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BUSINESS

# Corporate Governance Principles and Proxy Voting Guidelines

2019

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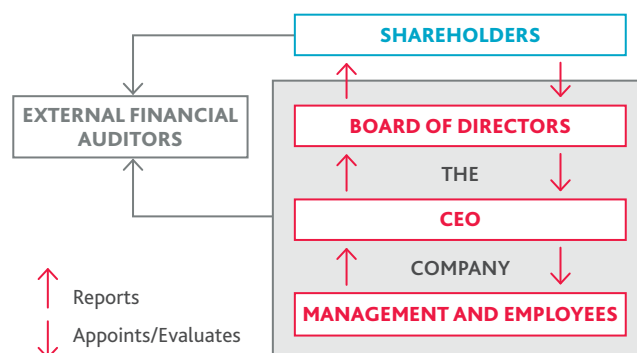
# 2019 Corporate Governance Principles

## CORPORATE GOVERNANCE DEFINED

Ontario Teachers' Pension Plan (Ontario Teachers') believes that good governance is good business. Companies implementing good governance practices are better positioned to make high-quality decisions that benefit the corporation and ultimately its shareholders.

### The Corporate Governance System

Corporate governance is the system of structures a company puts in place to ensure it is effectively directed and controlled. There are three parties in a corporate governance system – the board of directors, management, and shareholders. An effective corporate governance system relies on the clear delineation of roles – shareholders elect directors, directors supervise management, and management executes its strategy. Governance issues can arise when one or more groups fail to adequately perform its role or when responsibilities of one or more groups deviate or infringe on the duties of another.



### The role of the board

The board of directors has responsibility for the overall governance of the company which includes approving the company's strategic plan, monitoring its implementation, and generally supervising management. Depending on the jurisdiction, directors have a duty to act in the best interests of the shareholders and/or the corporation (although by extension, if directors are acting in the best interests of the corporation there is typically an alignment with shareholders).

The supervisory relationship that exists between the board and management necessitates that directors remain objective and are independent from management.

### The role of management

Management is responsible to the board for developing and implementing the agreed-upon strategic plan as well as the day-to-day operations of the business. In addition, decisions taken by management (and approved by the board) to allocate the capital of the corporation should generate a return in excess of the cost of that capital.

### The role of shareholders

Shareholders appoint the company's board of directors and, in many jurisdictions, the auditors through the proxy voting process. Since investors do not attend board meetings, they primarily rely on the company's public disclosures to assess whether the effective board structures and auditors are in place to appropriately discharge their respective duties. Ontario Teachers' approach to our role as shareholders is elaborated further in the next section, "Our Approach".

## OUR APPROACH

Ontario Teachers' believes that a principled approach to corporate governance should guide decisions made by the board. The guidelines and principles set out in this document provide a governance framework based on our experience of leading practices we hold fundamental to creating good governance.

We understand and appreciate the uniqueness of companies, industries, and markets and thus believe that boards should have the ability to organize themselves in a manner they deem will be most effective in carrying out their oversight responsibilities. In giving this flexibility, we expect boards to explain deviations from accepted good governance practice and their decision-making rationale. The proxy vote is our tool to hold boards accountable.

One of our most important rights investors have is the right to vote. We ensure that our votes are cast in a manner that is most consistent with our Corporate Governance Principles and in the best long-term economic interests of company shareholders. Insight into how we vote on key decision-making areas such as: board composition, compensation, capital management, takeovers, and shareholder rights are included in our Proxy Voting Guidelines (starting on page 23).

While our proxy voting decisions consider a number of different inputs, including information provided by third parties, the guidelines and principles presented in this document remain fundamental to how we cast our votes.

Proxy voting is our opportunity to evaluate the quality of a board's decision-making against our good governance framework and as a result provides a commentary as to our assessment of the effectiveness of a board to carry out their oversight responsibilities. Therefore, we believe our vote is an important contributor to creating good governance and effective boards.

## OUR APPROACH WHEN A COMPANY IS PRIVATE OR CONTROLLED

### Private Companies

Our Corporate Governance Principles were developed within a public company context. Compared to widely held public companies, shareholders of private companies experience fewer agency issues and can be afforded extra protections through shareholder agreements that are not available when investing in a public company. Therefore, we acknowledge that it is not always appropriate or necessary to apply the same governance structures and practices expected of publicly listed companies to those that are privately held.

### Equity Controlled Companies

We recognize that a shareholder controlling a company by owning a significant amount of a company's outstanding equity creates an alignment between our interests and those of the controlling shareholder. As such, we acknowledge that divergences in governance practices from expected best practice may be appropriate in these instances.

### Multiple Vote Controlled Companies

We generally do not give any special consideration when a shareholder controls a company through ownership in multiple vote shares that provides voting control with a disproportionate (and usually small) equity interest in a company.

## RESPONSIBLE INVESTING

Ontario Teachers' has always taken a responsible approach to investing on behalf of our members. Our mandate and duty is to use diligence when investing and our investment decisions are based on the obligation to pay our members' pensions. We have established a set of five *Responsible Investing Principles*<sup>1</sup> that guide our actions:

- ▶ Integrating environmental, social and governance factors into our processes;
- ▶ Being engaged owners;
- ▶ Evolving our responsible investing practices;
- ▶ Seeking relevant information and disclosure; and
- ▶ Collaborating with like-minded peers.

Arriving at a decision to invest is a complex process requiring an integrated approach. We assess the risks of a number of factors, and our investment decision considers the magnitude and management of the material risks versus the potential return uncovered through our research. We do not select or exclude an investment based solely on any one factor.

We closely monitor the impacts of environmental and social issues on the sustainability of a company's operations and business, and regularly engage with portfolio companies on how the risks surrounding these issues are being managed.

As a responsible investor, and stewards of our members' pensions, we consider good corporate governance to be the over-arching framework for effective company management. Ontario Teachers' believes that a strong governance structure underpins a company's ability to effectively deal with risks.

In order to ensure accountability within The Corporate Governance System referred to on page 1, we continually monitor a company after an investment has been made. We engage in a number of activities, some of which are regular and ongoing while others are conducted on a case-by-case basis, including:

- ▶ encouraging regular engagement with companies;
- ▶ voting our shares in the most informed manner possible;
- ▶ examining and assessing the ability of the board to make effective decisions that are in the best interests of the corporation, and by extension its shareholders;
- ▶ collaborating with other investors where appropriate; and
- ▶ taking any other action we deem to be appropriate under the circumstances.

<sup>1</sup> For more information on our approach to Responsible Investing, please see <https://www.otpp.com/investments/responsible-investing>

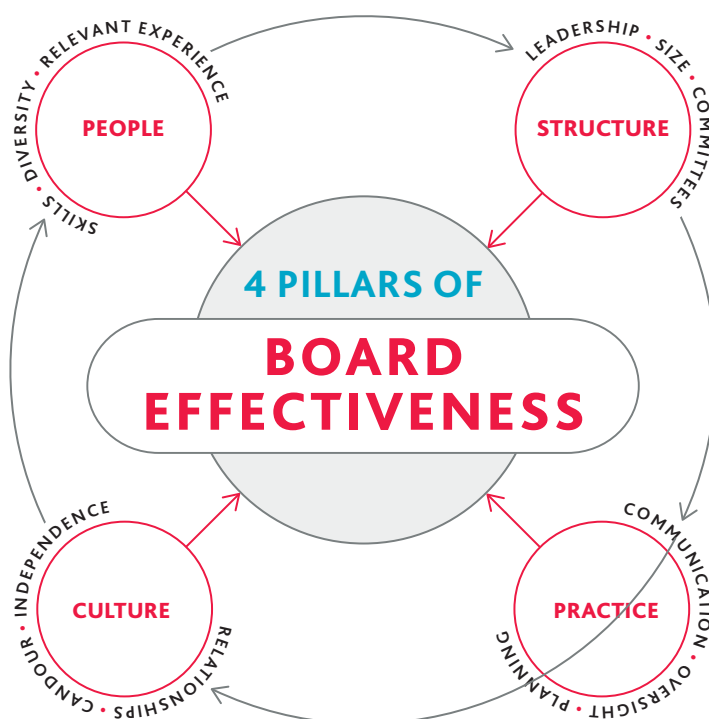


This approach to responsible investing guides how we vote our shares. Our voting decision takes into account issues such as materiality of the risk, return objectives, and the decisions made by the board – most notably with regard to executive compensation, board composition, and executive succession planning. We look for board practices and decisions making that demonstrate alignment with our 4 Pillars of Board Effectiveness, which are outlined below.

## 4 PILLARS OF BOARD EFFECTIVENESS

We believe there are four key components to creating an effective corporate governance system which we have identified as the 4 Pillars of Board Effectiveness. How these 4 Pillars – People, Structure, Practice and Culture – impact board effectiveness is presented in the diagram below. These pillars are interdependent and each must be present to create the necessary conditions that result in board effectiveness. Boards performing at a high level in all four pillars can be considered effective.

Each pillar is underpinned by one or more of our corporate governance principles. We have also identified specific characteristics that we believe provide evidence of board effectiveness within a given pillar. All of our corporate governance efforts, including our Proxy Voting Guidelines and resulting vote decisions, our regulatory actions, and our corporate engagements, are purposeful in supporting and reinforcing one or more of these pillars. Focussing our efforts in this manner creates, enhances, and/or maintains board effectiveness.



Further details on the 4 Pillars are provided on the following pages.

## PEOPLE

### *Underlying Corporate Governance Principle*

Effective boards are made up of diverse individuals having the relevant experience and skills necessary to challenge management and execute their oversight duties.

### CHARACTERISTICS PROVIDING EVIDENCE OF EFFECTIVE PEOPLE

#### SKILLS & EXPERIENCES

Drawing on the unique experiences and skills of its members allows a board to conduct the most comprehensive and nuanced analysis of any issue presented. Past experiences should be relevant, but not necessarily limited by sector or employment in a particular C-suite function. Director skills, including leadership styles, may vary but should allow them to participate in critical and constructive debates with management. In that light, the willingness and capacity to learn information necessary to provide effective oversight duties is fundamental.

