2015 Corporate Governance Principles and Proxy Voting Guidelines

TEACHERS' PENSION PLAN

Good Governance is Good Business

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CORPORATE GOVERNANCE DEFINED

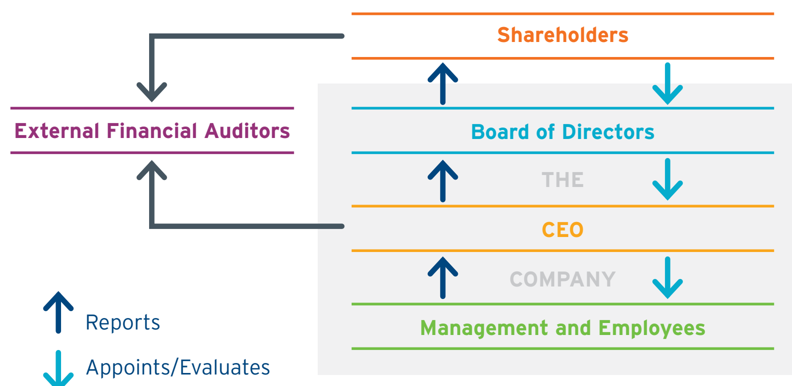
Ontario Teachers' Pension Plan (Teachers') believes that good governance is good business. Companies implementing good governance practices are better positioned to make high-quality decisions that benefit the corporation and ultimately its shareholders.

Corporate governance is the structures a company puts in place to ensure it is effectively directed and controlled. In a corporate governance system there are three parties – the board of directors, management and shareholders. 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, the duty of the board is 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). Management is responsible to the board for developing and implementing the agreed upon strategic plan as well 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.

Shareholders appoint the board and the company's auditors as well as satisfy themselves that the company has effective governance structures in place and the board is appropriately discharging its duties.

The following diagram illustrates the relationships among the various groups within a corporate governance system, as described above.



CORPORATE GOVERNANCE PRINCIPLES

Teachers' has adopted a number of corporate governance principles that we believe underpin an effective corporate governance system in any company. We believe well-governed companies apply these principles to their corporate governance structure and demonstrate consistency with them through the decisions the board makes.

BOARDS AND DIRECTORS:

- recognize the trust that has been given to them by shareowners through their election to the board and will not benefit from this situation by entering into self-serving activities.
- understand that shareowners provide capital to the firm in exchange for ownership of the company, and therefore have an expectation 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.
- think and act independently from management, free from conflicts of interest and in accordance with their fiduciary duty. At the minimum, directors must demonstrate a working knowledge of the industry in which the company operates, including operations and risks, and must be willing and able to challenge management. Furthermore, they must continually undertake the necessary efforts to understand the current and emerging issues and risks facing the company and its industry in order to make decisions from the most informed perspective possible.
- need the freedom to apply their judgement and make decisions that they believe are in keeping with their obligations as directors knowing that they will be held accountable for the decisions they make. Boards and directors understand that companies must take risks, but should not take risks inconsistent with the best interests of the corporation or its shareowners.

- give the highest regard to shareowner rights, the equality in treatment of shareowners and the shareowner democratic process in their decision making processes such that all actions taken by the board will demonstrate this underlying respect for the owners of the corporation.
- take an objective approach to evaluating management and ensure that any compensation rewards are to be commensurate with performance and the creation of sustainable shareholder value.
- are sufficiently transparent in their communication with shareowners.
- make a real and demonstrated commitment to board diversity by seeking out and appointing qualified diverse directors in sufficient numbers so they can be effective in having their views expressed and debated at the board level.

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES TO PRIVATE COMPANIES

Our Corporate Governance Principles were developed within a public company context. Compared to 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.

THE BOARD'S ROLE IN RISK MANAGEMENT

One of the main tasks of a board is to oversee the decision of 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. 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.

