

NEI

NEI Investments  
Proxy Voting Guidelines  
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## About NEI

Northwest & Ethical Investments L.P. (“NEI”) is a Canadian asset manager committed to providing focused investment solutions advised by best-of-breed, independent portfolio managers. NEI delivers disciplined, active asset management with a longstanding focus on environmental, social and governance factors, and a well-defined corporate engagement process designed to create sustainable long-term value. NEI is a wholly owned subsidiary of Aviso Wealth; a national, integrated financial services company, with approximately \$65 billion in assets. For more information please visit [www.neiinvestments.com](http://www.neiinvestments.com)

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# 1. Introduction to Proxy Voting

## 1.1 Our Approach

NEI Investments' approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will build long-term sustainable value for all stakeholders and provide higher risk-adjusted returns for shareholders. We believe that the stakeholder theory of the firm best articulates the purpose of modern public corporations: to benefit not only shareholders, but also key stakeholders such as employees, customers, communities, bondholders, and society more generally. Our approach to proxy voting reflects these ideas.

## 1.2 What is Proxy Voting?

Shareholders have the right to propose and vote on a wide variety of company policies and practices. The opportunity to exercise the shareholder vote comes every year as companies organize for their annual general meeting (AGM). By law, companies are required to submit management proposals on certain corporate governance issues. Companies may choose to submit other matters to a shareholder vote because it is considered good practice. In addition, in certain jurisdictions companies are required to put forward proposals sponsored by shareholders.

Proposals from management and shareholders appear as items in the company's management proxy circular. This document is made available to every shareholder prior to the company's AGM, setting out the time and location for the meeting and providing a financial, operational and strategic report. If shareholders cannot attend the meeting, they may vote directly by mail or online, or sign their votes over to another individual or institution – a proxy – to vote on their behalf (hence the term “proxy voting”).

In recent years an increasing number of public companies have adopted virtual components to AGMs. We believe that hybrid AGMs, where shareholders can attend in person and meet with management but also have the option to access the meeting online, have the potential to increase shareholder representation and participation. However, we do not support virtual-only AGMs, which can reduce management accountability to shareholders, as they take away the element of face-to-face communication and introduce the risk of companies filtering uncomfortable shareholder questions.

Mutual fund unit holders do not directly hold the shares of the companies invested in by the mutual fund. Rather they own units in the mutual fund. As such, the responsibility for voting falls to the mutual fund managers.

## 1.3 Why Does Proxy Voting Matter?

Historically, many investors have been hesitant to challenge corporate management on issues such as corporate governance or executive compensation. They have followed the so-called “Wall Street rule” or “Wall Street walk,” according to which an investor should either vote as management recommends or, if dissatisfied with management, sell the stock. But corporate scandals and growing interest in responsible investment have underscored the need for investors to take a more active role.

Through voting, shareholder opinion on important issues impacting the company and its stakeholders is communicated directly to the highest level of the company: its board of directors. A variety of critical matters are submitted to the vote, ranging from the election of the board of directors who oversee the company, to decisions on mergers and acquisitions that determine whether the company will continue to exist in its present form. Just as in political elections, voter turnout can affect the outcome.

We believe diligent exercise of voting rights is a core duty of all responsible investors. We also consider proxy voting to be a key element in our comprehensive corporate engagement strategy.

### **Proxy Voting – A Pillar of Our Comprehensive Corporate Engagement Strategy**

At NEI, we use the special rights that come with shareholder status to expand our investable universe and create positive change on behalf of our investors. Through engagement, we alert companies to ESG risks, propose solutions to the tough challenges they face and encourage them to improve their ESG performance – seeking to protect value for shareholders and keep companies accountable to all stakeholders. Our comprehensive corporate engagement strategy includes:

- holding in-depth dialogues with companies on key ESG issues – independently or through collaboration;
- filing shareholder proposals where necessary, if dialogue is not progressing;
- responding to proactive requests from companies for an investor perspective on sustainability issues;
- transparent, engaged proxy voting based on guidelines promoting sustainability and good governance;
- providing input to companies on their corporate governance practices through our “Feedback on Proxy” activity;
- engaging policy-makers on corporate regulations and standards to create broader change and facilitate responsible investment;
- participating in multi-stakeholder sustainability initiatives.

#### **“Feedback on Proxy” - Engaging Boards on Corporate Governance**

Proxy voting is only really meaningful if companies understand why shareholders are voting for or against certain proposals. As well as scrutinizing the proposals we are asked to vote on, we also undertake an activity that we call “Feedback on Proxy”: we write to corporate boards where we have identified corporate governance concerns or notable good practices to explain the rationale for our voting decisions. This often leads to further dialogue. Companies have often told us that relatively few investment institutions reach out to provide detailed proxy feedback, so we encourage more investors to adopt this stewardship practice.

To learn more about our corporate engagement activities, visit our [website](#).

## **1.4 Purpose of the Guidelines**

The primary purpose of the Guidelines is to assist our proxy voting staff in reaching responsible and consistent decisions on voting items. Our predecessor company was the first mutual fund company in Canada to disclose proxy voting guidelines, long before this became compulsory. By publishing the Guidelines, we also seek to:

- serve our unit holders by providing transparency on how we reach our vote decisions;
- encourage diligent voting by providing a resource for shareholders seeking to vote based on integration of ESG considerations;
- contribute to good corporate governance by enabling companies to understand how we reach our vote decisions;
- raise standards in corporate engagement by enabling proponents to understand how we reach our vote decisions on shareholder proposals.

