



GLASS LEWIS DUE DILIGENCE

A RESOURCE FOR INVESTMENT ADVISERS ON GLASS LEWIS POLICIES AND PROCEDURES

OCTOBER 2019

At a Glance

On August 21, 2019, the Securities and Exchange Commission (SEC) issued a release with guidance for investment advisers¹ regarding their proxy voting responsibilities, including their use of proxy advisory firms to assist them in exercising these responsibilities.² The SEC release does not change the law or create any new SEC rules. Rather, it gives additional guidance to investment advisers on how to fulfill their existing responsibilities under SEC rules to adopt and implement policies reasonably designed to ensure that the adviser votes proxies in the best interest of its clients.³ Building on the SEC staff's 2014 guidance to investment advisers on using proxy advisory firms,⁴ the release gives examples of how an investment adviser can fulfill this responsibility when it retains a proxy advisor. The release encourages investment advisers to review their proxy voting processes and practices in light of the new guidance and in advance of next year's proxy season. This document is a resource on relevant Glass Lewis policies and procedures for investment advisers conducting such a review.⁵

Glass Lewis has always differentiated itself by its commitment to conflict avoidance, transparency, and best practice. Since the SEC's Concept Release in 2010, Glass Lewis' executive and legal teams have engaged directly with the SEC—as well as U.S. legislators—to ensure Glass Lewis is at the forefront of any potential changes to the proxy advisory industry.

As a result, Glass Lewis' existing policies and procedures are robust and comprehensively address the topics covered in the SEC guidance. The following summary helps map those policies and procedures to the SEC guidance. Relevant Glass Lewis policies and procedures are more fully explained in material publicly available on the Glass Lewis website, including:

- [Glass Lewis Policies and Procedures for Managing and Disclosing Conflicts of Interest;](#)
- [Glass Lewis Statement of Compliance with the Best Practice Principles for Providers of Shareholder Voting Research & Analysis;](#)
- [Glass Lewis Engagement Procedures;](#)
- [Glass Lewis Issuer Data Report;](#)
- [Glass Lewis Report Feedback Statement;](#)
- [Glass Lewis Proxy Paper Guidelines;](#) and
- [Understanding Glass Lewis' Approach to Say-on-Pay Analysis.](#)

Glass Lewis continually seeks to improve its operations and regularly reviews its policies and procedures and updates them as necessary to maintain best practices. In addition, Glass Lewis is undertaking a review of its relevant policies and procedures in light of the SEC guidance and may make additional enhancements in advance of the next proxy season. Glass Lewis remains

¹ We have retained the spelling of “investment adviser” as used by the SEC.

² Securities and Exchange Commission, Release Nos. IA-5325, IC-33605 (August 21, 2019) (“Advisers Act Release”), available at <https://www.sec.gov/rules/interp/2019/ia-5325.pdf>.

³ Rule 206(4)-6 under the Investment Advisers Act, 17 C.F.R. 275.206(4)-6.

⁴ SEC Staff Legal Bulletin No. 20, Proxy Voting: Proxy Voting Responsibilities of Investment Advisers and Availability of Exemptions from the Proxy Rules for Proxy Advisory Firms (June 30, 2014), available at <https://www.sec.gov/interp/legal/cfslb20.htm>.

⁵ This document is not intended as, and should not be relied upon, as legal advice. Investment advisers should consult legal counsel on any questions about their particular legal responsibilities.

committed to transparency and supporting its clients in their efforts to comply with their proxy voting responsibilities. Glass Lewis personnel are available to meet with investment advisers' compliance staff, as part of their due diligence, and to walk them through Glass Lewis' policies and procedures and answer any additional questions.