Management has responsibility for identifying the risks facing the company and developing an appropriate risk management system. The role of the board is to supervise the risk management process having regard for the company's return objectives. This requires that the directors keep up-to-date on the risk profile of the company, including satisfying themselves that they have knowledge of new and/or potential risks facing the company such as those relating to environmental and social issues.

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.

RESPONSIBLE INVESTING

Teachers' has always taken a responsible approach to investing on behalf of our members. Our mandate and duty is to use diligence when investing other people's money and our investment decisions are based on the obligation of the Plan to pay our members' pensions.

Arriving at a decision to invest is a complex process requiring an integrated approach which assesses the risks of a number of traditional and non-traditional factors. Some of the non-traditional considerations include environmental, social and governance issues. 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.

As a responsible investor, we consider good corporate governance to be the over-arching framework for effective company management. Teachers' believes that a strong governance structure underpins a company's ability to effectively deal with risks. That being said, we recognize that structure alone does not create a well-governed company – how that board functions within its structure is also critical. That is why we also look at company, board and director performance and will hold directors and boards accountable for the decisions they make.

In order to check accountability, we continually monitor a company's financial and non-financial performance after the 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, such as:

- Encouraging regular engagement with companies
- Voting our shares in the most informed manner possible
- Examining and assessing the ability of the board of directors to make effective decisions that are in the best interests of the corporation
- Collaborating with other investors where appropriate
- Entering into targeted discussions with companies when the situation warrants
- Taking any other action we deem to be appropriate under the circumstances

The above 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, the mind-set of the company as well as their alignment with our Corporate Governance Principles.

2015 Proxy Voting Guidelines

PROXY VOTING PROCESS

One of our most important rights as investors 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 economic interests of company shareholders over the long term.

We consider the right to vote to be one of our most effective tools for promoting good corporate governance. We are also 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.

We take the issue of 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 our Corporate Governance Principles and corresponding Proxy Voting Guidelines. Our assessment process consists of consulting a variety of sources, including all relevant company filings and other materials we have access to, such as proxy research reports and the services of third party research providers.

We expect to have the opportunity to review and vote on resolutions separately. However, there are situations where companies "bundle" proposals—combine two or more related and/or unrelated items into one resolution. Bundled proposals often contain both matters that shareholders would support and those they would likely oppose if voted on separately, which presents a dilemma for shareholders when casting votes on bundled proposals. We discourage boards from combining proposals in this manner as we believe it undermines the shareholder democratic process. When 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 there are supportable elements contained therein.

As appropriate, each portfolio manager with an interest in a particular company is engaged in the process to ensure his or her perspective is reflected in our decision making. Contentious issues or positions are regularly discussed with Senior Management in the Investments Division as well as the President and Chief Executive Officer. Where appropriate and necessary, we will seek to contact the company for additional information or clarification.

We will generally provide a rationale for our voting decisions when voting against a management recommendation or if the proposal is non-routine in nature. Explanations of our voting decisions are disclosed on our website (www.otpp.com/proxyvotes) in advance of the meeting date[1]. We also support the prompt public disclosure of the voting results of each proposal voted on at a meeting of shareholders.

[1] By providing our decisions on our Web site, 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 for more information.

PROXY VOTING GUIDELINES

The following Proxy Voting Guidelines are based on our Corporate Governance Principles and articulate how we intend to vote on some commonly raised or potentially contentious issues. 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.

We apply these guidelines to determine whether to support or oppose proposals presented for a shareholder vote. It would be inconsistent with our fiduciary responsibility to vote for any management- or shareholder-sponsored initiative that we believe is likely to diminish shareholder value over the long term. Fundamental to any voting decision is consistency with our Corporate Governance Principles, keeping in mind our rights as shareholders and our fiduciary responsibilities to the Plan's beneficiaries.

Our guidelines are not regulations and will evolve as circumstances change. We commit to remain open-minded and pragmatic, and will apply the guidelines with thought, giving consideration to the individual circumstances of companies and alignment with our Corporate Governance Principles. These guidelines are annually reviewed by the Investment Committee of Teachers' Board.