To make it easier to use this document to explore how we voted, or to vote directly, we have laid out the Guidelines based on the order of items on a typical North American proxy ballot.

## 1.5 General Principles

### 1.5.1 Voting Authority

These Guidelines are used for voting North-American proxies of all funds managed by NEI. NEI retains the right to vote proxies and regards the proxies we hold on behalf of our unit holders as significant corporate assets. We make use of external research providers for proxy voting analysis. Our ESG Analysts review proxy information and third-party analysis and execute the proxy voting process for our funds. The final voting decision is based on our Guidelines and internal analysis.

Funds that use a forward strategy to track the investment returns of another fund invest in Canadian equities; each position is held for a short period of time and holdings are scheduled so that no known voting events occur during that period of ownership.

### 1.5.2 Conflicts of interest

We recognize that conflicts of interest may arise in proxy voting:

- Organizational conflict of interest may arise when our company has a business relationship with a company soliciting proxies, in addition to holding shares in the company.
- Personal conflict of interest may arise when an individual who has influence on our voting decisions holds shares directly, has a personal relationship, or has a business relationship that extends beyond work undertaken for our company, at a company in which we hold shares.

To address potential conflicts of interest in proxy voting:

- Only designated staff members within ESG Services (the “Proxy Voting Staff”) make proxy voting decisions on behalf of our company.
- Proxy Voting Staff must disclose at regular proxy voting meetings if they have a potential personal conflict of interest, in which case they must recuse themselves from voting the securities of that company.
- Where we hold shares in a company to which we provide or from which we receive portfolio management-related services (including ESG services or sub-advisory services), we will either vote according to the recommendations of our external proxy advisor, based on its interpretation of our proxy voting guidelines, or abstain if there are reasons to believe that a guideline has been misinterpreted or misapplied by the proxy advisor.
- As part of our commitment to transparency, we disclose potential proxy voting conflicts of interest, and how they have been addressed, in the voting rationale disclosure in our public proxy voting [database](#).

### 1.5.3 Securities lending

We may lend Canadian and U.S. securities in a manner that is consistent with the Fund’s investment strategies and as permitted by securities law, in which case we will aim to recall all loaned securities by the record date for the purpose of voting. We do not lend securities outside of these markets as this may affect our ability to vote on behalf of our unit holders. Any specific policies related to securities lending and share recall for the purpose of proxy voting are issued as addenda to these Guidelines.

## 1.5.4 Limitations on Voting

In principle, all proxies are voted for both Canadian and U.S. holdings. NEI cannot guarantee the ability to vote shares of companies domiciled outside Canada and the U.S. at all times because of technical or practical restrictions on voting in various countries.

## 1.5.5 Application of the Guidelines

The Guidelines are designed to be responsive to a wide range of issues that can be raised in proxy situations. Because we cannot anticipate every proxy item, as well as specific guidelines for certain commonly-arising matters, we have established general principles for assessing proposals. Many proposals require case-by-case vote decision-making. In these situations we look to our ESG Program criteria and corporate engagement goals for direction. NEI has a responsibility to provide a competitive rate of return to our investors. We do not support proposals that are likely to harm a company's long-term financial or non-financial health.

NEI applies these custom Guidelines in the North American (Canada and U.S.) markets, where our funds have the highest exposure and our voting practice is likely to have the most significant impact on governance standards. In other markets, we align our international voting with local good governance practices that are reflected in the market-specific guidelines of our external proxy advisor (where available, the responsible investment version). Any specific guidelines applied outside North American markets are issued as addenda to these Guidelines.

We may modify our voting approach on a case-by-case basis, depending on the level of compliance to local market laws and corporate governance good practices that a company demonstrates.

Because of our strong position on many ESG issues, we frequently vote against the recommendations put forward by company management. However, we see no value in voting against management for its own sake. Where we are able to vote with management because standards of governance are improving, we view that outcome positively.

Our Guidelines are reviewed annually to determine if any updates are required, based on developments in corporate governance or the regulatory landscape. Changes adopted between new editions of the Guidelines are issued as addenda.

## 1.5.6 Proxy Voting Disclosure

We aim to provide investors with the best and most transparent proxy voting disclosure, and to enable all companies in our holdings to freely access detailed information on how we are voting, and why. Whenever possible, explanatory voting notes are provided for each item. Our predecessor company was the first mutual fund company in Canada to disclose this information. Our vote disclosure is updated daily. To explore how we voted, visit our proxy voting [database](#).

## 1.6 Conclusion

As Graham and Dodd stated in their 1934 classic, *Security Analysis*, “the choice of a common stock is a single act; its ownership is a continuing process. Certainly there is just as much reason to exercise care and judgment in *being* as *becoming* a stockholder.”

We encourage all shareholders to exercise the right to vote, and invite them to vote with us by following these Guidelines. We encourage our unit holders to check our proxy voting database and see how we applied the Guidelines to vote at companies held in the funds they own.

