewis reports are reviewed by senior staff members prior to publication for accuracy, quality and consistency. Furthermore, when a proxy features a proposal regarding a financial transaction, remuneration scheme or environmental or social issue, subject matter experts will assist the market specialists in analyzing, reviewing and approving the analysis of those specific proposals.

Internal Organisation

III.II.31. The Compliance Department develops, manages and monitors conflict avoidance and disclosure policies and procedures at Glass Lewis. The Compliance Department solicits, monitors and oversees the disclosure of information from employees, Strategic Committee members and Research Advisory Council members relating to personal conflicts including board seats on public companies and relationships with public company executives and directors.

Glass Lewis’ Chief Policy Officer oversees the development and implementation of the Glass Lewis proxy voting policies, in consultation with the Glass Lewis Research Advisory Council, an external group of prominent industry experts. The guidelines are tailored to each country’s relevant regulations, practices and corporate governance codes, and, for European countries, are overseen by Glass Lewis’ Associate Vice President of European and Emerging Markets Policy. Glass Lewis revises and enhances the guidelines annually in response to regulatory developments, market practices and issuer trends. The

guidelines are not applied in a “one-size-fits-all” manner but are implemented to reflect the unique characteristics of each company.

III.II.32 Information about Glass Lewis’ guidelines and research methodologies is available at <http://www.glasslewis.com/issuer/>

III.III.I Voting policies and guidelines

III.III.I.37. ESMA’s description of the policy development process is applicable to Glass Lewis: Glass Lewis’ policies, tailored for each market, are formulated via a bottoms-up approach that involves discussions with a wide range of market participants, including investor clients, corporate issuers, academics, corporate directors and other subject matter experts, among others. The process takes into consideration relevant corporate governance standards, company, local regulations and market trends.

Policy changes and report enhancements are driven by such discussions, as well as through consultations with the Glass Lewis Research Advisory Council. However, in making their voting decisions, most large institutional investors rely on Glass Lewis more for data and analysis than for Glass Lewis recommendations, since most Glass Lewis clients employ their own proxy voting policies. Indeed, the vast majority of Glass Lewis’ clients (more than 80%) are custom-policy clients.

III.III.I.40. Although implementing a customised policy necessarily costs more than providing clients with Glass Lewis’ standard research, it has not been Glass Lewis’ experience that price drives the decision as to whether an institution subscribes to Glass Lewis for custom research. In many cases, Glass Lewis clients that do not subscribe to Glass Lewis’ custom recommendation service receive the research but then review Glass Lewis reports and make voting decisions in accordance with their custom policies. In other cases, investors may elect to follow one or more of Glass Lewis’ market policies after a thorough review of the guidelines and specific examples of analysis and recommendations. Such evaluation often involves presentations by Glass Lewis to various members of the investor organization, including members of investment management, compliance or risk management groups, as well as proxy committees and fund trustees, among others. Clients that adopt some or all of Glass Lewis’ policies as their own generally do so after determining that the Glass Lewis approach closely reflects their own view; they will review the policy annually and, over time, often choose to customise some of the analysis as their views on issues change.

III.III.II Voting Recommendations

Preparing voting recommendations

III.III.II.41. Glass Lewis relies only upon publicly-available information; it will not incorporate into its research information that is not available to clients and other shareholders. When Glass Lewis analysts require clarification on a particular issue, they will reach out to companies but otherwise generally refrain from meeting with companies during the solicitation period, which is marked by the date a notice of meeting is released to the meeting date itself. Glass Lewis is open to meeting with companies outside the solicitation period and the proxy season blackout periods, during which time the company

can discuss Glass Lewis' guidelines, research methodologies and perspectives on both general topics and issues to specific to the company. Throughout the year, Glass Lewis hosts "Proxy Talk" conference calls to discuss a meeting, proposal or issue in depth. Glass Lewis' clients and other shareholders are invited to listen to the call and submit questions to the speakers, with representatives from Glass Lewis serving as moderators. Proxy Talks are held prior to the publishing of research in order to glean additional information for Glass Lewis' analysis. In 2012, for example, Glass Lewis hosted two Proxy Talks to discuss several shareholder proposals relating to compensation and board composition at Viscofan SA, a €1.5 billion market capitalization company headquartered in Spain, one with the shareholder proponent and the second with the representatives of Viscofan. Typically, calls are held to provide participants (e.g. company representatives, dissidents, shareholder proposal proponents) an open forum to give shareholders further insight into specific issues.

