



2018

**MODEL PROXY
VOTING GUIDELINES**

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Disclaimer: These guidelines are provided as a model for pension funds in developing their proxy voting policies and procedures. They are not to be taken as legal advice. Pension funds are strongly advised to seek independent legal and financial advice in developing their proxy voting procedures to best suit the interests of their plan members.

ABOUT SHARE

SHARE is a Canadian leader in responsible investment services, research and education for institutional investors. Since its creation in 2000, SHARE has carried out this mandate by providing active ownership services, including proxy voting and engagement, education, policy advocacy, and practical research on issues related to responsible investment. Our clients include pension funds, mutual funds, foundations, faith-based organizations and asset managers across Canada. SHARE's leadership on responsible investment is both national and international. SHARE is a signatory to the United Nations Principles for Responsible Investment (UN PRI). SHARE also coordinates the Secretariat of the Global Unions Committee on Workers Capital (CWC).

ABOUT THESE GUIDELINES

These guidelines have been developed by SHARE as a model for use by Canadian pension funds. The guidelines are written in the first person—"the fund"—to make them similar to guidelines that would be adopted by a board of trustees.

In addition to having a set of proxy voting guidelines, pension funds should ensure that plan documents provide the appropriate authority for trustees to execute or delegate the execution of their voting rights and that procedures for proper accountability are in place. For information about incorporating proxy voting policies into plan documents, please refer to the SHARE publication *How to Incorporate Active Trustee Practices into Pension Plan Investment Policies*. More information about proxy voting is available at www.share.ca.

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GENERAL PRINCIPLES

PROXY VOTING RESPONSIBILITIES

[The fund] manages its assets in a manner that will provide benefits to plan participants and their beneficiaries over a span of many decades. Consequently, [the fund's] actions must support these parties' long-term interests.

Equities held by [the fund] usually carry voting rights. Voting rights are valuable assets of [the fund]. Trustees have an obligation to ensure that shares owned by the plan are voted in a way that supports the interests of the plan's participants over the long term.

Duties of loyalty and care

The trustees of the fund and anyone appointed to vote proxies on the trustees' behalf have a duty of loyalty to exercise their proxy voting authority solely in the interests of the plan's participants and beneficiaries. They have a duty of care to exercise their proxy voting authority with the prudence, skill, and diligence that a prudent person would exercise in managing the property of others. Failing to vote the plan's shares, voting without consideration of the effects of the vote, or voting arbitrarily with or against management violates these duties. Those who are responsible for voting [the fund's] shares also have a duty to take reasonable steps to ensure that they receive and act on the proxies for all of [the fund's] shares in a timely manner.

APPLICATION OF THESE GUIDELINES

[The fund] will vote its proxies in accordance with these proxy voting guidelines.

In deciding how to apply the guidelines, [the fund] will consider the circumstances of each vote as well as the general principles contained in these guidelines. The overarching principle in interpreting and applying these guidelines is to follow the course of action that will best

serve the long-term interests of plan participants and their beneficiaries. Voting decisions may deviate from these guidelines if doing so would best serve participants' interests in the long term. If questions arise about the application or interpretation of these guidelines for any issue, they should be resolved in consultation with [the fund's] trustees.

- [The fund] will vote in a manner that is consistent with the duties of loyalty and care, and that supports implementation of current best practices in corporate governance and social responsibility.
- Above all else, [the fund] will always vote in the best long-term interests of its participants and their beneficiaries.

[The fund] will not attempt to manage companies by shareholder referendum and will ensure that any attempts to influence a company do not harm its financial viability.

RETENTION OF VOTING AUTHORITY

In cases where [the fund] delegates its voting authority to external investment managers or a proxy voting service, it reserves the right to direct the vote on any particular resolution or issue.

Annual review of guidelines

[The fund] will continue to monitor changes in the standards for responsible voting and update these guidelines to reflect those changes. These guidelines will be reviewed, updated, and approved by [the fund's] investment committee on an annual basis.

INSTRUCTIONS FOR VOTING PROXIES

We encourage funds to put their instructions or procedures for voting proxies in this section of the guidelines. Instructions and guidelines vary greatly from fund to fund, depending on the extent to which responsibility for proxy voting is delegated, and how and to whom it is delegated. For more information and guidance on proxy voting procedures see *Putting Responsible Investment into Practice: A Toolkit for Pension Funds, Foundations and Endowments* at www.share.ca.¹

Any investment manager or adviser who, under the terms of a contract, is responsible for voting shares held by [the fund] is expected to follow these proxy voting guidelines in making voting decisions. Where the guidelines call for decisions to be made on a case-by-case basis, voting agents should base their decisions on what would best serve the plan's participants in the long term. If a voting agent believes the interests of participants would be best served by deviating from the guidelines, [the fund's] trustees should be consulted before such a vote is cast.

REPORTING REQUIREMENTS AND TRANSPARENCY

[The fund] will make these guidelines available on request to all companies in which we invest, to any plan participant, and to the public. [The fund's] full voting record is available on our website and by request.

Where voting decisions have been delegated, trustees must monitor these voting decisions as part of their duty to manage the fund in the best interests of the plan members. The fiduciary responsible for voting should report regularly to the trustees on how he or she has voted each proxy. This report should include a written account of the reason [the fund] authorized any vote that deviates from these guidelines. [The fund's] trustees and their voting fiduciary will agree on the details, timing, and frequency of these reports at the beginning of the fiduciary's contract, and they will review their agreement annually.

CORPORATE GOVERNANCE

GENERAL GUIDELINES

The standards for good corporate governance around the world tend to be more alike than are the legal requirements and norms for corporations in different countries. [The fund] will not ignore the laws and norms of the countries in which companies operate, but it has chosen to apply these guidelines consistently in all countries. If a guideline addresses an issue that appears only in certain jurisdictions or if different standards apply based on jurisdiction, this is stated in the relevant guideline.

Good corporate governance is based on the relationships between a company's board of directors or supervisory board, its management, and its other stakeholders, including its shareholders, employees, and the citizens of the countries where it operates. The board controls the company's assets and actions, and it is responsible for overseeing the work of management. Shareholders, as the providers of the company's equity capital, elect the board and have other rights that give them a voice in certain aspects of the board's operations. The relationships among these bodies are key to a company's long-term success.

Amendments to articles of incorporation or articles of association

All major changes in a corporation should be submitted to a vote of the shareholders.

Amendments to a corporation's articles of incorporation or association are often technical or administrative matters that will not affect shareholders' interests, but they must be carefully considered because some small changes can have a significant effect on corporate governance.

When multiple amendments are combined into a single item on in the proxy ballot, it is impossible for shareholders to approve some amendments while voting against others. See the guideline "[Omnibus or linked proposals](#)," page 29.

- [The fund] will assess proposals to amend articles of incorporation or articles of association on a case-by-case basis, with primary consideration given to how they affect the company and its stakeholders in the long term.
- In cases where shareholders must vote on a group of amendments as one ballot item, [the fund] will vote against the entire group of amendments if it is opposed to any of the amendments.

Approval of second or casting votes

Some companies allow the chair of the board or of a committee to cast a second vote, or "casting vote", to decide an issue if the vote is tied. [The fund] is opposed to this practice, because it gives the chair of the board or committee one vote more than other directors or shareholders.

- [The fund] will vote against any provision for a casting vote or second vote to decide tied votes at the meetings of shareholders, the board, or board committees.

Approval of "other business"

Sometimes companies include the approval of "other business" as an item on the proxy ballot without specifying what that "other business" is. Approval of such items gives the company broad discretion to act without specific shareholder approval on issues that would otherwise require their approval.

- [The fund] will vote against the approval of unspecified "other business."

Adjournment of a meeting to solicit votes

Companies sometimes ask shareholders for their approval to adjourn a shareholders' meeting to allow the company to solicit more votes in favour of one of its proposals. [The fund] is generally opposed to such adjournments. Shareholders' votes become meaningless if the company can keep soliciting votes until it gets the outcome it wants. However, there may be circumstances in which it is reasonable for the company to make this request.

- [The fund] will vote against proposals to adjourn a meeting of shareholders for the purpose of allowing the company to solicit more votes in favour of its proposals, unless there is a compelling reason to vote for it.

Allocation of profits and/or dividends

Outside of North America, many companies must have their shareholders' approval to allocate their profits between dividends, compensation for the directors and statutory auditors, and other uses.

The amount of dividend that is appropriate depends on the size, maturity, and profitability of a company. Companies that are large, mature and have a fairly consistent income should have a payout ratio of approximately 30%. [The fund] will approve profit allocation proposals unless the dividend payout ratio is low for size, maturity, and profitability of the company, and the company provides no explanation for the size of its dividends. [The fund] will also oppose dividends that are higher than the company's financial position warrants.

- When a company's proposed dividend is higher than its earnings, [the fund] will vote case by case, based on the company's ability to continue operating. [The fund] will vote against dividend or profit allocations if the dividends are too high to allow the company to continue to operate sustainably.
- [The fund] will vote against dividend or profit allocations if the dividend payout ratio too small for the size, maturity and profitability of the company and the company has not provided an adequate explanation for the lower amount.

Scrip dividend alternative

Companies in some jurisdictions may give shareholders a choice of taking their dividend in additional shares instead of cash. This is called a scrip dividend. Shareholders should be allowed to receive their dividend in cash if they prefer.

- [The fund] will vote for scrip dividend proposals as long as shareholders also have the option of receiving the dividend in cash.

Approval of the transfer or use of reserves

Some companies have a stable dividend policy, that is, to make all dividends the same or nearly the same amount, regardless of their financial status.

Companies may use some of their reserves to pay the dividend, or, if shareholders approve, transfer reserve funds to other accounts in order to cover some of their losses. Shareholders should view this practice with caution. Using reserves to pay a dividend is not necessarily harmful if it is done infrequently. Companies may also set up special reserve funds for the purpose of paying dividends that do not affect their legal reserves. [The fund] will vote against proposals to transfer reserve funds or use reserves to pay dividends if financial losses have made this use of reserves necessary and the losses are regular, substantial or due to strategic problems within the company.

- [The fund] will vote against proposals to transfer reserve funds or use reserves to pay dividends if the company has also used reserves to pay dividends in both of the last two years.

Approval of legal formalities

These proposals ask shareholders to give management the authority to complete any formalities needed to validate the decisions made at shareholder meetings.

- [The fund] will vote for proposals to approve legal formalities.

Approval of inter-company contracts

Some companies are required to seek shareholder approval for agreements between the company and its subsidiaries to transfer assets and liabilities.

- [The fund] will vote against the approval of inter-company contracts if the terms of the contract are not disclosed in enough detail for shareholders to assess how the transactions will affect the company.
- [The fund] will vote against the approval of inter-company contracts if they involve potential conflicts of interest.

CAPITAL STRUCTURE

Share issuances

See also "[Unequal voting rights](#)," page 11.

Companies need some flexibility to issue shares in order to manage their share capital. However, share issuances may dilute the holdings of existing shareholders. [The fund]

will vote against share issuances that are too large or too frequent.

Companies outside of North America often issue shares with pre-emptive rights, which allow shareholders to share proportionally in any new issuances of shares in the same class as the shares already own. Pre-emptive rights make share issuances less dilutive for existing shareholders.

Companies may issue new shares for general purposes, or for a specific use. Share issuances for general purposes may increase the number of shares by no more than 50% if the issuance includes pre-emptive rights, or 20% if the issuance is without pre-emptive rights.

If a company issues new shares for a specific purpose, the purpose should be disclosed to shareholders. The purpose should be a good, specific reason, such as a stock split.

Share issuances can be structured in a way that allows them to be used as a takeover defence without allowing shareholders to vote on the offer to acquire the company. [The fund] opposes these share issuances.

[The fund] will oppose issuances of shares at a price below their current market price, unless the issuance is being proposed to allow a company to raise capital quickly and inexpensively. In these cases, [the fund] will support issuances of discounted shares if the shares are issued with pre-emptive rights and the issuance is open to all shareholders. It will oppose any other issuances of discounted shares.

- [The fund] will vote for proposals to issue shares with pre-emptive rights if the potential aggregate dilution is 50% or less, or if the company provides a sound business reason for the issuance.
- [The fund] will vote for proposals to issue shares without pre-emptive rights if the dilution is less than 20%, or if the company provides an acceptable business case for issuing additional shares.
- [The fund] will vote against proposals to issue shares where the number of shares to be issued is not specified or is unlimited.
- [The fund] will vote against proposals to issue shares if the shares will be issued at a price that is less than the shares' market price at the time of issue, unless the shares have pre-emptive rights and the issuance is open to all shareholders.
- [The fund] will vote against share issuances that could be used as a takeover defence.

