PUBLIC SECTOR PENSION INVESTMENT BOARD

PROXY VOTING GUIDELINES

NOVEMBER 2017

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PROXY VOTING PHILOSOPHY

WHO WE ARE

The Public Sector Pension Investment Board ("PSP Investments") is one of Canada's largest pension investment managers. We are a Canadian Crown corporation that invests funds for the pension plans of the federal public service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force.

OUR BELIEFS AND PHILOSOPHY

Our Proxy Voting Guidelines (the "Guidelines") have been drafted to apply to our investment universe and are not rigid or prescriptive rules. We exercise our voting rights in a global market and must therefore consider nuances in local market practices. We expect companies to respect relevant laws and regulations in their respective markets as well as country specific corporate governance codes and best practices. We take a pragmatic approach when exercising our voting rights by considering local laws, prevailing governance practices and the particular circumstances of a company in the interpretation and application of the Guidelines.

As a long-term institutional investor in the global equity markets, we believe that corporate governance practices, meaningful disclosure and responsible corporate behaviour contribute to the long-term performance of the listed companies in which we invest and are important to well-functioning public capital markets.

Our Guidelines outline our expectations in respect to corporate governance practices and sustainability of public companies in which we invest. Our Guidelines address the matters on which we may vote on from time to time and the principles on which we will rely in forming our voting decisions.

In assessing matters submitted to shareholders, we review relevant company proxy documents and research materials provided by external research providers prior to casting our vote. In some instances, we may engage with a company in advance of a meeting to discuss any concerns with matters submitted to shareholders.

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FOSTERING EFFECTIVE BOARDS OF DIRECTORS

WE BELIEVE THAT HIGH PERFORMING AND EFFECTIVE BOARDS ARE THE RESULT OF A ROBUST NOMINATING PROCESS THAT WILL ATTRACT QUALIFIED AND INDEPENDENT CANDIDATES FROM DIVERSE BACKGROUNDS.

The primary responsibility of a board of directors is to preserve and enhance shareholder value and protect shareholders' interests. We believe that well-sized and diverse boards with the proper balance of skills, expertise and independence are critical to a company's long-term success. We therefore place considerable importance on the quality of the directors as well as the overall composition of boards.

We believe that high performing and effective boards are the result of a robust nominating process that will attract qualified and independent candidates from diverse backgrounds and that independent board leadership is a key element of effective boards. Sound director performance evaluations and renewal practices are also essential and directors should have sufficient time to devote to their board duties.

SKILLS, EXPERIENCE AND COMPETENCY

Companies should publicly disclose in proxy related materials their assessment of the skills, experience and competency for each board candidate. We will assess each director's ability to exercise duty of care and discharge their responsibilities in the best interests of shareholders.

Voting Guidelines

- We will support the election of directors with the skills, experience and competencies to represent the best interests of shareholders.

- Should we lose confidence in a director's ability to act in the best interests of shareholders, we will not support his or her re-election. Furthermore, we will assess his or her ability to act in the best interests of shareholders on other boards of directors and may also not support that director's election to any other board for which he or she is a candidate.

DIVERSITY

A strong board of directors is made up of members with an appropriate and diverse range of views, backgrounds and experiences.

We encourage companies to promote diversity at all levels of the organization since this leads to better decision-making. Boards should develop an effective system for identifying diverse candidates to be regularly considered for open directorships. We expect companies to take the necessary steps to foster diversity, such as adopting and disclosing diversity policies and targeted objectives and reporting thereon.

Voting Guidelines

- We may vote against or withhold our vote for the election of members of the nominating committee or, in the absence of a nominating committee, the chair of the board where:
    - there is not at least one woman being proposed for election to the board of directors; or
    - diversity is generally lacking and the company has failed to adopt credible policies or targets to increase diversity.

BOARD INDEPENDENCE

A board should be constituted by a majority of independent directors and ensure that it is able to operate independently of management. We believe that directors who are in a position to exercise objective judgment, free of any external influence, are best positioned to successfully supervise a company to support the creation of long-term shareholder value.

An "independent director" is an individual who has no direct or indirect material relationship with the company or its executives. A material relationship is a relationship which could be reasonably expected to interfere with the exercise of an individual's independent judgment. More specifically, a material relationship is a relationship where the director:

(a) is a beneficial holder, directly or indirectly, or is a nominee or associate of a beneficial holder, collectively of more than 10% or less of the votes attaching to all issued and outstanding securities of a company;

(b) currently is, or has been within the past three years, an officer, employee of or service provider to the company or any of its subsidiaries or affiliates;

(c) is an officer, employee or controlling shareholder of a company that has a material business relationship with the company;

(d) is currently employed, or has been employed within the last three years, by the company's auditor;

(e) has been a director of the company for a period of more than twelve years, unless the company provides an adequate explanation as to why the director can be considered independent taking into account his or her extended tenure; or

(f) the spouse of any individual that has a material relationship with the company outlined in (a) to (d) above.

In determining the materiality of the relationship, we will also consider applicable stock exchange listing requirements and securities laws.

Voting Guidelines

- We will generally support the election of directors resulting in a board of directors constituted of a majority of independent directors.

- While we will support the election of the Chief Executive Officer to the board of directors, we will not support the election of other executive officers to the board such as the Chief Financial Officer or the Corporate Secretary.

BOARD RENEWAL

We do not have set fixed limits on director terms. However, we encourage boards of directors and nomination committees to consider board renewal when proposing nominees for election to shareholders. Age and tenure are also relevant factors to ensure a balanced board and to facilitate board refreshment. As outlined in the section ***Board Independence*** above, we may find a director to be non-independent if he or she has served on the Board for a period of more than twelve years.

Voting Guidelines

- In situations where an appropriate balance between long and more recent tenured directors is not found and where there is no robust board evaluation and renewal, we may vote against or withhold supporting the election of members of the nominating committee.