III.III.II.44. Glass Lewis has an obligation to provide high quality, timely research to its institutional investor clients, based on the analysis of accurate information culled from public disclosure. In accordance with feedback from clients, Glass Lewis does not believe it is in the best interests of investors to provide previews of PA analysis to the subject companies. This type of "consultation" would open Glass Lewis up to being lobbied by companies, since companies could use this communication opportunity to push for a change in a recommendation against management. Furthermore, from a practical perspective, given the often tight timeframe between disclosure and the vote deadline, any delay in the distribution of reports to investors would further inhibit their ability to review the analysis and make informed voting decisions. Glass Lewis is currently exploring how to provide issuers with access to the data used in the development of its analysis, on a company-by-company basis, for review by companies prior to issuing reports. Until that time, Glass Lewis does not intend to make any of its data or research available prior to general publication. Glass Lewis publishes its reports on annual general meetings three weeks prior to meeting date on average. (Publishing times may vary depending on the timing of disclosure and the types of issues up for vote. Analysis on mergers and acquisitions and other financial transactions, for example, is generally published closer to meeting date.) For information on how to get access to individual Glass Lewis reports upon publication, go to "Accessing Glass Lewis Reports" at <http://www.glasslewis.com/issuer/>.

IV. Key issues: investor use of proxy advice and voting behaviour

IV.II Correlation between proxy advice and investor voting behaviour

IV.II.53. According to a recent study¹ on the use of PAs by US mutual funds:

"Those who believe that asset managers blindly follow proxy adviser recommendations point to the correlation statistics as proof for their argument. These correlations are interesting, but correlations alone 'do not allow us to clearly map out the causal relationships.'² [Stephen] Choi, [Jill] Fisch, and [Marcel] Kahan noted that although they found significant correlation between

¹ Robyn Bew and Richard Fields, "Voting Decisions at US Mutual Funds: How Investors Really Use Proxy Advisers," a report commissioned by the IIRC Institute, (Tapestry Networks), June 2012

² James Cotter, Alan Palmiter, and Randall Thomas, "ISS Recommendations and Mutual Fund Voting on Proxy Proposals," *Villanova Law Review* 55, no. 1 (2010), 3.

proxy advisory recommendations and how asset managers voted, there was also ‘a substantial correlation between proxy advisor recommendations and the factors that academics, policy makers, and the media have identified as important.’³ According to this view, the proxy firms’ positions essentially mirror the current consensus on good governance. If this is the case, then the proxy advisory firms’ influence on voting outcomes is much smaller than correlation might indicate. ... In their sample, Choi, Fisch, and Kahan found ‘excessive deference to ISS recommendation appears less of a concern than excessive deference to management recommendations.’⁴”

Regarding the suggestion that “investors may not appropriately verify the recommendations they receive, which is seen by [ESMA survey] respondents as a ‘box-ticking’ approach,” the mutual fund study provides a number of findings that support the counter-arguments listed in this section:

“The widespread use of proxy firms’ automated voting platform services likely contributes to the perception that proxy advisers exert a high degree of influence in final voting decisions, but as one participant [in the Tapestry mutual fund study] said, “The first [application of voting guidelines] is only the beginning.” No voting policy, however customized or comprehensive, can cover every instance of every governance issues for every company, every year. It became clear from our conversations that voting decision-making is a complex and dynamic process that defies generalizations.”⁵”

And, on Jan. 17, 2012, Larry Fink, Chairman and CEO of BlackRock, said in a letter regarding it engagement strategy:

“On behalf of our clients, BlackRock seeks to ensure that the companies in which we invest pursue corporate governance practices consistent with long-term business performance. To this end, as a fiduciary for our clients, we seek to engage in dialogue with the leadership of these companies to address issues that may be raised during the proxy season. ... We think it is particularly important to have such discussions – with us and other investors – well in advance in the voting deadlines for your shareholder meeting, and prior to any engagement you may undertake with proxy advisory firms. ... We reach our voting decisions independently of proxy advisory firms on the basis of guidelines that reflect our perspective as a fiduciary investor with responsibilities to protect the economic interests of our clients.”