[The fund] may also vote against share issuance proposals if doing so is warranted by the reasons given for the requests.

Issuances of blank-cheque preferred shares

Blank-cheque preferred shares give the board of directors broad discretion to determine the number, dividend, conversion and other rights of preferred shares. [The fund] opposes the issuance of blank-cheque preferred shares because they give directors complete discretion over the size and conditions of the issuance and because they can be used to thwart a takeover bid without presenting the bid to shareholders.

- [The fund] will vote against the authorization of blank-cheque preferred shares.

Share buybacks or repurchases

Share repurchases tend to benefit shareholders in the short term, but they can be detrimental to companies in the long term. Share buybacks allow shareholders to sell their shares back to the company at a good price and usually raise the share price, at least for a short time.

However, the lift in share price that share repurchases provide is not based on improvements in the underlying performance of the company. In addition, the use of surplus cash to buy back shares can add to the volatility of the share price, make executive stock options more expensive to the company or allow a company to pay greenmail (see "[Greenmail](#)", page 28). Furthermore, if a company uses a per-share measure of executive performance, such as earnings per share, for determining executives' bonuses, share repurchases will inflate the company's per-share performance, giving executives an unearned bonus.

- [The fund] will assess share buybacks on a case-by-case basis for their effect on the long-term performance of the company and its stakeholders.
- [The fund] will vote against proposals to repurchase shares if the company uses per-share measures of executive performance in its executive compensation plans.
- [The fund] will vote against proposals to repurchase shares if the number of shares to be repurchased is more than 10% of the total shares outstanding or if the company does not specify the quantity of shares to be repurchased.
- [The fund] will vote against proposals to amend a company's bylaws to permit the company to repurchase its own shares without shareholder approval.
- [The fund] will vote against proposals to repurchase shares if the repurchases could be made using derivatives.

Reissue of repurchased shares

Companies may seek to reissue repurchased shares to related parties at a discount. [The fund] is opposed to this practice.

- [The fund] will vote against proposals to reissue repurchased shares to related parties unless the proposal stipulates that the shares will be reissued within a reasonable range of their market price.

Proposals to reissue shares will also be subject to the same voting guidelines as other share issuances, including limits on the percent of share capital that can be issued. See “[Share Issuances](#),” page 9.

Stock splits and reverse stock splits

Companies usually propose to split their stock when the stock price is high and the company wants to make its shares more affordable. This usually benefits shareholders, as long as all shareholders are treated equally and the split does not result in any additional benefits to company insiders.

Reverse stock splits, or share consolidations, can be more complicated. They are usually proposed to increase the price of shares, which can indicate that a company is having problems that are driving down the value of its shares. Also, because reverse stock splits lower the number of shares a company has, they can increase executive compensation based on any financial indicator that is measured per share (such as earnings per share).

- [The fund] will decide how to vote on stock splits and reverse stock splits case by case.

Unequal voting rights

In general, one vote per share is a basic principle of good corporate governance. Companies with dual-class share structures have a class or classes of shares with more than one vote per share. This allows some shareholders to maintain control of the corporation without holding an equivalent amount of equity.

[The fund] is opposed to unequal voting rights because they allow one investor or a group of investors to control the corporation without a corresponding financial stake in the company, making it possible for the company to act without the support of a majority of shareholders.

- [The fund] will vote against the creation, issuance, or continuation of common shares that carry unequal voting rights. [The fund] may make exceptions to this guideline if a company makes a compelling argument that the unequal voting rights are needed, and only if it adopts

a reasonable “sunset” date by which the unequal voting rights will expire.

- [The fund] will vote for the replacement of multiple-vote shares with shares that have one vote per share unless the terms of conversion are more detrimental to the interests of the holders of subordinate voting shares than the continuation of the dual-class structure.
- For companies where a dual-class structure is already established, [the fund] will vote for proposals for a mandatory review of the share structure and regular re-approval by holders of subordinate voting shares.
- [The fund] will vote for proposals to opt out of “loyalty share” programs that give longer-term shareholders more than one vote per share.

BOARDS OF DIRECTORS

There are two broad types of corporate board structures. Some companies have a unitary board structure, in which a single board of directors that is responsible for overseeing the management of the company on behalf of its shareholders.

Other companies have two boards. The role and makeup of the boards at dual-board companies varies with the jurisdiction. In some jurisdictions, companies have a board of directors similar to the board of a unitary company, and a second board of statutory auditors who are formally responsible for ensuring that the company’s acts are legal and/or that the annual audit is properly conducted. Companies in other jurisdictions are governed by a board of supervisors that often includes employees’ representatives, and a management board. The board of supervisors chooses the management board, which includes the executive officers and is responsible for running the company.

The guidelines below are applicable to all of these types of boards.

Voting for directors

- [The fund] will vote for directors case by case. The following are reasons, in addition to those listed in the following sections, for [the fund] to vote against or withhold its vote for management’s nominees:
 - The board of directors has not acted on issues that have the support of a majority of shareholders or given an appropriate response to shareholders’ concerns. This includes management proposals that a majority of shareholders vote against;
 - The board of directors has taken steps to limit shareholders’ rights without shareholders’ approval,

such as by adopting an exclusive forum requirement or advance notice requirements;

- The board of directors consistently acts in the interests of a group of shareholders rather than in the interests of all shareholders;
 - An individual director is not qualified to be a corporate director, or the company has not disclosed adequate information about the director's qualifications;
 - An individual director has a conflict of interest; a conviction for financial, corporate, or securities crime, including insider trading; or a history of serious misconduct, regulatory sanctions, or ethical violations relating to corporate responsibilities;
 - There is evidence that directors have purposely misstated or concealed the financial condition of the company;
 - The board has regularly demonstrated a lack of duty of care, such as approving corporate restructurings that are not in the company's best interests or refusing to provide information to which shareholders are entitled; and
 - An individual director has served on the board of another company that has demonstrated a particularly egregious failure in its duty of care, and the board has not provided a convincing justification for including this director on the board.
- If less than two-thirds of directors are independent, as defined in the next section, [the fund] will vote against or withhold its vote for directors who are not independent.
 - [The fund] will vote for proposals to require two-thirds of directors to be independent.
 - [The fund] will vote for proposals to require annual disclosure of which directors are independent and the basis on which the assessment was made.
 - [The fund] will vote for proposals to add employee representatives to serve on boards of directors, provided they are qualified to serve in that position.

Contested elections for employee representatives are rare. In the event that there is one, [the fund] will decide how to vote using the same criteria as for contested elections of other directors.

[The fund] may vote against or withhold its vote for a nominee for director for many other reasons. These are addressed in the following sections.

Definition of an independent director

It is difficult for shareholders to evaluate the independence of directors. Shareholders are not present at the board's meetings and may not know the directors personally. The information about the directors provided in proxy materials does not necessarily reveal how easy it is for individual directors to make decisions independent of management or without pressure from non-independent directors. Thus, shareholders must rely on less-than-ideal information from the company to assess how likely it is that a director can make independent decisions about the company and its management.

In general, a director is independent if he or she has no material relationship with the company other than that of director and shareholder. This excludes any director who:

- Is currently or has been previously employed by the corporation, an affiliate of the corporation, or a company that has been acquired by the corporation within the past 5 years;
- Founded the company, individually or with others, if that person also maintains another relationship with the company, such as any of the relationships listed here;
- Holds any contract, agreement or arrangement with the company that pays the director any compensation or benefits, other than the payments that person receives as a shareholder and a director (e.g. dividends and director's fees);
- Receives benefits from the company or compensation as a director in an amount comparable to the base salaries of the highest-paid executives;
- is currently employed, or has been employed within the last five years, by the company's auditor;
- Is employed by or owns a significant portion of an entity that does business with the company or has an immediate family member who does business with the company, including advisors, consultants, accountants, lawyers, banks, customers or suppliers. However, exceptions should be made for monopolies, such as utility companies, or very large companies that do business with many customers, such as very large banks;
- Has, within the past five years, been an employee or owner of an entity that does business with the company, as described above;
- Serves as a director on the board of a company that has an executive who serves on the board of the director's own company—a situation known as an interlocking directorship;

- Is an immediate family member of any of the corporation's executives or management employees;
- is indebted to the corporation or any subsidiary, except for bank directors with a residential mortgage from their institution with the same conditions and rates provided to other customers;
- Is employed by any organization that receives financial support from the company or has some other close relationship with the company;
- Owns a material interest in, has extended credit to, or has an immediate family member who owns a material interest in or has extended credit to an entity over which the corporation or any executive officer of the corporation exercises significant control (significant control should be defined with reference to the contractual and governance arrangements between the corporation or executive officer and the entity);
- Has provided, or has an immediate family member who has provided, any professional services to any executive officer of the corporation in the last five years; or
- Has any other relationship similar in scope and nature to any of the relationships listed above.

Directors who hold a significant interest in the company or are affiliated with or designated by a shareholder with a significant interest may also be considered not to be independent. This includes shareholders who hold less than 50% of the company's voting power if they also have business transactions with the company or a relationship to management. The determination of these shareholders' or directors' independence will be made case by case. The determination will be based on whose interests the shareholder or director is mostly likely to represent, and on whether or not the director or shareholder would have any potential conflicts of interest in serving on the board.

Board expertise

As demands grow for companies to operate sustainably, boards may find that they need directors who have expertise in areas where expertise was not needed traditionally, such as in environmental matters or in human rights.

- [The fund] will vote for proposals to add directors to corporate boards who have expertise in areas that the board needs and lacks, such as environmental expertise, provided that the proposal is reasonable and directors who are nominated are well-qualified.

Independent chair of the board

The chair of the board of directors must be an independent director, as defined above, in order to guide the board in its responsibility for overseeing management's performance. This is a basic tenet of good corporate governance.

- [The fund] will vote against or withhold votes from directors who are not independent if they are also chair of the board or if, upon becoming director, they would become chair of the board.
- [The fund] will vote for proposals to require the chair of the board to be an independent director.

Independent lead directors

Some companies whose board chairs are not independent have sought to compensate by appointing an independent lead director. However, companies with an independent director as chair perform better and pay executives less than companies where the chair is an executive of the company, even if those companies have lead directors.

[The fund] believes that the appointment of an independent lead director may be suitable as an interim step toward making the board's chair an independent director, but it is not a substitute for an independent chair. An independent lead director should serve in that position for no longer than one year before an independent chair is appointed.

- [The fund] will not vote against or withhold its vote for the chair and CEO of a company if the board has a lead director who is independent (according to the definition in these guidelines) and the position of lead director will exist for no longer than one year, or if there is another compelling reason to accept a lead director in place of an independent board chair.
- [The fund] will vote for proposals to create an independent lead director position as long as the position exists for no longer than one year.

Key board committees

All boards should have committees responsible for the audit, for compensation, and for nominating new board members. The members of these committees must all be independent directors. They should not be nominated or selected by management.

Audit committees should have at least one member with recent, relevant financial experience.

- [The fund] will vote against or withhold its vote for directors who are not independent and sit on the audit, compensation or nominating committees.

Supervisory boards often have committees. These are discussed in the section on supervisory boards.

Directors who are executive officers of other companies should not sit on the compensation committee unless those companies are privately held and very small, such as a company with no more than two or three employees.

If a company's compensation committee includes members who are not independent, [the fund] will give special scrutiny to the company's compensation plans. It may vote against the plans if it believes the committee's lack of independence is influencing the company's executive compensation.

- [The fund] will vote against or withhold votes for individual directors who sit on the compensation committee if they are executive officers of other companies, unless those companies are privately held and very small.
- [The fund] may vote against a compensation plan if the compensation committee includes directors who are not independent.

Statutory auditors

In some jurisdictions, a board of statutory auditors is responsible for ensuring that the company's actions comply with all applicable laws. In practice, the role of statutory auditors may be ceremonial, although they are officially responsible for reviewing the work of the company's outside auditor. All statutory auditors must be independent in order to carry out their responsibilities without potential conflicts of interest.

Companies incorporated in Brazil have a structure similar to a board of statutory auditors, called a fiscal board or fiscal council, that has oversight responsibilities similar to those of statutory auditors. Brazilian corporate law requires that members of fiscal councils be independent of management, must not also serve as directors of a company, and must not be relatives of any member of management or director.