Mapping the SEC Guidance to Glass Lewis Policies and Procedures: A Deeper Dive

The section below annotates the SEC guidance with summaries of the relevant Glass Lewis policies and procedures. Complete text of the guidance can be found in the SEC's release⁶ and complete text of the relevant Glass Lewis policies and procedures can be found in the referenced source documents, all of which are available on the Glass Lewis website.⁷

- **Whether the proxy advisory firm has the capacity and competency to adequately analyze proxy voting matters, taking into account the firm's staffing, personnel, and technology (Advisers Act Release, Q&A 3, p. 17).**

Glass Lewis employs a global team of over 380 professionals with relevant and diverse experience and education. All Glass Lewis analysts have at least a bachelor's degree in a relevant field while many Glass Lewis executives, senior managers and senior analysts have advanced degrees and/or professional experience in relevant disciplines such as law, business, public policy, finance and accounting. The research group includes professionals who collectively speak over 25 languages. Glass Lewis' global perspective is further informed by the unique talents and experience of Glass Lewis' Research Advisory Council. Glass Lewis' research and analysis leverages state of the art technology to promote the efficiency, thoroughness and auditability of its analysis, review and feedback processes. Most importantly, for over a decade, Glass Lewis has guaranteed global coverage of all equity-based securities within its vote agency clients' portfolios, without compromising its commitment to deliver accurate and timely research.

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#), [Glass Lewis Leadership](#).

- **Whether the proxy advisory firm has an effective process for seeking timely input from issuers and proxy advisory firm clients with respect to its proxy voting policies, methodologies, and peer group constructions (Advisers Act Release, Q&A 3, p. 17).**

Glass Lewis' primary business is to provide proxy voting research and analysis to its clients. Accordingly, Glass Lewis continually seeks to understand its clients' perspectives and uses that knowledge, along with input from other market participants, as it refines its proxy voting policies, including related methodologies and peer group constructions. Specifically, Glass Lewis' policy guidelines are revised and enhanced at least annually through a bottoms-up approach that involves extensive discussions with a wide range of

⁶ Securities and Exchange Commission, Release Nos. IA-5325, IC-33605 (August 21, 2019) ("Advisers Act Release"), available at <https://www.sec.gov/rules/interp/2019/ia-5325.pdf>.

⁷ While outside the scope of this guide, Glass Lewis resources may be also useful to investment adviser clients seeking to comply with other aspects of the SEC guidance. For example, clients can use the Viewpoint voting platform to sample "pre-populated" votes to ensure consistency with their voting policies and their clients' best interests. Clients interested in learning more about the functionality of the Viewpoint platform for this due diligence should contact their Glass Lewis client services manager.

market participants, including investor clients. This includes hundreds of direct meetings with investors and investor groups every year, as well as participation in dozens of investor-focused events globally including those hosted by Glass Lewis such as the Mutual Fund Round Table (U.S.), Governance and Remuneration Forum (Australia), breakfast briefings (U.K., Netherlands), and a variety of seminars throughout Europe and the Asia-Pacific region (e.g. Germany, Spain, Japan). In addition, Glass Lewis opens its policies up to the market for comment on a year-round basis, receiving and responding to feedback continuously via its public website.

Glass Lewis also seeks input on its voting policies from the issuer community. Individual issuers and issuer trade organizations are among the groups that Glass Lewis meets with as part of its annual policy guideline review process. In addition, issuers can request an engagement meeting with Glass Lewis during the year (other than during a solicitation period) to discuss their specific company or Glass Lewis' policies. Issuers can also provide feedback on Glass Lewis' policies through the Glass Lewis public website. Currently, Glass Lewis' global research team interacts directly with more than 4,000 issuers every year. In addition, the Glass Lewis research team collaborates with a variety of issuer organizations, and either attends or presents at dozens of conferences and events annually. Finally, as a result of a partnership expansion in 2019, issuers and others will now have access to Glass Lewis' proprietary pay evaluation methodology, models, analytics, and underlying data via CGLytics.

Additional resources: [Glass Lewis Statement of Compliance with the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis Proxy Paper Guidelines](#); [Understanding Glass Lewis' Approach to Say-on-Pay Analysis](#); [Glass Lewis Issuer Portal](#).

- **Whether a proxy advisory firm has adequately disclosed to the investment adviser its methodologies in formulating voting recommendations (Advisers Act Release, Q&A 3, p. 18).**

Glass Lewis' voting guidelines are publicly available on its website, and investment advisers are encouraged to participate in Glass Lewis' annual guideline review and development process. Glass Lewis' research reports also contain additional discussion of the Glass Lewis policies and unique circumstances at the issuer that lead to each recommendation. Moreover, as noted above, investment advisers will now have access to Glass Lewis' proprietary pay methodology and underlying inputs via CGLytics.