Furthermore:

“The wide variance in approaches to deliberation on voting matters shows that many different roads can lead to the same vote outcome. One asset manager observed, ‘So many people

³ Stephen J. Choi, Jill Fisch, and Marcel Kahan, “Voting Through Agents: How Mutual Funds Vote on Director Elections,” (University of Pennsylvania, Institute of Law and Economics Research Paper No. 11-28, NYU Law and Economics Research Paper No. 11-29), August 17, 2011,9.

⁴ Stephen J. Choi, Jill E. Fisch, Marcel Kahan, “The Power of Proxy Advisors: Myth or Reality?,” Emory Law Journal 59 (2010), 20.

⁵ Robin and Richard Fields, 19

overstate the importance of ISS. Just because we reached the same conclusion, it doesn't mean we didn't do our own thinking.' Another wondered where critics draw the line in their suspicion about investors' information sources: 'Are we not supposed to read the Wall Street Journal and the New York Times either?' However, participants also recognize that given the lack of transparency in investors' voting decision making, it is easy for outside observers to conclude that asset managers are unduly influenced by external forces such as proxy firms.⁶

Investor Voting Behavior

IV.II.55. In some cases, investors have developed a longstanding approach to certain issues, such as toward antitakeover devices like poison pills and classified boards (aka, staggered boards) and separating the roles of chairman and CEO. These issues have been reviewed extensively for decades by most investors, who tend to treat certain proposals (such as those to dismantle or require shareholder approval of antitakeover devices or to appoint an independent chairman) as more routine since these proposals require very little additional evaluation. However, on issues such as mergers and control contests, investors take a very case-by-case approach and do not have standing policies applied uniformly without regard to each circumstance.

IV.II.59. While there are many reasons investor votes and proxy advisor recommendations are aligned, the most prevalent is that the groups share the same investment philosophy and time horizon (i.e. making voting decisions and recommendations to foster sustainable, long-term performance) and, therefore, treat governance issues the same way. To be sure, proposals with a more direct financial impact that do not lend themselves to analysis based on specific voting guidelines, such as mergers and control contests, are reviewed more closely by investors than non-binding routine proposals. For these routine proposals, such as ratification of auditors, it is efficient and appropriate to develop a standard approach (e.g., voting against where the non-audit fees exceed the audit fees). However, this does not mean that investors feel the issue is necessarily less important; it reflects the view that the direct effect of such proposals on shareholder returns is lower and, therefore, does not warrant the same attention. As fiduciaries, investment managers necessarily focus their attention on issues that are more likely to have a direct financial effect on the company.

QUESTIONS:

1) How do you explain the high correlation between proxy advice and voting outcomes?

For any proposal, there are only a few possible vote options: For, Against/Withhold or Abstain.

Given the limited number of voting options and the myriad reasons for arriving at any particular decision, a vote outcome that is the same as a PA's recommendation could be the result of any of the following:

⁶ Robin and Richard Fields, 25

- i. Investor votes the same way as PA but for different reasons.
 - o These reasons are not necessarily transparent, as rationales for voting are generally not disclosed by investors even when votes are disclosed.
- ii. Investor votes the same way as PA for same reasons, which investors believe are sound and appropriate reasons for their vote decision.
 - o Glass Lewis develops its policies for evaluating governance issues based on a review of the regional and local laws, regulations and governance codes applicable to the companies under coverage. Glass Lewis bases its research on publicly-available information. As such, it's likely that Glass Lewis will often recommend the same way an investor votes, for the same reasons.
- iii. Investor has adopted a PA's policy and, as such, is voting in line with a PA's recommendations. The decision to follow a PA's recommendations does not necessarily constitute "blind following" of an advisor's recommendations. Investors select an advisor based on a thorough review of the advisor's policy, methodologies, research samples, conflict management policies and procedures, as well as an assessment of the experience and qualifications of the advisor's management and analysts. Investors retain the right to review and override Glass Lewis recommendations – which they regularly exercise. In the first six months of 2012, Glass Lewis clients that voted according to Glass Lewis' policy chose to vote differently than Glass Lewis more than 10 percent of the time when voting on non-US Say on Pay proposals. In addition to monitoring votes throughout the year, investors generally conduct annual due-diligence visits to review these same issues and go over any questions or concerns that have arisen since their previous visit.