- [The fund] will vote against statutory auditors or members of a fiscal council who are not independent according to the criteria for independent directors given above.
- [The fund] will vote against statutory auditors or members of a fiscal council if there are serious questions or concerns about the company's annual audits, such as evidence that the auditor's independence has been compromised or frequent restatements of financial reports.

Supervisory boards

Supervisory boards do not usually include members of management but may include representatives of the employees or employees' unions. The chair of the supervisory board is typically a shareholder representative. The presence of employees on the supervisory board means that these boards cannot have the degree of independence, as we have defined it, that [the fund] prefers on boards of directors.

- At companies with a supervisory board, [the fund] will vote for members of supervisory boards unless:
 - More than two members of the board are former members of the management board;
 - The candidate is a former member of the management board and is or would be the chair of a supervisory board committee;
 - The candidate has a potential conflict of interest; or
 - Voting for the candidate would not, for some other reason, be in the best interests of the company.

Committees of supervisory boards

- Supervisory boards should have audit, compensation and nominating committees. No former members of a company's management board should sit on these committees. [The fund] will vote against members of the supervisory board if they are former members of the management board and serve on these committees.

Shareholder nominations for director

Shareholders should have the right to nominate directors provided that the nominees are well-qualified and prepared to act in the interests of all shareholders.

In order to nominate directors, a shareholder or group of shareholders should be required to hold enough shares to have a meaningful stake in the company, but not so many as to be prohibitive for most shareholders. The exact proportion will depend on the size of the company. For mid-sized companies, between 3% and 5% of ordinary shares is a reasonable amount.

Companies may restrict the number of directors that shareholders may nominate in order to prevent a shareholder from taking over the company by taking over the board. However, shareholders should be permitted to nominate no less than one-fourth of the board seats.

Shareholders who nominate a candidate for director should provide the same information and same amount

of information about their candidate's qualifications, independence and potential conflicts of interest as companies provide for their nominees. Shareholders' nominations should be provided to the company in time to include candidates' information in the company's proxy information circular and on the proxy ballot. All nominees should be included and given equal treatment in companies' proxy materials.

- [The fund] will vote for proposals to allow shareholders to nominate directors if they include an ownership threshold that is reasonable given the number of shares outstanding, and a requirement that nominating shareholders should provide adequate information to other shareholders about their candidate's qualifications and independence.
- [The fund] will vote for proposals to give equal treatment in proxy materials to shareholders' and board nominees for director.

Advance notice requirements

Many companies have advance notice requirements that set out time limits for submitting director nominations to the company, and other rules for shareholders who wish to nominate directors. These requirements are acceptable as long as they do not unnecessarily limit shareholders' right to nominate directors.

If the notice of a meeting is published 50 days or more before the meeting date, the deadline for shareholders to submit director nominees should be no more than 30 days before the meeting. If the notice is published less than 50 days, the deadline for submitting shareholders' nominations should be no less than 10 days after the notice, or 15 days for a special meeting. There is no reason to set a maximum number of days before a meeting for shareholders to submit their nominations. If a meeting is adjourned or rescheduled, shareholders should not be required to resubmit their nominations and other information.

Advance notice requirements should not require shareholders' nominees to agree in advance to comply with all of the company's policies and guidelines because this may restrict the directors' ability to promote meaningful changes in the company. The requirements should allow information about shareholders' nominees to be included in the company's proxy materials and appear on the company's proxy ballot.

Advance notice requirements must be approved by shareholders before being adopted.

- [The fund] will vote against or withhold votes for the board of directors of a company that adopts advance notice requirements without the approval of shareholders.

- [The fund] will vote case by case on advance notice requirements, based on the reasonableness of those requirements. Reasons to vote against these requirements include:
 - An unreasonable time period for shareholders to notify the company of their nominations and provide the necessary information, as described above;
 - A requirement that shareholders' nominees agree in advance to comply with all of the company's policies and guidelines;
 - Requirements that shareholders submit information about their nominations in excess of what is required for dissident proxy circulars; and
 - Provisions that require shareholders to resubmit their nominations if the company adjourns or reschedules a shareholders' meeting.
- [The fund] will vote against advance notice requirements if the company does not indicate that information about shareholders' nominees will be included in the company's proxy materials and the nominees will appear on the company's proxy ballot.

Majority vote for elections of directors

See also "[Cumulative Voting](#)," page 17.

Shareholders of most Canadian companies cannot vote against directors. Proxy ballots only allow shareholders to vote "for" or "withhold" for director nominees. The result is that unless a nominee receives no affirmative votes, all directors who are nominated are elected regardless of how many "withhold" votes they receive.

The Toronto Stock Exchange requires all listed companies to hold majority elections for directors.² Majority elections require a director to win a majority of the votes cast in order to be elected to the board. They effectively turn "withhold" votes into votes against a nominee and make it possible for shareholders to remove a director from the board. [The fund] supports majority elections of directors.

In a variant of majority elections for directors, directors who do not win a majority of shareholders' votes must submit their resignations to the board, which then decides whether or not to accept the resignations. Director resignation policies are an improvement over plurality elections, but they still allow the directors to determine who sits on the board even if a majority of shareholders have voted to remove a director. If a majority of shareholders vote for a proposal to implement majority elections, [the fund] will not consider the adoption of director resignation policies to be an adequate substitute.

- [The fund] will vote for proposals to require that directors receive a majority of affirmative votes to be elected.
- [The fund] will vote for proposals to require boards to accept the resignations of directors who do not receive a majority of affirmative votes of shareholders.
- If a board does not accept the resignation of a director who fails to win a majority of shareholders' votes, [the fund] will vote against the entire board at the next opportunity. [The fund] will make exceptions to this guideline if the company makes a compelling case for retaining the director.

Elections for individual directors

Although it is no longer common practice, some companies present their nominees for director as a slate instead of allowing shareholders to vote on each director individually.

- [The fund] will vote for proposals to allow shareholders to cast individual votes for each director nominee.
- If directors are elected as a slate, [the fund] will vote against or withhold votes for the entire slate if it opposes the election of any individual director on the slate.

Contested elections for directors

When an election for directors is contested, the dissident candidates usually want to make a significant change in corporate policy. In deciding how to vote in contested elections, [the fund] will assess how any policy changes advocated by the dissident candidates will affect the long-term interests of the company and its stakeholders. Dissident candidates must also be suitably qualified and independent.

- In contested elections, [the fund] will assess votes for directors case by case, using the criteria in this section and all other relevant sections of these guidelines.

Term limits for directors

Term limits for directors are intended to protect boards' independence by removing directors whose independence may be compromised by relationships with management they have developed during a long tenure. However, this is an arbitrary way to assess directors' independence. Term limits may remove good, experienced directors solely because of their length of service, and inhibit a long-term view of a company's performance.

- [The fund] will vote against term limits for directors unless circumstances are such that they are in the long-term interests of the company.

Directors' ability to devote sufficient time and energy: Attendance

Directors cannot fulfill their duties adequately if they do not attend meetings of the board and the committees of which they are members. [The fund] will vote against directors who miss 25% or more of these meetings, unless the company provides a good explanation for their absences.

[The fund] does not vote against directors who sit on more than a fixed number of boards; the number of boards on which a director can serve effectively depends on that individual's abilities and commitments. However, the number of other commitments a director has can indicate how well he or she can function as a director.

- [The fund] will vote against or withhold votes for directors who appear to have too many existing commitments to fulfill their duties as director. Indications that a director has too many commitments could include serving on more than five other boards and/or employment as a senior officer at another company.
- [The fund] will vote against or withhold votes for existing directors if they have missed 25% or more of the board's meetings and committee meetings, unless extenuating circumstances are set out in the proxy materials.
- [The fund] will vote for proposals to require companies to disclose directors' attendance.

Diversity on boards of directors

To foster the long-term success of corporations, boards should recruit directors with diverse backgrounds. Diversity should be defined broadly and can include age, professional experience, gender, race, linguistic and cultural background, sexual orientation/identification and disability.³ Currently, most boards of directors in Canada remain predominantly male and Caucasian.

In 2014, most reporting jurisdictions in Canada passed regulations requiring issuers to disclose their policies in relation to on board renewal and gender diversity. Issuers must also disclose the numbers and percentages of women on their boards and in executive positions, their targets for increasing those numbers, and their methods for adding new board members. Companies covered by the regulation are not mandated to have policies and targets, but if they do not, they must explain why.⁴

There is no one-size-fits-all diversity policy, but not all policies are equally acceptable. Good policies are those that, if implemented, will result in a more diverse board within a specific, reasonable period. If a board is made up of only one

gender or has no members of under-represented groups, including Aboriginal peoples, an acceptable diversity policy should also acknowledge that the board needs greater diversity and explain the specific steps the board is taking to achieve it. This excludes policies to select nominees without regard to diversity, and those that reject arguments in favour of greater diversity on corporate boards.

- If a company's board has no women and either does not disclose its policy on diversity or discloses a policy that is not adequate as defined above, [the fund] will vote against or withhold votes for members of the nominating committee of the board.
- [The fund] will vote for reasonable proposals that promote greater diversity on boards of directors.

Classified boards/staggered terms for directors

On a classified or staggered board, directors are elected for a term longer than one year, and their terms are staggered so that only a portion of the directors come up for election each year. [The fund] opposes classified boards because they reduce corporate accountability to shareholders and make it unnecessarily difficult to change control of a board.

- [The fund] will vote against proposals to adopt a classified board of directors.
- [The fund] will vote for proposals to eliminate classified boards and institute annual elections of all directors.

Cumulative voting

Cumulative voting for directors gives each shareholder as many votes as he or she has shares, multiplied by the number of directors to be elected. This makes it easier for a minority of shareholders to elect director nominees of their choice to the board, enhancing the power of minority shareholders to influence the board.

At companies where an individual shareholder or a small group of shareholders controls the majority of the votes, cumulative voting makes it easier for the holders of minority voting rights to have representation on the board. In other circumstances, cumulative voting may give a minority of shareholders disproportionate control over the board, which violates fundamental principles of fairness and shareholder equality.

- [The fund] will vote on proposals to adopt cumulative voting case by case. In deciding how to vote, [the fund] will consider whether or not the company has a controlling or dominant shareholder or shareholder group, the board's responsiveness to the interests of all shareholders and the quality of the company's corporate governance.

The combination of cumulative voting and majority elections for directors decreases each director's chances of being elected. However, if companies have a procedure for addressing vacancies on their board, this is not a serious problem.

- [The fund] will vote for majority elections at companies with cumulative voting unless the company does not have a procedure in place to address board vacancies that may result.

Size of boards of directors

A board needs enough directors to maintain diversity in opinion and expertise, but not so many that the board becomes unwieldy. In general, a good size for a board is 5 to 15 directors. It is rare for a board to function well with more than 21 directors. However, the appropriate number of directors will vary with the size and nature of the corporation. [The fund] prefers boards with odd numbers of directors, because they are less likely to have tied votes.

Fixing the number of directors can limit the flexibility companies may need to alter the size of their boards should they need to add independent directors or improve the diversity of their boards. Proposals to increase or decrease the number of directors will be given careful consideration.

- [The fund] will vote against proposals to fix the number of directors at fewer than 5 or more than 21.
- [The fund] will consider voting for proposals to fix the number of directors at fewer than five if the board does not have the usual full range of responsibilities of a public company board.
- [The fund] will vote against proposals to fix or set the number of directors if less than two-thirds of the board's directors are independent.
- [The fund] will vote against proposals to fix or set the number of directors if none of the directors are women and the company does not have an adequate diversity policy.

Ratification of the acts of the board and/or auditors

Companies in some jurisdictions require shareholders' approval of the acts of their management and supervisory boards, and/or their auditors over the previous year. In most cases, this approval does not release the boards or auditors from liability. However, companies may also ask shareholders to release their boards and/or auditors from liability. The extent to which directors' and auditors' liability is limited by these votes varies with the jurisdiction. These votes require greater caution. Auditors should not be released from liability.

- [The fund] will vote against proposals to release auditors from liability.
- [The fund] will vote against proposals to release directors from liability if the voting agent or [the fund] has reasons to be concerned about the board's actions. Examples of such reasons are evidence of illegal acts or serious mismanagement, or of failure to provide shareholders with regular, audited financial statements.

Director compensation

Companies must compensate their directors adequately for the time and work required to fulfill their responsibilities. However, directors are in the awkward position of having to establish their own compensation. The potential conflicts that this presents can be alleviated to some extent by requiring all compensation packages for directors to be fully disclosed and subject to shareholders' approval.