#### DIVERSITY

It is indisputable that competency should be given the highest priority when recruiting and selecting new directors. Diversity is not a competency but an attribute the board must include within the context of searching for highly competent directors.

We expect boards to provide shareholders with a complete explanation of how the board is addressing diversity, including but not limited to gender, in its director recruitment process and the diversity goals the board has set out for itself.

In our view, it is not acceptable to dismiss articulating an approach to diversity for the reason that it may inhibit the search for qualified individuals.

Consistent with the underlying philosophy that diversity has positive impacts, we also encourage companies to manage diversity within their business such that diversity is an important consideration in the board's succession planning responsibilities. Succession planning should incorporate building a sufficient pipeline that supports the upward mobility of diverse individuals.

While Ontario Teachers' believes boards should be diverse across a number of dimensions, we agree with a number of studies that specifically describe the positive impacts of gender diversity. To encourage gender diversity on boards we support a minimum of three women on a board<sup>2</sup>, are members of the Canadian Chapter of the 30% Club, and regularly engage with companies on the topic.

<sup>2</sup> The rationale for supporting a minimum of 3 women on a board can be found in the paper "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance" by Vicki W. Kramer, Alison M. Kondrad and Sumru Erkhut (2006). This view is corroborated in an MSCI report, "The Tipping Point: Women on Boards and Financial Performance" published December 2016 concludes "that having three women on a corporate board represents a "tipping point" in terms of influence, which is reflected in financial performance" (Source: Executive Summary, page 3).

## STRUCTURE

### *Underlying Corporate Governance Principle*

Effective boards have strong independent leadership and are of a suitable size to manage their workloads with appropriate depth and breadth of oversight. Where board size permits, the delegation of work to committees is encouraged as an efficient use of resources.

Effective boards endorse accountability among its directors by holding annual elections of all directors and by promoting structures that support a one-share one-vote construct.

### CHARACTERISTICS PROVIDING EVIDENCE OF EFFECTIVE STRUCTURES

#### BOARD SIZE

We believe a board should be big enough to foster a diverse and constructive dialogue, but not so large as to inhibit individual views being heard. To that end, we prefer a board of no fewer than five and no more than 16 members, depending on the complexity of the corporation. However, the board's top priority should be to ensure that it has competent and independent members who bring diverse backgrounds and qualifications to effectively carry out the board's duties, regardless of size.

#### DIRECTOR INDEPENDENCE

A board of directors should have a majority of independent directors and ensure that board actions are truly independent of management. We believe that a board with a majority of independent directors, and whose key committees are staffed with only independent directors, is better positioned to critically evaluate management and corporate performance. We understand and can appreciate jurisdictional differences, but encourage all boards to work towards having a majority of independent directors.

#### BOARD COMMITTEES

In order to properly discharge their responsibilities, boards must be organized to constructively challenge management's recommendations, and to objectively evaluate corporate performance. To facilitate undertaking their oversight duties, the board may choose to organize into a number of more specialized committees. At a minimum, we expect companies to have a body that will independently oversee the preparation and audit of the financial statements, typically being the audit committee. In addition, we encourage publicly listed companies to install committees with responsibility for its governance, its nomination of directors, and its decisions concerning executive compensation. We note that in a number of jurisdictions, governance and/or nomination committees, and compensation committees are required by regulation. Where the board perceives oversight of an additional area or risk to be warranted, a committee may be developed to fulfill this area of expertise. Following is our view on the responsibilities of each committee.

#### *Independent Auditors and Audit Committee*

A strong audit process is a necessary condition of good governance and should enhance corporate performance. The audit process involves the establishment, structure, and composition of an audit committee and the retention of an auditor or auditors. Each board should have, and in many jurisdictions is required to have, an independent audit committee composed of independent and financially literate directors.

We are committed to the principle of the independence of external auditors. Shareholders must be able to rely on the independent auditor to provide an opinion on the financial statements. If they perceive that there is a lack of independence, whether or not such a deficiency exists, much of that value is lost.

The role of the auditor is central to the audit committee's ability to fulfill its responsibilities. Our preference is that the audit committee retains the services of a well-known and reputable accounting firm and non-audit work is kept to a minimum.

#### *Governance and/or Nominating Committee*

Each board should have an independent governance and/or nominating committee (or equivalent) comprised of independent directors. The committee should be responsible for the oversight of a company's governance practices, as well as for the identification, recruitment, nomination, appointment, and orientation of new directors. The governance/nominating committee should set the policy for selecting qualified candidates, proposing new nominees to the board, and assessing directors on an ongoing basis, while also being involved in the composition and assignment of responsibilities of the board's other committees. The policy should focus on satisfying the needs of the board, with due regard for the diversity of skills, backgrounds, experiences, and qualifications of the directors serving on the board.

The committee should develop an approach to board evaluation and director selection that assesses the current skills set of directors against current and future needs, while fostering a diverse range of ideas and perspectives in the boardroom. At a minimum, evaluations should be administered by the independent Chair and include peer reviews and self-assessments. Should the board not have an independent Chair, then the independent Lead Director or the Chair of the governance/nomination committee (or equivalent) should direct the evaluation process.

We expect public disclosure and transparency of the board's recruitment, selection and evaluation programs to the extent that we can evaluate the breadth and depth of these processes, as well as understand how diversity is considered by the board. In addition, attendance records and the number of other boards on which each director is active should also be disclosed. This allows share-holders to assess the robustness of the director evaluation process and the commitment of each board member to the company.

#### *Compensation Committee*

Each board should have a compensation committee comprised of independent directors, at least one of whom has expertise in compensation matters. A strong and independent compensation committee will work to ensure that the incentives to the CEO, management, and other employees are consistent with the maximization of long-term shareholder value, and that the incentive rewards are commensurate with performance. On a reasonable and periodic basis, the compensation committee should evaluate whether new and existing compensation packages are properly structured to enhance shareholder value and whether the incentives are resulting in the performance intended. The members of this committee should not be nominated or selected by the CEO, nor should the committee include the CEO, or any other executive director.

The compensation committee must have the flexibility to seek outside advice on matters of executive remuneration. Only the services of independent, well-known, and reputable consultants should be engaged by this committee. Such consultants should be responsible to only the members of the committee and should not perform any work for management. The identity of all consultants retained by the committee and/or management, and the nature and dollar value of all compensation services must be disclosed.

### SEPARATING BOARD LEADERSHIP FROM MANAGEMENT

In addition to being responsible for coordinating the activities of the board, the Chair of the board has the critical role of setting the tone for the board and of establishing the standard of an independent mindset. The board, as a whole, is responsible for evaluating the performance of the company and its CEO. The CEO is responsible for the day-to-day operations and management of the company.

We believe that the responsibilities assigned to a board Chair put a combined Chair/CEO in the very difficult, if not impossible, position of coordinating the body that is responsible for evaluating his or her own performance. We are also concerned that in these situations too much power or control may reside in one individual. For these reasons we believe the roles of Chair and CEO are separate and distinct.

A separate Chair can deal with matters from the board's point of view, and provide a greater measure of independence to the board's oversight role. In our view, there are limited circumstances where it may be justified that the roles be combined. When a board chooses to confer the roles of Chair and CEO on the same person, the reasons should be clearly disclosed, allowing shareholders to judge for themselves the appropriateness of a combined Chair and CEO. In the absence of clear disclosure, we will be engaging with governance committee chairs (or equivalent) to discuss the board's rationale underlying the decision to combine the roles.

In situations where the same person holds the Chair and CEO titles, we advocate the practice of appointing a "Lead Director" for the board from the roster of independent directors. Furthermore, any standard description of the role and responsibilities of a Lead Director should be almost indistinguishable from that of an independent and non-executive Chair. We view the installation of a "Lead Director" as a transitory step to the ultimate separation of the roles of Chair and CEO.

### VOTING RIGHTS OF SHAREHOLDERS

Dual-class share structures have classes of common stock where there are unequal voting rights among the various share classes. Shareholders holding the shares having inferior voting rights may be compensated for these reduced rights by receiving a greater dividend and will typically have greater market liquidity than shares with superior voting rights. In structures where shareholders have equity with subordinated voting rights, management and/or "controlling" shareholders, maintain effective control of the corporation by owning the shares having superior voting rights. Other forms of unequal share structures include those that allow a certain group of shareholders to elect a disproportionate percentage of directors, and those that provide greater dividends or voting rights based on the length of time a shareholder owns equity.

Dual-class share provisions create a subordinated class of common shares in every sense of the term. Voting rights are allocated to shareholders in a manner that is disproportionate to their economic ownership, thus depriving some shareholders of certain rights and controls. A dual-class structure with unequal voting rights violates the principle of “one share, one vote” and exposes shareholders to the risk that the controlling shareholder(s) may use their disproportionate influence to force the company to take actions that are contrary to the best interests of all shareholders.

### ELECTION OF DIRECTORS

Proponents of classified boards<sup>3</sup> argue that by staggering the election of directors, a certain level of continuity and skill is maintained. We believe that this continuity can also be maintained with a policy of annual elections, if the directors properly address the issues of competence and succession.

We see many disadvantages with a classified system. Staggered terms for board members make it problematic for shareholders to hold all directors accountable and to make fundamental changes to the composition and behaviour of boards by making it extremely difficult for any challenge to, or change in, board control. In circumstances of deteriorating corporate performance, this difficulty could result in a permanent impairment of long-term shareholder value.

<sup>3</sup> In a Classified Board structure only a portion of the board (typically one-third) is up for election in any given year.

## PRACTICE

### *Underlying Corporate Governance Principle*

Effective boards adopt and execute practices which lead to decisions that demonstrate:

- ▶ the highest regard to shareholder rights, equality in treatment of shareholders and the shareholder democratic process;
- ▶ clarity and transparency in their written and verbal communication with shareholders;
- ▶ a willingness for independent directors to meet with shareholders, listen to their concerns and have frank and open discussions about the board's governance practices;
- ▶ an understanding that shareholders provide capital to the firm in exchange for ownership of the company, and therefore expect to receive an appropriate return on that capital. Boards and directors should not enter into transactions that disproportionately transfer excessive amounts of capital to any group or individual, internal or external to the company;
- ▶ their intention and efforts to think and act independently from management, free from conflicts of interest, and in accordance with their fiduciary duty;
- ▶ their willingness to challenge and objectively evaluate management and their responsibility for risk management oversight; and
- ▶ an approach to ensuring highest standards for their own performance.