Additional resources: [Glass Lewis Proxy Paper Guidelines](#); [Understanding Glass Lewis' Approach to Say-on-Pay Analysis](#).

- **Consider the nature of any third-party information sources that the proxy advisory firm uses as a basis for its voting recommendations (Advisers Act Release, Q&A 3, p. 18).**

For clarification purposes, the vast majority of information used by Glass Lewis in its analysis comes directly from each issuer’s public filings and press releases. In the case of a shareholder proposal or proxy contest, Glass Lewis sources information directly from filings made available by the shareholder proponent or dissident. Glass Lewis uses an automated process to ingest 8-K and DEF14A filings from the public SEC API.

In order to enhance its research, Glass Lewis has partnered with certain third-party providers of data who directly deliver to Glass Lewis public information in various categories. For example, Glass Lewis sources executive compensation and peer group data from CGLytics and ESG data from Sustainalytics. In addition, Glass Lewis obtains company performance data from Capital IQ.

Glass Lewis discloses the name of each such material third-party provider either within its voting guidelines, methodology descriptions or, if applicable, within the relevant sections of each research report.

Additional resources: [Glass Lewis Proxy Paper Guidelines](#); [Understanding Glass Lewis’ Approach to Say-on-Pay Analysis](#).

- **Consider what steps it should take to develop a reasonable understanding of when and how the proxy advisory firm would expect to engage with issuers and third parties (Advisers Act Release, Q&A 3, p. 18).**

Glass Lewis engages with issuers and other non-client third parties in a number of ways. For example, in recent years, Glass Lewis has implemented processes and procedures that enable public companies to understand Glass Lewis’ policies and methodologies and provide input to Glass Lewis, including:

- *In 2015, Glass Lewis introduced the Issuer Data Report (IDR) service to allow companies to obtain a free, data-only version of the report for their review and comment prior to Glass Lewis completing and publishing the final version of its analysis to investor clients. More than 1,000 companies currently participate in the IDR process every year;*
- *Glass Lewis has an open-door policy for engaging with companies – for free – outside of the solicitation period. In 2018, Glass Lewis conducted direct engagements with over 1,500 companies; and*
- *In 2019, Glass Lewis launched the Report Feedback Statement (RFS) service to allow public companies and shareholder proposal proponents – the subjects of Glass Lewis’ research – to submit feedback about the analysis of their proposals, and have comments delivered directly to Glass Lewis’ investor clients.*

Many issuer engagement meetings focus on Glass Lewis’ research policies and methodologies and participants’ views on governance practices. In addition to issuers, Glass Lewis engages with a broad group of relevant stakeholders, such as governance,

investor and issuer industry associations, as part of its policy development and review process.

Additional resources: [Glass Lewis Issuer Portal](#); [Glass Lewis Engagement Policy](#), [Glass Lewis Issuer Data Report](#), [Glass Lewis Report Feedback Statement](#).

- **Consider the proxy advisory firm’s policies and procedures regarding how it identifies and addresses conflicts of interest, including whether there is adequate disclosure of such conflicts and whether the proxy advisor’s policies and procedures utilize technology in delivering conflicts disclosures that are readily accessible (Advisers Act Release, Q&A 3, pp. 18-20).**

Glass Lewis was founded on the principle of avoiding conflicts to the maximum extent possible. Most notably, Glass Lewis has never provided consulting services to issuers nor advised shareholders on how to gain support for initiatives, such as shareholder proposals or proxy contests. These specific types of conflicts have always been a serious concern for regulators and legislators in the U.S. and abroad, and Glass Lewis’ success is a direct result of the investor community’s support for a business model that avoids such business practices.

Where potential conflicts of interest cannot be avoided, Glass Lewis provides specific and prominent disclosure describing the nature of such conflict on the cover of the relevant Glass Lewis research report. This allows clients to review potential conflicts at the same time as they review Glass Lewis’ research, analysis and voting recommendations. In addition, Glass Lewis is able to provide summaries of reported conflicts to clients who wish to monitor more closely potential conflicts specific to their holdings or certain types of activities.