## 2. Management Proposals on Corporate Governance Issues

Corporate governance is the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation: the board, managers, shareholders, and other stakeholders. Corporate governance provides the structure for setting company objectives, establishing the means of attaining those objectives, and monitoring performance. Good corporate governance means that directors are able to direct, monitor, and supervise the conduct and operation of the company and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction, and control for all key issues, including relevant environmental and social issues. We believe that the governance framework should recognize the rights of stakeholders (employees, communities, customers, suppliers, and future generations) and encourage active participation between corporations and stakeholders in creating long-term wealth, employment, safe workplaces, and healthy environments.

### 2.1 Director Elections

#### 2.1.1 Context

Management is responsible for day-to-day operations of the company and is responsible to the board of directors. The board, in turn, is responsible for overseeing management performance and setting tone from the top that enables effective corporate culture. In order to fulfill its responsibilities, the board must consist predominantly of directors who do not depend on the corporation for any benefit or consideration apart from reasonable compensation for their duties. By extension, the chair must be independent of management in order to guide the board in its responsibility to oversee management's performance. The separation of powers between an independent chair of the board and the chief executive officer is a fundamental tenet of good corporate governance. Key committees of the board should also be composed entirely of independent directors. Where directors are "interlocked" (sit together on more than one board), concerns may arise relating to "groupthink" and trading of favours; interlocks are particularly concerning when they are combined with other poor governance practices such as a lack of diversity or independence of the board.

With its broad oversight role, the board should mirror the diversity of the workforce and society, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making. Aspects of identity diversity include gender, age, ethnicity, indigenous status, sexual orientation, cultural identity and disability. The board should be composed of effective directors who contribute to the full range of skills and expertise needed to provide effective oversight of risk and strategy: these will include finance and accounting, executive compensation, and management, but also social and environmental questions relevant to the sector, with emerging issues addressed through board education.

Long-tenured directors may lose their independence over time, and board renewal is essential if diversity is to be achieved without expanding the size of boards. We encourage companies to adopt term limit policies that treat all directors consistently and fairly but allow for the exercise of good business judgement in determining the value of the continued presence of a director on the board.

### **Director Tenure: How long is too long?**

Board composition and renewal are essential aspects of good governance. Whilst longer tenured directors might have a better understanding of the complexities of a company's operations, new directors bring fresh perspectives to the board – a balance of both is needed for good board oversight. Recent research indicates that boards with well-balanced tenure – where there is an even distribution of tenure lengths among directors – demonstrate better corporate performance and lower risk compared to industry peers.<sup>1</sup> Having an appropriate mix of director tenure ensures a diversity of viewpoints and drives variety in questions and concerns brought to management. Given these findings, and our long-standing commitment to advancing board diversity, we have implemented the following guidelines to address excessively long-tenured individual directors and imbalanced overall board tenure:

- **Entrenched directors:** We will vote against a director nominee if the individual has excessive board tenure and there are issues at the company relating to governance or ESG practices. We consider an excessive board tenure to be over 15 years.
- **Uneven distribution of board tenure:** We will vote against directors with excessive board tenure (over 15 years) if we consider that the distribution of tenure on the board is extremely uneven. This analysis is triggered when the average board tenure exceeds 12 years as this raises concerns that overall board tenure is overly skewed towards longer-tenured directors.

A robust board evaluation process includes board renewal and succession programs, including tenure guidelines. We will encourage such board refreshment practices and tenure distribution assessments through our engagement with companies.

Directors must be able to devote sufficient time and energy to the board to oversee the corporation effectively. Those who agree to be nominated should be prepared to attend all meetings. “Over-boarded” directors who sit on too many boards may not be able to meet the increasing time demands placed on directors.

Directors are in the awkward position of having to establish their own compensation. While shareholders are not routinely offered a vote on non-executive director compensation in North American markets, we consider several aspects to determine whether the director pay is appropriate or not. Acceptable forms of compensation for non-executive directors include cash, shares and deferred share units (DSUs), and they should be subject to share-ownership guidelines to help align their interests with the interests of shareholders. Stock options do not carry the same downside risk as the shares owned by stockholders and can incentivize directors to focus on stock price alone, potentially harming the long-term value the firm could provide for all stakeholders. Equity-based payments to directors, but not stock options, are acceptable to allow qualified persons of limited means to sit on boards that have adopted a minimum shareholding requirement. Pensions, severance arrangements and excessive director pay are inappropriate, as they may make directors too dependent on the company, as well as encouraging overly-long tenure.

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<sup>1</sup> <https://www.issgovernance.com/library/board-refreshment-finding-the-right-balance/>



## “Withhold” = Against?

The vote options available in director elections vary according to the jurisdiction in which a company is formed. Up to now, ballots for Canadian director elections have offered a list of nominees (one per vacancy in an uncontested election) and the voting choices FOR or WITHHOLD. In the past, this meant that a director could be elected with a single affirmative vote, but since 2014 directors of TSX-listed issuers not controlled by a majority shareholder have had to stand for election annually on an individual basis, and a majority voting policy must be adopted obliging directors to resign if they do not receive the affirmative support of the majority of votes cast. In 2018 the Canada Business Corporations Act was amended so that directors would be elected annually and on an individual basis by a majority vote of votes cast FOR and AGAINST. It remains to be seen if other Canadian jurisdictions will follow suit. Elsewhere, shareholders are given the option to vote FOR, AGAINST or ABSTAIN.