Director compensation must be structured in a way that will preserve the independence of the board. Directors' compensation plans should be separate from executive compensation plans. Directors' compensation should not be so generous that it is comparable to executives' salaries, because that creates a relationship between the company and the director that may interfere with the director's independence.

The same guidelines for the compensation of boards of directors can be applied to the compensation of supervisory boards, except that supervisory board members who are employee representatives are not subject to the same requirements for share ownership as directors.

- [The fund] will support proposals to require directors' compensation packages to be subject to shareholder approval.
- [The fund] will vote against director compensation if the amounts or details of the compensation are not disclosed to shareholders in a timely way.
- [The fund] will vote against compensation arrangements that include directors and executives in the same plan.
- [The fund] will vote against director compensation if the fees for any director are as high as or higher than the named executives' salaries.

Directors' share-based compensation

The board of directors, as representatives of the shareholders of a corporation, should own shares in the corporation for the long term. However, requiring directors to own shares has some drawbacks. Boards could lose the valuable

experience and outlook of prospective directors who are not wealthy enough to make share purchases or to defer their fees in order to acquire shares. Directors should not be required to be shareowners before being nominated to the board and new directors should be given a reasonable amount of time to acquire the shares without undue pressure to invest large amounts in the company.

Share-based compensation for directors can support their ownership of shares, but it must align directors' interests with those of other shareholders. These plans are subject to the same guidelines about expiry, dilution and so forth as compensation plans for management.

Directors should not be granted stock options. Stock options only have value when the exercise price rises above the grant price, which tends to focus option holders' attention on short-term fluctuations in share price. Directors need to focus instead on the long-term interests of shareholders. Stock options also do not require directors to have capital at risk.

- [The fund] will vote against stock option plans that are for or include non-management directors.
- [The fund] will vote against amendments to directors' share-based compensation plans that would allow those plans to be established, renewed, or changed without shareholder approval.
- [The fund] will vote case by case on proposals to require directors to own shares in the company, taking into consideration the terms of the requirement and how difficult the requirement will make it for nominees who are not wealthy to serve as directors.

Retirement, benefits, severance pay, or incentive pay for directors and statutory auditors

[The fund] believes that retirement or other benefits are not appropriate for directors because they increase directors' financial reliance on the corporation, which may compromise director independence. Severance and incentive pay also undermine director independence for the same reasons.

If directors are also employed by the corporation, they may receive pensions for their employment but not for their service as directors.

This guideline also applies to statutory auditors.

- [The fund] will vote against proposals to provide retirement benefits, other benefits, bonuses, or severance pay to directors and statutory auditors.

Disclosure of directors' compensation

Details of directors' compensation packages, including an estimate of the value of directors' share-based compensation and all other aspects of their compensation, should be disclosed to shareholders so that shareholders can cast informed votes on directors' compensation arrangements. This includes disclosing the compensation paid to individual directors, members of supervisory boards and statutory auditors.

- [The fund] will vote for proposals to disclose to shareholders all compensation paid to directors, including the value of share-based compensation.
- [The fund] will vote against directors' compensation if that compensation is not disclosed to shareholders in sufficient detail for shareholders to understand fully what the company is paying directors for their services.

AUDITORS AND FINANCIAL REPORTS

Auditor independence and the appointment of auditors

Auditor independence is vital to shareholders. A company's annual financial statement is usually the only independently verified information shareholders have about the company's performance and financial condition. Shareholders must be confident that they can rely on this information and that the independence of the auditors who reviewed the information has not been compromised.

From time to time, companies hire their outside auditors to provide them with tax advice or other services. [The fund] believes that hiring the outside auditor to perform other work has the potential to compromise the independence of those auditors. [The fund] strongly prefers auditors that do not performed services for a corporation other than the annual audit.

- [The fund] will vote for proposals to prevent the outside auditor from doing any work for the company other than the annual audit, unless the company makes a compelling case that the number of accounting firms it can work with is too limited for this to be feasible.
- [The fund] will vote against auditors if more than one-third of the fees paid to the auditors in the previous year were for services other than the annual audit.
- [The fund] will vote to approve payment of the auditor's fees when this requires a separate vote from the approval of the audit firm, unless there is a reason to question the auditor's independence.

Disclosure of audit fees

Companies should disclose all of their relationships with their auditors and all fees paid to their auditors. The fees for the audit and any non-audit services should be clearly identified. [The fund] considers fees for tax services to be non-audit services.

- [The fund] will vote against auditors if the company does not disclose the fees it paid its auditor for the annual audit, audit-related services and non-audit services in the previous year.
- [The fund] will vote for proposals to require companies to disclose the fees paid its auditor for the audit and for non-audit services.

Rotation of auditors

Companies that use the same accounting firm and audit partner to conduct their audits for long periods of time run the risk of developing a close relationship that can compromise the independence of their annual audit. At a minimum, companies should change their audit partner every seven years, regardless of whether or not they are required to do so by law.

- [The fund] will vote against the auditors if the company has kept the same audit partner for more than seven years.
- [The fund] will vote for proposals that ask the company to change audit partners every seven years, unless local regulations require the audit partner to change more frequently. [The fund] will assess proposals for a greater or lesser period case by case.
- [The fund] will vote for proposals that ask companies to disclose to shareholders how long their audit partner has served in that capacity.

[The fund] prefers that companies rotate their audit firms every six to ten years.

- [The fund] will vote for proposals that ask the company to change audit firms every six to ten years. [The fund] will assess proposals for a greater or lesser period on a case-by-case basis.

Approval of financial reports

Proposals to approve the company's financial reports are routine matters at companies outside North America. The reports for which approval is sought must be available to shareholders well before the shareholders' meeting.

All publicly traded companies should provide their shareholders with complete, audited financial reports at least annually, even if this is not required by law.

- [The fund] will vote for proposals to approve financial or directors' reports only if the reports are audited and available to all shareholders before the shareholders' meeting, and if [the fund] has no reason to be concerned about the quality of the reports or the independence of the auditor.
- If a company does not provide shareholders with complete annual audited financial reports, [the fund] will vote against the auditors and/or proposals to ratify the acts of the board.

Appointment of the auditor and financial restatements

A company's management is responsible for the accuracy of its financial statements and the quality of its internal financial controls, but the external auditor has some responsibility for detecting errors, fraud or illegal acts in the process of forming its opinion of the company's financial statements and controls. If a company has had multiple financial restatements or has engaged in financial misdeeds about which the auditor did not report, [the fund] may vote against the appointment of that audit firm. The decision to vote against an audit firm for this reason will be made case by case, depending on the severity of the company's misconduct and the likelihood that the audit firm would have detected it.

- If a company has a history of frequent financial restatements, or if it has engaged in financial misconduct (such as back-dating stock options or misrepresenting its earnings) and the auditor has repeatedly missed this behaviour in its reports, [the fund] may vote against the audit firm.

EXECUTIVE COMPENSATION

Executive compensation is a controversial area of corporate governance. [The fund] does not intend to design executive compensation plans; this is the job of independent compensation committees. However, [the fund] intends to give executive compensation at all companies close scrutiny.

In cases where [the fund] believes that executive compensation has been consistently excessive, [the fund] may vote against the compensation committee or the entire board of directors.

Compensation consultants

If compensation consultants are used in developing executive pay plans, they should be retained by the board's compensation committee, not by executives or candidates

for executive positions. The consultant should not be engaged by the company for any other services.

- [The fund] will vote for proposals that ask companies to disclose the names of their compensation consultants, their fees, and information about any potential conflicts of interest.

Executive compensation and performance

Expert opinion has been divided on whether performance-based pay is an effective way to motivate executives.⁵ Given the absence of a consensus on the effectiveness of performance-based compensation, [the fund] will maintain its support for performance-based pay for executives for the present. Should companies wish to eliminate their executives' performance-based incentive compensation, [the fund] will not oppose it if those companies provide well-reasoned, evidence-based explanations for why they have done so.

Otherwise, [the fund] expects that most of executives' compensation will be based on their performance.

Performance goals should support the company's sustained, long-term value. This excludes goals such as stock price that may not reflect the performance of the company. It includes qualitative goals that contribute to long-term value, such as customer satisfaction, environmental sustainability, and employee health and safety.

Goals and targets for executives' performance-based pay should be established at the beginning of the evaluation period. They should not be lowered except in very unusual circumstances and with a full explanation for shareholders. Goals and targets that are based on the company's performance relative to the performance of other companies should list those companies and explain the basis on which they were selected for the comparison.

Companies that use measures of financial performance on a per-share basis, such as earnings per share, can artificially improve their performance by repurchasing shares and, thus, give executives unearned compensation.

- [The fund] will vote against executive compensation plans that do not include performance-based compensation, unless the company provides a well-reasoned explanation for not including performance-based pay in its executives' compensation.
- [The fund] will vote against incentive compensation that is not based primarily on performance.
- [The fund] will vote against executive compensation plans that allow incentive compensation to be paid for below-average performance.

- [The fund] will vote against executive compensation that is excessive.
- [The fund] will vote against compensation plans if the company uses per-share financial measures and the company has repurchased shares or asks for the authority to repurchase its shares.
- [The fund] will vote against compensation plans if share price is a significant measure of performance for determining the amount of compensation under the plan.
- [The fund] will vote against incentive compensation if the company lowered any executive's performance goals or measures after they were originally established, unless the company provides good reasons for the adjustment.
- [The fund] will vote for proposals to link executive compensation to well-considered, objective measures of performance on social and environmental issues, as well as measures of financial performance.

See also "[Corporate Social Responsibility](#)," page 31.

Compensation recoupment or "clawbacks"

From time to time, companies award performance-based pay to their executives based on financial results that later have to be restated. Most companies have "clawback" provisions that require executives to pay back part of their compensation to reflect the restated financial reports. These provisions should also apply to performance-based compensation awarded on the basis of any fraudulent activity or other misconduct.

- [The fund] will vote for proposals asking executives to pay back an appropriate portion of their compensation when that compensation is based on financial information that must later be restated, unless the restatement does not affect the criteria on which the compensation was based.
- [The fund] will vote against compensation plans that do not include clawback provisions, unless clawbacks are already required by law.

Executive compensation during layoffs

Increasing the pay of management or paying them bonuses while laying off employees contradicts the principle that compensation should be linked to performance. If a company's performance is so weak that employees must be laid off, then it does not warrant an increase in executive compensation or benefits.

- [The fund] will vote for proposals to require the company to halt any increase in executive compensation during layoffs, including freezing executives' salaries, restricting

the exercise of share-based compensation, and cancelling bonuses.

- [The fund] will vote against executives' compensation if it includes bonuses or raises in salary during a period when the company has laid off employees.

Performance evaluation periods

- [The fund] will vote against incentive compensation if the performance evaluation period is less than one year for short-term bonuses or less than three years for long-term bonuses, unless the company provides a sound reason for using a shorter period.

Executive compensation and employee wages

The growing disparity between the incomes of the wealthiest segment of the population and the majority of working people has been receiving more attention. This increase in the incomes of the highest-paid workers is reflected in the compensation of executives, who are often among the so-called 1%.

Companies may be asked or required to report on "vertical" pay comparisons between the compensation of their executive and non-executive employees. The usefulness of these comparisons depends on whether companies include very high-wage or low-wage workers that would affect the ratio, such as employees of off-shore subsidiaries or contract workers. Companies may also be asked to set a maximum range or ratio that they will allow between the compensation of the two groups of employees.

Although there is no single, optimal ratio of executives' pay to workers' pay, it is not in the best interests of any company for the gap between executive and employee compensation to be large enough to affect the company's long-term performance or damage its reputation.

- [The fund] will vote for proposals that ask companies to provide shareholders with a comparison of the compensation of their executive and non-executive employees, provided the reports can be produced without undue expense or revealing confidential information.
- [The fund] will vote on proposals to establish a specific ratio between executive compensation and workers' compensation case by case.

Approval of compensation committee report and/or compensation policies

Companies that put their compensation reports or policies to a vote at the annual shareholders' meeting

give shareholders a say on the form and amounts of the compensation given to executives. These votes are often referred to as “say on pay.”

- [The fund] will vote for proposals that ask companies to submit their compensation policies or compensation committee reports to an advisory vote of shareholders.
- [The fund] will vote against compensation policies or compensation committee reports if it believes executive compensation is excessive, or if it has concerns about any aspect of the company’s compensation plan.

Some companies propose that shareholders be allowed to vote on their compensation policies or reports every two or three years, instead of annually. While this is an improvement over no shareholder say-on-pay vote at all, an annual vote is easier for boards to understand and respond to.

- [The fund] will vote for proposals to adopt an annual shareholders’ vote on executive compensation.

