LongView Funds
Corporate governance and proxy voting report
Executive summary

January 1, 2016 to June 30, 2016

Since their founding nearly 25 years ago, the LongView Funds (the “Funds”) have taken an activist approach to investing by engaging portfolio companies in an effort to promote rigorous environmental, social, and corporate governance standards as a means of assuring long-term gains for investors. We believe that this shareholder activism can yield positive investment returns and can protect our investors from the downside risks of bad governance practices.

This annual report provides an overview of the shareholder activities of the LongView Funds for the period January 1, 2016 to June 30, 2016.

Engaging companies to promote sustainable long-term value creation.

Shareholder engagements and resolutions

The LongView Funds remained on the cutting edge of corporate governance activism with several pioneering initiatives and breakthroughs in the first half of 2016.

Promoting board accountability

The Funds continued their pioneering work in promoting diversity on corporate boards of directors by targeting shareholder resolutions at companies (primarily in the S&P 500 index) that have no women or no minorities on their boards. This initiative was launched in response to research that confirmed a strong business case for board diversity. For example, a 2012 report from Credit Suisse linked board diversity to better stock market and financial performance, including 26% higher share performance over a six-year period, higher return on equity, lower leverage, higher price/book ratios and improved growth prospects. Their research suggests several explanations for this better performance including, among other factors, a stronger mix of leadership skills, improved understanding of consumer preferences, a larger pool from which to pick top talent, and more attention to risk.

Following the submission of these proposals, four of the five targeted firms either added one or more female directors or agreed to take steps to increase board diversity in the coming year. These companies included Qorvo, Linear Technologies, Stifel Financial and XPO Logistics. The Funds withdrew their proposals in response to these developments. The only company that refused to take action was Joy Global, and when the matter was voted, the Funds’ proposal received a majority of the yes/no vote.

Our other major initiative in this area included successful efforts to persuade companies to adopt a “proxy access” bylaw, under which long-term investors who hold at least three percent of a company’s stock will be able to nominate candidates for the board of directors and have shareholders vote on these candidates — along with the management nominees — on the company's proxy card. Proxy access is viewed by many institutional investors as an effective way to add one or two new directors who can offer an outside perspective and do so without the need for a full-blown proxy contest. The LongView Funds have been a leader in this area, for example, by negotiating the first proxy access bylaw with an S&P 500 company (Hewlett Packard) several years ago.

In the first half of 2016, we submitted and withdrew proxy access proposals at four S&P 500 companies that agreed to adopt such a bylaw. Those companies were Coach, Mosaic, Newmont Mining and Teradata. The only company to take the matter to a vote — and to urge a "no" vote — was Johnson Controls, yet 70% of the voting shareholders voted against management and urged adoption of a proxy access option.

The growing acceptance of board diversity and proxy access among LargeCap companies mirrors growing shareholder support for earlier governance initiatives in which the LongView funds played a pioneering role, notably, holding annual elections for all corporate directors, rather than staggering elections so that only one-third of directors are chosen each year, as well as electing directors in uncontested elections using a "majority vote" standard for electing corporate directors, rather than a system where "no" votes do not exist. We are now looking to spread these reforms into MidCap and SmallCap companies.

Promoting pay for performance

At a time when there is considerable public concern about excessive compensation for high-ranking executives, the LongView Funds have worked to make the notion of "pay for performance" a reality. Our efforts in the first half of 2016 focused on three areas.

First, we continued to focus on the "accelerated vesting" of unearned equity in change of control situations, in order to prevent windfalls to departing executives. The concern is as follows: In the ordinary course of things, senior executives are paid a combination of salary, an annual performance bonus and long-term equity awards (i.e., options or restricted stock), which usually vest over a three-year period. If a change in control occurs, departing executives usually receive a severance based on their salary and annual bonus; if any long-term equity has not vested, companies usually waive or "accelerate" the normal vesting schedule, thus allowing a departing executive to walk away with unearned equity that is often worth millions of dollars — and was supposed to be earned only if certain performance goals had been met.

Several years ago the LongView Funds launched the first proposal seeking to eliminate or reduce such accelerated vesting of unearned equity. We focused our initial efforts on the oil and gas sector, where a number of companies were willing to pare back these types of equity awards. In 2016, as in the two prior years, we focused on the fast-food restaurant sector and withdrew proposals after a dialogue with the following companies — Jack-in-the-Box, Cheesecake Factory and Dunkin' Brands — when the companies indicated that they were making changes to their policy or would improve disclosure of their practices. Only one company (Sonic) was unwilling to make any changes, and our proposal received a 30% "yes" vote, in line with the level of support at other companies.