## CHARACTERISTICS PROVIDING EVIDENCE OF EFFECTIVE PRACTICES

### COMMUNICATING CLEARLY AND EFFECTIVELY WITH SHAREHOLDERS

Boards must be willing and able to communicate clearly with shareholders in form and content. The board should also be available to have regular meetings with shareholders. Written communication (e.g. annual proxy statement) should be clear and sufficiently detailed to provide rationales on key decisions taken. The content of a board's communication should be transparent and include appropriate disclosures of the company's strategies and objectives. The expectation is that shareholder-board communication will not involve material non-public information unless both parties mutually agree to enter into such a relationship.

With regard to proxy circular disclosures, we generally follow the Canadian Coalition for Good Governance best practices guide<sup>4</sup>, which recommends that company's present information in a manner that:

- ▶ is easy to find;
- ▶ is easy to understand;
- ▶ is accurate and complete; and
- ▶ is presented in context so that the information has meaning.

<sup>4</sup> 2016 Best Practices for Proxy Circular Disclosures, published by the Canadian Coalition for Good Governance ([http://www.ccg.ca/site/ccgg/assets/pdf/2016\\_best\\_practices.pdf](http://www.ccg.ca/site/ccgg/assets/pdf/2016_best_practices.pdf))



### PROXY ACCESS

Ontario Teachers' believes that shareholder involvement in the director nomination process is fundamental to good corporate governance and supports the corporate model. Proxy access allows shareholders to add director candidates to the shareholder ballot under specific conditions such as minimum share ownership requirements and limits on the number of directors that can be included on the ballot.

While we are sensitive to the concerns around abuse of this provision, we believe that the ability of shareholders to nominate directors is a fundamental shareholder right. In addition, we note that placement on the ballot does not equate to election to the board, as ultimately shareholders retain the right to elect those directors they deem most suitable. We expect Boards to respect this shareholder right.

### VOTING CONVENTIONS AT ANNUAL AND CONTESTED MEETINGS

We prefer and encourage companies to give shareholders the ability to make voting decisions on individual board nominees. We believe it is inappropriate to present shareholders a single slate of board nominees. In addition, we believe that companies should adopt a majority-vote standard for the election of directors.

Under the majority-vote policy, a director failing to receive majority support would be expected to resign from the board as soon as practical. We expect the board to accept the director's resignation and refrain from subsequently reappointing the director, unless compelling evidence has been presented by the board to justify any actions to the contrary. We generally do not consider a director's length of service or past contributions to be sufficiently compelling reasons to reject a resignation in these circumstances.

We understand that majority voting may not be practical in contested elections where there are more director nominees than board seats, and therefore accept the use of the plurality standard in these circumstances. Under the plurality voting standard, a board nominee is elected by receiving the highest number of votes cast even if less than a majority.

In some markets we are asked to vote on a cumulative basis, which provides shareholders with a number of votes equal to the number of shares they own multiplied by the number of directors to be elected. These votes may then be apportioned among one, some or all director candidates by the shareholder as they see fit.

Cumulative voting allows for the possibility that a minority block of shares can be represented on a board, ensuring an independent voice at the boardroom table, but also allows for the possibility that a minority of shareholders could unduly influence the company.

### TAKEOVER PROTECTIONS

We recognize that takeover protections, when properly used, may optimize shareholder value, but they must not unduly deter initial unsolicited bids or follow-on offers. While takeover protection measures must strike a balance between targets and bidders, in our view they must primarily serve the interests of long-term shareholders.

### ADVANCE NOTICE REQUIREMENT

Advance notice requirements are designed to protect issuers and shareholders from a situation where a dissident shareholder arrives at the meeting with sufficient proxies to unseat the incumbent board without prior warning. This can leave the board and shareholders vulnerable to an unwanted takeover of the board that may not be in the best interests of either the issuer or shareholders. We believe the shareholders wishing to take control of a board should do so by initiating a contested meeting. Contested meetings best serve shareholders' interests by providing a forum for sufficient debate on the merits of proposed nominees and the dissident's rationale for taking the action. Thus, we agree with the spirit of advance notice requirements in that they protect issuers and shareholders from unwanted or surprise changes to the board without proper discussion.

Advance notice by-law amendments, however, should not be drafted to include unnecessary or unreasonable hurdles for shareholders to nominate directors to the board. In our view, the processes and requirements for a shareholder to nominate a director or directors should be similar to those in place for the issuer.

Generally, we believe such amendments are most suited for smaller issuers and those with a shareholder base that is concentrated in a smaller number of investors. We question the utility of this mechanism for an issuer with a large and diverse shareholder base or those with a controlling shareholder.

### UNDERTAKING EFFECTIVE RISK MANAGEMENT AND OVERSIGHT

Management has responsibility for identifying the risks facing the company, and developing an appropriate risk management system. A risk management system identifies, evaluates, and prioritizes risks to the company and develops a coordinated plan to effectively minimize, monitor, and control the probability and/or impact of the risk, or to capitalize on the realization of opportunities presented by the risk.

Effective risk management requires a board oversee the decision on the level of risk a corporation is prepared to assume and the management's plan to generate an appropriate return based on that level of risk. This requires the directors to keep up-to-date on the risk profile of the company and industry, including satisfying themselves that they have knowledge of existing and potential future risks facing the company.

The board should decide whether responsibility for the supervision of the risk management process should reside with the board as a whole, or be delegated to a committee of the board. However, each board committee should incorporate risk management into their regular responsibilities.

Environmental and social (E&S) factors may present a material risk to a company's ability to create shareholder value over the long-term. A company's approach to handling E&S factors provides us with a valuable lens for assessing the quality of management and enables a more effective evaluation of investment risks and opportunities. We look for boards and management teams to adopt responsible business practices as well as oversight that take into consideration the environment and societal expectations.

### ROBUST SUCCESSION PLANNING

Planning for the orderly succession of the board, the CEO, and senior management under both planned and unexpected scenarios is one of the board's most important tasks. The board should take a proactive approach to succession planning by conducting annual board and director assessment and by working with the incumbent management team to understand the capabilities currently existing within the organization, identify and gain exposure to potential internal candidates, and facilitate their development. A quality succession plan should also prepare for the possibility of an external search being required.

For shareholders to gain confidence that boards are addressing issues of succession, we support the appropriate disclosure of the board's approach to succession planning on the basis that any such disclosure would not serve to undermine the integrity and effectiveness of the succession plan in place.

### ADVISORY VOTE ON EXECUTIVE COMPENSATION (SAY-ON-PAY)

We believe that a properly constituted board should address compensation issues in the normal course of fulfilling its responsibilities, and that a board generally requires the freedom and flexibility to develop and establish a compensation system in the manner that is best for the individual company. However, we also recognize that compensation plans can represent a significant cost to shareholders and we believe that shareholders should be entitled to express their opinion on the efficacy of the compensation program. At present this is best done through an advisory vote on compensation ("say-on-pay" vote).

### OUTSIDE OF PLAN AWARDS

We have seen a number of issuers making continued and significant use of one-time awards to executives that are outside the normal compensation plan. Often these awards are made for retention and motivation purposes, or to recognize individual performance.

By their very nature, one-off awards are intended to be used rarely and only in exceptional circumstances. Therefore the continued, regular use of such awards may not only be a sign of an ineffective compensation plan, but may also raise concerns over the ability of the compensation committee to hold management to account.

We recognize the need for flexibility when determining compensation levels, and occasionally circumstances may arise when discretionary awards are necessary. In these situations, the awards should be subject to sufficiently challenging performance conditions that occur over an extended period of time. If, however, the current compensation arrangements are not acting as an appropriate incentive for management, we believe the company should review and amend these arrangements instead of continuing to make one-off discretionary awards.

### DIRECTOR LIABILITY AND INDEMNIFICATION

We recognize that corporate directors might be more sensitive to shareholders' concerns if they were to be subject to personal liability in the event of a successful suit by a shareholder. However, we also believe that many individuals would be reluctant to serve as corporate directors if they were to be personally liable for all lawsuits and legal costs.

Limitations on directors' liability can benefit the corporation and its shareholders by facilitating the attraction and retention of qualified directors and officers while affording recourse to shareholders in cases of alleged misconduct by directors. Consequently, in order to encourage the nomination of able directors, we believe that an appropriate indemnification policy is warranted.

#### **SHARE OWNERSHIP AND DIRECTOR COMPENSATION**

We believe that share ownership by directors better aligns their interests with those of other shareholders. For this reason, we believe that meaningful share ownership by directors is in the best interest of the company.

We believe that the degree of ownership should be determined by the circumstances of the individual director's financial position, keeping in mind the financial commitment should be material to said director. As a minimum guideline, we suggest that each director own an amount of stock at least equal in value to one year's compensation as a board member.

Individual directors should be appropriately compensated and should be motivated to act in the best interests of the corporation. While we do not subscribe to the idea of a specific quantum or limits for director compensation, we believe there is a point at which the amount of compensation may negatively impact a director's ability to act independently. In determining this tipping point, we may consider a peer comparison and/or our assessment of decisions taken by the board and/or directors.

We also encourage boards to adopt a policy of paying a percentage of directors' compensation in the form of common stock, which the directors undertake to hold so long as they remain directors of the company. We do not consider hedging or pledging of director shares to be appropriate.

#### **INTERLOCKING RELATIONSHIPS**

We expect the company will disclose the identity of each interlocking relationship that exists among its board nominees. An interlocking relationship is one in which two or more directors sit together on another company board.

## CULTURE

### *Underlying Corporate Governance Principle*

Effective boards have a strong culture rooted in fostering ethical and respectful relationships, encouraging candour in discussions, and independence of thought facilitated by a diverse and inclusive board environment. Furthermore, a strong culture is also evidenced by the relationships a board cultivates with its stakeholders.