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.

We welcome comments or feedback on our guidelines and encourage you to contact us at corpgovernance@otpp.com.

CHANGES FOR 2015

There have been a number of enhancements and clarifications to our Corporate Governance Principles and Proxy Voting Guidelines for 2015. Included in these changes are the following:

Boards of Directors
In Guideline 1.1 Independent Boards of Directors we have added that a director entering into business relationship(s) with the company is a reason for voting against the director, if we conclude that such relationship may compromise the director's ability to act independently.

With respect to Guideline 1.3 Director Nomination and Evaluation we have removed the term "self" when describing evaluation to reflect the view that director evaluation includes more than self-evaluation. In addition, we have included director succession planning as an issue to which the board should demonstrate commitment.

In Guideline 1.4 Election of Directors we have expressed that at the minimum directors should be elected via a majority-vote policy.

Guideline 1.9 Separation of Board and Management Roles includes a discussion about our general opposition to the re-combining of the roles of Chair and CEO and the creation of an executive chair position.

Management and Director Compensation
In Guideline 2.1 Effective Equity Compensation we state our opposition to equity plans that contain retesting features.

We have provided a list of some considerations that would cause us to cast a vote against a compensation plan when we are considering say-on-pay proposals (Guideline 2.2 Advisory Votes on Compensation (Say-on-Pay)).

Takeover Protections
Under Guidelines 3.1 Shareholder Rights Plans we have removed reference to applying the Toronto Stock Exchange (TSX) guidance to provide us with more flexibility in assessing rights plans.

We have added a new guideline 3.2 Advance Notice Requirement to outline our approach to evaluating the rising number of advance notice by-laws shareholders are being asked to approve.

We have removed guidelines that addressed crown jewel defences, payment of greenmail and fair price amendments as these are seldom-used. Future proposals on any of these will be assessed using our Corporate Governance Principles as a guide.

Shareholder Rights Issues

In Guideline 4.3 Increase in Authorized or Issued Shares, we have added a comment to the discussion that questions the ongoing need to have companies request authorization to issue up to 33% of equity with an additional 33% available through a rights program because of difficulty raising capital coming out of the 2008 financial crisis. Our 2015 review of our guidelines will address our approach to these authorization requests for 2016 and beyond.

1.0 BOARDS OF DIRECTORS

The board of directors represents shareholders and, as such, ought to play the most significant role in the governance at any company. We believe that a board has four overriding responsibilities:

- understanding the company's business and the industry in which it operates
- determining and overseeing direction and strategy
- exercising control, which includes oversight of the risk management process
- monitoring, evaluating and incentivizing management, including establishing a succession plan

In order to properly discharge these responsibilities, boards must organize themselves to constructively challenge management's recommendations and to evaluate corporate performance from an objective perspective.

The following guidelines are each designed to encourage the board of directors to discharge its responsibilities in the most efficient and objective fashion possible and consistent with our Corporate Governance Principles, without placing unreasonable or arbitrary burdens on the company or the board.

1.1 INDEPENDENT BOARDS OF DIRECTORS

GUIDELINE

We ***support*** an independent[2] board of directors. Ordinarily, we will not vote against a corporation's director candidates simply because they fail to meet the independence standard. We will consider ***not supporting*** a director's election to the board if:

- we determine that decisions taken by a director (or directors) have resulted in unsatisfactory corporate performance over a reasonable period of time;
- in our view, a director (or directors) has demonstrated a pattern of behaviour that could negatively affect the long-term performance of the corporation; or
- we conclude that a director's (or directors') business relationship with the company may compromise their ability to act independently.

If we have lost confidence in a director's ability to act in the best long-term interests of the corporation, we would assess his/her ability to act similarly on other boards and consider ***not supporting*** that director's election to any other board for which he/she is a nominee.

