CORPORATE GOVERNANCE AND PROXY VOTING PRINCIPLES

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1. Proxy Voting Philosophy

Who We Are and What We Do

The Public Sector Pension Investment Board ("PSP Investments")[1] is a Canadian Crown corporation and one of Canada's largest pension investment managers. Our mandate is to: (1) manage amounts transferred to us by the Government of Canada for the funding of benefits earned from April 1, 2000 by members of the pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and since March 1, 2007, the Reserve Force (the "Pension Plans") in the best interests of contributors and beneficiaries, and (2) to invest our assets with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the Pension Plans and the ability of those Pension Plans to meet their financial obligations.

The Funding Policy for the Pension Plans states an expectation that PSP Investments will describe in its Statement of Investment Policy Standards and Procedures, and other publicly available documents, how material environmental, social and governance ("ESG") factors are integrated into PSP Investments' investment practices.

Our Investment Beliefs With Respect to Sustainable Investment

At PSP Investments, our sustainable investment approach is aligned with our investment mandate and our total fund perspective. As a long-term investor, we believe that proactively integrating material ESG factors, including systemic climate change risk, in our investment process, contributes to a better total fund long-term risk/return profile. It is also institutionalized through our investment beliefs. There is no one definition of sustainability, so we draw on international standards to inform our approach. The International Sustainability Standards Board's (ISSB) General Sustainability-related Disclosures Standard (S1) proposes to describe sustainability as *the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long-term,* and that sustainability is *a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals*.[2] We aim to incorporate that description, as applicable, in our approach. It is central to guiding our sustainable investment strategy through our investment beliefs, our sustainable investment approach, and our total fund perspective. We seek to consider the financial and societal outcomes stemming from material ESG risks and opportunities, not only during the lifecycle of our investments, but also across asset classes.

As an asset owner, we shall conduct ourselves as an engaged, thoughtful, and principle-based investor. Proxy voting is part of our active ownership strategy and allows us to outline our expectations to the directors and officers of companies in which we invest on how we are likely to vote on matters put to the shareholders; and to communicate our views on important financial and sustainability matters that boards will deal with in the normal course of business. The election of directors is also an important channel for expressing our dissatisfaction when we believe a company has not taken steps to understand, assess and mitigate sustainability risks, including climate risks. Our sustainable investment approach is based on our belief that best-in-class corporate governance practices, relevant disclosure and sustainable corporate behaviours contribute to the long-term performance of the listed companies in which we invest.

Where appropriate, we may also choose to engage with companies directly, through service providers, or collaboratively with other investors. Our engagement activities aim to achieve greater alignment between financial returns and sustainable corporate behaviours supported by transparency and maintaining companies' social licence to operate in the long-term. If we conduct individual engagements, our preference is to do so privately. Furthermore, we encourage boards of directors and management of publicly-listed companies to integrate sustainability-related risks and opportunities, including climate, into their strategy, business-model that we review , and operations, and to provide disclosures that allow shareholders to make better informed decisions as detailed in our new stand-alone section 10 "Taking Action on Climate Change". We also leverage our direct engagements with boards and management to

[1] In this document, *we*, *us* and *our* refer to PSP Investments.
[2] ISSB, Press release. (2022, December 14).

influence companies and take part in collaborative initiatives with like-minded organizations and investors to promote ESG best practices.

Our Corporate Governance and Proxy Voting Principles (the "Principles") shall be read in conjunction with our Sustainable Investment Policy (the "Policy")[3], which communicates how PSP Investments aspires to invest in alignment with its investment beliefs, with the aim to minimize negative societal outcomes, and reduce financial risks related to relevant externalities, ultimately to improve the long-term risk/return profile of its investments.

Our Voting Process

Our Principles apply to relevant assets in our investment portfolio and are implemented flexibly in support of the long-term success of the companies in which we invest. Our proxy voting decisions are guided by our Principles. We strive to 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 aim to 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 Principles. In assessing matters submitted to shareholders, when relevant, we review companies proxy documents and other public disclosures 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. Our investment teams are involved in the voting process when deemed relevant. All our ballots are voted electronically.

We take voting seriously at PSP Investments and strive to vote all the votable shares held in our portfolio in reasonable best efforts. All matters, whether routinely or not, are reviewed within the context of these Principles. However, there may be circumstances such as blocking markets, securities lending, or stringent voting requirements where PSP Investments would be unable to exercise its voting rights.