### THE LINK BETWEEN BOARD CULTURE AND CORPORATE CULTURE

We believe that the culture of the board is fundamental to effective governance, and sets a tone for the whole organization. We expect boards to embody the highest standard of ethics, to set, promote, and demonstrate a tone of integrity, openness, and inclusiveness among its members and in its interactions with senior management. In our view, board culture should be an area of constant attention for the directors and this culture should drive how the board executes its oversight function. A strong and healthy board culture leads to a corresponding strong and healthy corporate culture that permeates the entire organization and in our view, is an integral factor in the creation of long-term shareholder value. We understand that strong corporate governance culture is not singular and we seek to recognize leading practices at boards which demonstrate a strong culture replete with nuanced characteristics which work together to ensure purposeful direction.

### CHARACTERISTICS PROVIDING EVIDENCE OF EFFECTIVE CULTURE

Identifying what is an effective board culture is not as straightforward as it may be with the People, Structure, and Practices pillars. In attempting to understand the effectiveness of a board's culture, we will typically look to decisions the board makes as well as how it interacts with its shareholders as indicators of the culture. The following are signals we have identified demonstrative of effective board culture:

#### INDEPENDENCE AS A STATE OF MIND

We view independence as a state of mind whereby each independent director has both the expertise and the will to act in the best interests of the corporation. Moreover, to maintain independence, we believe that in appropriate circumstances (such as in matters in which management has an interest) directors must obtain unconflicted advice from external advisors.

We recognize that shareholders cannot adequately assess the state of mind of a director solely from the company's public filings. As a result we look to a board's processes, the individual and collective decisions taken by directors, and the company's performance to assist with our independence assessment. Evaluating the decisions made by the board and its committees can often serve as an effective indicator of director independence. In terms of process, we believe that peer reviews and board assessments are useful tools towards ensuring independence of mind.

#### DIRECTOR TENURE

Some jurisdictions attempt to draw a connection between independence and a director's term on a board. While there may be examples where a director's length of service affected his or her independence, we do not believe that tenure alone is a reliable proxy to determine independence. Rather, it is the role of the nominating/governance committee to evaluate whether the length of service of a particular director has reached a point where the director's independence may be impaired. This is best accomplished through a robust annual board and director evaluation program.

We understand there is a learning curve for new directors joining a board, particularly in learning the intricacies of the business at the company. In addition, we recognize the benefit of institutional knowledge that long-serving directors may possess. However, we also believe that boards benefit when there is a balance between directors with experience and “freshness” on a board. With long tenured boards, there is greater risk of losing institutional knowledge should a number of directors decide to retire in close succession. While we will continue to address the impact of tenure on a case-by-case basis, we are cognizant that there is a point at which tenure can be an impediment to effective board decision-making.

In an effort to determine if tenure poses an issue to effective governance, we will consider the following scenario:

1. The average board tenure is 10 years or more;
2. No new directors have been appointed in the past 3 years;
3. The disclosure describing the board and director evaluation program is insufficient to determine that a robust process is in place.

Should the above assessment lead us to conclude that a tenure issue exists we will reach out to the board for further dialogue. Generally, the uncovering of tenure concerns will not lead to a vote action at this point in time unless we determine the circumstances warrant. However, we will review this approach annually which may lead to a change in our voting on this issue.

#### OTHER INDICATORS

There are a number of other indicators that have also been identified and discussed as relevant to the effectiveness of another pillar. These indicators include, but are not limited to, board decisions on:

- ▲ Diversity and inclusion (People Pillar);
- ▲ Board leadership (Structure Pillar);
- ▲ Communication with shareholders (Practice Pillar);
- ▲ Election of directors (Practice Pillar); and
- ▲ Executive compensation, including outside of plan awards (Practice Pillar).

# 2019 Proxy Voting Guidelines

We take voting very seriously. Our objective is to vote every share of every company we own at every meeting of that company's shareholders. All issues, routine or non-routine, are reviewed in detail within the context of the Proxy Voting Guidelines which are built off the corporate governance principles and characteristics of effective boards found in the 4 Pillars of Board Effectiveness. Our assessment process consists of consulting a variety of sources, including all relevant company filings and other materials such as proxy research reports and the services of third party research providers. Through our voting decisions we seek to enhance the long-term value of our investments.

### INTEGRATED PROCESS

At Ontario Teachers', proxy voting is an integrated process. Where appropriate, each portfolio manager with an interest in a particular company is consulted to ensure his or her perspective is reflected in our proxy vote decision. Contentious issues or positions are regularly discussed with senior management in the Investment Division as well as the President and Chief Executive Officer. We may seek to contact the company for additional information or clarification. We work closely with our Responsible Investment Team when assessing shareholder proposals on potentially contentious material environmental or social issues for a company.

### DISCLOSURE

We will generally provide a rationale for our voting decisions when voting against a management recommendation, voting on a shareholder resolution, or when a proposal is non-routine in nature. Explanations of our voting decisions are disclosed on our [website](#) in advance of the meeting date.<sup>5</sup> We also support issuers by providing prompt public disclosure of the voting results of each proposal voted on at a meeting of shareholders.

In situations where a company maintains a dual class share structure we expect the timely disclosure of voting results to be broken down by each class of share, as this provides greater transparency to minority shareholders on how the different classes of shareholders' votes were cast.

<sup>5</sup> By providing our decisions on our website, we do not intend to solicit the proxy of any other shareholders nor do we request any other shareholder to execute, not execute or revoke the proxies that have been solicited by management or anyone else. Please see "Important Legal Notice" in our Proxy Voting section of [www.otpp.com](http://www.otpp.com) for more information.



### BUNDLED PROPOSALS

We expect to have the opportunity to review and vote on resolutions separately. However, companies occasionally “bundle” proposals – combining two or more related and/or unrelated items into one resolution. Bundled proposals can present a dilemma for shareholders and they can often contain matters that shareholders would support and those they would likely oppose if voted on separately. We discourage bundling proposals as we believe the voting dilemma they can present undermines the shareholder democratic process. If presented with a bundled proposal, we will evaluate each individual item on its own merit and will not vote in support of a bundled resolution if we hold significant reservations about any individual item, even if the bundle contains supportable elements.

### ABSTAIN VOTES

Some ballots provide the option to abstain from voting for or against a proposal. We believe we have a responsibility to cast a definitive vote for or against a proposal and generally avoid abstaining. There are, however, circumstances in which an abstain vote may be appropriate such as when a director withdraws his or her name from the ballot ahead of the general meeting, or when we do not have sufficient information to cast a definitive vote.

More fundamentally, abstain votes can be treated inconsistently by companies in determining a vote outcome. In some instances, companies do not count abstain votes as votes cast on proposals to elect directors; yet, for other proposals, abstentions have the same effect as a vote against. This inconsistent approach depresses the calculated support for items such as shareholder proposals, while increasing the appearance of support for the election of directors.

Abstaining is choosing to not vote. In our view, abstain votes should therefore be excluded from any calculation to determine shareholder support/non-support of any proposal on the meeting ballot.

### SIMPLE MAJORITY

A simple majority requires more than half of the votes to be cast in favour in order for a resolution to pass. Ontario Teachers’ supports simple majority voting, except in situations where a higher majority is required by statute.

### CONFIDENTIAL VOTING

Confidential voting supports the integrity of the voting process by providing shareholders the ability to vote without fear of coercion or retribution. Therefore, we encourage companies to undertake confidential voting rather than by show of hands, or voting by poll.

When companies conduct a vote by poll at a shareholder meeting, they are in effect supporting a one-hand, one-vote standard, where each “hand” present at the meeting received an equal vote. Voting by poll disenfranchises shareholders as it ignores equity investment and the voting influence that investment should carry as well as penalizing those shareholders who are unable to attend the meeting in person.

## PROXY VOTING GUIDELINES

We are obligated by law to set out our policies and procedures with respect to voting rights and by our own Statement of Investment Policies and Procedures to exercise our right to vote.

The following Proxy Voting Guidelines (Guidelines) support the adoption of the corporate governance principles found in our 4 Pillars of Effective Governance. The Guidelines articulate how we intend to vote on commonly raised or potentially contentious issues presented for a shareholder vote. These guidelines have been developed over a number of years and are intended to encourage companies to take actions that we believe are in the best long-term economic interest of shareholders. Exercising our proxy vote in accordance with these guidelines acknowledges both our rights as shareholders and our fiduciary responsibilities to the pension plan's beneficiaries.

The guidelines are not regulations and will evolve as circumstances change. We commit to remain open-minded and pragmatic, and will apply the guidelines thoughtfully, giving consideration to the individual circumstances of companies and our 4 Pillars of Effective Boards. These guidelines are reviewed and approved by the Ontario Teachers' Board annually.

Since we vote in a number of global markets, our guidelines are principles-based and cover a broad range of corporate governance matters, a number of which may not arise in every jurisdiction in which we invest. As a result, our guidelines provide us with the flexibility to tailor our approach to reflect the nuances of certain markets.

Each of the following guidelines is designed to encourage the board of directors to discharge its responsibilities in the most efficient and objective fashion possible without placing unreasonable or arbitrary burdens on the company or the board while supporting the corporate governance principles articulated in the 4 Pillars of Effective Boards.

We welcome comments or feedback on our guidelines and encourage you to contact us at [corp-governance@otpp.com](mailto:corp-governance@otpp.com).

There have been enhancements and clarifications to our Corporate Governance Principles and Proxy Voting Guidelines for 2019, including the following changes:

### FORMAT

We have revised the format of our 2019 Corporate Governance Principles and Proxy Voting Guidelines to convey important information about our perspective on corporate governance to include the 4 Pillars of Effective Boards which, at a high level, establish areas that Boards have responsibilities for ensuring they manage. Each of these Pillars are supported by our foundational principles of good corporate governance, which we believe ultimately contribute to the development of effective boards. Decisions made by the board are assessed by shareholders, like ourselves, and we will execute our proxy voting aligned with our principles in an effort to support effective boards.

### BOARD AND/OR DIRECTOR ACCOUNTABILITY FOR ENVIRONMENTAL & SOCIAL (E&S) RISK MANAGEMENT

We believe that boards and directors are accountable to shareholders to understand and manage the relevant environmental & social (E&S) risks that face the organization. We will consider not supporting individual director(s), chair(s), or committee(s) when we determine that a company and/or board have not demonstrated an understanding of, and/or an ability to effectively manage, a company's relevant E&S risks.