BOARD COMMITTEES

Boards of directors should establish a number of committees, including at least an audit, compensation and nominating committee. These committees should generally consist of at least three members, all of whom independent directors, as defined above. Depending on the industry and size of the company, other board committees may be warranted to focus on issues such as risks, governance, health and safety or the environment.

For companies with a controlling shareholder[1], a majority of members should be independent directors that are also unrelated to the controlling shareholder. We expect audit committees to be solely comprised of directors that are independent and unrelated to the controlling shareholder. In addition, the chair of the compensation and nomination committees should be independent and unrelated to the controlling shareholder.

The terms of reference or charters, as well as the composition, accountability and working procedures should be well-defined and disclosed, to support each committee's principal responsibilities as follows:

Audit committee: The audit committee oversees the work of external auditors and the adoption of effective internal controls to ensure accurate accounting and reporting of the company's financial performance. We expect all audit committee members to be financially literate.

Compensation committee: The compensation committee directs, oversees and reports on the company's executive compensation program as well as corporate long term incentive plans. It also regularly evaluates the performance of senior management. We expect all compensation committee members to be knowledgeable in respect to compensation matters. Compensation consultants used to develop executive compensation plans should be hired by the nominating committee, not management. Furthermore, to avoid potential conflicts of interests, such consultants should not be hired by the company for other services.

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1 "controlling shareholder" means a person, company or group of shareholders that directly or indirectly effectively controls a sufficient number of shares of a given company to be able to elect the board of directors or to direct the management or policies of the company.

Nominating committee: The nominating committee identifies the board's needs for new or additional directors and then recruits, nominates and oversees the orientation program of new directors. The committee also assesses the needs for certain skills the board may be lacking and ensures the board is renewed on a regular basis. We expect the committee to develop a system for identifying diverse candidates and facilitate board refreshment and diversity. The nominating committee should also ensure that performance reviews for all board members are carried out on an annual basis. The nominating or other appropriate committee should encourage the implementation of procedures to assess the effectiveness of the board, as well as its committees and members. Companies should disclose the performance review process in the proxy circular in sufficient details to demonstrate that there is a robust system in place to identify individual performance issues and effectively address them and, where appropriate, disclose the conclusions drawn and improvement opportunities identified from the process.

"Boards of directors should establish a number of committees, including at least an audit, compensation and nominating committee.

Voting Guidelines

- We will not support the election of non-independent directors who are members of the audit, compensation or nominating committee. For companies with a controlling shareholder, we will not support directors that are non-independent or related to the controlling shareholder if they represent the majority of members of, or act as chair of the audit, compensation or nominating committee.

- We will support the election of audit committee members that are financially literate.

- We vote against or withhold our vote the re-election of directors who served as members of the audit committee where they:

  - have failed to exercise proper oversight of the external auditors by, for example, failing to properly monitor the effectiveness of the financial reporting environment or the execution of the audit plan;

  - served as members of the audit committee at the time when excessive non-audit fees have been paid to the auditors, as provided in the Auditor Appointments, Compensation and Integrity section of our Guidelines; or

  - served as members of the audit committee at a time when annual or quarterly financial statements had to be restated or when there is a material weakness in internal controls.

- We will support the election of nominating committee members where we find that the board has the appropriate experience, skills and competency to effectively discharge its responsibilities.

- We will support the election of compensation committee members that have the appropriate experience and ensure that pay practices are generally aligned with performance (as outlined in our compensation related voting guidelines).

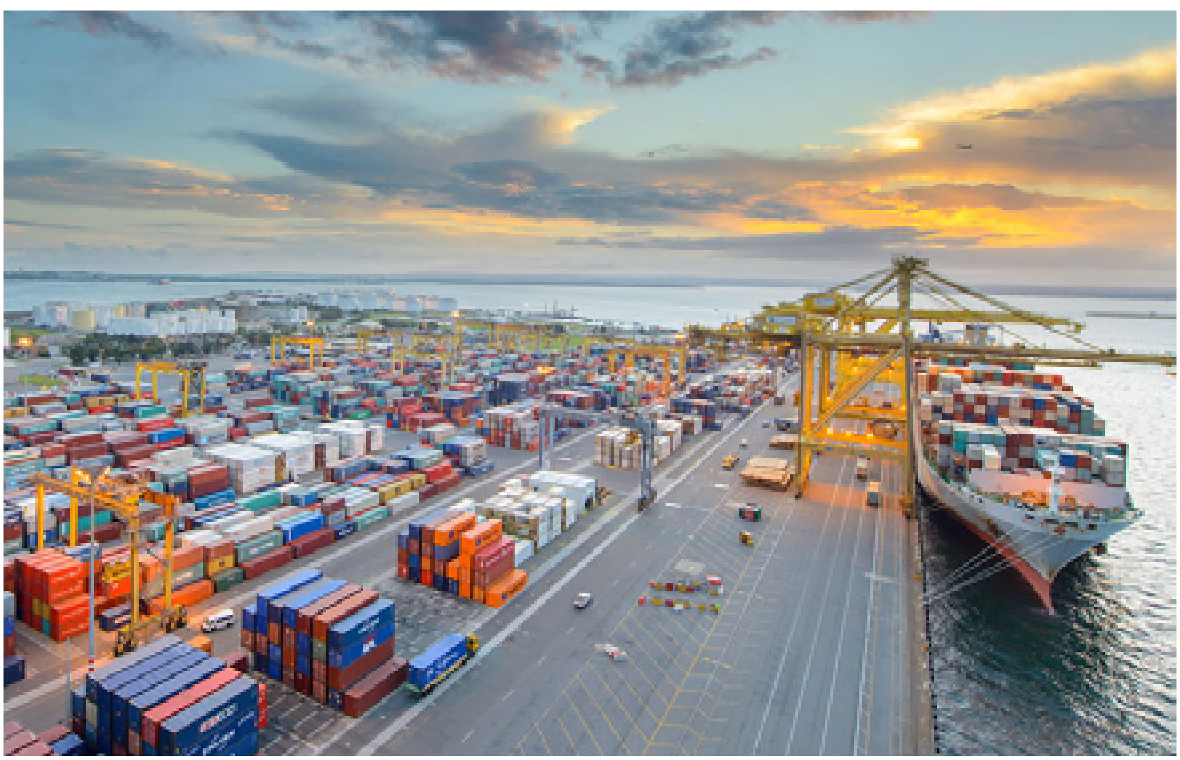
SIZE AND EFFECTIVENESS OF BOARDS OF DIRECTORS

The board of directors should periodically review its own size and determine the number of members which ensures its effectiveness. The board should be small enough to be cohesive and effective and large enough to ensure the requisite diversity of experience and skills. The appropriate number of directors will vary with the size and the nature of a company.

