

# Proxy Voting Guidelines

As a means for holding boards accountable, shareholder voting rights are a critical component of the corporate governance process. In our commitment to active ownership, we aim to exercise our right to vote at every company meeting held.

We independently review and evaluate all ballot items in-house. While third-party research may be used to enhance our due diligence, all final voting decisions are made by the respective investment teams that comprise our Investment Committee. We use a third-party system for ballot tracking and vote execution.

This document outlines the guiding principles behind our proxy voting activities. We aim to cast our votes in a manner that is consistent with these principles and in the best interests of long-term shareholders. Ultimately, we consider each issue on a case-by-case basis, with final voting decisions based on a balance of factors.


The decision to invest is generally an endorsement of management; therefore, we will generally vote with management on routine matters for which we have no material concerns. We may vote against management in response to a material concern, to promote improved practices or when we believe doing so best serves the interests of long-term shareholders. While recognizing that companies should have flexibility to govern themselves in the way they see fit, we expect decision-making rationale to be disclosed to shareholders and deviations from accepted good governance practices to be clearly explained.

We may decide to engage with a company on a particular issue, and/or escalate voting action where no progress is evident. When appropriate, we may consult with legal counsel on specific issues.

## Guiding Principles

### Board of Directors

- A. Independence** – to facilitate effective oversight, the majority of the board should be comprised of independent, unrelated directors. Key board committees, including governance/nominating, audit and compensation committees, should be comprised of independent directors. We will consider voting against the election of certain director nominees when we believe issues of independence compromise the board's ability to provide effective oversight.

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- B. Size** – board size should be appropriate for the size and complexity of the business, generally within 5-16 members.
  - C. Evaluation & Nomination** – effective boards are made up of diverse individuals with the relevant experience and skills necessary to challenge management and execute the oversight role. Members of key committees should possess appropriate skills and expertise for the mandate of the committee on which they serve. There should be established internal processes for the regular evaluation of individual director contributions and overall board effectiveness. Boards should disclose their approach to continuity, board refreshment and succession planning.

Boards should include diversity (inclusive of gender, ethnicity, experience and age) within the context of their search for highly competent directors. We expect boards to provide shareholders with a complete explanation, which could include a policy, of how they address diversity and nomination practices more generally.

- D. Attendance & Overboarding** – directors should be engaged and committed to the long-term interests of the corporation. Board meeting attendance records should be disclosed, along with explanations for repeated absences. We may choose not to support a director's re-election when attendance falls below 75% per annum without a reasonable explanation, or where there is evidence that outside directorships or other business commitments compromise the director's ability to effectively serve the board.
- E. Alignment of Interests** – directors should be subject to meaningful share ownership guidelines to help align their interests with the interests of shareholders.
- F. Separation of Board and Management** – the board is responsible for evaluating the performance of the company and its CEO. As such, the roles of Chair and CEO should generally be separated. In cases where the positions are held by one individual, we will assess the appropriateness of the combined role and its impact on board effectiveness. We generally support the transition to separated Chair and CEO roles over time.
- G. Director Elections** – directors should be elected annually. We will generally oppose the introduction of staggered boards where directors are elected in two or more classes, serving terms greater than one year. Directors should be nominated individually rather than as a slate.
- H. Accountability for ESG Management** – we may choose not to support individual directors or committees of the board when a company has failed to demonstrate adequate management and oversight of ESG issues.

## Auditors

We will generally support the appointment of the external auditor as recommended by the board, provided there is reasonable assurance that the auditor remains independent of management. A significant majority of the fees received by the external auditor firm should be audit-related.

We may vote against the company's recommendation if the auditors are changed without suitable explanation.

## Executive Compensation

- A. Quantum** – total pay should serve to motivate and retain qualified executives, align interests with shareholders and be structured to discourage excessive risk taking. Total compensation should not be excessive.
- B. Pay for Performance** – the majority of compensation should be “at risk”. Variable compensation should be explicitly linked to the achievement of appropriate and challenging performance criteria that are consistent with corporate strategy and the creation of long-term shareholder value. Companies should disclose the short and long-term metrics used to determine compensation and the specific targets to which they are tied.
- C. Share Ownership Requirements** – executives should be required to hold a significant portion of their net worth in shares (or equivalents).
- D. Equity-Based Compensation Plans**
  - i.** The granting of equity incentives and the vesting of previously granted incentives should be linked to the achievement of specific performance targets (rather than general market performance or the passage of time).
  - ii.** Equity compensation plans may dilute the value of existing shares by increasing the number of shares outstanding. Total potential dilution should be kept to a reasonable level, generally less than 10%. All equity-based compensation plans are considered on a case-by-case basis.
  - iii.** The structure of equity compensation plans should impose discipline on the board. Plans with a fixed number of shares authorized for issuance are therefore preferable to plans with a rolling maximum. The annual grant as a percentage of shares outstanding (or burn rate) serves as a measure for how fast the company is using the equity pool and diluting shareholders.

