

February 4, 2014

Dear Sir/Madam,

Ontario Teachers' Pension Plan (Ontario Teachers') is one of the world's largest investors, managing a diversified global portfolio of over \$130 billion in assets. Over the years, Ontario Teachers' has demonstrated leadership in advancing best governance practices in support of the principle that good governance is good business.

The purpose of this letter is to provide you with an update of key changes to our proxy voting guidelines, found in our 2014 edition of *Good Governance is Good Business: Corporate Governance Principles and Proxy Voting Guidelines 2014*¹ (2014 Corporate Governance Principles and Proxy Voting Guidelines). We would also like to provide our views on what we consider to be some of the key current and emerging corporate governance issues.

Our fundamental belief remains that responsibility for a company's governance lies with its board of directors. To that end, it is our expectation that boards will organize themselves around what we believe to be the essential building blocks for good governance:

- A board with a majority of independent-minded, competent directors
- A board whose composition demonstrates a commitment to diversity, in all its forms
- A board led by an independent Chair
- A board that demonstrates behaviours that convey an understanding and recognition of the importance of accountability to shareowners and respect for the shareowner democratic process
- A board that takes responsibility for the executive compensation plan and links pay to performance as measured against metrics that have a direct relationship to management's execution of their strategic objectives

We recognize that corporate governance continues to evolve. As a result, we constantly monitor current and emerging governance issues and trends and conduct an annual review of our governance principles and proxy voting guidelines to ensure they reflect our most recent and informed views. Ontario Teachers' remains committed to being open-minded and pragmatic in our assessment of governance trends and in the development and application of our proxy voting guidelines.

We have made a number of changes to our 2014 Corporate Governance Principles and Proxy Voting Guidelines. Of note is the evolution of our approach to advisory votes on compensation (say-on-pay votes). When we were first presented with say-on-pay votes, we applied a process which called for an escalation of activity over a three year period. Now that advisory votes on compensation are embedded in the annual shareholder meeting cycle, we have adapted our approach in recognition of this development. Starting in 2014, our vote for say-on-pay will be

¹ Our *2014 Corporate Governance Principles and Proxy Voting Guidelines* is available for download from <http://www.otpp.com/web/guest/investments/responsible-investing/voting-our-shares>.

determined on a case-by-case assessment of the compensation program and the decisions made by the directors. In extraordinary situations, we may conclude that a vote against the compensation committee chair and/or committee members is warranted, without further consultation with the company as had been our practice previously. A summary of all the guideline changes can be found on pages 10 and 11 of our 2014 Corporate Governance Principles and Proxy Voting Guidelines.

Perspectives on current and emerging issues

Diversity: Ontario Teachers' believes that diversity is fundamental to building effective boards and that there are many different forms of diversity, including but not limited to professional background, international experience and gender². We believe that a board should take meaningful steps to address its diversity. When assessing a board's commitment to diversity, we will look for a thoughtful and deliberate process of how a board considers its current composition as well as the breadth and depth of its director recruitment and selection process. Therefore, we encourage boards to provide robust disclosure of how current composition is evaluated against the needs of the company, how that evaluation identifies the skills needed on the board and how the director selection and recruitment process considers diversity in the identification and selection of the directors who fill the needs identified.

Director Term Limits: We generally do not support arbitrary limits being placed on board members. While we fully support regular board renewal, we are not convinced that tenure or age is an effective means to determine director rotation. Rather, we believe that a board should make the decision of its composition based on the results of a detailed and candid annual evaluation of itself, the individual directors and the needs of the company. This evaluation would result in the identification of any directors who should transition off a board, which could be for any number of reasons that are not related to the term or age of the director. We believe that the quality and effectiveness of a board is not necessarily correlated to tenure and age but rather to a board's ability to self-assess and recruit outstanding, diverse directors. We therefore expect boards to implement a rigorous and effective assessment and recruitment process and sufficiently describe this program in the annual meeting materials.

Executive Compensation: Ontario Teachers' has long held that alignment between management and shareholders should be the hallmark of all executive compensation programs. Most recently, there have been attempts to develop measures to express the appropriateness and effectiveness of compensation programs through the calculation of metrics that compare CEO compensation to the average wage and "grant-date" compensation to realized pay. While we understand there are growing expectations on companies to provide disclosure on these measures, providing this information does not preclude a board from providing clear and compelling reasoning of its compensation decisions. While we will continue to recognize the uniqueness of a company's compensation program by providing compensation committees latitude in determining an appropriate compensation program, our expectations remain that the compensation program demonstrates an alignment between management and shareholders that is clearly explained in public disclosures.

Unilateral Changes to Poison Pills: Recently, some issuers in the United States have adopted amendments to their poison pills without first putting the amendments to a shareholder vote.

² It should be noted that in a response to a consultation on diversity to the Ontario Securities Commission (OSC), Ontario Teachers' recommended boards have a minimum of 3 female directors. For a complete explanation of our views on gender diversity, please see our submission to the OSC at <http://www.otpp.com/news/article/-/article/700206>.

These changes have the potential to adversely affect shareholders. Ontario Teachers' believes that shareholder rights plans (poison pills) should be used by issuers for the limited purpose of 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. Any modifications to a poison pill which have the effect of stymying any potential bid or unnecessarily restricting ownership have the potential to be viewed as a mechanism to entrench management. We believe that any changes to a poison pill should be put to a shareholder vote and unilateral changes should not be contemplated. The adoption of unilateral changes may result in a vote against the chair of the corporate governance committee (or equivalent).

We welcome a dialogue and would be happy to discuss the above or any other governance issue with you in more detail. Corporate governance continues to evolve and we are encouraged by the efforts of boards to reach out to shareholders and to keep abreast of governance changes by modifying their governance practices. It is against this backdrop that we are contacting you today and we encourage you to continue to enter into discussions with shareholders. Our conversations with companies and boards have been invaluable, allowing us to gain a better understanding of the motivations and rationales that drives the decision-making processes of public companies.

Should you or your colleagues have any questions or concerns, please don't hesitate to contact Paul Schneider, Manager, Corporate Governance at (416) 730-5307 or corpgovernance@otpp.com.

Yours sincerely,



Michael Wissell
Senior Vice President, Public Equities