Voting Guidelines

- We will review resolutions to increase or decrease the size of the board of directors, taking into account the nature, the size and the industry of the company.

- Where the size of the board of directors is unsatisfactory or deemed not to be conducive to cohesiveness, we may vote against or withhold our vote for the election directors acting as chair of the board or chair of the governance or nominating committee, as appropriate.



DIRECTOR TIME COMMITMENT AND ATTENDANCE RECORD

We recognize that directors benefit from their exposure to other public company boards. However, directors should ensure they can manage their commitments on multiple boards of directors without compromising their ability to discharge effectively their duties and responsibilities.

We encourage boards to address, in proxy circulars, competing time commitments that directors are faced when they serve on multiple public company boards, especially when they also hold executive officer position in a public company.

A director who commits to serve on a board should be prepared and able to make attendance at and contribution to the board and board committee meetings a priority. We expect directors to attend all board meetings; including committee meetings (if applicable) and companies should disclose reasons for absences in the proxy circular.

Voting Guidelines

- We may vote against or withhold our vote from a candidate seeking election to the board of a company in situations where we believe that the candidate's commitments on multiple boards of directors could compromise his or her ability to effectively discharge their duties. More specifically, we may vote against or withhold our vote from a candidate where he or she:
    - serves as a director on more than five public company boards; or
    - is a public company executive and serves on more than two public company boards.

In assessing the time commitment of board members, consideration will be given to factors such as: the size of the boards on which they serve, the exchange or market where the company is listed and committee membership.

- We will vote against or withhold our vote for directors who have attended less than 75% of board and board committee meetings within the past year without a valid reason for their absence.

SEPARATION OF CHAIR OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (CEO) ROLES

As the role of the chair is to lead the board of directors in its responsibility in overseeing management, we believe that the roles of chair of the board and CEO should be held by two different individuals. We further believe that the chair of the board should be an independent director as defined in our Guidelines. If such separation does not exist, an independent lead director should be appointed with a role and responsibilities similar to those of a chair of the board.

Voting Guidelines

- We will generally vote against or withhold our vote for the election of a non-independent chair of the board or the chair of the governance committee in instances where the CEO and chair roles are combined and there is no lead independent director.

- We will support proposals to separate the role of chair of the board and CEO and the appointment of an independent director to act as chair of the board.

VOTING STANDARDS IN SUPPORT OF SHAREHOLDER DEMOCRACY

We support initiatives and mechanisms that provide shareholders with meaningful and effective elections. We therefore generally support actions that will enhance shareholder democracy such as, individual and annual director elections, majority voting and the use of universal proxies for contested meetings and proxy access.

INDIVIDUAL AND ANNUAL ELECTION OF DIRECTORS

Some companies present their nominees for director as a slate so that shareholders must vote for or against the entire slate rather than vote for each director individually. We believe this practice may protect directors whose performance is unsatisfactory, because shareholders are less likely to vote against an entire board than they would be to withhold votes from individual directors.

Some companies have a classified or staggered board, where directors are elected for a term longer than one year, and their terms stagger so that only a portion of the directors come up for election each year. While classified boards may provide for continuity, they reduce accountability to shareholders by making it more difficult to replace directors.

We therefore believe that shareholders should have the opportunity to vote for or against the election of each director rather than as a slate on an annual basis.

Voting Guidelines

- We will support proposals to adopt annual elections and to declassify boards.
- We will generally support the election of directors who are standing for staggered terms when in the interest of shareholders and otherwise consistent with our voting guidelines for the election of directors.
- We will support the proposals for the election of directors individually rather than as a slate.

- While we will not ordinarily vote against or withhold our vote from the entire slate of candidates, we may do so when companies have other weak corporate governance practices.

MAJORITY VOTE FOR DIRECTOR ELECTION

We support the majority vote standard for the election of directors. We believe that electing directors is the most fundamental right for shareholders and thus should have the opportunity to vote for or against a director candidate. An exception to the majority vote standard should apply in cases of contested elections, where there are more director candidates than board seats. In these situations, the plurality voting standard, where a director candidate is elected by receiving the highest number of votes cast is more appropriate, even if less than a majority.

Many companies have adopted a “director resignation policy” requiring directors standing for election who receive more “Withhold” votes than “For” votes to submit their resignation to the board of directors which, absent extraordinary circumstances, is expected to accept the resignation. Such a policy is intended to increase the accountability of directors while maintaining a plurality voting system.

Voting Guidelines

- We will support the adoption of a majority vote standard for the election of directors.
- We will consider voting against or withholding our votes for the election of the chair of the board of directors if there is no majority vote standard or resignation policy, especially when the company has been unresponsive to shareholder request to adopt a majority voting standard or resignation policy.

CUMULATIVE VOTING FOR DIRECTORS

Cumulative voting gives shareholders a number of votes that is equal to the product of the number of shares held by the number of directors to be elected. Shareholders may cast all of their votes for one candidate or distribute them among any combination of candidates. Cumulative voting provides shareholders with a greater ability to elect director nominees, enhancing the influence of shareholders holding a minority interest.