2) To what extent:

a. Do you consider that PAs have a significant influence on voting outcomes?

The extent to which advisors influence voting outcomes is overstated.

More than 80 percent of Glass Lewis' more than 900 clients – including the majority of the world's largest public pension funds, asset managers and mutual funds – vote according to a custom policy or via a custom process for reaching vote decisions, such as reviewing multiple research providers prior to approving votes.

As described above, custom policies and vote decision-making processes often result in votes that are in line with Glass Lewis recommendations for the same or different reasons. A correlation between PA recommendations and vote outcomes is proof of coincidence, not causality.

The counter-arguments made by issuers to the points listed in here and in the answer to question No. 1 often point to the correlation between the timing of the issuance of advisor recommendations and the timing of when votes are executed. However, this counter-argument

reflects a lack of understanding of the publication processes at PAs. At the same time that Glass Lewis publishes its own research, Glass Lewis also implements its clients' custom recommendations. As noted above, investors that vote according to custom policies often vote the same way as Glass Lewis but for different reasons or for similar reasons.

b. Would you consider this influence as appropriate?

For the past 10 years, Glass Lewis has dedicated itself to helping institutional investors make informed proxy voting decisions by identifying governance, business, legal, political and accounting risks at thousands of companies. Glass Lewis' experienced and qualified research professionals have in-depth knowledge of corporate governance matters relevant to the analysis of 20,000+ companies in more than 100 markets, including local and regional law, regulations, governance codes, accounting standards, remuneration trends and company disclosure practices, as well as knowledge of individual industries, sectors, specific companies and directors. Glass Lewis analyzes public company filings, specifically proxy statements and financial statements, as well as multiple external original research sources to evaluate board effectiveness and company risk profiles. Its research and policies are informed by regular discussions with company representatives, investors, subject matter experts, regulators and academics, among others.

Based on its experience and expertise, Glass Lewis' analysts are very qualified to help investors develop their voting policies and make proxy voting decisions.

IV.III Investor Responsibilities

QUESTION:

3) To what extent can the use of PAs induce a risk of shifting the investor responsibility and weakening the owner's prerogatives?

Investors have a fiduciary responsibility to conduct themselves in a manner that best serves the interests of their beneficiaries. Availing themselves of qualified advisors to help fulfill this responsibility is prudent and by no means undermines an owner's prerogatives.

V. Key issues: proxy advisors

V.I. Conflicts of interest

Other potential conflicts

V.I.67. As stated earlier, Glass Lewis relies exclusively on publicly-available information in developing its analysis. Client vote decisions are not a consideration in the development of Glass Lewis' analysis. Indeed, the Glass Lewis research database and voting systems are on two separate platforms. The analyst group responsible for developing Glass Lewis reports and providing the data and analysis behind the custom recommendations does not have access to the voting platform on which clients' custom recommendations and vote decisions are published; therefore, analysts providing the data for the implementation of custom policies have no knowledge of the specific custom guidelines of clients. Furthermore, Glass Lewis provides a detailed rationale for every recommendation featured in its reports, sourcing the relevant public disclosure associated with the rationale.

QUESTIONS:

4) To what extent do you consider proxy advisors:

a. To be subject to conflicts of interest in practice?

It is not possible to be conflict-free. Indeed, since conflicts can arise not just in the provision of services but even in the solicitation of them, the cleanest and most effective way to manage conflicts is to avoid them when possible. Where conflicts exist, it is absolutely critical for advisors to proactively and explicitly disclose those conflicts in a manner that is not cumbersome for clients.

b. Have in place appropriate conflict mitigation measures?

Glass Lewis does not offer consulting services to public corporations or directors. Glass Lewis is not in the business of advising public companies on their governance structures or conduct. In certain instances, Glass Lewis may provide its regularly-published research services to investment managers that may be affiliated with publicly-held companies. In such cases, however, Glass Lewis discloses any such relationship on the relevant research report. Moreover, Glass Lewis makes its research reports generally available post-publication.