Disclosure of executive compensation

Companies should describe their entire executive compensation plans clearly in the proxy circular, including all parts of the compensation for the named executives. The full value of executives’ share-based compensation should be included in the proxy materials, and not just in the financial statements.

- [The fund] will vote for proposals to require companies to disclose and fully explain their executive compensation plans to shareholders.
- [The fund] will vote against compensation plans if the information described in this section is not disclosed for the plan or if the disclosure is otherwise found to be inadequate.
- [The fund] will vote against incentive compensation plans if the company does not disclose the performance criteria on which the compensation is based.
- [The fund] will vote against plans if the company’s disclosure about the performance criteria for its incentive compensation is so vague that shareholders cannot determine what measures of performance are being used to award performance-based pay.
- [The fund] will vote against compensation policies or compensation committee reports if the report does not include enough information for shareholders to understand how the company determined or would determine the amounts the executives are paid.

Share-based compensation

In principle, the inclusion of share-based compensation in executive compensation plans benefits a company’s shareholders by aligning their interests with those of shareholders. However, share-based compensation can also give executives an incentive to focus on their company’s share price instead of its productivity, profits, customer satisfaction, or other aspects of its performance. Share-based compensation has also been a common source of excessive executive compensation. For these reasons, share-based compensation requires careful scrutiny from shareholders.

Expiry

All forms of share-based compensation should expire within five years of the date they are awarded unless applicable laws require that the expiry period be longer.

- [The fund] will vote against share-based compensation that has no expiry date or an expiry date of longer than five years.
- [The fund] will vote against any proposal that would allow the board to extend the expiry date of share-based compensation without shareholder approval, unless the expiry date falls within a trading-blackout period and the extension is no more than a few days.

Dilution

[The fund] defines dilution as the number of shares available for share-based compensation plus all of the share-based compensation that has been awarded but not yet exercised, divided by the total number of shares outstanding. This is sometimes called the overhang.

The level of acceptable dilution is relative to the size of the firm. Small companies may have a dilution rate of as much as 10%, but larger companies should have less dilution.

In rare instances a dilution rate slightly higher than 10% may be acceptable; these instances will be determined case by case.

- [The fund] will vote against share-based compensation plans if the company’s total dilution is more than 10%.
- If a company’s overall dilution is more than 5%, [the fund] will vote for share-based compensation plans if the plans meet at least one of the following criteria:
 - The plan is open to all employees, or a large proportion of them;
 - The company is a growth company;
 - The company is in a difficult financial situation;

- The company has set its annual grant rate at a maximum of 1%; or
- The company was recently created by a merger, and two or more compensation programs are being combined, requiring a period of adjustment.

Grant rate

The grant rate or burn rate of a plan is the percentage of outstanding shares granted as compensation in a year. High grant rates are dilutive. Grant rates should be no more than 2% of the company's outstanding shares. A grant rate above 1% warrants particular scrutiny of the plan's dilution.

- [The fund] will vote against share-based compensation if the average grant rate for the past three years is 2% or more. [The fund] may also vote against plans that grant stock options with grant rates above 1%, especially if their dilution is also above 5%.

Reload grants

A reload grant automatically gives the recipient additional units of share-based pay when the original options are exercised. Reloading share-based pay is dilutive. Reloading options also makes it possible for the recipient to lock in increases in share price with no attendant risk, a benefit not available to other shareholders.

- [The fund] will vote against share-based compensation plans with reload provisions.

Automatic replenishment or "evergreen" features

Share-based compensation plans with automatic replenishment features automatically replace the shares available to be granted as compensation, without prior shareholder approval. They tend to be highly dilutive. Even if these plans have a limit on dilution, that upper limit tends to become the standard level of dilution instead of the maximum.

- [The fund] will vote against compensation plans that include an automatic replenishment feature. An exception to this guideline may be made if the company's cumulative overall rate of dilution is so low that it is unlikely to exceed 10% for the duration of the plan.

Vesting

Long-term share-based compensation should have a vesting period of at least 3 years before it can be exercised. In some situations, a board should be able to extend or waive vesting periods, but these should be exceptional cases. See also "[Change-in-control provisions](#), page 24" regarding accelerated vesting contingent on changes in control of the company.

- [The fund] will vote against long-term share-based compensation plans that have a vesting period of less than three years.

Stock options

Stock options have value only when the company's share price rises above the price of the shares when the options were granted. As a result, stock options give executives an incentive to focus on the share price rather than on the company's performance and best interests in the long term.

- [The fund] will vote for proposals to eliminate stock options as a form of executive compensation unless the options have performance requirements or there is a compelling reason not to eliminate them.

Price

If stock options are issued at less than the market price of the shares, they lose their value as an incentive for executives to work to increase the share's price. This is also true if options are priced or replaced because the market price of the shares have fallen below the exercise price of the options, a condition called "underwater" options.

- [The fund] will vote against executive compensation plans that offer options at a price below the shares' market price.
- [The fund] will vote against repricing stock options or reissuing underwater options.
- [The fund] will vote against stock option plans that do not explicitly prohibit repricing, reissuing or exchanging underwater options.
- In general, [the fund] will vote against compensation plans if, in the past three years, the company has repriced or replaced stock options without shareholder approval. [The fund] will make exceptions if the plan and the directors responsible for the repricing have been replaced.

Timing

The value of stock options can be manipulated by timing the awards to maximize the difference between the share price when the options are awarded and when they are exercised. These practices should be prohibited in compensation plans.

Stock options should be awarded at pre-determined intervals or dates, in order to prevent the manipulation of the options' value.

- [The fund] will vote against compensation plans if they do not have fixed dates or intervals for awards or if they do not prohibit timing awards of stock options in ways that artificially increase the value of the award.

Share subscription rights (Japan)

Under Japanese law, boards can issue stock options called share subscription rights without specifying the purpose for the options, who the recipients will be, or the strike price of the options. [The fund] is opposed to this practice because the options can be discounted or priced at a premium at the board's discretion, and because unspecified share issuances have the potential to dilute the value of existing shareholdings.

- [The fund] will vote against the issuance of share subscription rights unless:
 - The price of the shares is specified and is comparable to the market price of the company's shares;
 - The number of shares to be issued is specified;
 - A specific purpose is given for the shares to be issued; and
 - The recipients of the rights are identified.

Share subscription rights can also be used as a takeover defence. See "[Poison pill takeover defences](#)," page 26.

Other kinds of share-based compensation

Other forms of share-based compensation include stock appreciation rights and phantom stock. Both pay cash to recipients based on the company's share price.

These forms of compensation do not cause dilution and may discourage insider trading, but they do not encourage recipients to own shares in the company. They also reward executives for increases in the price of the company's shares that may be unrelated to the performance of the executives or the company.

- [The fund] will vote for alternative share-based compensation only if the awards are based on the executive's performance.

Company loans for stock purchases

[The fund] opposes the practice of making loans to employees to allow them to purchase shares, even if the loans are made at market rates. This practice may leave the company with uncollectible debt and inhibit the termination of employees who have outstanding loans with the company. These loans are illegal in some jurisdictions.

- [The fund] will vote against compensation plans that provide for loans to employees to make share purchases.

Change-in-control provisions

See also "[Vesting](#)," page 23 and "[Severance benefits](#)," this page.

Changes in control of a company have a significant effect on share-based compensation. Share-based executive compensation plans should not allow executives to receive more for their shares than other shareholders receive from a change in control. Change-in-control provisions should require control of at least 50% of the company's shares to change hands.

- [The fund] will vote against share-based compensation plans with change-in-control provisions if they allow holders of share-based compensation to receive more for their shares than other shareholders receive for their shares.
- [The fund] will vote against change-in-control provisions that are developed in the midst of a takeover fight.
- [The fund] will vote against change-in-control provisions that are triggered by changes in control of less than 50% of the company's shares, or by an event that does not involve changes in share ownership, such as changes in the board of directors.

Share-based compensation plans may include provisions that allow share-based grants to vest immediately if ownership or control of the company changes. These provisions can create an incentive for executives and directors to pursue changes in control that benefit them but not other shareholders. This can be addressed by allowing executives' share-based compensation to vest only if a change of control is completed and the executive also loses his or her job with the company as a result. These are called "double-trigger plans," as opposed to "single-trigger plans," which require only a change of control for share-based awards to vest.

- [The fund] will vote for proposals to require change-in-control transactions to be complete before any change-in-control provisions of compensation plans come into effect.
- [The fund] will vote against compensation plans that allow an executive's share-based compensation to vest if a change in control takes place, unless the executive's employment with the company is terminated as a result of the change in control.

Severance benefits

(See also "[Change-in-control provisions](#)," on this page.)

The amounts of compensation in executives' severance arrangements can be excessive, especially in light of the amounts of other compensation that executives typically receive. In general, [the fund] believes severance packages are excessive if they provide more than two times an

executive's base salary plus annual bonus. Severance should not be paid to executives who are fired or who resign in lieu of being fired.

Executives often receive special severance packages, called "golden parachutes" if they lose their jobs as the result of a change in control. The purpose of golden parachutes is to ease managers' concerns about losing their jobs in the event of a successful takeover, and thus help them to make decisions that are in the best interests of the company and its stakeholders. However, very large amounts of change-in-control severance benefits can give executives an incentive to pursue changes in control of the company, regardless of the effect on shareholders, employees and other stakeholders. [The fund] does not look favourably on golden parachutes for all of the reasons above. Executives should not be unduly penalized by changes in control of a company, but they also should not benefit at the expense of other stakeholders.

- [The fund] will vote case by case on executive severance packages. We will only vote for them if the company demonstrates that the arrangements are in the long-term interests of its stakeholders, that they do not create a conflict of interest for the recipients, and that the amounts involved are reasonable.
- [The fund] will vote against any severance arrangements that allow executives to receive severance pay if their performance or the performance of the company has been unsatisfactory.
- [The fund] will vote against any severance plan triggered by a change in control that is not contingent on a completed change in the ownership of more than 50% of the company's shares or voting rights.
- [The fund] will vote against proposals to award executives larger severance payments than would be allowed under applicable regulations.

Shareholder approval for executive severance compensation

- [The fund] will vote for proposals to require all severance packages for executives to be approved by shareholders.

Tax "gross-ups"

Companies sometimes pay executives additional amounts to cover the taxes on parts of their compensation. [The fund] believes that executives can reasonably be expected to pay their own taxes.

- [The fund] will vote against executive pay plans that include tax "gross-ups" or additional amounts to cover the cost of taxes on any part of the compensation.

Compensation caps

Compensation caps are an arbitrary way to control excessive executive compensation. However, in some instances they may be the best means available to rein in runaway executive compensation.

- [The fund] will assess proposals for compensation caps on a case-by-case basis. In general, it will vote against them unless executive compensation is excessive given the company's performance and there is no other effective way to limit that compensation.

ACQUISITIONS, MERGERS AND TAKEOVER PROTECTION

Mergers, acquisitions and takeovers are common. These transactions may pay a premium to shareholders and improve a company's performance, but they often fail to improve a company's long-term profitability and have adverse effects on its stakeholders, including employees, local communities, and tax payers. Decisions about whether or not to accept a merger or acquisition must be based on what will best serve the company and [the fund's] beneficiaries in the long term, not only on the price shareholders are offered for their shares.

In some cases, the companies on either side of a merger or acquisition use the same audit firm. This creates conflicts of interest for the auditor, especially if the auditor plays any role in the transaction. [The fund] will give special scrutiny to mergers or acquisitions where both companies have the same audit partner.

- [The fund] will vote on acquisitions and mergers case by case, based on the overall fairness of the transaction and the long-term consequences of the deal for the company and its stakeholders.

Considering the effects of takeovers and mergers

An evaluation of the broader effects of mergers and acquisitions should include the effects on all of the company's stakeholders and the environment, such as reduced productivity due to job losses or responsibility for environmental damage.

- [The fund] will vote for proposals that ask directors to consider the effects of mergers, takeovers, or acquisitions on employees, suppliers, the surrounding communities and other stakeholders.
- [The fund] will vote on proposed acquisitions and mergers case by case, taking into consideration the long-term consequences of the proposed transactions for

shareholders, employees, suppliers, local communities and other stakeholders.

Takeover protection

Measures designed to protect companies from takeovers must also be evaluated carefully. Takeover defences often depress the price of a company's shares and may protect the interests of directors and executives more than they protect the company or its other stakeholders. Takeover defences require special scrutiny to ensure that the company's and stakeholders' long-term interests are protected.