DISCUSSION

A board of directors should have a majority of independent directors and ensure that the board is truly independent of management. We believe that a board with a majority of independent directors, and whose key committees are staffed with independent directors, is better positioned to critically evaluate management and corporate performance.

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 the external advisors that they retain.

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.

[2] 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.

Some jurisdictions attempt to draw a connection between independence and director's term on a board. While there may be examples where a director's length of service has affected his/her independence, we do not believe that tenure is a reliable proxy to determine independence. It is our view that the nominating/governance committee should evaluate whether the length of service of a particular director has reached a point where the director's independence may be impaired.

A chief executive officer (CEO) who has announced retirement from his/her role should also resign from the board upon his/her retirement date.

In circumstances where an investor has a significant ownership stake in a corporation, consideration should be given to provide for director representation on the board that is proportional to the investor's economic interest.

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 one or more directors sit together on other company boards.

Given the fiduciary responsibilities of being a director and the importance of remaining objective, we do not support a director entering into a business relationship of any kind with the company if it appears that relationship may interfere with their ability to act independently.

It is essential that we have confidence in the board's ability to act in the best long-term interests of the corporation. Generally, we will not support the re-election of a director in situations where we have determined the director has consistently acted in a manner that in our view inhibits the long-term performance of the corporation. Furthermore, if we have significant concerns with any director on a particular board, we will evaluate on a case-by-case basis whether or not to support that director on any other public company board of which he/she is a member if we believe his/her continued presence on those boards would be detrimental to the long-term performance of those corporations.

Generally, a vote against director candidates would not be 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.

1.2 GOVERNANCE AND NOMINATING COMMITTEE

GUIDELINE

We ***support*** the establishment of an independent nominating/governance committee. We will not ordinarily vote against directors simply because the board lacks a properly constituted nominating/governance committee but will do so if we believe that the absence of such a committee has adversely affected the composition of the board and the governance of the corporation.

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 to provide 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.

We expect boards to 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 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.

DISCUSSION

Each board should have an independent nominating/governance 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.

We expect directors to respect the shareholder democratic process. In situations where a proposal on the ballot has received the support ("for" vote) or non-support ("against" or "withhold" vote) of a significant majority of shareholders, we would expect the chair of the governance committee (or equivalent) to ensure the proposal is implemented in accordance with the wishes expressed by

a majority of shareholders, or provide a compelling reason(s) as to why not. When determining "significant majority", we will include only those votes cast for, against or, in the case of director elections in the North American market, withhold and do not consider broker non-votes relevant.

Teachers' believes that any changes to bylaws or policies that can affect shareholder rights must first be approved by a majority of shareholders vote prior to adoption by the board. Examples of such items that should be put to a shareholder vote include, but are not limited to, adoption of poison pills and designating a single jurisdiction where shareholders can file derivative actions.

1.3 DIRECTOR NOMINATION AND EVALUATION

GUIDELINE

We ***support*** the establishment of processes for evaluating the performance and effectiveness of the board. We will not ordinarily vote against directors because the board fails to publicly disclose its nomination and evaluation processes. We will do so only 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.

DISCUSSION

A strong board composed of qualified directors should enhance corporate performance. The board's process for identifying, recruiting, nominating, appointing, and orienting new directors, and for assessing existing directors, is central to ensuring the qualifications of the board.

The nominating/governance 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. We encourage public disclosure and transparency of the board's selection and evaluation processes to enable us to evaluate the breadth and depth of the processes, as well as the extent to which diversity is considered by the board. 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 fosters 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 or other similar committee should direct the evaluation process. The fact that such assessments are undertaken should be disclosed, as well as attendance records and the number of other boards on which each director is active. This allows shareholders to assess for themselves the commitment of each board member to the company of which he or she is a director.

1.4 ELECTION OF DIRECTORS

GUIDELINE

We prefer the annual election of all directors. We will generally ***not support*** proposals that create a staggered board[3]. 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.

We ***support*** the establishment of a majority-vote standard[4] for the election of directors. In the absence of a majority-vote standard we expect issuers to adopt a majority-vote policy[5]. 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.