Second, we focused on the current popularity of company repurchases of their own stock. Stock "buybacks" have become common in recent years, and the practice raises questions for long-term investors: How does this practice affect long-term shareholder value and growth? Does it make sense to be returning money to shareholders through repurchases rather than making investments for the future? And if companies are making buybacks, that practice will reduce the number of outstanding shares, which can artificially increase a company's "earnings per share." We asked: Do companies factor out the effect of buybacks when setting performance goals that must be met if executives are to receive long-term equity awards?

We are working with other investors on ways to address this issue on a comprehensive basis, but for 2016, we focused on the executive compensation aspect of this issue by asking companies that actually use or may use "earnings per share" as a metric for equity awards to exclude the impact of buybacks on performance goals. We withdrew proposals at United Technologies and Procter & Gamble after those companies indicated that they did not let buybacks influence the board's decisions about setting performance goals, and they agreed to make suitable disclosures in their proxy statements. A third proposal to Wal-Mart was also withdrawn after the company agreed to make similar disclosure in its proxy.

Third, we asked T-Mobile to adopt a policy to recoup or "claw back" compensation from executives when situations occur that can cause reputational or other damage to a company. The LongView Funds filed the first such clawback proposal in 2004, and the Dodd-Frank Act now requires companies to adopt strict clawback policies in situations where executives profit from financial results that become the subject of a financial restatement. Our proposal to T-Mobile, following up on a similar proposal last year at Wal-Mart, seeks to take the clawback concept to the next level, i.e., to situations where a company is enmeshed in a scandal that has an adverse effect on investors or where the company finds itself paying out significant sums to regulators to settle claims of illegal behavior. Our proposal simply asks: When such situations occur, are there any consequences for executives who oversaw and participated in the activities that have damaged the company? If so, what are those consequences? At T-Mobile, we did not expect a large "yes" vote, given that T-Mobile's corporate parent owns 65% of the outstanding shares; however, our proposal was supported by approximately 25% of the non-insider shares.

Finally, and apart from submitting shareholder proposals, we are working with an investor coalition that engages in dialogue with companies that receive a low or negative say-on pay vote from their shareholders the prior year. In 2016 we were able to engage with Monster Worldwide, which in 2015 had only a 33% level of support for its executive pay practices — one of the lowest votes in the S&P 500. When, after our dialogue, the company agreed to make significant changes in its pay practices, we opted not to file any proposals.

LongView also worked with an international group of investors through the United Nations Principles of Responsible Investment, to which the LongView Funds are a founding signatory, to develop guidelines for investors and companies to incorporate environmental, social, and governance considerations into incentive pay and to promote sustainable, long-term performance for investors. The final report, *Integrating ESG Issues into Executive Pay*, was published by the UN PRI in June 2012.

Human capital management

How do corporate managements and investors view a company's human capital? As a liability on the company's books? As a cost center where costs should be tightly controlled? Or as an asset in which the company should invest to improve its competitive position and produce an improved return for shareholders?

There is a growing body of evidence, thus far focused in the retail sector, indicating that a correlation exists between employee and customer satisfaction, on the one hand, and shareholder return, on the other. We are working with a coalition of institutional investors to identify data and metrics that, if published and made available on a uniform basis, would allow investors to undertake comparisons of companies in the same sector.

Securities litigation

In 2016, Amalgamated Bank continued its participation in shareholder litigation to advance important corporate governance initiatives and achieve corporate governance reform. In the first half of 2016, there were developments in three cases that began last year, and two new cases were filed.

Pending litigation

The most significant development in litigation that began before the start of the year was in the *Lumber Liquidators* matter. In March of 2015, Amalgamated Bank, as Trustee for the LongView SmallCap 600 Index Fund, brought a shareholders derivative suit on behalf of

Nominal Defendant Lumber Liquidators Holdings, Inc. against certain company officers and directors in federal court in Norfolk, Virginia, in connection with claims that the actions of those officers and directors had damaged corporate and shareholder interests by authorizing and implementing a pattern of misconduct on the part of Lumber Liquidators in the purchase of inventory and sale of wood, which actions violated many California and federal environmental laws, among other claims. A number of other parties brought similar lawsuits and in May of 2015, those actions were consolidated and Amalgamated Bank was named lead plaintiff in the litigation. In May of 2016, following extensive negotiations, Amalgamated and Lumber Liquidators agreed to terms of a settlement under which Lumber Liquidators agreed to a number of corporate reforms involving, *inter alia*, the composition and practices of the Board of Directors, compensation, ensuring company compliance with laws and regulations, including environmental laws and regulations, and protections for whistleblowers. At the time of this writing, papers have been filed to obtain court approval of the settlement.