## 2.1.2 Guidelines

### 2.2.2.1 Board level

We withhold from all incumbent members of the board where we have serious concerns about the representation of the interests of stakeholders, especially with regard to shareholder rights.

- ✘ The board has consistently failed to act in the best interests of all shareholders.
- ✘ The board has purposely misstated or concealed the financial condition of the company.
- ✘ The board has failed to address very significant environmental or social concerns that pose material risk to the value of the company or represent serious breaches of ESG norms.<sup>2</sup>
- ✘ The board has not responded adequately to concerns underlying the high level of opposition to a director who received a majority of votes “withheld” the previous year.
- ✘ The board has not responded adequately to concerns underlying a shareholder proposal that received majority support the previous year.
- ✘ The board has adopted an advance notice provision without shareholder approval.
- ✘ The board has adopted a takeover defense plan without shareholder approval during the current or prior year.
- ✘ The company presents the board as a slate and does not allow a vote on individual directors. (In this case, we withhold from both incumbent directors and new nominees.)
- ✘ The company has a dual class share structure. (On a case-by-case basis, we may make an exception at companies where the structure has a sunset provision, where the holders of multiple voting shares such as founders maintain a meaningful equity ownership stake and bring a unique contribution to the company, or where the company otherwise has sound corporate governance practices and is open to dialogue with shareholders.)

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<sup>2</sup> Examples include the norms set out in the OECD Guidelines for Multinational Enterprises.

- ✘ Non-executive director compensation arrangements are inappropriate. (Examples include stock options at an established company, pensions, severance arrangements and excessive pay).

### 2.1.2.2 *Committee level*

We withhold from incumbent members of the nominating committee where we have serious concerns relating to the composition of the board.

- ✘ The positions of chair of the board and CEO are combined.<sup>3</sup>
- ✘ The chair of the board is not independent.<sup>4</sup>
- ✘ The board is not at least two-thirds independent.
- ✘ There is a lack of gender diversity on the board - there are not at least 2 female nominees. We consider a fully diverse board to be comprised of at least 30-40% each of women and men. (On a case-by-case basis, we may make an exception at companies that have published a strong, time-bound commitment to enhance diversity)<sup>5</sup>

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<sup>3</sup> We may apply an exception at emerging companies. On a case-by-case basis, we may find a non-independent Chair to be acceptable at companies with a lead independent director.

<sup>4</sup> Ibid.

<sup>5</sup> When applying this guideline, we will not withhold from independent female directors serving on the nominating committee based on gender diversity concerns as that would be counterproductive to the goal of achieving a more diverse board. We also apply this guideline in the United Kingdom and Australia as this is considered good practice in those markets. At emerging Canadian companies, our expectation is that there should be at least one woman on the board.

## Board Diversity: Who Sits at the Table?

### Voting for Board Gender Diversity

Research shows that diverse boards display consistently better performance across various metrics, including improved decision-making processes, enhanced corporate performance and greater innovative success.<sup>6</sup>

For over 15 years we have used our voting rights to withhold support from members of the nominating committee where there is no gender diversity on the board, and no credible commitment to enhancing diversity. We have engaged many companies in dialogue on the topic, including on setting good practice board diversity targets. Several Canadian companies have since adopted our suggested board diversity target – one that we believe appropriately reflects gender diversity: **a board comprised of at least 30-40% each of women and men**. This type of target emphasizes that men are part of diversity - that a board where all nominees are female is not more diverse than an all-male board. It also allows boards a degree of flexibility they would not have with a 50-50% target.

Given the recent progress North American companies have made on nominating female board candidates, which leaves only a small segment of boards without female directors, in 2019 we have enhanced our board diversity guideline:

- We vote against the members of the nominating committee when there are not at least two women directors serving on the board.

We will not withhold from independent female directors serving on the nominating committee based on gender diversity concerns as that would be counterproductive to the goal of achieving a more diverse board. We may make exceptions on a case-by-case basis at emerging companies where there is just one female director serving on the board but there are credible commitments in place to enhancing board diversity.

### Board Diversity Beyond Gender: Diversity of Identity

We have focused on gender diversity as an entry point for moving towards more diverse boards overall. In contrast to other types of diversity of identity, data on gender diversity, age and tenure are well-disclosed – as such these are data points investors can more easily integrate into voting practice. In recent years however, attempts have been made to assess types of board diversity beyond gender, particularly racial diversity in the U.S.

We encourage those efforts and have considered how our voting could better reflect our support for diversity of identity on boards. However, company disclosure on diversity of identity on the board is currently limited. Oftentimes the only avenue available to investors is to guess, based on individual director nominee names, pictures and biographies in the proxy circular – which is awkward at best and can be highly problematic at worst. Additionally, individual directors might prefer not to share certain types of personal information given its potentially sensitive nature, especially in markets where this could put them at risk.

As such, at this time we are prioritising efforts to advance practice in disclosure on board diversity of identity that would enable us to effectively implement guidelines in this area in future. We will be exploring ways in which this type of data can be better disclosed through engagement with companies and standard-setters. In addition, we generally support shareholder proposals asking for thoughtful and appropriate board diversity of identity disclosure.