More generally, Glass Lewis maintains strict policies, which are reviewed and revised annually, governing personal, business and organizational relationships that may present a conflict in independently evaluating companies. Glass Lewis’ Conflict of Interest Statement, together with the Policies and Procedures for Managing and Disclosing Conflicts of Interest, describe in detail how Glass Lewis avoids, manages and discloses potential conflicts of interest, such as those arising from the ownership of Glass Lewis, from having investment manager affiliates of public companies and shareholder proponents as clients, as well as other individual and firm conflicts.

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis’ Conflict of Interest Statement](#); [Glass Lewis Policies and Procedures for Managing and Disclosing Conflicts of Interest](#).

- **Consider the effectiveness of the proxy advisory firm’s policies and procedures for obtaining current and accurate information relevant to matters included in its research and on which it makes voting recommendations (Advisers Act Release, Q&A 4, p. 21).**

Glass Lewis employs robust policies, procedures and systems to meet the high standards for accuracy, quality and timeliness required by investor clients. These include, but are not limited to, the following:

Data and Information

- *Glass Lewis uses publicly-available information for its analysis, and actively monitors information sources, such as exchange websites, for supplemental or updated information*
- *Data sourced by Glass Lewis' partner, third-party providers is validated for accuracy when used by Glass Lewis in the formulation of its analysis and recommendations*
- *Critical data vendor relationships are reviewed annually for timeliness and quality standards*
- *All issuers have access to the Issuer Data Report, a free data-only version of the research report*

Policies, Methodologies and Systems

- *Glass Lewis develops and regularly maintains its policy guidelines and methodologies in conjunction with input from investors, issuers and other industry professionals*
- *Guidelines and methodologies provide a consistent framework for analyzing all companies while also allowing for unique circumstances at each individual company*
- *Systems contain an array of workflow, audit, reporting and automation functionality, and are regularly updated to further expand on those capabilities*
- *Research reports require multiple levels of review prior to publication with the number of reviews increasing with market cap and report complexity*

Research and Service Organization

- *Research and service organizations are structured into geographic and subject matter teams to ensure the highest levels of regional and technical expertise among team members*
- *Research and service organization employees are provided with rigorous training and oversight of job responsibilities, such as publication of research reports; responsibilities are expanded as warranted by each employee's experience level*

Monitoring, Auditing and Reporting

- *Research team members regularly monitor lead times, additional company filings, issuer inquiries and research report republications*
- *Service team members regularly monitor voting deadlines, unvoted meetings, investor inquiries and research report republications, and perform regular auditing of investor recommendations*
- *Glass Lewis maintains an Issuer Portal where companies can access detailed policies and methodologies as well as request engagement meetings, provide*

additional information and submit inquiries regarding potential errors and omission in research reports

- *Research team members regularly monitor Issuer Portal submissions and address possible errors and omissions in a timely fashion*
- *Glass Lewis performs an annual SSAE 18 audit with external auditors, and reports annually on compliance with the Best Practice Principles for Providers of Shareholder Voting Research & Analysis*
- *Clients are provided with timeliness, accuracy and compliance reporting as part of regular services reviews*

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis Issuer Portal](#); [Annual SSAE-18 SOC 1 Report \(available to clients upon request\)](#).

- **Consider the proxy advisory firm’s engagement with issuers, including the firm’s process for ensuring that it has complete and accurate information about the issuer and each particular matter, and the firm’s process, if any, for investment advisers to access the issuer’s views about the firm’s voting recommendations in a timely and efficient manner (Advisers Act Release, Q&A 4, pp. 21-22).**

Glass Lewis’ policies and procedures for engaging with issuers, including with respect to ensuring completeness and accuracy of information, are discussed above. As it relates to providing a forum for investment advisers to access issuer views, Glass Lewis introduced the Report Feedback Statement (RFS) service in 2019 which provides a unique opportunity for the subjects of Glass Lewis’ research – public companies and shareholder proposal proponents – to submit feedback about the analysis of their proposals, and have their comments delivered directly to Glass Lewis’ investor clients via Glass Lewis’ research and voting platforms. Glass Lewis clients can also receive alerts to ensure they are proactively notified when an RFS has been published.