Also in 2015, Amalgamated Bank, as Trustee for the LongView LargeCap500 Index Fund and the LongView LargeCap 500 Index VEBA Fund, made a demand to inspect books and records on Walmart to investigate whether Walmart had taken reasonable steps to ensure the safety of workers in factories that supply goods to Walmart for sale in the United States. Walmart initially refused to provide any documents or records pursuant to the demand and Amalgamated commenced litigation to compel production in November of 2015. In May of 2016, Amalgamated and Walmart resolved all issues involving the demand for books and records with Walmart agreeing to produce most of the books and records requested, and documents responsive to our demand as outlined in the settlement have been turned over by Walmart. Those documents are currently being reviewed to see whether grounds exist to initiate litigation in connection with Walmart's practices under investigation.

Also in 2015, Amalgamated Bank, as Trustee for the LongView LargeCap500 Index Fund and the LongView LargeCap 500 Index VEBA Fund, commenced litigation to compel production of books and records by Yahoo!, Inc., following a formal demand to inspect books and records, made in February 2014. The demand for records was made to investigate what appears to be excessive compensation paid to a former Chief Operating Officer at Yahoo. In February 2016, the Chancery Court of Delaware granted Amalgamated most of the relief it sought in connection with the litigation. However, around the time of the lower court ruling and shortly thereafter, a number of things occurred that led us to change direction in the case. Specifically, following the ruling, Yahoo filed an appeal of that lower court ruling and obtained a stay of the lower court's order to produce documents. In addition, a number of directors who were on the Yahoo board at the time of the hiring and termination of the COO resigned and were replaced with new directors. Also, Yahoo began to explore in serious fashion a sale of the company. In response to those actions, in June of 2016, Amalgamated withdrew its litigation to compel books and records and made a demand on the current Board of Directors to investigate and take action in connection with the actions surrounding the compensation of the former COO. We have not yet had a response from Yahoo. Also, at the time of this writing, Yahoo has announced that it will be acquired by Verizon. We await further details to see how that impacts our course of action in this matter.

New litigation

In March 2016, Amalgamated Bank, as Trustee for the LongView International Equity Fund, joined with a number of other parties to file suit in court in Germany against Volkswagon AG in connection with widely-reported actions taken by Volkswagon to evade emissions and other tests for their automobiles. In June, a second complaint with new claims was also filed on behalf of Amalgamated. Volkswagon has yet to respond to either complaint. Ours is one of a number of lawsuits filed against Volkswagon in connection with those faulty emissions tests. Under German legal procedure, a German court will designate one of the actions filed as a "model case" and allow that case to determine legal issues, including liability, common to all claims. Following resolution of the model case, the other parties that have filed litigation will have an opportunity to litigate damage claims if Volkswagon is found liable in the model case.

In May 2016, Amalgamated Bank, as Trustee for a number of funds that hold stock in Facebook, Inc., filed suit against Facebook and a number of its directors to stop a planned reclassification and recapitalization of Facebook shares by which a new class of non-voting shares would be created and distributed to existing shareholders. As expressed in the Complaint, Amalgamated, as well as other existing shareholders, view the recapitalization plan as a means of increasing minority shareholder control of Facebook at the expense of a majority of shareholders and significantly diluting the value of existing shares. Also in May, Amalgamated consolidated its case with that of another plaintiff, Sjunde Ap-Fonden, and together the two companies were named co-lead plaintiffs in the litigation. Both sides have agreed to expedite the matter in anticipation of a trial in early 2017, and as of the time of this writing, discovery in the litigation is proceeding.

Proxy voting

Amalgamated Bank's LongView Funds vote each and every proxy according to comprehensive proxy voting guidelines. Upon careful consideration of which vote would be in the best interests of shareholders and in adherence to the guidelines as laid out in LongView's proxy voting guidelines, all LongView shares were cast in support of each item highlighted by the AFL-CIO's Key Votes Survey for the 2016 proxy season.

The following chart highlights several statistics of how LongView Funds voted on major proxy items appearing on proxies in the first half of 2016

Longview Funds' votes on select proxy items, January to June 2016

	For	Against	Abstain
Board of directors issues			
Election of individual directors	74%	26%	0%
Declassify board of directors	95%	0%	5%
Adopt majority voting standard to elect directors	96%	0%	4%
Adopt "proxy access" bylaw for electing directors	98%	2%	0%
Promote board diversity proposals	100%	0%	0%
Executive compensation issues			
Approve "say on pay" executive compensation report	50%	49%	1%
Approve omnibus stock plan proposal	98%	0%	2%
Other issues			
Disclose political contributions and lobbying expenditures	100%	0%	0%
Improve human rights reporting, risk assessment	90%	10%	0%
Proposals on climate change, GHG emissions, fracking	90%	10%	0%
Promote renewable energy	100%	0%	0%

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