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<sup>6</sup> For more information about our views on board diversity, please see our 2018 whitepaper on the topic: All Aboard: Increasing Corporate Board Diversity in Canada <https://www.neiinvestments.com/documents/Research/All-Aboard-Increasing-Corporate-Board-Diversity.pdf>

We withhold from incumbent members of the compensation committee where we have serious concerns about compensation practices and decision-making. (We may withhold from all incumbent board nominees in egregious cases.)

- ✘ The linkage of executive compensation to performance is especially poor.
- ✘ The quantum of CEO compensation is notably excessive relative to peer companies.
- ✘ The ratio of CEO compensation to compensation of the average named executive officer is extremely inequitable (more than 5:1).
- ✘ The quantum of CEO or other individual NEO compensation is notably excessive relative to median household income. (More than 200 times at Canadian companies and more than 400 times at U.S. companies).
- ✘ Compensation governance is especially poor, with multiple problematic practices identified.
- ✘ Compensation disclosure is especially poor.
- ✘ Support for the most recent advisory vote on executive compensation is less than 70% and the committee has not responded adequately to address the concerns of those who voted against.
- ✘ The committee has selected a less frequent schedule for the advisory vote on executive compensation than the preference of a majority or significant plurality of shareholders, without adequate justification.
- ✘ The company does not offer an advisory vote on executive compensation, and we would have voted against if the vote had been offered.<sup>7</sup>

We withhold from incumbent members of the audit committee where we have serious concerns about financial governance. (We may withhold from all incumbent board nominees in the most egregious cases.)

- ✘ There are serious concerns about the company's accounting practices.
- ✘ There are serious concerns about the company's financial reporting.
- ✘ There are serious concerns about the auditor's conduct. (Serious misconduct includes rendering an inaccurate opinion or concealing material information from shareholders.)
- ✘ 50% or more of the total fees paid to the auditors in the previous year were for non-audit work.
- ✘ The company's disclosure does not allow us to assess the percentage of total fees paid to the auditors in the previous year for non-audit work.
- ✘ The auditor's tenure is extremely excessive (more than 50 years).
- ✘ The company does not ask for shareholder approval to ratify its auditors.

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<sup>7</sup> We may apply exceptions at emerging Canadian companies where such advisory vote is not common practice unless there is reason to believe that executive pay is egregious.

### 2.1.2.3 Director level

We withhold from individual director nominees where we have concerns about their integrity, independence or capacity; or where we consider that they have special responsibility for an issue of concern by reason of their role within the board.

- ✘ The nominee has been convicted of a financial, corporate or securities offence.
- ✘ The nominee has a history of serious misconduct, regulatory sanctions or business ethics violations.
- ✘ The nominee has a conflict of interest.
- ✘ The nominee is non-independent and the board is not at least two-thirds independent.<sup>8</sup>
- ✘ The nominee is non-independent and holds the position of chair of the board.<sup>9</sup>
- ✘ The nominee is non-independent and sits on a key board committee (nominating, audit, compensation or governance committee).
- ✘ The nominee is non-independent and the whole board performs the function of a key board committee (nominating, audit, compensation or governance committee).
- ✘ The nominee sits on the compensation committee at a company where the pay outcomes are problematic and also serves at another company as the CEO or a senior executive.
- ✘ The nominee sits on five or more public company boards. (We may make an exception at companies with an appropriate “over-boarding” policy, if the policy is applied consistently and there is 100% attendance at board and committee meetings.)
- ✘ The nominee serves at another company as the CEO or a senior executive, and sits on more than one “outside” public company board.
- ✘ The nominee attended less than 75% of board and committee meetings without a valid reason.
- ✘ The nominee has excessive board tenure (more than 15 years) and the company has issues relating to governance or ESG practices.<sup>10</sup>
- ✘ The nominee has excessive board tenure (more than 15 years) and there is an uneven distribution of tenure on the board.
- ✘ The nominee sits together on more than one board with another director and there are corporate governance concerns related to relevant issues including board diversity, director independence or the number of interlocks on the board.
- ✘ The nominee holds no company stock<sup>11</sup> and has served on the board for more than a year.

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<sup>8</sup> We do not apply this guideline to CEOs serving on their own board as directorship is usually a requirement for the CEO position.

<sup>9</sup> We may apply an exception at emerging companies. On a case-by-case basis, we may find a non-independent Chair to be acceptable at companies with a lead independent director.

<sup>10</sup> We do not apply this guideline to CEOs serving on their own board as directorship is a requirement for the CEO position.

<sup>11</sup> Equivalent instruments such as deferred share units (DSUs) are acceptable.

- ✘ The nominee serves as the incumbent chair of the governance committee and detailed vote results from the previous AGM are not disclosed. (Where no such committee exists, we may withhold from the chair of the board.)
- ✘ The nominee serves as the incumbent chair of the board of a Canadian company and the company does not offer an advisory vote on executive compensation.
- ✘ The nominee serves as the incumbent chair of the board at a company that faces a high exposure to climate-related risks, and we believe it is not adequately addressing those risks.<sup>12</sup>
- ✘ The nominee serves as the incumbent chair of the committee responsible for corporate responsibility at a company that has failed to address a significant ESG concern, and has not responded to engagement. (Where no such committee exists, we may withhold from the chair of the board)
- ✘ The company's disclosure is not adequate to allow us to assess the nominee.