Glass Lewis takes precautions to ensure its research is objective at all times and under all circumstances. As an indirect wholly-owned subsidiary of Ontario Teachers' Pension Plan Board ("OTPP"), Glass Lewis maintains its independence from OTPP by excluding OTPP from any involvement in the making of Glass Lewis' proxy voting policies and vote recommendations; the proxy voting and related corporate governance policies of Glass Lewis are separate from OTPP. Moreover, OTPP is not involved in the day-to-day management of Glass Lewis. Glass Lewis operates as an independent company separate from OTPP.

As part of Glass Lewis' continued commitment to its customers, Glass Lewis has an independent Research Advisory Council ("Council"). The Council ensures that Glass Lewis' research consistently

meets the quality standards, objectivity and independence criteria set by Glass Lewis' research team leaders. Information on the Council membership is available at:
<http://www.glasslewis.com/about-glass-lewis/research-advisory-council/>

Furthermore, Glass Lewis maintains additional conflict avoidance safeguards to mitigate potential conflicts such as when: (i) an employee of Glass Lewis or any of its subsidiaries, a member of the Council, or a member of Glass Lewis' Strategic Committee serves as an executive or director of public company; (ii) an investment manager customer is a public company or a division of a public company; and (iii) a Glass Lewis customer submits a shareholder proposal or is a dissident shareholder in a proxy contest. For more detailed information on specific procedures, please refer to Glass Lewis' Conflict Avoidance Procedures, which are available upon request.

c. To be sufficiently transparent regarding conflicts of interest they face?

Much of the conflict disclosure prevalent among research providers in the financial services industry is boilerplate, stating that a conflict may exist vs. being specific about what does exist. Glass Lewis believes that best practice for managing conflicts comprises proactive and explicit disclosure of the nature of potential conflicts. As such, Glass Lewis reports feature conflicts notes on the cover, when applicable.

5) If you consider there are conflicts of interest within proxy advisors which have not been appropriately mitigated:

a. Which conflicts of interest are most important?

The most important conflicts arise from advisors consulting public companies regarding the issues on which the advisor will make a recommendation. Glass Lewis was founded with the principle to eliminate, reduce or require disclosure of conflicts to the greatest extent possible. As such, Glass Lewis does not provide consulting services to issuers.

However, since it is commercially impossible to eliminate all conflicts (e.g., providing research to the investment management division of a public company), Glass Lewis believes conflicts require specific, prominent disclosure on each relevant report.

b. Do you consider that conflicts lead to impaired advice?

While conflicts have not impaired Glass Lewis' advice, Glass Lewis is not commenting on whether other advisors' conflicts impair their advice. However, advisors' specific and prominent disclosure of conflicts allows the users of the research to determine if those conflicts affected the analysis and recommendations.

V.II. Voting Policies and Guidelines

Taking into account local market and regulatory conditions

V.II.73. Glass Lewis was founded on the principle that each company should be evaluated based on its own unique facts and circumstances, including performance, size, maturity, governance structure, responsiveness to shareholders and, last but not least, location. Therefore, Glass Lewis has specific policy approaches for each of the 100 countries where Glass Lewis provides research on public companies and Glass Lewis closely monitors and reviews regulatory and market practices in each country. While Glass Lewis applies general principles, including promoting director accountability, fostering close alignment of remuneration and performance, and protecting shareholder rights across all of these policies, Glass Lewis closely tailors policies to the country's national and supranational regulations, codes of practice and governance trends, etc.

Dialogue with investors and issuers

V.II.74. As described more fully above, Glass Lewis often engages in discussions with both clients and companies, as well as other relevant industry participants and observers, in the development and refinement of proxy voting policies. For example, in response to significant feedback from clients and companies alike and after discussions with the Glass Lewis Research Advisory Council, Glass Lewis is launching on 1 July 2012 an enhanced version of its proprietary pay-for-performance model for US companies using peers derived from companies' own peers, a frequent point of contention for companies. Glass Lewis will also display the peers used in the model, an equally frequent request from companies and clients alike. Glass Lewis' policies and approach ultimately reflect these discussions. However, it is often the case that there are different views about the correct approach among stakeholder groups and among members of like-minded stakeholders. (For more information on Glass Lewis' Corporate Engagement Policy, go to: <http://www.glasslewis.com/for-issuers/glass-lewis-corporate-engagement-policy/>.)