Our Principles are generally applicable to publicly listed companies. We do recognize that privately held companies differ from public companies in terms of relevant laws and regulations, market mechanisms and applicable disclosure. However, we may, when deemed appropriate, use these Principles as governance standards for our private markets' investments (e.g., in the context of pre-initial public offering).

We publish our voting records for all shareholders' meetings on a website hosted by Institutional Shareholder Services.

2. Fostering Effective Boards of Directors

We believe that a board of directors is accountable to the shareholders having due regard to the interests of relevant stakeholders and is responsible for preserving and enhancing value over the long-term. We therefore place considerable importance on the quality of the directors as well as the overall composition of boards. 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 performance. It is the board of directors that is ultimately responsible for overseeing corporate strategy and we believe this oversight requires a full understanding on the impact that material ESG factors may have on a company's competitiveness, risk profile, resilience, reputation and, ultimately, long-term viability.

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

[3] Previously known as Responsible Investment Policy.

election of directors to the board, we may consider the particular circumstances of a company as well as local corporate governance practices.

Furthermore, we will pay particular attention to the following areas (but not limited to) in deciding how to vote:

Skills, Experience and Competency

We encourage governance and nominating committees, or their equivalent, to establish a profile of the skills, experience, and competency desirable for their board (e.g., skill matrix or otherwise) in the context of the company's strategy and material risks. We also encourage governance and nominating committees to adopt a candidate selection process, including with the support of expert search firms where appropriate in order to undertake the broadest possible search. We expect companies to disclose in their proxy statements and related materials their skill matrix and their assessment for each board candidate. Based on this information and any engagement we may undertake, we aim to assess each director's ability to exercise their duty of care and discharge their responsibilities in the best interests of shareholders.

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 and boards to promote all forms of diversity (including but not limited to gender, age, ethnicity, race, religion, indigenous, sexual orientation, generational and disabilities) at all levels of the organization as this generally leads to better decision-making. We believe that greater diversity in the boardroom more likely contributes to more robust discussions and more innovative and resilient decisions. 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 and to widen the pool of qualified candidates for directorship, such as adopting and disclosing diversity policies and targeted objectives and reporting thereon. It is our view that diversity of perspective and thought as a result of diverse boards and workforces leads to better long-term financial and societal outcomes for companies.

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. Board independence may also be interfered by interlocking directorships. In determining the materiality of the relationship, we may consider local and international best practice in corporate governance, as well as applicable stock exchange listing requirements and securities laws.

To make our determination of independence, we may also consider the appointment date of the director deemed independent by the company. We may call into question the independence of a director with an excessive tenure as defined per local market best practices and corporate governance standards. We may also consider the appropriate refreshment at the board level as part of this determination. We may also review the disclosure to this effect in the circular and, if necessary, contact the company for further information before determining whether the member should be considered as independent for the purposes of these Principles.

Board Renewal

We encourage boards of directors and nomination committees to consider board renewal when proposing nominees for election to shareholders, but we do not have fixed views on director terms. We are of the view that any decision to adopt term limits for directors should be made by the board itself. However, we consider age and tenure to be relevant factors in ensuring a balanced board and in facilitating board refreshment.

Board Committees

Boards of directors should establish a number of board committees, including at least audit, compensation, and governance and nominating committees. These committees should generally consist of at least three members, all of whom are 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 risk, governance, health and safety and the environment. We believe that boards of directors are ultimately accountable to ensure ESG-related risks and opportunities are integrated into the company's strategy and operations and to provide, where material, disclosure that allows shareholders to take informed decisions on that basis. However, when deemed appropriate, we do encourage boards to establish ESG responsibility at the committee level. For more information on our proxy voting principles on climate change, please see section 10 "Taking Action on Climate Change" below. The committees' terms of reference or charters and their 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 independent and 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 independent and knowledgeable with respect to compensation matters.

Governance and nominating committee: The governance and 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 process for identifying diverse candidates and facilitate board refreshment and diversity. We expect all governance and nominating committee members to be independent.

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 and is of the purview of the board itself.

Director Time-Commitment and Attendance Record

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

A director who commits to serve on a board should be prepared and able to contribute to the board and make attending board committee meetings a priority. We expect directors to attend substantially all board meetings; including committee meetings (if applicable).If the meetings are not substantially all attended, the companies should disclose reasons for absences in the proxy circular.

Board Leadership

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 chief executive officer (CEO) should be held by two different individuals. We further believe that the chair of the board should be an independent director as described above. 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.