### **Climate Change Governance Starts at the Top**

Climate change is the defining ESG issue of our time and effective governance of the risks related to climate change should be a strategic priority for any company. While no sector is immune to the potential impacts of climate change, companies with a high exposure to climate-related physical and transition risks are facing potentially existential challenges. As such, we would expect these companies to have robust climate change and energy transition strategies in place, provide good disclosure on how they are addressing the risks, and demonstrate effective oversight of climate-related risks at the board level. We expect companies to support the Paris Agreement and align themselves with its goal of limiting global warming to less than 2C. Companies that are actively resisting shareholder requests for better disclosure on their climate strategy, or are engaged or supporting lobbying activities against effective climate policy are not meeting our expectations for good governance.

Given the importance of we place on effective oversight of climate-related risks, we have adopted the following voting guideline:

- **We will vote against the chair of the board at companies facing a high exposure to climate-related risks where we believe they are not adequately addressing those risks.**

Example triggers may include:

- The company has poor climate-related disclosure and/or is actively resisting shareholder requests to improve its disclosure
- The company is resistant to shareholder requests for dialogue on the topic
- The company has directly or indirectly lobbied against effective climate policy
- There is no explicit responsibility for oversight of climate-related issues at the board level

We will consider exceptions to this guideline where the company has made a commitment to address its shortcomings or where we have evidence it is actively engaging with investors on how to improve.

<sup>12</sup> We will consider exceptions to this guideline where the company has made a commitment to address its shortcomings or where we have evidence it is actively engaging with investors on how to improve.

#### 2.1.2.4 Contested Elections

In a contested election (“proxy battle”), shareholders are usually asked to choose between a slate of board nominees proposed by management and a dissident slate proposed by another shareholder or group of shareholders. There are two ballots of different colours: one offering the list of management nominees and the other offering the dissident’s list. Shareholders must choose one of the ballots, making it impossible to support a combination of management and dissident nominees unless the dissident’s ballot contains the names of incumbent directors, or a rare universal ballot is offered including all nominees. In recent years, shareholders in the U.S. have been advocating for “proxy access”, the ability for long-term shareholders to place alternative board nominees on the same ballot as management’s nominees, making it possible to support a combination of management and dissident nominees. More companies have started to adopt proxy access, which we view positively.

We vote case-by-case in contested elections, depending on the type of ballot(s) offered. In deciding how to vote, we assess how the change in corporate policy advocated by opposing sides will affect the corporation, employees, and other stakeholders. Alternative slates of directors, or shareholder nominees at companies with proxy access, will be given consideration where there is compelling evidence that the company has performed poorly over time, the incumbent management has been unresponsive to shareholders, or existing directors have clearly failed to perform their duties. The dissident slate, or shareholder nominees at companies with proxy access, must have a viable strategy for enhancing stakeholder value and nominees must satisfy the usual independence and qualification requirements.

## 2.2 Audit-Related Management Proposals

### 2.2.1 Context

Shareholders must have confidence that they can rely on audit information and that the auditors who produced the information are independent, free from conflict of interest and act ethically. In many cases, companies hire external auditors as consultants to provide other services. Some auditing firms use auditing services as loss-leaders and give their auditors commissions for selling consulting and other services to clients. We believe these practices compromise auditor independence. We strongly prefer auditors who have not performed other services for the corporation and who do not hold contracts to perform services other than the annual audit.

### 2.2.2 Guidelines

Vote against the ratification of auditors:

- ✘ There are serious concerns about the company’s accounting practices.
- ✘ There are serious concerns about the company’s financial reporting.
- ✘ There are serious concerns about the auditor’s conduct. (Serious misconduct includes rendering an inaccurate opinion and concealing material information from shareholders.)
- ✘ 25% or more of the total fees paid to the auditors in the previous year were for non-audit work.
- ✘ The company’s disclosure does not allow us to assess the percentage of total fees paid to the auditors in the previous year for non-audit work.
- ✘ The auditor tenure is excessive (more than 25 years).

Vote against other audit-related proposals:

- ✘ Vote against discharge of auditors or directors from liability if there are concerns about the actions of either, or limitations are placed on shareholder rights to take legal action in the future.
- ✘ Vote against approval of a financial or directors' report if the report is not provided to all shareholders before the shareholders meeting or limitations are placed on shareholder rights to take legal action in the future.

## 2.3 Compensation-Related Management Proposals

### 2.3.1 Context

We believe that compensation should be linked to factors that lead to long-term wealth creation and social benefit. The board is responsible for compensation of the CEO and senior executives. In recent years, the adoption of the shareholder advisory vote on executive compensation or "say-on-pay" has spread from Europe to North America. In Canada, say-on-pay votes are voluntary but many of the largest publicly-traded companies have adopted the practice. In the U.S., say-on-pay is mandatory for most listed companies. A new trend in Europe is say-on-pay votes that are mandatory and binding.