Shareholders' approval of takeover defences, mergers, and acquisitions

Any action that alters the relationship between shareholders and the board or that results in major changes in the structure or control of the corporation should be submitted to the shareholders for a vote. No company should adopt a takeover defence without approval from its shareholders, even if legally permitted to do so.

- [The fund] will withhold votes for or vote against all directors of a board that adopts a takeover defence without shareholders' approval.
- [The fund] will vote for proposals to require shareholders' approval before the company adopts a takeover defence.

Poison pill takeover defences

Poison pill takeover defences allow a company to take actions that make it very expensive for an unwanted acquirer to buy enough shares to gain control of the company. This takeover defence can take many forms. A few of the most common are described here.

Poison pill takeover defences may serve a legitimate purpose and benefit shareholders. However, they are easy to abuse. Adoption of a poison pill often depresses a company's share price.

Shareholder rights plans

Shareholder rights plans are a form of poison pill takeover defence commonly used in Canada. A company with a shareholder rights plan issues stock-purchase rights to its shareholders. If a takeover offer is tendered or a potential acquirer of the company purchases a specified percentage of the shares and the company cannot negotiate a takeover arrangement with a prospective acquirer, the rights allow shareholders other than the acquirer to buy additional shares at very favourable prices. This makes the takeover much more expensive for the acquirer.

Shareholder rights plans are intended to push potential buyers of the company to negotiate with a company's board of directors, since buyers can avoid triggering the plan by doing so.

They can ensure that all shareholders are treated equally in a takeover, and they can give the board time to negotiate a better deal with the acquirer or to solicit competing bids that would maximize the value of the company's shares.

However, shareholder rights plans also have drawbacks for shareholders. They can thwart takeover attempts that would benefit shareholders, cause the price of the company's stock to drop, and protect the directors and management rather than promoting the best interests of shareholders. Plans must be designed to protect the company from detrimental takeovers, rather than protecting the interests of the board and management.

Canadian companies must submit shareholder rights plans to a vote by shareholders when they are adopted and seek shareholders' re-approval every three years.

- When shareholder rights plans are submitted for shareholder approval, [the fund] will assess the plans case by case. It will vote for them only when the plan ensures that shareholders will receive a fair price for their shares in a takeover and the plan will not protect management or the board at the expense of the shareholders' interests. [The fund] will vote for a plan only if:
 - The threshold for triggering the poison pill is at least 20% of the company's shares;
 - The plan's definition of "acquiring person" excludes anyone who strays across this threshold without intending to take over the company, such as passive institutional investors;
 - The plan's definition of beneficial ownership does not include references to voting agreements or dispositive power;
 - The plan allows a bid to acquire the company that does not trigger the shareholder rights plan to go directly to the shareholders;
 - Partial bids are permitted with a minimum deposit requirement or with a minimum bid that conforms to the rules of the Canadian Securities Administrators;
 - The bid stands for a minimum of 105 days, unless the company voluntarily reduces the bid period or accepts an alternative transaction, such as a plan of arrangement;

- If the bid period is reduced, it must not be shorter than 35 days and the company must make a public announcement;
- The bid period is no longer than 150 days. At that time the board must either announce an alternative bid or allow the original bid to go to the shareholders;
- All competing bids must remain open for the same period as the original bid. If the board of the target company reduces the bid period, it must reduce the bid period for any competing bids;
- If more than 50% of the company's shares have been tendered at the end of the bid period, or all terms and conditions of the bid have been complied with or waived, the bid must be extended for another 10 days;
- At least 50% of the outstanding securities that are subject to the bid must be tendered before the bidder can take up and pay for the shares. This also applies to partial bids.
- The offer will be considered approved if a majority of shareholders tender their shares in response to the offer or if a majority of the votes cast by independent shareholders are in favour;
- Potential acquirers can continue purchasing the stock in accordance with applicable regulations during the period in which the permitted bid stands;
- If the board wants to waive or redeem the plan in order to allow the company to be acquired by means other than a takeover bid, the shareholders' prior approval is required;
- The board can waive the plan, allowing a takeover bid to be made by sending a takeover bid circular to all shareholders, as long as this waiver is extended to any other contemporaneous bids. In this case, all takeover bids must be made by sending a takeover bid circular to all shareholders before the expiry of the initial bid;
- The plan does not include "flip-over" provisions that allow shareholders to purchase discounted shares of an acquiring company after the takeover;
- Rights can be redeemed only with shareholders' ratification;
- Private placements are not exempted from the plan;
- Soft lock-up agreements, in which shareholders can break the agreement to sell their shares to a competing offer, are exempted from the plan;
- The plan does not contain provisions that exempt insiders from the plan or parts of the plan;
- Potential acquirers are not required to provide evidence of financing;
- The terms "beneficial ownership" and "acting jointly or in concert" are based on ownership of shares at law or in equity, not voting rights or agreements;
- The potential acquirer has the right to amend the offer before the shareholders' meeting;
- The plan will be resubmitted to shareholders for approval at least every three years; and
- Any amendments to the plan will be submitted to shareholders for approval.

These guidelines also apply to poison pill takeover defences that are adopted to protect the tax treatment of net operating losses.

Other variations on poison pill takeover defences

Other forms of poison pill takeover defences exist, including some issuances of share subscription rights and stock warrants. All are designed to make it expensive for a prospective acquirer to buy the company without negotiating with the board of directors. Poison pill takeover defences are acceptable if they are designed to allow the board to negotiate the best possible deal for the company. However, the plans require careful scrutiny in order to be sure they benefit the company's stakeholders and not just management or the directors. As with all other takeover defences, they should not be adopted without shareholder approval.

- [The fund] will vote against the issuance of new share subscription rights or stock warrants when they could or will be used as takeover defences.
- [The fund] will vote on other poison pill takeover defences case by case. It will vote against plans that:
 - Allow the board to reject, without shareholder input, offers to acquire the company that do not trigger the plan;
 - Are likely to discourage takeovers that could benefit the company; or
 - Do not require the board to give equal treatment to all offers that comply with the rules of the plan.

Crown jewel defence

In a crown jewel defence against a takeover, the target company sells its most valuable assets to a friendly third party to make the company less attractive as a takeover target. In Canada, crown jewel defences usually require the approval of shareholders. Shareholders can also seek

the fair value of their shares from the potential acquirer if the majority of the target company's assets are included or if the takeover would change the essential nature of the company's business. This occurrence is known as the appraisal remedy.

Crown jewel transactions are often made on very short notice, giving shareholders little time to consider how the transaction will affect the value of their shares or control of the company.

- [The fund] will vote against crown jewel transactions unless the company demonstrates that the shareholders' interests will be protected.

Private and targeted share placements

Private and targeted share placements used as a takeover defense may result in dilution or block a takeover that would be in the best interests of the company.

- [The fund] will decide how to vote on private and targeted share placements case by case.

Opting out of takeover laws (United States)

In the United States, some states have laws that protect corporations from hostile takeovers. These laws often include provisions that allow corporations to opt out of their protections. Takeover-protection laws may prohibit prospective buyers from making well-financed bids for a company, or limit directors' fiduciary obligations to shareholders.

- [The fund] will vote for proposals to opt out of takeover-protection laws.

Reincorporation

See also "[Reincorporation, tax evasion and tax avoidance](#)". Companies may reincorporate in a different jurisdiction for sound business reasons, but also as a takeover defence or as a way to limit the directors' liability. [The fund] will assess votes on reincorporation case by case.

- [The fund] will vote for reincorporation proposals when management can demonstrate that there are sound financial or business reasons.
- [The fund] will vote against reincorporation if it is being used as a takeover defence, to limit director liability or if shareholders' rights would be diminished as a result.

Greenmail

A company pays greenmail when it buys shares held by a would-be acquirer at a price above the market price, usually

in exchange for the would-be acquirer's agreement to end a takeover attempt.

Greenmail decreases the value of the company's stock. It denies shareholder the preferred price for their shares and the opportunity to decide whether or not the prospective takeover is in their best interests.

- [The fund] will vote for anti-greenmail proposals.
- If shareholders have the opportunity to vote on a greenmail payment, [the fund] will vote against it.
- If greenmail is paid and no vote is offered on the greenmail payment, [the fund] will vote against or withhold votes for the directors who approved it. See "[Voting for directors](#)," page 11.

Fair-price proposals

Fair-price proposals require a bidder for a corporation's shares to pay the same price for all of the company's shares purchased.

- [The fund] will vote for fair price proposals.

Miscellaneous takeover defences

When a company proposes or adopts other takeover defences not listed here, those defences should be evaluated case by case to determine the proposal's overall, long-term benefits.

- [The fund] will assess votes on other takeover defences individually, based on how they will affect the company and its stakeholders in the long term.

PROTECTION OF SHAREHOLDERS RIGHTS AND INTERESTS

Exclusive forum bylaws

[The fund] opposes exclusive forum bylaws, which restrict where shareholders can sue a company. Exclusive forum bylaws deprive investors of the right to choose the court in which to sue a company without demonstrating a need for such a restriction.

- [The fund] will vote against proposals to limit the jurisdictions where shareholders can file suit against the company.
- [The fund] will vote for proposals to remove exclusive forum provisions from a company's bylaws or articles.

Supermajority vote requirements

Supermajority requirements require the vote of more than a simple majority to approve a decision or transaction.

[The fund] generally opposes supermajority requirements because they are often used to prevent beneficial changes to a company.

- [The fund] will vote against supermajority requirements and vote for proposals to eliminate them, unless there is a compelling reason not to do so.

Omnibus or linked proposals

Omnibus proposals combine two or more issues into a single proposal, which is presented to shareholders for a yes-or-no vote, instead of allowing shareholders to vote on each issue separately. Examples are combining a group of bylaw changes or several types of stock-based compensation for executives into a single proposal that shareholders can only vote for or against.

- [The fund] will vote against omnibus proposals if it is opposed to any of the issues in the proposal, unless the overall effect of the proposal would benefit the company and its stakeholders in the long term.
- [The fund] will vote for proposals to prohibit the use of omnibus or linked proposals.

Confidential voting

Proxy voting typically is not done by secret ballot. This allows management to contact dissenting voters and urge them to change their votes. [The fund] believes that the proxy voting process should be confidential, impartial, and free from coercion.

- [The fund] will vote for proposals to adopt confidential proxy voting.

Related-party transactions

Companies in some markets ask their shareholders to approve related-party transactions, in which the company engages in business transactions with a company or organization that has ties to its directors or executives. These transactions create potential opportunities for self-interested deals and conflicts of interest that may compromise the board's independence or the perceived integrity of the company.

- [The fund] will vote case by case on proposals to approve related-party transactions with companies or organizations that have ties to the directors or executives. [The fund] will only approve these proposals if the company's access to suppliers or service providers is limited, fully discloses the potential conflicts of interest, and has a procedure in place to protect itself from those potential conflicts.

Quorum requirements for shareholders' meetings

The appropriate quorum size for a shareholders' meeting depends on how widely held the company is, but no company should have a quorum of less than 25%. [The fund] encourages companies with dominant shareholders to set higher quorum requirements.

Companies should not set higher quorum requirements for meetings in which there may be a vote on an issue that the board or management opposes. For example, the company should not set a higher quorum threshold for a meeting at which shareholders are seeking to replace a director.

- [The fund] will vote against proposals that would set the quorum requirement at less than 25% of voting shares.
- [The fund] will vote against proposals that would set a higher quorum requirement for meetings at which proposals will be made that are opposed by the board or management.

Shareholder-called meetings

Shareholders have a right to call special meetings. If shareholders are required to own a certain percentage of shares before they can call a meeting, the percentage required should be one that shareholders could reasonably own given the size of the company.

- [The fund] will vote against proposals to limit or deny shareholders' right to call special meetings.
- [The fund] will vote for proposals to allow shareholders to call special meetings. If an ownership requirement is set, it should be reasonable for the size of the company.

Shareholder proposals

See also "[Voting for directors](#)," page 11.

Shareholders should be permitted to bring proposals to the annual meeting. These proposals should be included on the proxy ballot, and proponents should be given adequate space in the proxy circular to explain the proposal. The board should implement any shareholder proposal that is approved by a majority of the shareholders.

- [The fund] will vote for proposals to allow shareholders to bring proposals to the annual meeting where they are not permitted to do so.
- [The fund] will vote against or withhold votes from directors who fail to implement shareholder proposals that win majority approval.

Shareholder action by written consent

Companies and/or shareholders in some jurisdictions are allowed to seek the written consent of shareholders to take an action without holding a shareholder meeting or proxy vote.