Executive Chairman

While having an executive chairman on the board might provide business continuity and facilitate a CEO transition plan, it may potentially present corporate governance and compensation concerns for shareholders. In instances where companies deem appropriate to follow this corporate governance practice, we expect a detailed disclosure of the executive chairman role as well as the rationale for choosing such practice.

Also, compensation arrangements for an executive chairman should be assessed as director compensation rather than executive compensation practices.

CEO Succession Planning

The selection of a CEO is an important responsibility of the board. We encourage the company to disclose their executive succession planning process to shareholders, including where accountability lies within the board.

3. Voting Standards in Support of Shareholder Democracy

We support initiatives and mechanisms that provide shareholders with meaningful and effective director 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[4] 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 vote against 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.

[4] In this document, *against* may refer to voting against or withhold, depending on the jurisdiction and the vote options available in the proxy card.

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.

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 they 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.

Proxy Access and Advance Notice Requirements

We believe 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, to be an essential component of shareholder democracy. When such a nomination process does not exist, we encourage companies to 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.

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 may 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 may engage with a company and the dissident shareholder in advance of a meeting.

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 they can vote in person at a meeting. Universal proxies also make for a fairer, less cumbersome voting process.

4. Providing Shareholders with a Meaningful Voice

We believe 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.

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, which we discourage through our voting decisions and communications with companies, include submitting linked proposals and adopting supermajority approval standards or ineffective quorum requirements.

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 may 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.

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.

Shareholders' Ability to Call Special Meetings and Shareholder Proposals

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.

While our preference is generally for annual meetings to be conducted in person or in a hybrid forum, we may review proposals to hold virtual only meetings on a case-by-case basis, as an option in addition to offering in-person meetings with shareholders. Companies who elect to conduct their annual shareholder meetings virtually should ensure they have mechanisms in place to guarantee a two-way communication with shareholders and provide robust disclosure in their proxy statement.

Board's Responsiveness to Shareholders

We expect boards to be responsive to shareholders through engagement efforts and enhanced disclosure when concerns and issues on director elections, compensation, shareholder proposals, and other ballot items may affect shareholder value and may result in significant shareholders opposition.

Director Liability and Indemnification

Liability insurance is intended 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.

Related Party Transactions

Related party transactions can give rise to conflicts of interest. We therefore believe 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.

5. 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 encouraging 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 does not compromise the independence of non-executive directors. Compensation for non-executive directors should not include retirement benefits, severance payments, stock options and other forms of benefits normally reserved for employees.

Management Compensation

Compensation packages should be sufficient to attract, retain and motivate executives of calibre, but should be linked to overall corporate 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 factors, including:

— **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. Compensation packages should incentivize outcomes aligned with the long-term best interests of the company. This could include sustainability metrics linked to relevant material ESG factors under the control of management. In such instances, the metric shall be carefully selected for performance measurement accompanied by a clear explanation on alignment to strategy and provide that those targets are appropriate and adequately disclosed. 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 level relative to an appropriate peer group. In addition, CEO pay should be reasonable relative to that of other executive officers. We may also consider the level of executive compensation relative to peers.

— **Severance Payments:** We may 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, sometimes called "golden parachutes" if they lose their jobs as the result of a change in control. We believe such payments are appropriate if:

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

  — we deem the amount to be reasonable and not 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 support advisory votes on compensation, because they 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, 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 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 result in fair compensation linked to overall corporate performance, taking into account the factors set out above.

Equity Compensation Plans

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 make 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 Principles.

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 performance measures relevant to the success of the company;

— **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 overall corporate performance.

6. 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 may 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 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 with broad discretion to determine the voting, dividend, conversion, and other rights and attributes that may be detrimental to common 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 may consider the standards of the jurisdiction in which the company is located in our assessment.

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.

7. 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 may evaluate mergers, acquisitions and corporate restructurings based on factors such as valuation assessments with emphasis on offer premium, strategic rationale, negotiation process, conflicts 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.

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 may 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 also thwart takeover attempts that would benefit shareholders. Takeover protection proposals should 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 are entitled to vote. Shareholder rights plans should be time limited and put periodically to shareholders for re-approval.

Reincorporation

We may 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.

8. 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 and act with integrity, exercising 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 not to compromise their independence or create real or perceived conflicts of interests. As such, we 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.