Voting Guidelines

- We will support cumulative voting proposals where they foster greater board representation for minority shareholders.

PROXY ACCESS AND ADVANCE NOTICE REQUIREMENTS

The ability of shareholders to have a meaningful say in the nomination of directors process, whether by being able to influence who the nominees are or through actually nominating candidates, is an essential component of shareholder democracy. In some jurisdictions, subject to sufficient share ownership requirements, shareholders have the right to nominate candidates for election to the board of directors in the company's proxy materials. In other jurisdictions, shareholders do not have access to a company's proxy materials and must incur the cost of a proxy contest to put forward their candidates.

Many companies adopt policies and by-laws prescribing timeframes and procedures to nominate directors for election to the board (advance notice policies) to preserve the interests of shareholders by providing them with sufficient time to evaluate new nominees while not unreasonably limiting the ability of shareholders to nominate directors for election to the board.

Voting Guidelines

- We will generally support proposals requesting that companies implement a procedure to allow shareholders to nominate a reasonable number of candidates for director election in the company's proxy materials subject to sufficient share ownership requirements.

- We will support advance notice policies where the timeframes in respect to notification periods prior to shareholders' meetings are reasonable and where requirements and procedures imposed on a nominee are not more onerous than requirements for management and board nominees.

PROXY CONTESTS AND UNIVERSAL PROXIES

We review dissident shareholder proposals for director nominees on a case-by-case basis. In reviewing dissident nominees or slates we will consider factors such as the long-term performance of the company, the qualifications of the dissident candidates and the strategic plans of the dissident shareholder.

We encourage companies to use universal proxies for all contested meetings since they provide shareholders with the ability to vote by proxy for their preferred combination of board candidates, replicating how that can vote in person at a meeting. Universal proxies also make for a fairer, less cumbersome voting process.

PROVIDING SHAREHOLDERS WITH A MEANINGFUL VOICE

We believe in the principle that voting rights should be proportional to shareholders' economic interest. Companies should allow shareholders to participate in decisions concerning fundamental corporate changes and adopt governance structures and procedures that give shareholders the ability to hold the board of directors and, indirectly, management to account. We encourage companies to treat shareholders equally and to facilitate shareholders' right to vote, free of impediments.

DUAL CLASS SHARE STRUCTURES

We believe in the "one share, one vote" principle and that all shareholders should have the right to vote in proportion to their economic ownership.

Voting Guidelines

- We will generally not support the creation of a new class of shares with superior voting rights and the extension of dual-class share structures.

- We will support collapsing dual class structures into a single class of securities where all security holders are afforded the same rights.

LINKED PROPOSALS, SUPERMAJORITY APPROVAL AND QUORUM REQUIREMENTS

From time to time, companies may adopt policies and procedures that may frustrate shareholders' rights to vote in a meaningful and unhindered manner. Examples of such practices include submitting linked proposals and adopting supermajority approval standards or ineffective quorum requirements.

Companies sometimes choose to combine two or more issues into a single proposal presented to shareholders for their approval. Examples are combining a series of by-law proposals into one single resolution or combining the approval of termination payments to executives with a merger resolution. We discourage the practice of submitting linked proposals in one resolution where shareholders should be permitted to vote on separately.

Supermajority requirements require the vote of more than a simple majority to approve a decision or transaction. We believe that supermajority resolutions or provisions should only be put forward when required by law and that a simple majority should apply to votes.

The quorum for a shareholder meeting is determined as a percentage of total voting shares represented either in person or by proxy. The appropriate quorum size for a company depends on how widely held the securities of the company are. It should be set sufficiently high enough so that shareholder approval is meaningful, but not so high that it would prevent the vote from occurring. Companies with a controlling shareholder should adopt higher quorum requirements to ensure that minority shareholders have a meaningful say in the business of the company.

Voting Guidelines

- We will only support linked proposals if we are supportive of all proposals individually.
- Where required by law or in justifiable limited circumstances, we will support proposals in which management seeks to increase the number of votes required on a resolution from a majority to two-thirds of votes cast.

- We will not support proposals in which management seeks to increase the number of votes required on an issue above two-thirds of votes cast.

- For widely-held companies, we will generally oppose a quorum of less than 25%. Companies with a controlling shareholder should set higher quorum requirements which should not exceed 50%.

BY-LAW AND EXCLUSIVE FORUM PROPOSALS

We recognize that the board of directors has broad authority to adopt or amend by-laws in the course of exercising their duties. However, where such amendments adversely affect shareholder rights, they should be submitted to shareholders for approval.

Some by-law proposals limit the jurisdictions where shareholders can file lawsuits against the company. We recognize that limiting shareholders' lawsuits to a particular forum has financial benefits for the company and may curb frivolous lawsuits. However, they deprive investors of the right to choose the court in which to sue a company. In considering such proposals, we will take into account shareholder rights in the favoured jurisdiction as well as the jurisdiction of incorporation and the location of head office and operations of the company relative to the favoured jurisdiction.

Voting Guidelines

- We will consider voting against or withholding our vote for the election of the chair of the governance committee or the chair of the board in situations where by-law changes were implemented without first obtaining shareholder approval, where such changes contravene or reduce shareholder rights.

- We will generally vote against proposals to limit the jurisdictions where shareholders can file suit against the company, unless the company provides compelling arguments to support the proposal and where it does not negatively impact shareholder rights.

CONFIDENTIAL VOTING AND DISCLOSURE OF SHAREHOLDER VOTES

We believe that the proxy voting process should be confidential, impartial, and free from coercion. When voting in person, companies should adopt appropriate procedures to allow confidential voting, rather than a vote by a show of hands, when requested. Companies should disclose the percentage of eligible votes cast and the voting results of shareholder meetings, including votes cast by proxy. Where a company has more than one class of voting securities outstanding, the votes should also be disclosed on a per class basis.