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.

DISCUSSION

Annual Elections of all Directors

Proponents of classified boards argue that by staggering the election of directors, a certain level of continuity and skill is maintained. It is worth noting 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 make fundamental changes to the composition and behaviour of boards by making it extremely difficult for any challenge to, or change in, board control.

[3] 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.

[4] Under a majority-vote standard shareholders vote "For" or "Against" directors and only those directors receiving a majority of votes cast are elected.

[5] 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.

In circumstances of deteriorating corporate performance, this difficulty could result in a permanent impairment of long-term shareholder value.

Individual Elections and Majority Voting

We prefer and encourage companies to design proxy structures that give shareholders the ability to vote for or against individual board nominees, rather than requiring them to vote for or against an entire slate of board nominees. In addition, we believe that companies should adopt a majority-vote standard for the election of directors.

Should a company not employ a majority-vote standard in its director elections, we expect the company to adopt a majority-voting policy for its director elections. 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 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.

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 affect positive change and increase shareholder value than the incumbent nominees.

In the event of a contested election, we prefer that universal proxy ballots are utilized 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, under traditional proxy contests, shareholders are restricted to supporting 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 voting process in which they may select a combination of director nominees from all listed candidates, regardless of who the candidates were nominated by.

Cumulative Voting
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.

1.5 INDEPENDENT AUDITORS

GUIDELINE

We ***support*** the establishment of an independent audit committee. 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 will generally ***not support*** the reappointment of the auditor if efforts have been made to use binding arbitration to limit or reduce an audit firm's liability.

DISCUSSION

We are committed to the principle of the independence of external auditors and we have accordingly recognized these principles within our own proxy voting guidelines. Shareholders must be able to rely on the independent auditor. If they perceive that there is a lack of independence, whether or not such a deficiency exists, much of that value is lost.

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.

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. We would be concerned if the same partner of any firm has audited a company for excessively long periods or if there have been material restatements to the financial statements. In these circumstances, we may withhold our support from the auditor.

Finally, we note that in some jurisdictions it has become common for an audit engagement letter to include binding arbitration as a means of dispute resolution between management and the auditors. 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 vote against or withhold our vote from the appointment of the auditor if the audit engagement letter includes such provisions.

1.6 AUDIT FEES

GUIDELINE

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.

DISCUSSION

We prefer that all, or a significant majority, of the revenues generated by the accounting firm through its relationship with the company come from the audit function. 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.

1.7 COMPENSATION COMMITTEE

GUIDELINE

We ***support*** the establishment of an independent compensation committee. We will not ordinarily vote against a corporation's director candidates simply because the board lacks a properly-constituted compensation committee. We will do so if we believe there is recurring evidence of a failure of the compensation committee to link pay with performance or if there are extraordinary and unjustified decisions on the part of the committee.

DISCUSSION

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 commensurate with performance. The members of this committee should not be nominated or selected by the CEO, nor should the committee include the CEO.

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, and such consultants should be responsible to only the members of the committee. 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.

Decisions taken by the committee, which in our view consistently disregard linking pay to performance or are extraordinary in nature and lack sound justification, could result in a vote against either the committee chair or, in more extreme cases, the entire committee.

1.8 BOARD SIZE

GUIDELINE

We ***support*** a board size of 5 to 16 members. We will not ordinarily vote against a corporation's director candidates simply because the size of the board is outside the guideline. We will do so if we determine that the size of the board is inhibiting its effectiveness.

DISCUSSION

Directors are elected to promote and protect shareholders' interests. A board that is too large will dilute the voting power of individual members, and may reduce the effectiveness of the board. On the other hand, a board that is too small may not be able to adequately discharge its responsibilities, to the detriment of overall corporate performance.

There must be a sufficient number of board participants to enable the board to function efficiently and effectively. Board effectiveness is central to maximizing long-term shareholder value. The board must be large enough to allow it to adequately discharge its responsibilities, without being so large that it becomes cumbersome. Problems of poor communication and decision-making will overwhelm boards where the composition is too large.