**iv.** Stock options should be granted with an exercise price that is no less than 100% of the equity's current market value. We will generally oppose proposals to re-price, extend or otherwise alter stock options after they have been granted.

**E. One-off Awards** – outside-of-plan awards should be used rarely and only in exceptional circumstances. Regular use of such awards may be evidence of an ineffective compensation plan. When deemed appropriate, one-off awards should be clearly justified and subject to sufficiently challenging performance conditions.

**F. Say on Pay** – we support an annual advisory vote on compensation (“Say on Pay”). The Say on Pay vote is an opportunity for shareholders to validate the structure and objectives of the executive compensation plan and provide feedback to the compensation committee. We will support the Say on Pay if we believe the compensation plan is adequately designed to align pay with performance. We may vote against the Say on Pay when there is evidence of issues such as:

- i.** a disconnect between pay and performance, or the strategic objectives of the company
- ii.** unchallenging or inappropriate performance criteria used to award or determine the vesting of equity
- iii.** poor structure without appropriate short and long-term components
- iv.** undue reliance on broad discretion by the board without sufficient rationale
- v.** discretionary payments that become habitual or that are awarded without sufficient justification

If a Say on Pay proposal receives significant voting opposition from shareholders in any given year, we will generally hold the chair of the compensation committee responsible for ensuring that significant improvements are made to the compensation plan.

## Corporate Structure

An increase in the number of authorized or issued shares may provide a company's board of directors with the flexibility to meet changing financial conditions. However, shareholders should have the opportunity to approve the issuance of new shares that pose significant dilution risk. We will support reasonable share authorization requests for valid business needs (such as to facilitate a restructuring or acquisition or provide sufficient shares for use in prudently structured executive compensation plans). When the request for authorization is not tied to a specific need,



we will assess the validity of the request and the level of dilution risk.

## Takeover Protections

We will generally support proposals that strengthen the capacity of a company to respond to takeover offers in a manner that enhances long-term shareholder value without unduly deterring initial unsolicited bids or follow-on offers. We may not support plans that go beyond the legitimate purposes of a) ensuring equal treatment of shareholders in the event of a bid, b) allowing the company sufficient time to consider alternatives to a bid, and c) permitting shareholders to make an informed decision about the bid and available alternatives. Proposed takeover protection measures should be put to a shareholder vote and expire within a reasonable timeframe, after which they should be resubmitted for renewal.


## Shareholder Rights

- A. Dual Class, Unequal or Subordinate Voting Shares** – structures that give certain shareholders disproportionate voting power relative to their equity ownership should be reviewed on a regular basis. We will generally not support the creation or extension of dual class share structures, particularly in cases without sufficient alignment of interests.
- B. Proxy Access & Advance Notice** – the right to add director candidates to the ballot under specific conditions (ie minimum share ownership) is a fundamental shareholder right. Advance notice provisions may protect companies and shareholders from surprise changes to the board without proper discussion; however, they should not include unreasonable hurdles for shareholders.

## Shareholder Proposals

We consider all shareholder proposals on a case-by-case basis, considering factors such as:

- Relevance/materiality of the issue
- Whether the scope of the proposal is reasonable
- Whether the proposal is overly prescriptive or places arbitrary constraints on the company
- Whether the proposal duplicates existing efforts
- Whether the proposal adds value to long-term shareholders in terms of governance, disclosure, risk management or shareholder rights



**ESG Proposals** – we encourage all investee firms to disclose material environmental, social and governance risks and report on measures taken to appropriately address these risks. Our voting decisions on ESG proposals will consider the company’s unique circumstances and current approach to the issue. Generally, we will take opportunities to advocate for positive change and improve the ESG standing of a portfolio holding when the proposal is relevant, reasonable in the specific context and not overly prescriptive.

## **Disclosure**

Our proxy voting record is available to clients on a quarterly basis.