Voting Guidelines

- We will support resolutions to introduce confidential voting.
- We will consider voting against or withholding our vote for the election of the chair of the governance committee if detailed voting results are not disclosed.

SHAREHOLDERS' ABILITY TO CALL SPECIAL MEETINGS, SHAREHOLDER PROPOSALS, SHAREHOLDER ACTION BY WRITTEN CONSENT AND VIRTUAL SHAREHOLDER MEETINGS

Shareholders should be able to call special meetings in order to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting. The inability to call a special meeting and the resulting insulation of management could result in adverse corporate performance and shareholder returns. 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.

Shareholders should also be permitted to bring proposals to annual meetings. These proposals should be included on the proxy ballot, and proponents should be provided with adequate space in the proxy circular to explain the proposal.

We evaluate shareholder proposals on a case-by-case basis. We expect boards of directors to implement shareholder proposals that are approved by a majority of the shareholders within a reasonable timeframe but not later than the next annual shareholders' meeting.

In certain jurisdictions or pursuant to

certain stock exchange rules, shareholder consent may be sought in writing without holding a meeting or proxy vote. Either management or shareholders can use the procedure, allowing action on matters arising between two annual meetings, in order to avoid the time and expense required to hold a special shareholder meeting. On the other hand, this procedure typically does not provide disclosure to the same extent as in proxy materials or may be used by companies with a controlling shareholder to approve actions that may have a material impact on the company without the input of minority shareholders. We will consider factors such as the size of the company, its shareholder base, the threshold for which consent may be used and shareholders' ability to call a special meeting when evaluating proposals in respect to shareholders to act by written consent.

An increasing number of companies have opted to hold annual shareholder meetings virtually, though the Internet. Some companies do so without a corresponding physical meeting, while others take an hybrid approach by holding a virtual meeting in tandem with a physical meeting. Companies that have adopted virtual meetings argue that they lead to cost reduction and may facilitate shareholder participation compared to physical meetings. On the other hand, virtual meetings present certain challenges and may reduce the effectiveness of shareholder participation and dialogue with the board and management as questions raised by shareholders may be filtered or ignored.

Voting Guidelines

- We will support proposals that give shareholders (with a minimum reasonable ownership threshold) the right to call a special meeting.
- We will generally not support shareholder proposals that place constraints on the company, its board of directors, or its management if they do not serve the short or long term financial interests of the company.
- We will generally support shareholders' proposals that seek to increase the accountability of the board of directors to shareholders.
- We will consider voting against or withholding our vote for the election of the chair of the board and chair of the governance committee for failing to implement a majority supported shareholder proposal, unless a satisfactory explanation was provided to shareholders.

- We may support proposals allowing shareholders to take action by written consent for widely-held companies, provided that the threshold consent is a majority of votes cast and that shareholders are otherwise unable to call a special meeting.

- We will support annual meetings being conducted online as a supplement to the in-person only shareholders' meeting to bolster shareholder participation.

DIRECTOR LIABILITY AND INDEMNIFICATION

Liability insurance is meant to offset legal damages for board members and should generally be limited to when directors act honestly and in good faith, in the best interests of the company and, in criminal matters, limited to when directors have reasonable grounds for believing the conduct was lawful.

Voting Guidelines

- We will generally support proposals that limit directors' liability and provide them with a suitable indemnification, provided that the directors acted honestly and in good faith.

RELATED PARTY TRANSACTIONS

Related party transactions can give rise to conflicts of interest. We therefore believe that that related party transactions should be reviewed and approved by independent directors of the board with, where appropriate, the benefit of advice from independent and qualified experts. Furthermore, related party transactions should be completed on arm's length terms and supported by independent valuation information. Depending on the materiality and nature of the related party transaction, it may need to be disclosed or approved by shareholders. When submitted to shareholders for approval, we will consider related party transactions on a case-by-case basis, taking into account factors such as the strategic rationale, the board approval process, the fairness of the transaction terms and access to independent advice and valuation information.

Voting Guidelines

- We will vote in favour of a related party transaction where we are satisfied that it is underpinned by a strong business rationale, completed on arm's length business terms and that it has been approved and reviewed by independent directors, with the advice of independent and qualified experts.

We will generally support shareholders' proposals that seek to increase the accountability of the board of directors to shareholders.

SEEKING ALIGNMENT BETWEEN COMPENSATION AND PERFORMANCE

Management and director compensation is a critical aspect of a company's governance. Compensation and incentives to management and directors should be suitably structured to enhance shareholder value while rewarding performance that meets or exceeds stated objectives. The compensation policies and amounts payable to the senior executives and directors, including direct and indirect benefits, should be disclosed in the proxy circular so that shareholders can assess whether the interests of senior executives and directors are aligned with their own. The disclosure of the shareholdings of senior executives and directors is also important information for shareholders. Companies should similarly disclose the use of compensation consultants by the company, the board or a board committee as well as the fees paid to such consultants.

NON-EXECUTIVE DIRECTOR COMPENSATION

Remuneration and fees for non-executive directors (the annual retainer and per diems for attending each board of directors and committee meeting) should be at a level that makes serving as a director financially worthwhile for qualified individuals but not so high that directors become beholden to the company and compromise their independence. We will support director fee levels that reflect the expertise, responsibilities and time commitment expected. Compensation for non-executive directors should not include retirement benefits, severance payments, stock options and other forms of benefits normally reserved for employees.

Voting Guidelines

- In order to align directors' interests with the long-term interests of shareholders, we will generally support proposals that provide for a certain percentage of directors' compensation to be in the form of shares or deferred share units.

- We will vote against any form of payment of stock options to non-executive directors since we believe this form of compensation is less efficient in aligning the interest of directors with those of long-term shareholders.

MANAGEMENT COMPENSATION

Compensation packages should be sufficient to attract, retain and motivate executives of calibre, but should be linked to risk adjusted performance. The compensation committee should report and comment in the proxy circular on the diverse elements of the company's compensation practices, including the processes used to establish appropriate compensation packages for the senior executives, the portion and type of compensation affected by performance and the short versus long-term incentives. The proxy circular should also benchmark the company's compensation practices and programs against a carefully selected peer group and provide adequate rationale in respect to peer group changes.