We prefer a board of no fewer than five and no more than 16 members depending on the type of corporation. However, the board's top priority should be to ensure that it has competent and independent members who bring a diverse range of backgrounds and qualifications to effectively carry out the board's duties, regardless of size.

1.9 SEPARATION OF BOARD AND MANAGEMENT ROLES

GUIDELINE

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.

DISCUSSION

The Chair of the board has a critical role in setting the tone for the board and in establishing the standard of an independent mindset, in addition to being responsible for coordinating the activities of the board. 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 these responsibilities put a combined Chair/CEO in the very difficult 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 it is appropriate to separate the roles of Chair and CEO. We believe there is a great potential advantage to the corporation, the CEO, and the directors to have a separate Chair, who can deal with matters from the board's point of view, and who can provide a greater measure of independence to the board's oversight role. While we prefer the separation of the roles, we recognize that in limited circumstances, it may be justified that the roles be combined. When the Chair and CEO is the same person, we believe that the reasons for joining the roles should be clearly disclosed so that shareholders can judge for themselves the appropriateness of a combined Chair and CEO role.

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. Ideally, we view the installation of a "Lead Director" as a transitory step to the ultimate splitting of the roles of Chair and CEO.

We have significant concerns when a board, which previously had split the roles of Chair and CEO decides to revert to a combined Chair/CEO structure. In the absence of a compelling explanation as to how the recombination of the roles is in the best interests of shareholders, we will hold the chair of the Governance Committee (or equivalent) and/or its members responsible for this decision.

We are generally not supportive of the creation of the role of Executive Chair as we believe the Chair should remain independent of management and not be identified with management. Furthermore, we have significant concerns if the role of Executive Chair is, in our view, bestowed on an individual as a reward for past services, such as situations where former CEOs or Chairs remain on the board and given an "Executive Chair" title. In these situations, we are concerned that keeping former CEOs and Chairs on boards may inhibit the new leadership from executing their duties in a manner as they see fit. Depending on our degree of concern, we will vote against one or more of the Executive Chair, the chair of the Governance Committee (or equivalent) and the committee members.

1.10 DIRECTOR LIABILITY AND INDEMNIFICATION

GUIDELINE

We will generally ***support*** proposals that limit directors' liability and provide indemnification, subject to the qualifications outlined below.

DISCUSSION

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 on areas of misconduct by directors. Consequently, in order to encourage the nomination of able directors, we believe that an appropriate indemnification policy is warranted.

2.0 MANAGEMENT AND DIRECTOR COMPENSATION

Complex management and director compensation plans have become prevalent. 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.

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 in existence today 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 would prefer to see that the exercise price or the 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.

2.1 EFFECTIVE EQUITY COMPENSATION

GUIDELINE

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.

DISCUSSION

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. The following points clarify our views on various aspects of equity compensation.

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.

Dilution: We will generally *support* equity incentive plan amendments if the total potential dilution[6] does not exceed 5%, and the burn rate[7] 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.

[6] 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.

[7] 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.

Vesting
Change of Control: We will *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 the requirement to meet a performance condition is deferred to a future period when that metric is not met in the current 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: We will generally *not support* plans that are 100% vested when granted.

Exercising
Employee Loans: We will generally *not support* the corporation making loans to employees to allow employees to pay for equity compensation. Excessive loans expose the company to risk as a result of potentially-uncollectable debts and may inhibit the termination of employees who are in debt to the company. Executives seeking to borrow to buy equities under equity compensation plans should be required to obtain credit from more 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[8].

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.

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 are 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 to pledge as collateral or hedge their equity ownership.

[8] Evergreen provisions are features in a plan which allow for equity plans to automatically renew and/or have an indefinite life.

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

GUIDELINE

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 as set out in these guidelines. 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.

DISCUSSION

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.