Some companies seek to eliminate or restrict shareholders' right to act by written consent in order to prevent a takeover of the company. However, as with other takeover defences, this often protects management at the expense of shareholders.

Action by written consent can be used at companies with a controlling shareholder to take action without the input of minority shareholders.

- [The fund] will vote against proposals to limit or deny shareholders' rights to take action by written consent, unless the company has a shareholder who controls more than 50% of the voting rights.
- [The fund] will vote for proposals to restore shareholders' right to take action by written consent, unless the company has a shareholder who controls more than 50% of the voting rights.

Shareholders' meetings

Participation in shareholders' meetings is a basic right of shareholders. All shareholders should be given timely and sufficient information about the date, location, and agenda of shareholders' meetings and about the issues to be decided at the meetings. All shareholders should have adequate time to consider and vote on the issues.

- [The fund] will vote against proposals to shorten the notice period for shareholders' meetings if the period would be less than 15 days.
- [The fund] will vote against proposals if the company does not make sufficient information about those proposals readily available to shareholders before the meeting.

Some companies propose to hold their shareholders' meetings entirely by electronic means, without any shareholders being physically present. Meetings held entirely by electronic means, without the opportunity for shareholders to attend in person, limit shareholders' participation and are not an adequate substitute for meetings in which shareholders can be physically present.

- [The fund] will vote against proposals to hold shareholders' meetings entirely by electronic means.

Shareholders' voting rights

See also "[Unequal voting rights](#)," page 11.

Companies in some jurisdictions are permitted to change shareholders' voting rights under certain circumstances. [The fund] believes that voting rights are an essential part of owning shares in a company and that the voting rights of shareholders should not be altered. [The fund] will vote against a company's efforts to change or limit shareholders' voting rights whenever it has an opportunity to do so.

- [The fund] will vote against proposals that would limit or change shareholders' rights to vote their shares.
- [The fund] will vote for proposals to protect shareholders' voting rights.

OTHER CORPORATE GOVERNANCE ISSUES

Employee share-ownership plans

Employee share-ownership plans give employees a stake in the profitability of their company, create an additional incentive for good performance and align employees' interests with the interests of shareholders. Employee share-ownership plans differ from executive share-based compensation in that they are open to all or the majority of company employees.

Most plans offer employees the opportunity to purchase shares or stock options at a discount. Discounts on option or share prices should be appropriate for the market, but no more than 20%, and less if the company's shares are highly diluted. These plans are subject to the same concerns about dilution as other share-based compensation plans. Shares acquired under these plans should be subject to a reasonable vesting period that will encourage employees to keep their shares but not penalize them should they need to sell the shares.

- [The fund] will vote in favour of employee share-ownership plans provided they discount options or shares by no more than 20%, include a reasonable vesting period, and conform to other relevant sections of these guidelines, such as dilution and loans for share purchases.

CORPORATE SOCIAL RESPONSIBILITY

The investment community has come to recognize that environmental and social issues have financial consequences and that socially and environmentally responsible business practices are necessary for sustained profitability.

Proxy votes on sustainability issues differ from those on corporate governance issues. Proposals on environmental and social issues are usually made by shareholders rather than by management, and the range of possible issues within corporate social responsibility is much larger than the range of topics covered by corporate governance ballot items. This makes it impossible to anticipate and devise a guideline for all possible proposals that could appear on a proxy ballot. These guidelines address this problem by using broad, internationally accepted standards to assess corporate social and environmental proposals, augmented by specific guidelines for common types of proposals.

As stated earlier, if an issue on a proxy ballot is not specifically addressed by these guidelines, [the fund] will be guided by its commitment to the long-term interests of its beneficiaries and exercise its proxy voting rights in a way that will maintain the social, economic and environmental structures upon which long-term investment returns are based.

GENERAL GUIDELINES

International standards and norms

International law and standards provide useful guidance for evaluating responsible business practices. [The fund] will be guided in its proxy voting by the principles that are expressed in the following international standards.

- The UN Universal Declaration of Human Rights (www.un.org/en/universal-declaration-human-rights)
- The International Labour Organization's Tripartite Declaration of Principles Concerning Multinational

Enterprises and Social Policy (www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm)

- The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises (www.oecd.org/corporate/mne)
- The UN Declaration on the Rights of Indigenous Peoples (<https://www.un.org/development/desa/indigenouspeoples/declaration-on-the-rights-of-indigenous-peoples.html>)
- The UN Global Compact (<https://www.unglobalcompact.org>)
- The Global Reporting Initiative Standards (<https://www.globalreporting.org/standards>)
- The UN Guiding Principles on Business and Human Rights (<https://business-humanrights.org/en/un-guiding-principles/text-of-the-un-guiding-principles>)
- The Equator Principles (<http://www.equator-principles.com>)

The primary responsibility for determining what a company should do to act in a manner consistent with international standards and norms rests with management. However, when a company's actions violate international standards or expose the company to increased risk, fiduciaries have a responsibility to protect the value of their investments.

- In general, [the fund] will vote for shareholder proposals that call on companies to adhere to principles established in these international standards.

Reports on social and environmental issues

Corporations have a responsibility to disclose to their shareholders the potential liabilities of their operations, including the risks associated with social and environmental aspects of their operations. This disclosure may be included in sustainability reports with other information on the

company's social and environmental performance. [The fund] recommends the Global Reporting Initiative guidelines for creating sustainability reports.⁶ Companies may also integrate information on their social and environmental performance into their annual reports.

- [The fund] will vote for proposals to provide shareholders with sustainability reports.
- [The fund] will vote for proposals for companies to issue integrated sustainability and financial reports, as long as the integrated reports can be understood and provide as much information as separate sustainability and financial reports would provide.
- [The fund] will vote for proposals that ask companies to report to shareholders using the Global Reporting Initiative Guidelines.

Companies are often asked to report on specific environmental or social issues, including the risks associated with particular operations, conditions, or practices and/or plans to mitigate those risks.

- [The fund] will vote for proposals to provide shareholders with reports related to specific social and environmental aspects of their operations, including related risks and efforts to mitigate those risks, provided the information is not already easily accessible to shareholders, does not require companies to disclose confidential or proprietary information, and can be provided at a reasonable cost.

LABOUR RIGHTS

A company's employees are stakeholders in the firm and make an essential contribution to its success. Companies whose employees are satisfied with their work conditions are more likely to enjoy greater customer satisfaction, higher productivity and greater profitability.

The International Labour Organization's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the OECD's Guidelines for Multinational Enterprises spell out certain basic labour rights. [The fund] encourages companies to adopt these standards as a minimum commitment to labour rights in all of their operations.

- [The fund] will vote for proposals that ask companies to report on the quality of their workplace practices and on their efforts to improve the quality of their workplaces, including reports on diversity in their workforce.
- [The fund] will vote for proposals that ask companies to establish a board committee to examine and report on

its workplace practices unless doing so would be unduly burdensome or would not improve the workplace or benefit shareholders in the long term.

Discrimination in employment

See "[Labour practices](#)," page 35.

Companies should comply with the International Labour Organization's standard on non-discrimination. Most countries prohibit discrimination in employment on the basis of race, religion, national origin, ancestry, sex, age, and physical disability, and in many places, sexual orientation or gender identity.

See the earlier section "[Reports on social and environmental issues](#)," page 31, for the guideline on workforce diversity reports.

- [The fund] will vote for proposals to improve diversity and equity in the workplace, as long as those plans do not set arbitrary or unreasonable goals or require companies to hire people who are not well-qualified for their positions. It will assess these proposals case by case.
- [The fund] will vote for proposals to prohibit discrimination in employment, including proposals to expand or clarify anti-discrimination policies.
- [The fund] will vote against proposals that would exclude any group of people from policies against employment discrimination.⁷

Workplace health and safety

In addition to their human costs, work-related injuries and illnesses are expensive for companies. The costs can include lost work time, repairs to equipment, fines, lowered productivity or morale, and increased insurance and workers' compensation premiums. Good workplace safety can give companies a competitive advantage.

For proposals regarding reports on workplace health and safety, see the earlier section "[Reports on social and environmental issues](#)," page 31.

- [The fund] will vote for proposals that ask companies to take steps to reduce their risks of workplace illness and accidents, including appointing a committee responsible for health and safety.
- [The fund] will vote for proposals to include well-considered health and safety performance criteria in setting executive compensation. See, "[Executive compensation and performance](#)," page 20.

ANIMAL WELFARE

Proposals concerning animal welfare may ask companies for reports on how they treat animals in their operations, or on how their treatment of animals affects the environment and human health. Proposals may also ask companies to change the way they treat animals.

Proposals for reports on animal welfare are covered by the guideline on "[Reports on environmental and social issues](#)," page 31.

- [The fund] will vote case by case on proposals that ask companies to change the way they treat animals, taking into consideration the costs and benefits of making the change and the effect the proposed change will have on the company and its stakeholders in the long term.

RELATIONSHIPS WITH COMMUNITIES

Obtaining approval from local communities—social license to operate

Companies that proceed with projects without obtaining and maintaining local consent may face protests, sabotage, boycotts, negative publicity and falling share prices. Companies that fail to obtain local consent may also violate laws and/or international agreements, particularly those designed to protect the rights of indigenous peoples.

- [The fund] will vote for reasonable proposals that ask companies to commit to meaningful and ongoing consultation with local communities affected by their operations.
- [The fund] will vote for reasonable proposals that ask companies to obtain and maintain free, prior and informed consent of indigenous people.

Political contributions and positions

[The fund] recognizes that corporations may represent their interests in public policies and legislation that concern their businesses. However, we discourage companies from engaging in political activity. If companies choose to engage in political activity, they should disclose to shareholders all of the activities in which they engage to influence public policy, including the full amounts spent, what the money was spent on, and the business reasons for engaging in these activities. This disclosure should include companies' memberships in organizations that engage in political activities on behalf of their members and how companies will address potential conflicts between their policies and political positions they support directly or indirectly.

[The fund] will vote for proposals to ban corporate political contributions, including non-monetary contributions.

- [The fund] will vote against proposals to make corporate political contributions.
- [The fund] will vote for proposals to require companies to disclose the amounts of, rationale for, and recipients of any monetary political contributions and non-monetary contributions to individuals or organizations to influence public policy, as well as company policies and oversight mechanisms related to political activity, provided this can be done without undue expense and that the reports are not already easily available to shareholders.

Predatory lending

Predatory lending is the practice of making loans at high interest rates or with very high fees, and/or advertising and making loans in ways that obscure the full cost of borrowing. Predatory lending exposes corporations to uncollectible debt, litigation, and penalties from regulatory agencies. These practices pose a significant risk to the lender, the borrower, and entire economies.

- [The fund] will vote for proposals to require companies to develop and enforce policies barring predatory lending practices, and to report to shareholders on the implementation of those policies, unless such reports are already easily available to shareholders.

Reincorporation, tax evasion and tax avoidance

See also "[Reincorporation](#)," page 28.

Concerns about companies' avoidance of taxes has expanded to include a broad range of strategies that multinational corporations use to shift their profits to low-tax or tax-free jurisdictions. Shareholders have an opportunity to vote on this issue when companies reincorporate in a new jurisdiction in order to avoid paying taxes or to minimize the amount of tax they pay. Sometimes these changes in jurisdiction are part of a merger or acquisition.

- [The fund] will vote against proposals to reincorporate, including mergers or acquisitions, if it is apparent that the company is reincorporating to avoid taxes, unless there is a compelling reason to vote for it.
- [The fund] will vote for proposals that ask companies to comply with policies or guidelines on tax avoidance and base erosion promoted by the OECD.

DANGEROUS PRODUCTS AND PRODUCT LIABILITY

Although no responsible business would intentionally cause public harm, some products are clearly or potentially dangerous.

If companies use processes or substances in their operations that have been shown to be hazardous, [the fund] encourages those companies to develop and implement plans to end the use of those processes or substances. Proposals asking companies to report on the safety of their products or operations are covered by the guideline “[Reports on social and environmental issues](#),” page 31.

- [The fund] will vote for proposals asking boards to establish a committee to examine and report on issues related to product safety, unless doing so would not benefit the company’s shareholders or other stakeholders in the long term.
- [The fund] will assess proposals to end the use of a process, or the production or sale of a product or substance, on a case-by-case basis. This assessment will include the potential hazards and liabilities associated with the product, substance, or process, existing or prospective regulation of the product, substance, or process and the costs of eliminating it.