When assessing management compensation, we consider a wide range of considerations such as:

- **Pay-for-Performance:** A portion of compensation packages should be linked to the company's results and achievement of meaningful and long term corporate financial and non-financial objectives, aligned with the company's strategy. This includes relevant qualitative goals that contribute to long-term value, such as customer satisfaction, product quality, or health and safety record. Performance targets should be established at the beginning of the evaluation period and should not be lowered except in very unusual circumstances. If the board decides to lower goals or targets, it should provide shareholders with the reasons for that decision.

- **Pay Quantum:** Base salaries and bonuses should be at a reasonable relative to an appropriate peer group. In addition, CEO pay should be reasonable relative to that of other executive officers. We will also consider the level of executive compensation relative to peers.

- **Severance Payments:** We will consider the amount of severance payments relative to an executive's annual base salary plus annual bonus, taking into account local market practices. Furthermore, severance should not be paid to executives who are dismissed for cause.

- **Golden Parachutes:** Executives may receive special severance packages, called "golden parachutes" if they lose their jobs as the result of a change in control. We believe golden parachutes are appropriate if:

- the triggering mechanism is not under the control of management;

- we deem the amount to be excessive, compared to an executive's annual base salary plus annual bonus, taking into account local market practices;

- the payments are double-triggered, that is, they: i) occur after a change in control; and ii) result in the termination of the executive. Change in control should be defined as a material change in the company's ownership structure, being at least 50% of shares changing ownership; and

- they do not result in companies paying executives additional amounts to cover the taxes on their compensation ("tax gross-ups"). We believe it is the responsibility of executives to pay their own taxes.

- **One-Off Payments:** Off-cycle or one-off payments should be underpinned by sound business reasons. Examples of such payments include payments granted for the purposes of retention, sign-on or the successful completion of a transaction. We expect companies to fully disclose these payments as well as the reasons for these payments.

- **Clawback (Recoupment) Policy:** Companies should adopt formal recoupment policies where an executive's fraud, misconduct, or negligence significantly contributed to a restatement of financial results that led to the awarding of unearned incentive compensation.

ADVISORY VOTE ON MANAGEMENT COMPENSATION

We believe that advisory votes on compensation give shareholders the opportunity to express their satisfaction with a company's approach to executive compensation. Unless a company has provided sufficient justification for less frequent votes, we are of the view that boards of directors should voluntarily submit at each annual meeting an advisory resolution on the company's report on executive compensation. We also encourage companies to develop meaningful practices to increase engagement with all of their shareholders on this issue.

Where companies are required to hold or have voluntarily adopted an advisory vote on executive compensation policies, we will evaluate the company's approach on a case-by-case basis to ensure that their policies ensure fair compensation linked to risk-adjusted performance, taking into account the factors set out in the ***Management Compensation*** section of our Guidelines.

Voting Guidelines

- We will support shareholders' resolutions that call for non-binding shareholder ratification of executive compensation policies on an annual basis.

- We will generally not support a company's resolution on executive compensation practices or approach where:

  - quantum of pay is misaligned with the performance of the company and shareholders' return;

  - performance targets are only short-term, not meaningful or misaligned with the company's strategy;

  - CEO pay is disproportionate to that of other executive officers;

  - executive compensation is significantly misaligned relative to peers or peer group composition or the object of unjustified or unreasonable increases or changes;

  - severance compensation arrangements are excessive as set out in the Management Compensation section above, are singled-triggered or subject to tax gross-up;

  - one-off payments, including signing bonuses, are being made without proper justification;

  - there is a lack of disclosure to properly assess the company's compensation practices and overall approach; or

  - there are no clawback (recoupment) policies.

- We may vote against or withhold our vote for the election of directors who served on the compensation committee during the previous year in situations where we believe that there exists a significant misalignment between pay and risk-adjusted performance.

EQUITY COMPENSATION PLANS

For the purposes of our Guidelines, equity compensation plans include:

- stock option plans;
- individual stock options if not granted pursuant to an equity compensation plan previously approved by the company's shareholders;
- stock appreciation rights involving issuances of shares;
- any other compensation or incentive mechanism involving the issuance or potential issuances of shares of the company; and
- any other compensation or incentive mechanism which gives the right to the monetary equivalent of the increase in the value of a specified number of shares over a specified period of time without requiring any issuance, purchase or sale of shares.

We will examine equity compensation plans on a case-by-case basis to ensure that the interests of the senior executives and of the shareholders are aligned. We believe that a board of directors should not have broad discretion in setting the terms and conditions of equity compensation plans. The terms and conditions of all equity compensation plans should be approved by the shareholders before initial implementation and before any amendment takes effect.

We support employees having the opportunity to acquire shares on favourable terms in the company they work for. Employee stock purchase plans align employee interests with creating value for shareholders. Where their share ownership is subsidized by the existing shareholders, employees should be required to hold shares purchased for an appropriate period. Although we encourage employee share ownership, we believe that a company should not be making loans to employees to allow them to pay for equity incentives or to purchase shares.

For omnibus equity compensation plans that allow companies to make various types of awards, we expect dilution limits to be set per award type and each component to comply with our Guidelines.

We expect equity compensation plans to be structured around the following principles:

- **Performance:** Allocation and vesting of equity incentives should be linked to quantifiable individual and corporate financial and non-financial performance measures such as health and safety record, environmental performance or product safety;

- **Price:** Equity incentives should not be issued at a discount to the current market value and ideally should rely upon a reasonable pre-determined formula based on the weighted average trading price for a reasonable period of time prior to the grant;

- **Re-pricing:** Re-pricing of options and other equity incentives should require shareholder approval and should not be at the discretion of the board of directors;

- **Dilution:** Potential dilution of all equity compensation plans should be within acceptable industry standards; and

- **Pay for performance:** Equity compensation plans should not be a vehicle for poor pay practices not linked to risk adjusted performance.