Additional resources: [Glass Lewis Issuer Portal](#); [Glass Lewis Frequently Asked Questions on the Report Feedback Statement](#).

- **The proxy advisory firm’s efforts to correct any identified material deficiencies in the proxy advisory firm’s analysis (Advisers Act Release, Q&A 4, p. 22);**

Companies and proponents wishing to bring purported errors or omissions, as well as subsequent or amended filings, to Glass Lewis’ attention are able to do so via the Glass Lewis Issuer Portal. All inquiries are recorded and tracked, ensuring a timely and appropriate response for the submitting party.

If a research report is updated and republished, Glass Lewis notifies all clients that have accessed the report or have corresponding ballots for that meeting, whether or not the update affected any recommendations. Additionally, the exact nature of the research

report's updates and revisions are clearly described in the republished report. Glass Lewis tracks all republished research reports and makes information about republishing rates available to clients upon request.

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis Issuer Portal](#).

- **The proxy advisory firm's disclosure to the investment adviser regarding the sources of information and methodologies used in formulating voting recommendations or executing voting instructions (Advisers Act Release, Q&A 4, p. 22);**

As noted above, Glass Lewis discloses its policy guidelines on its public website, references the related policies and analyst rationale within the research reports themselves, and, if applicable, discloses within the relevant sections of its research reports data that has been sourced by its partner, third-party providers.

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis Proxy Paper Guidelines](#); [Understanding Glass Lewis' Approach to Say-on-Pay Analysis](#).

- **The proxy advisory firm's consideration of factors unique to a specific issuer or proposal when evaluating a matter subject to a shareholder vote (Advisers Act Release, Q&A 4, p. 22).**

While Glass Lewis' policy approaches are intended to provide a consistent framework for analyzing corporate governance issues at each company in each market, they are designed to be applied by Glass Lewis' research experts on a case-by-case basis and truly consider the unique circumstances at every company in order to issue a recommendation that serves the best interests of shareholders. For example, while Glass Lewis has proprietary models for evaluating the link between compensation and performance and for assessing stock-based compensation plans, analysts also review these types of issues on a qualitative basis, taking into consideration the specific facts and circumstances of each company.

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis Proxy Paper Guidelines](#); [Understanding Glass Lewis' Approach to Say-on-Pay Analysis](#).

- **Consider evaluating the services of the proxy adviser on an ongoing basis, including –**
 - **policies and procedures to identify and evaluate a proxy advisory firm's conflicts of interest that can arise on an ongoing basis;**
 - **considering requiring the proxy advisory firm to update the investment adviser regarding business changes that may affect the proxy advisory firm's capacity and**

competency to provide independent proxy voting advice or carry out voting instructions; and

- **considering whether the proxy advisory firm appropriately updates its methodologies, guidelines, and voting recommendations on an ongoing basis, including in response to feedback from issuers and their shareholders (Advisers Act Release, Q&A 5, pp. 22-23).**

Glass Lewis reviews and updates its Conflict of Interest Statement, as well as its Policies and Procedures for Managing and Disclosing Conflicts of Interest, on an annual basis, making them available to both clients and the public on its website. Glass Lewis also proactively notifies clients of material business changes that could relate to its capacity and competency to provide proxy research and voting services. More generally, Glass Lewis personnel are available to answer questions and facilitate investment adviser due diligence activities on an ongoing basis.

Finally, as discussed more fully above, Glass Lewis' process for evaluating and updating its voting policies includes a formal, annual process of extensive engagement with investor clients and organizations, issuers, academics and subject matter experts, among others, with continual refinements and updates as necessary throughout the year.

Additional resources: [Glass Lewis Statement of Compliance to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis](#); [Glass Lewis' Conflict of Interest Statement](#); [Glass Lewis Policies and Procedures for Managing and Disclosing Conflicts of Interest](#); [Glass Lewis 2019 Proxy Paper Guidelines Portal](#).

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