### DIRECTOR ATTENDANCE

We believe attendance at board meetings is a fundamental responsibility of board members. Where a director's attendance falls below 75% per annum without a reasonable explanation provided in proxy materials we will not support this director.

### DIVERSITY

Last year we provided our expectations of boards in addressing diversity. This year we have decided to take voting action where we deem the board has not sufficiently addressed the issue. We will consider not supporting the chair of the governance and/or nomination committee or other members of the committee in situations where we conclude there is insufficient representation of women directors and the board does not adequately describe their approach to gender diversity. The approach or explanation should specifically address a commitment and either a goal or target. Alternatively, we may decide to engage with a company on the issue, or take voting action where no changes have been made as a result of engagement.

### OVERBOARDING OF CEO

We believe that the duties of a CEO are complex and require intensive time commitments. We also believe that sitting on a board, requires significant time commitments. Therefore where a CEO sits on more than two boards, including his or her own, we plan to vote against their election as director at the companies other than where he or she is CEO.

### **INCREASE IN THE NUMBER OF AUTHORIZED OR ISSUED SHARES**

We believe that shareholders should have input on major decisions regarding authorized shares and share issuance given the potential for significant dilution risk. We will generally not consider supporting requests that seek to increase the authorized or issued shares by 10% or more when the request is not accompanied by a specific business need. All share authorization requests in excess of 10%, will also be assessed on validity of the need.

### **ACTION BY WRITTEN CONSENT**

We have articulated our perspective on proposals related to action by written consent, in lieu of holding a meeting. We believe that holding meetings and requiring a shareholder vote is a good forum for engaging all shareholders in important decisions affecting their investment. In our view, there are too many unknowns associated with allowing shareholders to act by written consent that have the potential to disenfranchise some shareholders to outweigh the benefits of holding meetings. Typically this right is requested through shareholder proposals and generally we will not support such proposals given our preference for more inclusive forums for shareholders to express their views.

### **RIGHT TO CALL A SPECIAL MEETING**

The right to call a special meeting is another significant shareholder right. We believe companies should implement a threshold of 10% ownership to be able to call a special meeting should the situation warrant.

### **VIRTUAL ONLY MEETINGS**

Some companies holding annual general meetings have elected to allow participants to attend only by way of a virtual meeting. We believe this option works to potentially limit meaningful communication between shareholders and management. Instead, we believe that virtual meetings should be used an option in addition to offering in-person meetings with shareholders. We hold responsible the chair of the governance and nominating committee, or the chair of the board for the decision to hold virtual-only shareholder meetings, given their leadership roles on the board.

### **ASSESSING SHAREHOLDER PROPOSALS ON ENVIRONMENTAL & SOCIAL (E&S) ISSUES**

Our process for assessing shareholder proposals has evolved to include specific guidelines on climate change and human capital management. Our evaluation on these and other proposals on E&S continue to be informed by an evaluation of materiality and will consider the company's unique set of circumstances and current approach to the request or issue generally. We have also clarified that in making voting decisions we are guided by an internal framework designed to ensure that all shareholder proposals are evaluated in a consistent manner.

### **ANY OTHER BUSINESS**

It would imprudent of us to support in advance proposals to approve any other business brought before the meeting as we do not know what the proposal is and how it would impact the company and/or shareholders.

### 1.1 INDEPENDENT BOARD OF DIRECTORS

#### 1.1.1 Individual Directors

We **support** an independent<sup>6</sup> board of directors. Ordinarily, we will not vote against a corporation's director candidates simply because they fail to meet the independence standard. However, we will consider **not supporting** a director's election to the board if in our view:

- ▶ decisions taken by a director have resulted in unsatisfactory corporate performance over a reasonable period of time and/or demonstrate a lack of independence from management;
- ▶ a director has (or directors have) demonstrated a pattern of behaviour that could negatively affect the long-term performance of the corporation;
- ▶ a director's (or directors') business relationship with the company may compromise their independence; and
- ▶ extraordinary circumstances exist where director behaviour has resulted in a complete loss of confidence in a director's ability to act in the best long-term interests of the corporation. In this case, we may consider **not supporting** that director's election to any other board for which he or she is a nominee.

Generally, a vote against director candidates is not based solely on a single factor such as a lack of independence or unsatisfactory corporate performance, but will be considered in combination with other factors.

#### Accountability for Environmental and Social (E&S) Risk Management

In cases where a company and/or board has failed to adequately address material or egregious risks stemming from poor management and oversight of environmental or social issues, we may choose to **not support** individual director(s), chair(s), or committee(s) of the board.

#### Attendance

We believe attendance at board meetings is a fundamental responsibility of board members. Where a director's attendance falls below 75% per annum without a reasonable explanation provided in proxy materials we may choose to **not support** those directors.

#### Tenure

In situations where we conclude that tenure has had a negative impact on the board's effectiveness, we will take the appropriate action to encourage board refreshment. Depending on the circumstances, such action could be a **not support** the long-tenured director(s), the Chair of the Nomination Committee (or equivalent) or the entire Nomination Committee.

<sup>6</sup> In determining whether a director is independent, we look to the standards in National Instrument 58-101 of the Canadian Securities Administrators, Disclosure of Corporate Governance Practices, and the corporate governance listing standards of the New York Stock Exchange.

### Former CEO Resignation

A CEO who has announced retirement from his or her role should also resign from the board upon such retirement date. Should a retired CEO continue to serve as a director past his or her retirement date without a compelling rationale to support remaining on the board, we will determine the appropriate course of action which, depending on the circumstances, could be to **not support** the former CEO, the Chair of the Nomination Committee (or equivalent) or the entire Nomination Committee, or any combination thereof. Where warranted, we will typically accept the CEO remaining on the board to facilitate the transition from one CEO to another.

### Overboarding of CEO

It is common for a CEO to sit on the board where he or she is the executive. Where a CEO sits on additional public company boards, we will typically **not support** their election as director at the companies other than where he or she is CEO.

### Director Representation in Proportion to Equity Ownership

In circumstances where an investor has a significant ownership stake in a corporation, we **support** director representation on the board that is proportional to the investor's economic interest.

### Board Size

We believe a board size ranging from five to 16 members is appropriate. We will typically **not support** amendments to by-laws which seek to change the size outside of this range. Where the addition of a director up for election changes the board size outside of this range, we may choose to **not support** the chair of the governance committee given his or her leadership role in structuring the board. Boards outside our preferred size range do not necessarily result in us taking voting action against any of the directors up for election, unless we determine the size is inhibiting the board's effectiveness.

## 1.2 KEY COMMITTEES

### 1.2.1 Governance and/or Nominating Committee

We will consider **not supporting** directors if we believe that the absence of a governance and/or nominating committee, its operations, or its decision making have adversely affected the composition of the board and the governance of the corporation. We generally escalate our concerns by first voting against the chair of the committee, if we are not satisfied with the changes implemented, or in extreme cases, we may consider voting against the entire committee.

#### Director Nomination and Evaluation

In situations where the board fails to publicly disclose its nomination and evaluation processes, we will consider **not supporting** the chair of the nominating/governance committee, depending on a number of factors, notably our assessment of the overall composition of the board, and if we believe that the absence of such disclosure has adversely affected the transparency of the board's commitment to director succession planning and evaluation.

#### Skills Matrix

We encourage and **support** proposals requesting the adoption and disclosure of a board skills matrix – which should highlight skills and areas of expertise that are relevant in the context of the company's strategy – as a best practice tool to achieve this. We discourage the practice of disclosing a “laundry list” of skills.

#### Diversity

We will consider **not supporting** the chair of the governance and/or nomination committee or other members of the committee when we conclude there is insufficient representation of women directors and the board does not adequately describe its approach to creating and maintaining its gender diversity. The approach or explanation should specifically address a commitment and either a goal or target. Alternatively, we may decide to engage with a company on the issue, or take voting action where no changes have been made as a result of engagement. As in all of our voting decisions, we take into consideration the market in which we are voting.

#### Implementation of Shareholder Proposals

We expect boards to respect the shareholder democratic process. We hold the chair of the governance committee (or equivalent) responsible for ensuring that all proposals put to a shareholder vote are implemented in accordance with the wishes expressed by a majority of shareholders, or we expect a convincing rationale as to why it is in the best interests of the corporation that the board not take action. However, if we determine that the lack of respect for the shareholder democratic process is frequent and serious, we will consider **not supporting** all members of the governance committee or the entire board.

#### Adopting Bylaws

We expect boards will not enact bylaws or policies that adversely affect shareholder rights without first putting the issue to a shareholder vote. In situations where such a bylaw or policy has been implemented without a shareholder vote, we will, depending on the circumstance, hold the chair or members of the corporate governance committee (or equivalent) responsible and **not support** their re-election to the board.

### 1.2.2 Compensation Committee

We will consider **not supporting** individual members of the compensation committee if we believe there is evidence of recurring failures of the compensation committee to link pay with performance or if there are extraordinary and unjustified decisions on the part of the committee. We generally escalate our concerns by first **not supporting** the chair of the committee, if we are not satisfied with the changes implemented, or in extreme cases, we may consider voting against the entire committee.

If there are members of the executive on the compensation committee, we will consider **not supporting** the chair of the governance and/or nominating committee.

### 1.2.3 Audit Committee

We **support** the establishment of an independent audit committee. We will consider **not supporting** individual members of the audit committee if we believe there is evidence of recurring financial misstatements or other audit failures. We generally escalate our concerns by first **not supporting** the chair of the committee, if we are not satisfied with the changes implemented, or in extreme cases, we may consider **not supporting** the entire committee.

#### Auditor Appointment

We will generally **support** the choice of auditors recommended by the corporation's directors. The instances of auditors being changed other than as a result of routine rotation will be reviewed on a case-by-case basis. We would be concerned if the same partner of any firm has audited a company for extended periods or if there have been material restatements to the financial statements. In these circumstances, we may **not support** the auditor, or members of the audit committee.

#### Alternative Dispute Mechanisms

We will generally **not support** the reappointment of the auditor if efforts have been made to use binding arbitration as a means of dispute resolution between management and the auditors to limit or reduce an audit firm's liability.