Genetically modified organisms

Shareholder proposals concerning genetically modified organisms (GMOs) normally ask companies to report on their use of GMOs, to label their products that contain GMOs, or to stop producing or using GMOs altogether. The commercial use of GMOs, especially in agriculture, has resulted in lawsuits, regulatory sanctions and product recalls costing billions of dollars.

Large numbers of consumers support labelling products that contain GMOs. This makes it likely that companies will enjoy greater access to markets and greater consumer satisfaction if they label their GMO products.

[The fund] believes that companies should disclose the risks presented by their use of GMOs.

- [The fund] will vote for proposals that ask companies to label their products that contain GMOs.
- [The fund] will assess proposals to stop producing or using GMOs case by case. This assessment should include careful consideration of the potential liabilities from the GMOs at issue, the anticipated market for products containing GMOs, the costs of market failure, the findings of current independent research on the safety of the GMOs, and any issues related to insurance.

ENVIRONMENTAL ISSUES

Companies’ environmental performance has a material effect on their profitability. Environmental damage carries material risks, such as legal liability and a damaged reputation. Sound environmental practices, on the other hand, can improve a company’s financial performance and its reputation as well as reducing its environmental footprint.

Companies can manage their environmental performance by using the precautionary approach, described in greater detail in the United Nations Global Compact. The UN Global Compact also includes environmental principles that will help corporations to be environmentally responsible. [The fund] will generally support companies’ efforts to implement these or comparable principles.

- [The fund] will vote for proposals that ask companies to adopt the UN Global Compact, or another set of environmental standards as long as these standards are at least as stringent as those in the UN Global Compact.
- [The fund] will vote on proposals that ask companies to improve their environmental performance case by case. This includes proposals to take specific actions to improve the company’s environmental performance. In general, [the fund] will support these proposals as long as the action requested is based on sound evidence, can realistically be achieved by the company, does not hurt the company’s long-term performance, and is not detrimental to the interests of its stakeholders.

Climate change

The consequences of climate change are material risks that investors and businesses of all kinds must address. Companies are also under increased pressure from investors to reduce their greenhouse gas emissions to meet the targets of the Paris Accord’s limit on global temperature increase to 2°C above pre-industrial levels. Companies need to consider long-term business plans and capital expenditures to adapt to a lower-carbon economy and lower future demand for fossil fuels.

Reducing greenhouse gas emissions can also benefit a company by reducing its energy use and costs, lowering its exposure to climate change risks, and positioning it to trade carbon credits.⁸

- [The fund] will vote for reasonable proposals calling for companies to improve oversight, management and reduction of their greenhouse gas emissions.
- [The fund] will vote for reasonable proposals that encourage boards and management to disclose steps they are taking to address climate-related risks.

Hydraulic fracturing

Hydraulic fracturing (sometimes called fracking) is a method for extracting natural gas and oil from underground shale formations by injecting a mixture of water, sand and chemicals into these formations at high pressure.

Although energy companies claim that the process can be done safely, hydraulic fracturing has been associated with contaminated air, soil and groundwater.⁹ Concerns about the effects of hydraulic fracturing have led some jurisdictions to ban the process or institute moratoria.

To date, most of the proposals concerning hydraulic fracturing have asked companies for reports on the risks of the procedure and on the company's efforts to mitigate those risks. Companies have also been asked to report on the chemicals used in hydraulic fracturing. These reports are covered by the guideline "[Reports on environment and social issues](#)," page 31.

- [The fund] will vote for proposals that ask companies to improve the sustainability of their hydraulic fracturing operations, provided the proposal will not be detrimental to the company or its stakeholders in the long term.
- [The fund] will vote for proposals that ask companies to disclose any litigation or similar risks they face from hydraulic fracturing or related operations.

Water use management

Water scarcity is a growing problem that affects business in many sectors. Companies can begin to manage water use responsibly by assessing the value of water to a business's operations, instead of focusing solely on how much it costs. As with other potential risks, businesses should disclose to their shareholders the company's exposure to water-related risks and how it manages those risks. [The fund] recommends that companies use the CDP water disclosure framework for reporting on their use of water and related risks.¹⁰

Proposals asking companies to report on their use and management of water are covered by the guideline "[Reports on social and environmental issues](#)," page 31.

- [The fund] will vote for proposals that ask companies to conserve water or to improve how they manage their use of water, provided the proposal would not be detrimental to the company or its stakeholders in the long term.
- [The fund] will vote for proposals for greater disclosure of companies' potential risks related to their use of water and their plans to address those risks.

INTERNATIONAL OPERATIONS

International operations are highly complex; they demand that corporations reconcile differences in legal regimes, cultural values and practices, and consumers' and workers' interests. The OECD has established the Guidelines for Multinational Enterprise, which set standards for international operations in labour, the environment, consumer protection, fair competition, science and technology, and taxation. [The fund] recommends that companies adhere to the OECD Guidelines for Multinational Enterprise.

All of [the fund's] guidelines on environmental and social issues apply equally to companies' international and domestic operations. International operations also raise some additional issues, which are addressed here.

Labour practices

One appeal of moving production overseas is that doing so allows corporations to take advantage of lower wages in some countries. Unfortunately, some corporations have sought an unfair competitive advantage by lowering their labour standards for overseas operations, resulting in a labour-standards race to the bottom. To ensure that consistently high standards are used in global employment practices, [the fund] encourages companies to adopt the labour standards in the OECD's Guidelines for Multinational Enterprise.¹¹

- [The fund] will vote for proposals that ask companies to adopt and comply with the labour standards of the OECD Guidelines for Multinational Enterprise, or employment standards or agreements consistent with those guidelines.
- [The fund] will vote for proposals that ask companies to provide shareholders with independently verified reports on their progress in implementing the OECD Guidelines for Multinational Enterprise, or equivalent standards, unless this information is already easily available to shareholders.

Human rights

Conducting business in a country with a weak human rights record can expose a company to the risk of causing or contributing to human rights impacts or of complicity with human rights abuses, even if the company tries to distance itself from them.¹² Companies in some jurisdictions are legally responsible for human rights violations in their supply chains.¹³

Adopting and implementing the United Nations Guiding Principles on Business and Human Rights, the OECD's

Guidelines for Multinational Enterprises, and supplier codes of conduct can help companies avoid being associated with human rights abuses.

- [The fund] will vote for proposals to require companies to adopt and/or comply with international human rights standards, including the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles.
- [The fund] will vote for proposals that ask companies to consult with stakeholders on the effects of their operations on human rights, including organizations with expertise in human rights.
- [The fund] will assess proposals that ask companies to cease operations in countries with human rights abuses case by case, taking into account the potential for harm or benefit to the people of the country in question and the effects on the company in the long term.

Companies that operate in conflict or high-risk areas face serious risks, including harm to their personnel, the appearance of being aligned with parties to the conflict, and possible litigation. They should adopt and implement policies, including the UN Guiding Principles cited in previous sections, and enhanced due diligence to ensure they are not contributing to the conflict.

- [The fund] will vote for proposals that ask companies operating in conflict zones to establish and implement policies to protect human rights and to ensure that they are, in fact, protecting those rights.
- [The fund] will vote for proposals that ask companies to monitor compliance with those policies and to provide shareholders with independently verified reports on their adherence to those policies, provided these reports are not already easily available to shareholders.

Freedom of expression and electronic censorship

Some countries use software or the records of cell phone companies and internet service providers to monitor their citizens, enforce censorship, or suppress dissent.

[The fund] recognizes that the right of free expression is not universally accepted. Nevertheless, the protection of basic human rights, including freedom of expression, is necessary for sound, long-term investment. Companies that allow their products or records to be used for censorship or surveillance, or that turn a blind eye to the uses to which their products or data are put, may expose others to human rights abuses, expose themselves to liability for human rights abuses and put their investors' confidence at risk.

- [The fund] will vote for proposals that ask companies to adopt codes of conduct that include obligations to uphold freedom of expression and to prevent the companies' products or services from being used to violate the freedom of expression.
- [The fund] will vote for proposals that ask companies to report to shareholders on their progress in implementing these codes of conduct or in achieving compliance from their contractors, provided these reports are not already easily available to shareholders. This includes proposals that ask companies to establish board committees to examine and report on their practices and codes of conduct related to the protection of freedom of expression.

Monitoring foreign contractors

A large portion of overseas manufacturing is done through contracting and subcontracting, rather than at facilities owned directly by a company. This makes it possible for a company's products to be produced in conditions that violate international standards, with all of the attendant risks. Companies must monitor their contractors' operations and insist on compliance with international standards.

[The fund] encourages companies to establish a monitoring process that includes independent verification of contractors' compliance with labour and environmental standards. The best monitoring involves local, independent, respected organizations in the monitoring process and uses incentives rather than premature termination of contracts to encourage suppliers to raise their labour and environmental standards.

- [The fund] will vote for proposals that ask companies to adopt due diligence practices, to evaluate their contractors' operations and to use qualified independent monitors to assess their contractors' adherence to labour and environmental standards.

ENDNOTES

- 1 http://share.ca/documents/educational_resources/2008/Responsible_Investment_Toolkit.pdf
- 2 The TSX makes exceptions for contested elections, in which there is more than one candidate for a position on the board, and for controlled companies, in which a shareholder or shareholders hold a controlling number of shares.
- 3 See, for example, the Canadian Council on Board Diversity's definition of diversity: "The Council's definition expands the traditional board definition of industry experience, management experience, functional area of expertise, education, geography and age to also include such considerations as ethnicity, gender and aboriginal status."
- 4 Multilateral CSA Notice of Amendments to National Instrument 58-101 *Disclosure of Corporate Governance Practices*. Issuers in these jurisdictions are now required to provide disclosure on director term limits and renewal mechanisms; policies regarding the representation of women on the board; the board's consideration of the representation of women in director selection; targets regarding the representation of women on the board; and the number of women on the board.
- 5 See, for example, T. Chamorro-Premuzic, "Does Money Really Affect Motivation? A Review of the Research", *Harvard Business Review Blog*, 10 April 2013, <http://blogs.hbr.org/2013/04/does-money-really-affect-motiv>
- 6 See, https://www.globalreporting.org/standards?dm_i=4J5,4JZIT,IXZ4Q,GVZWH,1
- 7 The Canadian Human Rights Act prohibits discrimination on the basis of race, national or ethnic origin, colour, religion, age, sex, sexual orientation, gender identity or expression, marital status, family status, genetic characteristics, disability and conviction for an offence for which a pardon has been granted or in respect of which a record suspension has been ordered. *R.S., 1985, c. H-6, s. 3; 1996, c. 14, s. 2 2012, c. 1, s. 138(E); 2017, c. 3, ss. 10, 11, c. 13, s. 2.*
- 8 An excellent resource for setting and reviewing GHG emissions reductions is Science-Based Targets, <http://sciencebasedtargets.org>.
- 9 See, for example, J. Hoffman, "Potential Health and Environmental Effects of Hydrofracking in the Williston Basin, Montana", Department of Earth Sciences, Montana State University, 2012. http://serc.carleton.edu/NAGTWorkshops/health/case_studies/hydrofracking_w.html; RB Jackson, A Vengosh, TH Darrah, NR Warner, A Down, RJ Poreda, SG Osborn, K Zhao, and JD Karr, "Increased stray gas abundance in a subset of drinking water wells near Marcellus shale gas extraction", *Proceedings of the National Academy of Sciences of United States of America*, Vol 110(28) 9 July 2013. www.pnas.org/cgi/doi/10.1073/pnas.1221635110
- 10 See, <https://www.cdp.net/water>
- 11 <http://mneguidelines.oecd.org/2011Employment&IndustrialRelations.pdf>
- 12 Human rights cases currently before Canadian courts raise the possibility that international standards create a duty of care for Canadian companies, making those companies legally responsible for human rights violations committed by companies in their supply chains. *Choc v. Hudbay Minerals, Inc.*, Order 2013 ONSC 1414 (Superior Court of Justice – Ontario, July 22, 2013); *Araya v. Nevsun Resources, Ltd.*, 2015 BCSC 1209 (Supreme Court of British Columbia, Nov. 20, 2014).
- 13 For example, The California Transparency in Supply Chains Act of 2010, and the UK's Modern Slavery Act 2015. See, C. Burkett, J. Bernado, "The Rana Plaza Class Action – Is Canada the Next Frontier for Global Human Rights Litigation?", *Canadian Labour and Employment Law: International Human Rights Compliance*, Baker & McKenzie, 23 November 2015. <http://www.labourandemploymentlaw.com/2015/11/the-rana-plaza-class-action-is-canada-the-next-frontier-for-global-human-rights-litigation/#page=1>

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