9. Sustainable Investing: Promoting Long-Term Performance Through Shareholder Proposals

Our approach to proxy voting seeks to be consistent with our Policy. We take into consideration the principles set forth in our Policy when addressing material 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 material issues within corporate social and environmental responsibility is vast and much larger than the range of topics related to corporate governance. This makes it virtually impossible to anticipate and devise a principle for all of the possible proposals that could be presented on a given proxy ballot. Nevertheless, below we provide a sample of how we may consider certain material environmental and social issues.

The environmental and social performance of companies may have a material influence on investment risks and returns. We believe companies that are resilient, agile and able to anticipate, manage and integrate into their strategy material environmental and social factors, such as those related to climate change, human rights, human capital and water, are more likely to create and preserve value over the long-term than those that do not. As a long-term investor, we strive to 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 material 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.

Environmental Issues

The environmental performance of companies is often assessed based on the impact of their activities on the environment, their practices adopted to limit this impact and the impact of the environment on their operations. We therefore support proposals seeking disclosure on material environmental information or addressing best practices on issues including (but not limited to) energy management, greenhouse gas emissions, circular economy, pollution and waste reduction and water, biodiversity, water withdrawal, consumption, and discharge, and air quality management. For more information on our proxy voting principles on climate change, please see section 10 "Taking Action on Climate Change" below.

Social Issues

We encourage companies to adopt appropriate standards and as a minimum to support labour standards and human rights in all their operations. Workplace practices, especially those which reduce work related injuries may positively 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 should strive to ensure that they maintain their long-term "social license to operate", gaining the support of communities who may be affected by their activities. This may include, where appropriate, 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, and negative publicity, which may negatively impact their performance.

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 fully transparent about their actions.

Although most often unintentionally, some products may 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 are manufactured in conditions that violate international standards.

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

10. Taking Action on Climate Change

We believe that climate change is one of the most critical social, environmental and economic challenges of our time. Climate change will have significant physical and socio-economic impacts on industries, biodiversity, communities and human activity, hence impacting investment returns. The broad society-led focus on decarbonization is likely here to stay and will become amplified in the coming years, in part due to the Paris Agreement[5]. As an institutional investor, we adopt a long-term science-based world view and are seized with the potential to use our capital and influence to support the transition to global net-zero emissions by 2050. For more information, please refer to our Climate Strategy Roadmap and our Corporate View on Climate Change.

In line with PSP's Climate Strategy Roadmap, we expect boards of directors to ensure climate-related risks and opportunities are integrated into their strategy and operations, and to provide, where material, disclosures that allow shareholders to take informed decisions on that basis. When deemed appropriate, we do encourage boards to establish climate responsibility at the committee level. We expect companies to be transparent about their approach to addressing climate-related risk. We are a signatory of the Taskforce on Climate-Related Financial Disclosures (TCFD) and encourage companies to report on climate change using this framework. We generally support shareholder proposals seeking enhanced climate-related disclosures.

Where boards fail to demonstrate adequate consideration of physical and transition-related impacts from climate change and fail to develop and disclose effective management plans in response to these risks, we may consider, in light of value and portfolio risk considerations, voting against directors to hold them accountable.

In public markets, Say-on-Climate proposals have emerged and opened a new avenue for shareholders to provide feedback on company transition plans and related practices. We believe investors have a role to play in shaping best practices surrounding this new stewardship tool. By expressing our expectations to companies on climate-related policies and practices, we encourage companies to increase the credibility of their transition efforts in order to protect shareholders' interests. For example, we expect a sound climate-related governance structure, accountability for oversight of climate commitments, a transition plan aligned with climate science, and enhanced disclosure of decision-useful information.

On a case-by-case basis, and depending on PSP Investments' ownership position, we prioritize engagements to articulate our views on the global transition to net-zero emissions and to determine if management has the capacity and willingness to improve their climate-related management practices. As the market is evolving quickly around climate-related considerations, we will continue to monitor market developments and evolve our approach as necessary, taking relevant local corporate governance and regulatory requirements into account.

For additional information, please see PSP Investment's inaugural climate strategy and our Corporate View on Climate Change. Our climate strategy will be regularly updated to reflect ongoing market evolutions, insights, standards, regulations, and the latest scientific understanding related to climate change.

[5] See Paris Agreement on UNFCC's website for more information.

11. Review

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

12. We Are Listening

We welcome feedback and suggestions from the companies in which we invest on ways to improve our Principles 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 sustainableinvestment@investpsp.ca.