In some jurisdictions it has become common for an audit engagement letter to include binding arbitration. The terms of these provisions may limit the amount of information that can be presented in relevant proceedings and may not allow decisions to be appealed. This restricts the company's ability to seek relief for damages (monetary or otherwise) and, in our view is not conducive to a strong audit process. We will therefore **not support** the appointment of the auditor if the audit engagement letter includes such provisions.



#### 1.2.4 Audit Fees

A significant majority of revenues generated by the accounting firm through its relationship with the company should come from the audit function proper. Where there is no disclosure or a breakdown of the fees shows the non-audit fee is greater than the audit fee without further clarification, we will **not support** the re-election of the outside auditor.

Where non-audit fees have been detailed, we will consider each fee on a case-by-case basis in determining auditor independence, but we will **not support** the reappointment of the auditor where in our view it appears that its independence has been compromised.

## 1.3 ELECTION OF DIRECTORS

### 1.3.1 Annual Election

We prefer the annual election of all directors. We will generally **not support** proposals that create a staggered or classified board.<sup>7</sup> However, we note that a number of companies in jurisdictions around the world have long-standing processes, which elect directors to staggered terms. In such cases, we do not believe it is appropriate to vote against directors simply as an indication of disagreement with the manner in which they are elected.

### 1.3.2 Majority-vote Standard

We **support** the establishment of a majority-vote standard<sup>8</sup> for the election of directors. In the absence of a majority-vote standard we expect issuers to adopt a majority-vote policy.<sup>9</sup> We typically hold the Chair of the Nomination Committee (or equivalent) responsible to ensure the majority vote policy is implemented in a manner consistent with its objective to hold directors accountable.

### 1.3.3 Individual v Slate Election

We also **support** the election of directors individually rather than as a slate. We will not ordinarily vote against the board candidates proposed by a corporation simply because the corporation fails to meet these standards.

### 1.3.4 Cumulative Voting

In situations where cumulative voting is in place, we will allocate our votes for each director in a manner that we believe will best promote good corporate governance over the long-term.

<sup>7</sup> In a staggered or classified board, directors are typically elected in two or more classes, serving terms greater than one year. Using an example of a three-year staggered board, at each annual meeting, one third of the board members or nominees would be eligible for shareholder ratification for a three-year period.

<sup>8</sup> Under a majority-vote standard shareholders vote "For" or "Against" directors and only those directors receiving a majority of votes cast are elected.

<sup>9</sup> Issuers not employing a majority-vote standard will elect directors using plurality voting. In plurality voting shareholders vote "For" or "Withhold" for directors and there is no ability to vote "Against" a director, allowing directors to be elected with a single vote. Under a majority-vote policy, "Withhold" votes are considered "Against" votes and should a director receive a majority of "Withhold" votes, they would be required to submit their resignation to the board. The board would then be required to either accept or reject the resignation and publicly disclose their decision, preferably within 90 days of the shareholder vote.

### 1.3.5 *Contested Elections*

In the event that a board is subject to a contested election, we will evaluate the dissident's argument and proposed plan of action, and assess the qualifications, independence, experience, and track record of the alternate slate of nominees relative to that of the incumbent board. We will support the dissident slate when we believe that it would be better positioned to effect positive change and increase shareholder value over the long term than the incumbent nominees.

#### **Universal Proxy**

In a contested election, we prefer that universal proxy ballots are used in place of separate dissident and management proxy cards. A universal ballot lists all management and dissident nominees on a single proxy card, ensuring equal representation of all nominees to be voted upon by shareholders. Currently, in the vast majority of proxy contests, shareholders are restricted to casting votes for either management's nominees or the dissident's nominees using their respective proxy cards. We believe that a universal ballot provides shareholders with a less confusing and cumbersome way to select a combination of director nominees from all listed candidates, regardless of who nominated the candidates.

## 1.4 SEPARATION OF BOARD AND MANAGEMENT ROLES

### 1.4.1 Separation of Chair and CEO Roles

We **support** the separation of board and management roles. We will not ordinarily vote against a corporation's director candidates where a separation of board and management roles does not exist. We will do so if we determine that the combination of roles is negatively affecting the effectiveness of the board and/or corporate performance over a suitable time frame is unsatisfactory.

### 1.4.2 Recombination of Chair and CEO Roles

We have significant concerns when a board that previously split the roles of Chair and CEO decides to revert to a combined Chair/CEO structure. In the absence of a persuasive explanation as to how the recombination of the roles is in the best interests of shareholders, we will consider **not supporting** the chair of the governance committee (or equivalent) and/or its members responsible for this decision.

### 1.4.3 Executive Chair

We generally do **not support** the role of Executive Chair because we believe the Chair should be independent of management and not be identified with management. Furthermore, we have significant concerns if the role appears to be a reward for past services, such as situations where former CEOs or Chairs remain on the board and are given the "Executive Chair" title. In these situations, there is a risk of former CEOs and Chairs inhibiting the new leadership from executing their duties as they see fit. Depending on our degree of concern, we will **not support** one or more of the Executive Chair, the chair of the governance committee (or equivalent) and the committee members, and maintain these votes if we do not see a change until the cooling-off period is reached.

### 1.4.4 Director Liability and Indemnification

We will generally **support** proposals that reasonably limit directors' liability and provide indemnification.

## 2. COMPENSATION

We believe that each compensation plan must be reviewed in its entirety to determine if the individual parts serve the purpose of providing the right incentives to managers and directors, and if the plan is reasonable on the whole. We encourage boards to avoid complex management and director compensation structures. Instead, we support clearly communicating decisions on compensation plans to shareholders, articulating the rationale which links the choice of metric to the components of corporate strategy.

Compensation and incentives to management and directors should be consistent with the long-term interests of the shareholders of the company. Salaries should reflect the requirements of the marketplace with employees paid the amount necessary to attract and retain the skills and abilities required. All perquisites should reflect a justifiable corporate need and should be able to stand on their own merits under a cost-benefit analysis. Incentive compensation plans must have the overriding purpose of motivating and retaining individuals and must not be unduly generous. Such plans should be closely related to individual and corporate performance.

One of the most complex and contentious components of many incentive compensation plans is the use of equity incentives to motivate senior and middle managers. We are not opposed to the use of equity incentives to motivate managers; however, we are concerned that equity plans are sometimes poorly designed and administered, or abused.

Many equity plans base rewards on general market/sector performance, or on the passage of time rather than on individual or company performance against the market or sector. We prefer to see that the exercise price or vesting schedule of the equity incentive be linked to the achievement of appropriate, company-specific, performance thresholds that are explicitly linked to the strategic objectives of the company, as approved by the board of directors.

A recent development in the compensation landscape is for issuers to disclose the ratio of the compensation of its CEO to the median compensation of its employees. We will review these disclosures on a case-by-case basis, and consider them in the wider context of a company's compensation plan. However, we continue to believe that the ratio of CEO compensation to the average compensation of the other Named Executive Officers is a more useful tool to assess the appropriateness of CEO pay.

Directors should have discretion in their compensation decisions. However, when discretion is applied, it must be done with care and be accompanied by a persuasive rationale to support its use. Discretion applied without a convincing reason cannot be supported.

## 2.1 EFFECTIVE EQUITY COMPENSATION

We assess proposed equity compensation on a case-by-case basis. We review the features of each plan together with the other aspects of total compensation and, after considering each of the issues, determine whether the plan on the whole is reasonable.

Equity compensation plans can increase the number of shares of a company and therefore dilute the value of existing shares. While such plans can be an effective compensation tool in moderation, they can be a concern to shareholders and their cost needs to be closely watched. We consider factors related to issuing, vesting and exercising, as well as others, when analyzing equity compensation plans.

### 2.1.1 Issuing

#### Concentration

We will generally **not support** plans that authorize allocation of 25% or more of the available equity incentives to any one individual.

#### Cost

We will **support** plans whose costs are reasonable in the context of compensation as a whole and relative to industry practice. We consider grant date fair value to be the most appropriate cost to use as it reflects the value directors placed on the executives at the time of the granting of the award.

#### Dilution and Burn

We will generally **support** equity incentive plan amendments if the total potential dilution<sup>10</sup> does not exceed 5%, and the burn rate<sup>11</sup> is less than 1% per annum. We will review, on a case-by-case basis, equity incentive plans that provide for total potential dilution exceeding 5% but less than 10%, or where the burn rate exceeds 1% per annum. Where warranted and in limited circumstances, we will **consider supporting** equity incentive plan amendments with potential dilution rates exceeding 10%, or where the burn rate exceeds 2% per annum.

#### Fixed Number of Shares

We will generally **not support** plans that have a rolling maximum of shares available as options or other forms of equity compensation. We believe plans having a fixed number of shares available for grant place a discipline upon the board when awarding equity compensation.

#### Price

We will generally **support** plans whose underlying securities are to be issued at a value that is no less than 100% of the current market value.

<sup>10</sup> For our purposes, total potential dilution is the total number of shares available for grant (equity pool) plus unexercised shares that have been previously granted divided by the total shares outstanding.

<sup>11</sup> The burn rate is defined as the annual equity grant divided by the total outstanding shares and provides us with a measure of how fast the company is using the equity pool and diluting its shareholders.

### 2.1.2 Vesting

#### Automatic Vesting

We will generally **not support** plans that are 100% vested when granted.

#### Change of Control

We will generally **not support** plans with change of control provisions that allow all equity compensation to automatically vest upon a change of control. We will **not support** change of control arrangements developed in the midst of a takeover fight specifically to entrench management. We will **not support** the granting of equity incentives or bonuses to outside directors “in the event” of a change of control, as the independence of outside directors will be compromised if they are eligible for additional benefits in the event of a change of control.

#### Performance Vesting

We will generally **support** plans that link the granting of equity incentives, or the vesting of equity incentives previously granted, to specific performance targets.

#### Retesting

Retesting occurs when a performance condition that is not met in the current period is deferred to a future period. We generally do **not support** this practice and believe that for targets to be meaningful under pay-for-performance, they need to be strictly adhered to and not deferrable.