In evaluating executive compensation, we look for:

- a quantum of pay that is enough to retain and motivate talented executives of high integrity, but is not excessive or inequitable;
- clear linkage of pay to performance against the company's strategic objectives based on financial, environmental and social metrics of long-term value that allow for an appropriate risk-taking and do not encourage misconduct;
- good structure and disclosure that allows shareholders to make informed decisions on pay and allows stakeholders to understand the board's compensation decision-making process;
- adoption of generally-accepted compensation good governance practices.

### 2.3.2 Guidelines

#### 2.3.2.1 Advisory Vote on Executive Compensation (Say on Pay)

Depending on the market, companies may be required to offer shareholders a vote on executive compensation, or may choose to do so voluntarily. We value this practice as it allows us a more nuanced way to express concerns about pay than withholding our vote from directors whose wider contribution to the board may be positive. Where we are not offered a "say on pay" vote, we may withhold our vote from compensation committee members based on concerns that would only have triggered a vote against executive compensation at a company that does offer the vote.

In voting on executive compensation, we consider a wide range of issues, and decide on balance whether to vote for or against the package. Vote decisions are case-by-case, drawing on the compensation principles outlined below.

In some markets, shareholders are given the opportunity to vote separately on actual compensation awarded for the previous year, and on policy for future compensation arrangements. In markets that only offer a single



advisory vote on executive compensation, if our assessment of compensation awarded for the previous year was negative but the company has announced changes that would likely lead to a positive assessment in coming year, we may take this into consideration in our voting.

## **Linking Pay to Long-Term Sustainable Performance**

Pay for performance is a key determinant for whether or not we will vote in favour of a compensation plan. Although our perspective on what constitutes “performance” is not restricted to short-term share price fluctuations alone, we believe that among other considerations executive compensation should reflect returns to shareholders, as a key stakeholder group.

Over the past decade, we have been advancing environmental and social performance metrics as key components of executive compensation design through research and engagement with companies, regulators, and standards-setting bodies. Many companies have begun to integrate key metrics relating to strategic non-financial goals into executive compensation design, for example, by rewarding top managers for improving customer satisfaction, employee engagement, safety performance, or reducing environmental impacts.

- ✘ The linkage of executive compensation to long-term corporate performance is poor.
- ✘ Significant environmental or social concerns arising during the previous year have not been reflected in compensation decision-making.

## **Adoption of Performance-Based Awards**

Bonuses should not be paid when company or individual performance has been poor and has not met targets. We believe short-term incentive awards should be entirely performance-based. We believe longer-term equity-based incentive awards should also be predominantly performance-based rather than time-based.

We do not consider stock options to be performance-based. Unless they are tied to an appropriate range of performance conditions, options may simply be rewarding a rise in stock price during a bull market that has nothing to do with executive performance, while in bear markets both inferior and exceptional performance on key long-term value drivers may lead to the same result - no reward. In addition, options can greatly increase the inherent complexity of executive compensation. We are encouraged to see a market trend generally toward reduction in the use of options, and at some companies, their complete elimination from compensation frameworks.

We do not favour giving compensation committees broad discretion, and prefer compensation packages that are based on clearly-disclosed formulas and metrics. The metrics should represent stretch targets. If the performance goals are lowered, we believe related executive awards should be adjusted downward to reflect the reduced degree of challenge in achieving the goals. We acknowledge that boards may sometimes need to exercise discretion in revising incentives, when changed circumstances have rendered metrics established at the start of the year inadequate for assessing final performance. However, both excessive and unexplained discretion can be problematic in setting executive compensation. Our preference is for compensation committees to use discretion only in limited circumstances and to disclose the extent to which discretion was used, as well as the justification for doing so, in those circumstances. In our opinion, even when discretion must be exercised, clearly-disclosed metrics make it easier for boards to explain, and shareholders to understand, the rationale for deviation from the compensation plan.

- ✘ The short-term incentive award is not 100% performance-based.
- ✘ The short-term incentive award is not at least two-thirds based on quantitative performance metrics.

- ✘ The long-term incentive award is not sufficiently performance-based. (We prefer awards that are at least two-thirds performance-based.)
- ✘ The framework of the compensation metrics is not sufficiently disclosed.

## **Restricting Excessive Quantum and Encouraging Equitable Pay**

We give extra scrutiny to compensation plans where executive pay appears excessive relative to a reasonably-defined peer group of companies. We also look for evidence of efforts to control disparity in pay and conditions, both between members of the executive team, and between executives and other levels in the company. We believe that increasing pay disparity within companies is not only a fairness issue, but also a potential business risk. A disconnect between executive compensation and salaries at lower levels of the company may demotivate employees, and thus undermine the strategic objective of attracting and retaining talented people. Concerns have also been raised that compensation design and high pay levels for top executives do not take into account how people are actually motivated and lead to needlessly complex pay disclosure in proxy circulars. Prevailing approaches to executive compensation have led inexorably to excessive levels of executive compensation. High pay, in turn, is contributing to greater income inequality, which has been identified as a key threat to economic and social stability.

- ✘ The quantum of CEO compensation is excessive relative to peer companies.
- ✘ The ratio of CEO compensation to compensation of the average named executive officer is inequitable (more than 3:1).
- ✘ The quantum of CEO or other individual NEO compensation at a Canadian or U.S. company is excessive relative to the respective median household income (more than 150 times at Canadian companies and more than 350 times at U.S. companies). Evidence of equitable compensation practices within the company, such as the use of vertical comparison metrics in setting compensation, will be considered as a mitigating factor.