Voting Guidelines

- We will support equity compensation plans that are reasonable and properly designed to improve the competitiveness of companies.

- We will generally support equity compensation plans if the total potential dilution does not exceed 5% and the burn rate is less than 1% per annum. Any potential dilution or burn rate above these thresholds will be reviewed on a case-by-case basis taking into account factors such as the size of the company and the industry in which it operates.

- We will generally approve employee stock purchase plans where the purchase price is at least 85% of fair market value and the potential dilution is less than 10%.

- We will generally not support equity compensation plans where employee loans are available to pay for equity incentives or to purchase shares.

FOSTERING AN EFFICIENT CAPITAL STRUCTURE

Companies should have an efficient capital structure that will minimize the long-term cost of capital. All changes to the capital structure of a company should be fair and completed with a view of supporting growth, increasing shareholder value or for other sound business reasons. Changes to capital structure include an increase in authorized shares, issuance of shares under private placements or pre-emptive rights as well as share buy-backs.

Increase in Authorized Shares and Share Issuances

We recognise that boards of directors need the flexibility to issue shares to address a company's financial needs. We will generally support proposals for the authorization of additional shares provided the company has demonstrated that the amount requested is necessary for sound business reasons.

We will review specific transactions where shares are issued such as private placements on a case-by-case basis, taking into account the number of shares issued and made issuable, the price at which the shares are issued relative to the market price, the use of proceeds and the participation of insiders, among others.

We believe that shareholders should approve the rights and attributes attached to preferred shares prior to their issuance. We therefore will not support the creation of blank-cheque preferred shares as it provides the board of directors broad discretion to determine the voting, dividend, conversion, and other rights and attributes that may be detrimental to common shareholders.

Voting Guidelines

- We will generally support proposals for the authorization of additional shares provided the company has demonstrated that the amount requested is necessary for sound business reasons.

- We may not support private placements or issuance of shares that are or may be overly dilutive, priced at a significant discount to market price or provide advantageous conditions to insiders and other related parties of a company.

- We will generally not support either the authorization of, or an increase in, a class of preferred shares with unspecified voting, conversion, dividend distribution and other rights, unless the amount of shares to be issued is limited and the company has demonstrated that the issue is in the best interest of the shareholders.

PRE-EMPTIVE RIGHTS

Outside of North America, companies often provide pre-emptive rights to their shareholders, allowing them to proportionally participate in any new issuances of shares in the same class as they already own. Pre-emptive rights make share issuances less dilutive for existing shareholders. We generally support pre-emptive rights and will consider the standards of the jurisdiction in which the company is located in our assessment.

Voting Guidelines

- We will generally support proposals for the issuance of shares as a result of pre-emptive rights.

SHARE BUYBACKS OR REPURCHASES

Share buybacks allow shareholders to sell their shares back to the company based on market price. While they tend to benefit shareholders in the short term, repurchases may have undesirable consequences as companies spending substantial amounts of money to repurchase their shares are not using those funds to improve the company's performance in the long term. We believe that, where approval is being sought, companies should ask permission to purchase a maximum specific percentage over a reasonable period of time (12 to 24 months) of their outstanding shares, and that those limits should be reasonable (typically 10%), taking into account local market practices.

Voting Guidelines

- We will assess share buybacks on a case-by-case basis for their effect on the long-term performance of the company, but will generally not support share repurchases 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.

Pre-emptive rights make share issuances less dilutive for existing shareholders.

MERGERS, ACQUISITIONS AND TAKEOVER PROTECTION: OPPORTUNITY TO MAXIMIZE SHAREHOLDER VALUE

Proposed mergers, acquisitions and corporate restructurings have important impacts on shareholder value. Such transactions as well as any takeover protection measures should be structured to maximize shareholder value without compromising the rights of shareholders.

MERGERS, ACQUISITIONS AND CORPORATE RESTRUCTURINGS

We will evaluate mergers, acquisitions and corporate restructurings based on factors such as valuation assessments with emphasis on offer premium, strategic rationale, negotiation process, conflict of interest, reliance on financial and legal advisors, availability of independent valuation information, fairness opinions as well as changes in corporate governance and their impact on shareholder rights.

Voting Guidelines

- We will support mergers, acquisitions and corporate restructurings when the terms and the valuation appear reasonable and where the board of directors has relied on a robust process and acted in the best interest of the shareholders.

TAKEOVER PROTECTION

We will evaluate takeover protection proposals, policies and plans on a case-by-case basis.

While takeover protection mechanisms such as shareholder rights plans serve the legitimate purposes of ensuring fair and equal treatment of shareholders in a takeover and providing boards of directors with more time to negotiate a better deal or to solicit competing bids, they can thwart takeover attempts that would benefit shareholders. Takeover protection proposals must be designed to protect the company from detrimental takeovers, rather than protecting the interests of the board and management.

Shareholder rights plans as well as other structures or transactions that act as defensive tactics or anti-takeover mechanisms should be put to a binding shareholder vote where only non-conflicted shareholders should be entitled to vote. Shareholder rights plans should be time limited and put periodically to shareholders for re-approval.

Voting Guidelines

- We will generally support takeover protection proposals, policies and plans if they ensure an equal treatment of shareholders in the event of a takeover offer and allow the company sufficient time to consider alternatives to an offer in order to enhance shareholder value.

REINCORPORATION

We will consider reincorporation proposals in light of the company's financial or business reasons as well the comparative shareholders rights of the current and proposed jurisdictions.

Voting Guidelines

- We will support reincorporation proposals when supported by sound financial or business reasons.
- We will generally not support reincorporation proposals that are made as part of an anti-takeover defence, to impose restrictions on shareholder democracy or solely to limit directors' liability.