#### Vesting Provisions

We will review on a case-by-case basis the terms of the vesting of equity awards, paying particular attention to vesting conditions, **not supporting** those that are considered lacking a pay-for-performance link, such as performance targets set below the median of the company’s comparative group.

### 2.1.3 Exercising

#### Employee Loans

We will generally **not support** the corporation making loans to employees to allow employees to pay for equity compensation. Furthermore, when loans become excessive they expose the company to risk as a result of potentially uncollectable debts and may inhibit the termination of employees who owe the company. Executives seeking to borrow to buy equities under equity compensation plans should be required to obtain credit from conventional, market-rate sources, such as banks or credit unions.

#### Expiry

We will generally **support** plans whose equity incentives have a life of no more than five years. We will review on a case-by-case basis those plans whose equity incentives have a life of more than five years, but we will generally **not support** plans with “evergreen” provisions<sup>12</sup>.

#### Re-pricing

We will **not support** plans that allow the board of directors to lower the exercise price of equity incentives already granted. We will **not support** proposals that, directly or indirectly, would reduce the exercise price of incentives already granted.

<sup>12</sup> Evergreen provisions are features in a plan which allow for equity plans to automatically renew and/or have an indefinite life.

### 2.1.4 Other

#### Board Discretion

We will **not support** plans that give the board broad discretion in setting the terms and conditions of programs. Such programs must be submitted to shareholders with adequate detail regarding their cost, scope, frequency and schedules for exercising the equity incentives.

#### Disclosure

We strongly **support** the disclosure of all significant aspects of the equity compensation plan including full transparency of performance goals and vesting conditions.

#### Director Eligibility

We will generally **support** equity incentive plans for directors where the terms and conditions of director incentives are clearly defined and reasonable. In particular, we look for a specific and objective formula for the award of director equity incentives. We will generally **not support** those plans that provide for discretionary director participation.

#### Omnibus Plans

We will review omnibus plans (three or more types of awards in one plan) on a case-by-case basis. Generally, we believe that shareholders should vote on the separate components of such plans rather than be forced to consider the “take-all” approach of an omnibus collection. Although we are generally opposed to the concept of omnibus plans, we will review each element to determine whether the specific benefits being offered adhere to our other guidelines in this category.

#### Pledging and Hedging

We generally do **not support** arrangements made on the part of executives or directors to pledge as collateral or hedge their equity ownership.



## 2.2 ADVISORY VOTE ON COMPENSATION ("SAY-ON-PAY")

Say-on-pay votes are an important tool to facilitate compensation-related dialogue between directors and shareholders. Where we are required to vote with respect to management compensation proposals in an advisory or legally binding capacity, we will review compensation on a case-by-case basis to ensure that it meets our criteria and assess the plan based on features discussed below in Guideline 2.3 Management Compensation.

We will generally vote in **support** of advisory votes on compensation if we believe that the compensation plan has met our guidelines, and is adequately designed to align pay with performance.

We have identified certain trigger points that, depending on their severity, could result in a vote against a say-on-pay resolution. This list should not be considered exhaustive, and includes:

- ▶ an evident disconnect between pay and performance, or the strategic objectives of the company;
- ▶ issues around the vesting of equity (length of vesting inconsistent with the type of compensation, such as long-term compensation with a short vesting period; lack of performance vesting for equity);
- ▶ poor structure or lack of a long-term plan;
- ▶ similar metrics to award both short- and long-term compensation without a compelling rationale as to why this is appropriate;
- ▶ unchallenging or inappropriate performance criteria used to award compensation or to determine the vesting of equity;
- ▶ disproportionate compensation paid to the CEO relative to other senior executives;
- ▶ a poorly constructed or inappropriate application of peer groups; and
- ▶ one-off discretionary payments without sufficient justification, and/or one-off discretionary awards that become habitual or routine.

Whenever we have issues with a compensation program and irrespective of our voting decision, we will outline our concerns to the company directly. In situations where either the committee has failed to respond to our concern(s) or has made decisions that in our view represent a significant disconnect between pay and performance, we will consider voting against members of the compensation committee in addition to not supporting the say-on-pay resolution.

We expect boards to respect the shareholder democratic process with respect to say-on-pay resolutions. In the event that a say-on-pay proposal receives significant voting opposition from shareholders in any given year, we will generally hold the chair of the compensation committee responsible to ensure that significant improvements are subsequently made to the compensation plan.

### 2.2.1 Frequency of the Say-on-Pay Vote

Given the role the say-on-pay vote has come to play in the shareholder-director engagement process, we see value in **supporting** these proposals. Our preference is to support annual say-on-pay votes.

### 2.2.2 One-off Discretionary Awards

We review one-off discretionary payments on a case-by-case basis and generally do **not support** these awards when the company has not provided a compelling reason for the award. We believe that awards outside the normal compensation plan can bring the design of current arrangements into question and, particularly when used for retention purposes, they can be a sign of weak succession planning.

We have significant concerns when we see the regular awarding of such discretionary compensation year after year. Habitual use of outside of plan awards without sufficient rationales may result in votes against a compensation plan or **against** the Chair of the compensation committee.

## 2.3 MANAGEMENT COMPENSATION

We will review management compensation plans on a case-by-case basis. We review the features of each plan and determine whether the plan on the whole is reasonable.

We look to *support* compensation plans containing the following features:

- ▶ a clear statement by the board of directors of its executive compensation philosophy and how this philosophy is related to the company's strategic objectives;
- ▶ incentives for performance that address both short- and long-term corporate objectives that we believe will be stable and not require alteration through the company's business cycle;
- ▶ a minimum one-year post-retirement hold period of equity awards, although we prefer a period of two years;
- ▶ minimum share ownership requirements for executives;
- ▶ meaningful industry and company performance metrics for the awarding and/or vesting of incentives;
- ▶ full disclosure of all benefits including the present value of pension benefits and supplemental executive retirement plans in the compensation table in the management information circular;
- ▶ identification of changes in philosophy or performance targets;
- ▶ a relatively simple methodology that is easy to understand;
- ▶ clawback provisions allowing the company to recoup compensation already paid in the event of financial restatements or personal misconduct and related disclosure to communicate to shareholders when it is used; and
- ▶ non-GAAP metrics should be accompanied by a clear explanation on how the calculation of the metric was achieved and the impact to the incentive as a result.

In a number of instances, newly appointed CEOs and senior management will be granted signing bonuses or "golden hellos." We will evaluate such compensation arrangements on a case-by-case basis considering the reasonableness and necessity of the award along with any conditions attached to the ultimate receipt of the award.

### 2.3.1 Severance Compensation (“Golden Parachute”)

A golden parachute is a severance compensation arrangement to be paid to an employee whose employment is terminated. In some cases, the payment is contingent upon the merger or acquisition of the corporation with a resulting change of control. These benefits can take the form of severance pay, a bonus, vesting of equity compensation, or a combination thereof.

Single-trigger golden parachute arrangements are those that typically require only that a change of control occurs or is deemed to have occurred, and not that the individual also loses his or her job, or has his or her responsibilities curtailed for reasons not of their own volition. Double-trigger arrangements require both a change of control and that the individual ceases to be employed in a manner that is similar or reasonably comparable to his or her current role. Payment of reasonable severance compensation is justified when job loss or significant demotion occurs, but is not acceptable when it is excessive and/or in circumstances where the individual continues to be employed in the same or similar capacity as he or she was prior to the trigger event occurring.

We recognize the need for competitive severance arrangements, particularly to enable management to continue making decisions in the best interests of a company and its shareholders regardless of their own welfare in the event of a successful takeover. However, when golden parachutes are excessive they serve to entrench management.

We will review severance compensation arrangements on a case-by-case basis. We will **not support** “golden parachutes” that we deem to be excessive or that are “single-trigger” arrangements.

## 2.4 DIRECTOR COMPENSATION

We will generally *support* proposals that call for a certain percentage of directors' compensation to be in the form of common stock (or restricted share units). We will not ordinarily vote against directors where there is no practice of paying some percentage of director compensation in common stock. We will do so if corporate performance, over a suitable time frame, is unsatisfactory.

We will review total compensation paid to directors on a case-by-case basis to ensure that the director compensation program provides appropriate compensation without compromising the director's ability to be independent.

We generally do *not support* arrangements made on the part of directors to pledge as collateral or hedge their equity ownership.

## 3. CORPORATE STRUCTURE AND CAPITAL MANAGEMENT

### 3.1 REINCORPORATION

Reincorporation involves a proposal to re-establish the company in a different legal jurisdiction. There are a number of legitimate reasons why a company may want to reincorporate, but it is often a tactic by management to frustrate a potential takeover, or to limit director liability or other shareholder rights.

We will **support** reincorporation proposals when management and the board can demonstrate sound financial or business reasons for the move. However, we will generally **not support** reincorporation proposals that are made as part of an anti-takeover defense or solely to limit directors' liability.

### 3.2 INCREASE IN AUTHORIZED OR ISSUED SHARES

An increase in the number of authorized or issued shares provides a company's board of directors with flexibility to meet changing financial conditions.

Additional shares may be needed to:

- ▶ implement a stock split, which can expand and improve the market for the company's securities;
- ▶ aid in a restructuring or acquisition, which can improve the company's competitive position;
- ▶ provide sufficient shares for use in stock option or other executive compensation plans; or
- ▶ implement a shareholder rights plan or other takeover defense.

We believe that shareholders should have input on major decisions regarding authorized shares and share issuance given the potential authorized or issued shares presents significant dilution risk. We will generally **not support** proposals that seek to increase the authorized or issued shares by 10% or more when management does not demonstrate a specific need. For requests in excess of 10% that have a specific need, we will also assess the validity of the need and will **support** those requests where we determine the need to be valid.

#### Authorization without Pre-emptive Rights

We will generally **not support** proposals where the increase in authorized or issued shares does not contain pre-emptive rights, other than in the case of an all-stock takeover bid or merger.

### 3.3 "BLANK-CHEQUE" PREFERRED SHARES

Blank-cheque preferred shares usually carry a preference as to dividends, rank ahead of common shares upon liquidation, and give a board broad discretion (a blank cheque) to establish voting, dividend, conversion, and other rights in respect of these shares.