QUESTION:

6) To what extent and how do you consider there could be improvement:

- a. For taking into account local market conditions in voting policies?**
- b. On Dialogue between proxy advisors and third parties (issuers and investors) on the development of voting policies and guidelines?**

Glass Lewis continually refines and enhances its approach to proxy voting issues and welcomes the opportunity to dialogue with all relevant parties including issuers to do so. The Glass Lewis policies already reflect local market practices and developments but are revised annually to reflect new and developing regulations, practice codes and trends. Glass Lewis welcomes measures to further ensure its proxy voting policies and approach to analysis are contextual for each country and

company, in order to provide the most comprehensive and useful information to investor clients. As described above, Glass Lewis engages extensively with clients and issuers, among other constituencies, in its refining of policies but also welcomes the opportunity for more constructive discussion.

V.III. Voting Recommendations

Methodology – transparency and the “black box” issue

V.III.76. In early 2012, Glass Lewis launched its new, free Issuer Engagement Portal, designed to enhance communication and understanding among issuers, investors and Glass Lewis.

Through this portal, issuers have access to information on Glass Lewis’ approach to analyzing proxy issues, including director elections, compensation, financial transactions and shareholder proposals on environmental, social and governance matters, among others. Issuers can also use the portal to request a meeting with Glass Lewis, propose a topic for a Proxy Talk conference call (a public forum that enables companies or dissident shareholders to discuss issues in an open dialogue) and to notify Glass Lewis of any updated company disclosure or potential data discrepancies in our analysis.

Dialogue between proxy advisors and issuers in developing proxy voting recommendations

V.III.78. In its opinion on ESMA’s discussion paper regarding the proxy advisory industry, the Securities and Markets Stakeholder Group (“SMSG”) expressed strong views regarding the importance of relying on exclusively on publicly-available information for the purpose of developing its recommendations: “[t]he market abuse regime prohibits the selective disclosure of inside information. Thus, when contacting management of a publicly traded company or any other relevant party, the PA must take all reasonable steps to ensure that it does not receive inside information that may contravene the prohibition.”⁷

Glass Lewis strongly believes that its analysis, research and recommendations should be based on publicly available information. To that end, it encourages companies to clearly and comprehensively disclose information about relevant issues for consideration by shareholders. When Glass Lewis analysts require clarification on a particular issue, they will reach out to companies but otherwise generally refrain from meeting with companies during the solicitation period, which is marked by the date a notice of meeting is released to the meeting date itself. Throughout the year and very frequently during the proxy season, Glass Lewis hosts “Proxy Talk” conference calls to discuss a meeting, proposal or issue in depth. Glass Lewis’ clients and other shareholders are invited to listen to the call and submit questions to the speakers, with representatives from Glass Lewis serving as moderators. Proxy Talks are

⁷ Securities and Markets Stakeholder Group, “ESMA’s Discussion Paper on Proxy Advisors – Opinion of the SMSG,” VII Quality of the Advice, no. 21.

held prior to the publishing of research in order to glean additional information for Glass Lewis' analysis and to provide more information for clients.

Glass Lewis avoids off-the-record discussions with companies during the proxy solicitation period to ensure the independence of its research and advice – something that is highly valued by clients – and to avoid receiving information, including material non-public information, not otherwise available to shareholders. It has been Glass Lewis' experience that issuers generally try to use solicitation-period discussions to lobby for the support of a recommendation or to learn what changes Glass Lewis requires in order to “win” Glass Lewis support for items up for vote. This is not appropriate, given that Glass Lewis is not empowered to negotiate on behalf of clients, who often hold different or even opposing points of views on certain issues. However, Glass Lewis does encourage corporate issuers to contact Glass Lewis, via the Issuer Engagement Portal, if they file additional information in amended proxies or on their websites or if they perceive a factual discrepancy with Glass Lewis' analysis.

V.III.83. European corporate issuers can access Glass Lewis research upon publication via a variety of channels, including their outside counsel or proxy solicitor. More information on how reports can be accessed is available in the Issuer Engagement Portal at www.glasslewis.com.