"Say-on-pay" votes have facilitated compensation-related dialogue between directors and shareholders. While there is value to this practice, we believe the preferred method to bring about such dialogue is to allow shareholders to approach directors directly with their issues and for individual directors to be held accountable for the compensation decisions made. We believe this is best accomplished through a majority-vote standard (as described in Guideline 1.4) where shareholders can exercise their right to vote against directors and particularly those on compensation committees if concerns are not dealt with satisfactorily. As described in Guideline 1.7, we will take this direct approach with members of the compensation committee in situations where we believe they have failed to align pay with performance on a recurring basis, or where they have made extraordinary and unjustified decisions relating to compensation.

However, we recognize that say-on-pay votes are now part of the proxy voting landscape and as such we are obligated to cast an informed vote on each say-on-pay proposal presented. We will review say-on-pay proposals on a case-by-case basis, assessing compensation plans based on the features that we look for in Guideline 2.3.

In instances where we are satisfied that a compensation plan is adequately designed to align pay with performance, we will generally vote in support of the say-on-pay resolution.

If we have sufficient concerns with an issuer's remuneration program, we may choose to either support or oppose a compensation plan, depending on the seriousness of our concerns. We have

identified certain trigger points that, depending on their severity, would/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 (i.e. long-term compensation has 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 performance criteria used to award compensation or to determine the vesting of equity
- disproportionate amount of compensation being paid to the CEO relative to the other senior executives
- a poorly constructed or inappropriate application of peer groups

Whenever we have issues with a compensation program and irrespective of our voting decision, we will follow up with the company directly to outline our concerns. 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 have been made to the compensation plan.

When casting a vote on the frequency of say-on-pay votes, we will generally support a vote once every three years. We believe a more frequent vote could focus the board on short-term objectives rather than on more stable, long-term objectives, or lead to inconsistencies in the compensation program due to a lack of long-term focus. A vote once every three years should remove these biases and better facilitate the development of a compensation program focused on promoting the long-term success of the organization.

2.3 MANAGEMENT COMPENSATION

GUIDELINE

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.

DISCUSSION

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 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; and a relatively simple methodology that is easy to understand.

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.

2.4 DIRECTOR COMPENSATION

GUIDELINE

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 does not exist a 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.

DISCUSSION

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 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 that individual director's financial position but that the financial commitment should be material to that director. As a minimum guideline, we suggest that each director should own an amount of stock at least equal in value to one year's compensation as a board member.

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.

2.5 SEVERANCE COMPENSATION

GUIDELINE

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.

DISCUSSION

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.

3.0 TAKEOVER PROTECTIONS

Through our voting decisions we seek to enhance the long-term value of our investments. We will look at takeover protection measures on an individual basis with this principle in mind. 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.

3.1 SHAREHOLDER RIGHTS PLANS

GUIDELINE

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.

DISCUSSION

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 course of action that will provide shareholders with 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 those circumstances they may become effective tools in the hands of boards and managements 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 security holders, the owners of an issuer, to determine if a rights plan should be implemented and subsequently remain in effect, whether within the context of a bid or otherwise. As the owners of an issuer, they are less likely to be subject to the conflicts of interest that could influence the judgment of the board and management.

3.2 ADVANCE NOTICE REQUIREMENT

GUIDELINE

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

DISCUSSION

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 in the case of contested elections the company's and shareholders' interests are best served if there is 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.

However, the advance notice by-law amendments 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.

We will evaluate advance notice by-law amendments on a case-by-case basis and *support* those amendments that do not put unreasonable requirements on shareholders and *not support* those that we determine do.

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 do question the utility for an issuer with a large and diverse shareholder base or those with a controlling shareholder in adopting such a by-law amendment.

3.3 PURCHASE TRANSACTIONS

GUIDELINE

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.

DISCUSSION

Going Private Transactions/Leveraged Buyouts
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 such an economic analysis, we will review the process by which the proposal was received. In this regard, we will 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.

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.