PROTECTING THE INDEPENDENCE AND INTEGRITY OF AUDITORS

External auditors play an important role in verifying the integrity of a company's financial reporting to ensure that information ultimately provided to shareholders is free from material misstatements and presented fairly in all material respects. As such, we place great importance on the quality and independence of the external auditors.

AUDITOR APPOINTMENTS, COMPENSATION AND INTEGRITY

Auditor appointments should be recommended by an audit committee of the board of directors comprised solely of independent and financially literate directors. Auditors should be free from conflicts of interest, act with integrity as well as exercise objectivity and professional skepticism.

We understand that, from time to time, companies hire their external auditors to provide them with tax advice or other services. We believe that compensation level of auditors should be such as to not give rise to a breach of their independence or create real or perceived conflicts of interests. As such, we will generally find that auditor independence is compromised where non-audit fees for any given fiscal year constitute more than 50% of total fees paid to auditors.

We also expect companies to disclose all their material relationships with their auditors and all fees paid to their auditors.

Voting Guidelines

- We will vote against an auditor appointment where:
    - we deem the auditor to be non-independent as a result of material relationships with the company or as a result of excessive non-audit fees paid in a given fiscal year;
    - the company does not disclose the fees it paid to its auditor for the fiscal year, including a breakdown for audit-related and non-audit related services; or

    - there has been a material restatement of annual financial statements or where the auditor has failed to identify a material weaknesses in internal controls;
    - the auditor has failed to discharge its responsibilities with diligence and integrity.
- We will review on a case-by-case basis any sudden and unanticipated proposed change to the appointment of auditors.

RESPONSIBLE INVESTING: PROMOTING LONG TERM PERFORMANCE

Our approach to proxy voting seeks to be consistent with our Responsible Investment Policy. We will always take into consideration the principles set forth in our Responsible Investment Policy when addressing environmental, social and governance ("ESG") issues that we may be requested to vote on from time to time.

Proxy votes on environmental and social issues differ from those on corporate governance issues in several ways. First, proposals on environmental and social issues are typically made by shareholders rather than by management. Second, the range of possible issues within corporate social responsibility is vast, certainly much larger than the range of topics related to corporate governance. This makes it virtually impossible to anticipate and devise a guideline for all of the possible proposals that could be presented on a given proxy ballot. In our Guidelines below, we will provide a sample of how we may consider certain environmental and social issues.

The environmental and social performance of companies may have a material influence on investment risks and returns. As a long-term investor, we proactively address risks and opportunities as part of our investment strategy. We believe that disclosure is the key that allows investors to better understand, evaluate and assess potential risks and returns, including the potential impact of ESG factors on a company's performance. This disclosure may be included in sustainability reports with other information on the company's environmental and social performance. Sustainability reports should be made in the normal course of reporting to shareholders. We encourage companies to integrate information on their environmental and social performance into their annual reports and financial filings and to use recognized reporting standards.

Voting Guideline

- We will generally support shareholder proposals that require full and timely disclosure on ESG performance and practices that have a material influence on investment risks and returns.

ENVIRONMENTAL ISSUES

The environmental performance of companies is often assessed based on the impact of their activities on the environment and the practices adopted to limit this impact. We will therefore support proposals seeking disclosure on material environmental information such as carbon emissions, energy and natural resource use and waste and pollution management.

Furthermore, we support the recommendations of the industry-led Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD). We believe that climate change will have significant impacts across many sectors and that we have an important role to play in ensuring transparency around climate-related risks and opportunities. The TCFD's recommendations serve to encourage organizations to evaluate and disclose, as part of their annual financial filing preparation and reporting processes, the climate-related risks and opportunities that are most pertinent to their business activities.

Voting Guidelines

- We will consider proposals that ask companies to improve their environmental performance on a case-by-case basis. In general, we will support these proposals as long as the action requested addresses a material aspect of the company's performance and can realistically be achieved by the company.

- We will support proposals that ask companies to make climate-related disclosures that are consistent with the TCFD's recommendations and would improve the quality and completeness of information.

SOCIAL ISSUES

We encourage companies to adopt appropriate standards as a minimum commitment to labour rights in all of their operations. Workplace practices, especially those who reduce work related injuries may impact a company's performance and competitiveness.

Conducting business in a country with a weak human rights record can present a company with operational challenges, lawsuits, boycotts or divestment campaigns, and damage to its reputation, even if the company tries to distance itself from the human rights abuses.

Companies must also ensure that they have the "social license to operate", gaining the support of communities who may be affected by mines, pipelines, or other projects. This includes the free, prior, and informed consent of indigenous peoples. Companies that proceed with projects without obtaining and maintaining local consent may face protests, sabotage, boycotts, negative publicity, which may negatively impact their share prices.

We discourage companies from making political contributions in order to prevent the appearance of a quid pro quo and possible scandal if politicians or governments adopt policies favourable to the company. If companies choose to make political contributions or engage in direct or indirect political activities, they should be transparent about their activities.

Although most often unintentional, some products prove to be dangerous to customers, becoming a potential liability to shareholders. Manufacturing activity is also often conducted through subcontracting, rather than at facilities owned directly by a company. This increases the possibility that a company's products be manufactured in conditions that violate international standards.

Companies should also monitor their supply chain and insist on operating practices that conform to international standards as a condition for awarding contracts.

Voting Guideline

- We will consider shareholder proposals in respect to social issues such as human rights, workplace health and safety, product safety and political contributions on a case-by-case basis. We will generally support proposals that would address weak or inadequate practices, as long as the action requested can realistically be achieved by the company or would provide improved transparency of the company's practices.

REVIEW

These Guidelines will be reviewed every two years or more frequently if needed.

WE ARE LISTENING

We welcome feedback and suggestions from companies on ways to improve our Guidelines and invite companies to communicate with us in advance of a proxy vote should they have matters that they would like to bring to our attention at responsibleinvestment@investpsp.ca.

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