Standards of skill, independence and experience of proxy advisor staff

V.III.85. Glass Lewis supplements its full-time analyst staff with research associates (RAs), who are responsible for gathering relevant information for Glass Lewis' Proxy Paper reports, set up the framework of reports and provide an initial draft of some reports, depending on the size of the company and the nature of the issues up for vote, based on Glass Lewis' guidelines. Glass Lewis RAs undergo extensive classroom and hands-on training and are subject to close oversight by permanent Glass Lewis analysts. Most of the permanent team has worked at Glass Lewis for more than three years; many have been with Glass Lewis since its founding in 2003. Depending on the size of the company being analyzed, the complexity, nature and uniqueness of the issue, the report will be edited by several additional analysts, up to and including the Chief Policy Officer, the Vice President of Proxy Research and the Managing Director of M&A and Quantitative Analysis. Specialized teams devoted to analyzing remuneration, ESG and mergers and other financial transactions may also review the report, as necessary.

QUESTIONS:

7) To what extent do you consider that there could be improvement, also as regards to transparency, in:

a. The methodology applied by proxy advisors to provide reliable and independent voting recommendations?

Glass Lewis is aware of the desire expressed by some stakeholders, mainly issuers and regulators,

to enhance transparency in the development and implementation of proxy voting policies. Indeed, as part of a continual re-evaluation of the benefits of transparency, Glass Lewis launched its Issuer Engagement Portal in 2012 to provide significantly more information to companies. The portal also provides a means for companies to provide and solicit feedback from Glass Lewis regarding general issues and specific proposals.

b. The dialogue with issuers when drafting voting recommendations?

Glass Lewis designed the Issuer Engagement Portal to facilitate communication with companies, including arranging calls, meetings and Proxy Talk conference calls. The portal also provides a means for companies to comment and provide feedback on reports and to notify Glass Lewis of subsequent proxy circulars and press releases, as well as perceived errors or omissions in Glass Lewis reports.

c. The standards of skill and experience among the proxy advisor staff?

The biographies of Glass Lewis' management and senior executives are available via the Glass Lewis public website. Information about the staff is available to clients, who regularly assess the qualifications of Glass Lewis' analysts as part of their due diligence.

VI. Considerations and Policy Options

QUESTION:

8) Which policy option do you support, if any?

Glass Lewis believes that no action should be taken at the EU-level at this stage, nor should EU-level member states develop separate standards. However, Glass Lewis believes the industry can and should develop a set of global standards, based on input from various stakeholders that would apply to proxy advisory practices in all markets to the benefit of all global investors.

The reasons for this view include:

- *Investors are fiduciaries that already hold advisors accountable. The market does work.*

Institutional investors have a fiduciary responsibility to vote proxies in a manner that is in the best interests of their beneficiaries. It has been Glass Lewis' experience, as a provider of governance services to nearly 1,000 investors across the globe, that investors take very seriously this responsibility. Institutional investors hold PAs accountable for providing objective, high-quality research services that are developed and delivered in accordance with client instructions. In

addition, PAs must meet the requirements set forth by their clients for managing and disclosing conflicts of interest.

If an advisor fails to meet the standards and requirements set forth by the client, that client has the option to select another provider.

- *Proxy advice is one component of a large voting chain, which includes issuers, ballot distributors, custodians, sub-custodians and registrars, among other participants. Research development by PAs is dependent on the activities of several members of this chain. It would be inappropriate and potentially harmful to investors if the EU or EU member states were to mandate quasi-binding or binding instruments without mandating related instruments for other participants in the chain.*

For example, vote deadlines set by custodians and sub-custodians are a business decision and vary from market to market, as well as within a given market for the same meeting. It is too often the case that vote deadlines are set very close to the company's disclosure deadline. When that happens, investors and their advisors are highly constrained, especially given that most general meetings around the world are concentrated within a three-month time period. In some cases both advisors and investors have opted to abstain from voting when there is not enough time to formulate an informed decision. Other investors have opted to vote against all proposals to express their dissatisfaction with the quality and timeliness of disclosure.

- *A proliferation of differing regulatory instruments or industry-developed standards by EU member states would be potentially burdensome for both investors and PAs, impacting shareholder rights and creating barriers to entry into the proxy advisory industry.*

Glass Lewis welcomes the opportunity to work with the rest of the proxy advisory industry in developing a set of standards that could apply globally governing policy and research development; conflict management and disclosure and transparency.

Respectfully submitted,

/s/

Katherine H. Rabin
Chief Executive Officer

/s/

Robert McCormick
Chief Policy Officer