3.4 REINCORPORATION

GUIDELINE

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 defence or solely to limit directors' liability.

DISCUSSION

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.

4.0 SHAREHOLDERS' RIGHTS ISSUES

4.1 DUAL-CLASS SHARE STRUCTURES

GUIDELINE

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.

DISCUSSION

Dual-class share structures create classes of common stock with either superior or inferior voting rights to those of the existing class of stock. The shares that have inferior voting rights sometimes pay a greater dividend and can usually be transferred more readily than the shares that have superior voting rights. To the extent that shareholders opt for the lower voting shares, management, or certain shareholders, maintain effective control of the corporation by keeping for themselves the shares that have superior voting rights. Other forms of unequal share structures include those that allow a certain class of shareholders to elect a disproportionate percentage of directors.

Dual-class share provisions create a subordinated class of common shares in every sense of the term. Such proposals allocate voting rights in a manner that is disproportionate to 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.

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[9] appropriate to be included in the share provisions of any dual-class structure.

[9] 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.

We support the collapsing of dual-class structures insofar as the transactions eliminating such 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).

4.2 SUPERMAJORITY APPROVAL OF BUSINESS TRANSACTIONS

GUIDELINE

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.

DISCUSSION

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.

4.3 INCREASE IN AUTHORIZED OR ISSUED SHARES

GUIDELINE

We believe shareholders should be entitled to vote in circumstances where a corporation seeks to increase the authorized or issued share capital by 25% or more. We will generally ***support*** proposals for the authorization or issuance of additional shares provided the amount requested is necessary for sound business reasons.

We will generally ***not support*** proposals that seek to increase the authorized or issued shares by 25% or more when management does not demonstrate a specific and valid need. 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.

DISCUSSION

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 defence.

We believe that control should be exercised over authorized shares and the issuance thereof to allow shareholders to have input on major decisions that affect the company.

Over the past few years we have been presented with a number of management proposals requesting an increase in authorized shares of the issuer's ordinary share capital with some proposals including a matching rights issue which can increase the total authorization being requested to 66% of the current outstanding share capital. We note that these proposals were in response to the difficulty in raising capital as a result of the most recent financial crisis and some of these proposals include safeguards, such as requiring the annual election of directors to allow shareholder recourse should they determine that the board has misused the authority. We will address these proposals on a *case-by-case* basis, taking into consideration the specific circumstances of the situation. However, we know of no instance when this authority has been used which leads us to believe that the need for such an authority no longer exists to the same extent as it did during the last financial crisis. As a result we are becoming concerned that what was introduced as an extraordinary request has become routine and ongoing support for these proposals exposes shareholders to significant dilution risk.

4.4 "BLANK-CHEQUE" PREFERRED SHARES

GUIDELINE

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

DISCUSSION

"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.

Blank-cheque preferred shares 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.

4.5 SHAREHOLDER PROPOSALS

GUIDELINE

We will evaluate shareholder or stakeholder proposals on a ***case-by-case*** basis. 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 will generally ***support*** proposals that relate to enhancing disclosure on issues we believe present a material risk to the company or generally improve the company's corporate governance processes and practices.

DISCUSSION

While we empathize with the spirit of many shareholder and stakeholder proposals, we must ensure that the implementation of a proposal does not introduce artificial or arbitrary constraints upon a company or duplicate practices already in place. We believe that the board and management must maintain sufficient flexibility to organize the company in a manner that they believe to be most appropriate for it at that time. Introducing unreasonable constraints or requiring a duplication of effort will not assist, and may often hinder, the company's ability to create long-term value for its shareholders.

Environmental and social issues are increasingly viewed as posing material risks to the company and, as such, are more and more the subject of shareholder proposals. Like all shareholder proposals, these will be evaluated on a *case-by-case* basis. Those that request improved disclosure of a material risk to the company will generally *be supported* whereas those that mandate a specific course of action or place arbitrary constraints upon a company will generally *not be supported*.

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