While they might provide corporations with the flexibility needed to meet changing financial conditions, they may also be used as a vehicle for a defence against hostile suitors, or may be placed in friendly hands to help block a potential takeover bid. A concern for many shareholders is that once these shares have been authorized, shareholders have no further power to determine how or when these shares will be designed and allocated.

We will generally ***not support*** either the authorization of, or an increase in, blank-cheque preferred shares.

## 4. TAKEOVER PROTECTIONS

We will look at takeover protection measures on a case-by-case basis keeping assessing the extent to which the measure enhances the long-term value of our investments.

### 4.1 SHAREHOLDER RIGHTS' PLANS ("POISON PILLS")

A shareholder rights plan provides the shareholders of a target company with rights to purchase additional shares or to sell shares at very attractive prices in the event of an unwanted offer for the company. These rights, when triggered, impose significant economic penalties on a hostile acquiror.

In our view, there are limited legitimate purposes of a shareholder rights plan:

1. ensuring that all shareholders are treated equally in connection with a change of control of the company;
2. allowing the board of the target company sufficient time to determine whether there is a better alternative to the offer; and
3. permitting shareholders to make an informed decision about the bid and available alternatives.

Many shareholder rights plans go much further than these legitimate aims. In such circumstances, they may be used to discourage a takeover bid, or to prevent shareholders from responding to a bid or from determining the best course of action for the company. We believe it is appropriate for shareowners to determine if a rights plan should be implemented and subsequently remain in effect, whether within the context of a bid or otherwise. As owners, they are less likely to be subject to the conflicts of interest that could influence the judgment of the board and management.

We will review shareholder rights plans on a case-by-case basis. We will generally **not support** shareholder rights plans that go beyond ensuring equal treatment of shareholders in the event of a bid, allowing the company sufficient time to consider alternatives to a bid and permitting shareholders to make an informed decision about the bid and available alternatives.



## 4.2 ADVANCE NOTICE REQUIREMENT

We will evaluate advance notice requirement by-law amendments on a case-by-case basis and will **not support** by-law amendments that place unreasonable burdens on shareholders wishing to nominate directors.

## 4.3 SUPERMAJORITY APPROVAL OF BUSINESS TRANSACTIONS

Supermajority amendments are generally designed to deter hostile takeovers by imposing artificially high voting barriers. They typically require the approval of three-quarters (75%) or more of shareholders for a particular transaction.

We agree that in some circumstances a supermajority approval is appropriate; however, we feel that in these circumstances a two-thirds (66.7%) approval level is sufficient. Such a vote requirement, in our opinion, is reasonable and yet provides sufficient protection against unwarranted invasions on the corporation. This threshold also has some support using corporate law as a precedent.

We will review supermajority proposals on a case-by-case basis; however, we will generally **not support** proposals in which management seeks to increase the number of votes required on an issue above two-thirds (66.7%) of the outstanding shares.

## 4.4 GOING PRIVATE TRANSACTIONS, LEVERAGED BUYOUTS AND OTHER PURCHASE TRANSACTIONS

We will evaluate going-private transactions, leveraged buyouts and other purchase transactions on a case-by-case basis, but we will *not support* transactions that do not adequately compensate minority shareholders.

### 4.4.1 Severance Compensation (“Golden Parachute”)

Whenever a publicly traded corporation seeks to become privately owned via a going-private transaction or a leveraged buyout, we will carefully evaluate the proposal to determine whether the transaction is in the long-term best economic interests of shareholders, or whether it is designed mainly to further the interests of one group of stakeholders at the expense of other shareholders.

In addition to this economic analysis, we will review the process by which the proposal was received and consider whether:

- ▶ in the case of related-party transactions, a proper review was undertaken by an independent committee of the board;
- ▶ other potential bidders have had an opportunity to investigate the company and make competing bids;
- ▶ a valuation and/or “fairness opinion” has been obtained from a qualified and independent third party, and the analysis and recommendations contained in that valuation or opinion support the proposal; and
- ▶ in the case of related-party transactions, minority shareholders will be given the opportunity to vote the proposal separately from those shareholders who may be related parties.

### 4.4.2 Other Purchase Transactions

We review all transactions on a case-by-case basis and will support those which we believe are clearly in the best interests of shareholders.

## 5. SHAREHOLDER RIGHTS

### 5.1 ACTION BY WRITTEN CONSENT

Ontario Teachers' believes that holding meetings and requiring a shareholder vote is a good forum for engaging all shareholders in important decisions affecting their investment. In our view, there are too many unknowns associated with allowing shareholders to act by written consent that have the potential to disenfranchise some shareholders to outweigh the benefits of holding meetings. As such, we will *not support* proposals related to action by written consent.

### 5.2 RIGHT TO CALL A SPECIAL MEETING

We typically *support* proposals seeking to establish a threshold of 10% ownership to be able to call a special meeting should the situation warrant.

### 5.3 VIRTUAL ONLY MEETING

We are concerned when a company proposes or elects to hold virtual-only shareholder meetings. We believe this potentially limits meaningful communication between shareholders and management. Instead we believe that virtual meetings should be used as an option in addition to offering in-person meetings with shareholders. We generally hold the chair of the board and/or the chair of the governance and nominating committee responsible given their leadership roles on the board and will *not support* his or her election to the board.

## 5.4 DUAL-CLASS SHARE STRUCTURE

While we do not support the creation of dual-class share structures, we understand that this structure does exist in many corporations. In these cases, it is important that the share provisions allow for fair and equitable treatment of both classes of shareholders, which we will assess on a case-by-case basis. For example, we consider coattail provisions<sup>13</sup> appropriate to be included in the share provisions of any dual-class structure.

We **support** one class of shares. We will generally **not support** the creation or extension of dual-class share structures. We will review transactions to collapse controlled corporations with dual-class structures on a case-by-case basis, supporting the collapsing of dual-class structures insofar as the transactions eliminating the structures are in the best long-term interests of the corporation. We would generally **not support** transactions which transfer a significant amount of wealth as a control premium to the controlling shareholder(s). We **support** the creation of sunset clauses.

We view any attempt to provide extra benefits, such as increased voting rights or higher dividends, to longer-term shareholders to be the same as creating a dual-class structure. Thus, we will **not support** the creation of such “loyalty shares”.

<sup>13</sup> Coattail provisions allow for the holders of subordinated shares to be treated equally to the superior shares in the event of a formal bid for the company.

## 5.5 SHAREHOLDER PROPOSALS

We will evaluate all shareholder or stakeholder proposals on a case-by-case basis. We will generally **support** proposals that relate to enhancing disclosure on issues we believe may present a material risk to the company or generally improve the company's corporate governance processes and practices. We will generally **not support** proposals that in our view place arbitrary constraints on the company, its board or management, duplicate existing practices and/or hinder the creation of long-term shareholder value.

We note that shareholder proposals are typically advisory votes. We recognize there may be instances where we support the intent of the proposal but find the time frame for implementation to be overly restrictive or unrealistic. In these cases, and understanding the advisory nature of shareholder proposal votes, we will consider supporting the shareholder proposal but allow the company a longer implementation time frame.

### 5.5.1 Environmental and Social (E&S) Shareholder Proposals

Voting decisions on E&S proposals are also informed by an evaluation of materiality and will consider the company's unique set of circumstances and current approach to the request or issue generally. We are guided by an internal framework designed to ensure that all shareholder proposals are evaluated in a consistent manner.

#### Climate Change

We encourage companies to consider how climate change impacts their business. We typically **support** proposals requesting improved governance and oversight of these issues as well as those seeking decision-useful reporting on assessment, management, and monitoring of climate change related risks and opportunities.

We encourage companies to consider the recommendations of the Task Force on Climate-Related Financial Disclosures<sup>14</sup> and will typically **support** proposals seeking alignment thereof.

<sup>14</sup> Task Force on Climate Related Financial Disclosures

### Human Capital Management

We encourage companies to demonstrate leading practices in human capital management to support a healthy work environment and culture. This enables business to improve capital efficiencies through increased productivity and reduced injuries for instance, as well as to sustain employee engagement, and improve its ability to attract and retain employees. We typically **support** proposals requesting a company to report on, or develop policies related to: anti-discrimination, freedom of association, improving diversity and inclusion, pay practices, and employee health and safety.

### Political Activities and Expenditures

We expect corporate political activities to be aligned with corporate strategy and to enhance the long-term value creation for shareholders and stakeholders. Where appropriate, we **support** proposals seeking to establish or improve oversight from the board on political expenditures (quantum) and activities including policy and procedural reviews and taking industry and peer comparisons into consideration. We also encourage companies to provide regular disclosure on expenditures and rationales, including dues to trade associations and their rationale.

## 5.6 EXCLUSIVE FORUM PROVISIONS

We believe that shareholder derivative lawsuits provide shareholders with an important mechanism to ensure that directors and officers fulfill their fiduciary duties. When a board requests the adoption of an exclusive forum provision, it is seeking the authority to amend the company bylaws so that shareholder derivative lawsuits would be limited to a single jurisdiction.

Although there are legitimate reasons why a company may want to adopt such a provision, this can be a tactic to discourage the pursuit of derivative lawsuits by increasing their difficulty and cost, and therefore limit shareholder rights.

We will review board requests to adopt an exclusive forum provision on a case-by-case basis. We will generally **support** proposals where the company can demonstrate a sufficient rationale for the amendment and where we are comfortable with the jurisdiction being proposed. However, we will generally **not support** these requests if we feel the company is using it solely as a way to restrict shareholder rights. In situations where exclusive forum provisions are implemented without first going to a shareholder vote, we will, depending on the circumstance, hold the chair or members of the corporate governance committee (or equivalent) responsible and **not support** their re-election to the board.

## 5.7 DIRECTOR NOMINATION BY SHAREHOLDERS (PROXY ACCESS)

We will review requests to adopt proxy access on a case-by-case basis. We are generally **supportive** of proposals containing thresholds that equate to a sufficiently high dollar amount of share ownership so as to avoid potential abuse of proxy access authority.

## 5.8 ANY OTHER BUSINESS

Where companies do not provide sufficient information and require a vote enabling the Board and/or management to hear other business at the AGM, it would not be prudent of us to approve these requests in advance so we generally **not support** such proposals.

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