## Excessive Quantum of CEO Compensation: How Much is Too Much?

North American CEOs are amongst the highest-paid globally. Reflecting our long-time concerns about the negative social and economic impact of income inequality – concerns shared increasingly by leading economic authorities – we apply an additional guideline for U.S. and Canadian companies, focusing on excessive quantum of executive compensation. Effectively, this guideline sets a cap on the level of CEO or other individual NEO pay that we can support in the U.S. and Canadian markets.

Our test for defining very high quantum relates CEO total compensation to median household income. We use median household income to reflect concerns about the impact of income inequality on the economy, as it is an indicator of the financial well-being of typical families. We define a “CEO pay quantum range of concern” based on multiples of the most recently-available data for median pre-tax household income. We use different thresholds in the U.S. and Canada to reflect the reality of higher CEO pay and greater income inequality in the U.S.

At the time of publication, we set the quantum range of concern as follows:

- U.S. companies: 350 to 400 times U.S. median household income – approximately U.S. \$22 million to \$25 million. For context, the median reported CEO compensation in 2018 in the S&P 500 was approximately US\$ 11.9 million.<sup>13</sup>
- Canadian companies: 150 to 200 times Canadian median household income - approximately C\$12.7 to C\$17.0 million<sup>14</sup>. For context, the median reported CEO compensation in 2018 for Canada’s 100 largest publicly-traded companies was approximately C\$8.8. million.<sup>15</sup>

If CEO or other individual NEO total compensation falls in the quantum range of concern, in principle we will vote against the compensation package unless we find evidence of internal equitable compensation practices intended to ensure that employees across the whole company enjoy excellent pay and conditions. Equitable compensation practices could include efforts by the compensation committee to tie executive pay to pay across the broader workforce, such as the use of various types of vertical metrics in setting compensation.

If CEO or other individual NEO total compensation exceeds the quantum range of concern, we will vote against the compensation package. We will also vote against the incumbent members of the compensation committee if there are no equitable compensation practices in place. We do not think this is inconsistent with our pay-for-performance philosophy. We continue to apply our pay-for-performance voting guidelines to all compensation plans, whether or not the CEO or other individual NEO's pay quantum falls in the range of concern that triggers additional scrutiny. In our proxy analysis, we often see the use of caps within incentive plans – for example, maximum annual bonus payouts based on a multiple of salary, whether performance exceeds, or only meets, the level associated with a maximum payout. We are merely extending this perspective to the compensation plan as a whole. We also query conventional wisdom that very high quantum of pay is the most effective way to motivate talented, committed executives of the greatest integrity. Other motivation factors may be equally important, and there may be a point at which increasing the quantum of pay becomes redundant, or lead to diminishing returns.

We acknowledge that many stakeholders may consider even the bottom end of our quantum range of concern to be excessive. In the absence of any precedent to follow, based on the reality of current North American executive pay levels, and mindful of the implications for our proxy analysis workload, we set the range to direct additional scrutiny to the compensation of the very highest-paid CEOs. We hope more institutional investors will make public their perspective on “how much is too much” - we welcome further debate that would help us to refine our methodology.

<sup>13</sup> <https://marketing.equilar.com/43-2018-ceo-pay-trends>

<sup>14</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000901>

<sup>15</sup> <https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2020/01/Fail%20Safe.pdf>

## Adoption of Compensation Good Governance Practices

We expect companies to adopt common compensation good governance practices. We consider the following to be examples of poor compensation governance practices.

- ✘ The company does not disclose an anti-hedging policy.
- ✘ The company does not have share ownership guidelines that encourage executives to hold significant amounts of company stock.
- ✘ The company lacks a claw-back policy to retrieve compensation earned through misleading financial representation and misconduct.
- ✘ The company lacks a double-trigger standard for change-in-control payments. (In a double-trigger structure, payout only occurs if the CEO actually loses his or her job in the event of a majority takeover.)
- ✘ The company uses tax gross-ups to compensate for taxable benefits received.
- ✘ Excessive loans have been made to company executives.
- ✘ The company's disclosure is not adequate to allow us to assess compensation.

### 2.3.2.2 Equity-based Compensation Plans

Equity-based compensation plans should not have an excessive impact for the company's outstanding shares, nor should they give company insiders advantages that are not available to ordinary shareholders. The following considerations may be taken into account both for advisory votes on executive compensation in the previous year, and for proposals to approve the terms of future equity-based compensation plans.

#### All equity-based plans

- ✘ The total cost of the plan is unreasonable and excessive.
- ✘ Dilution exceeds 10%.
- ✘ Burn rate exceeds 1%.
- ✘ Accelerated vesting is allowed.
- ✘ Awards are 100% vested when granted.
- ✘ More than 10% of the stock available for compensation in a given year is allocated to a single individual.
- ✘ Change-in-control provisions are developed during a takeover battle.
- ✘ A new stock option plan is created, or additions are made to an existing plan, at an established company.

## Existing stock option plans

- ✘ “Evergreen” stock options are allowed.
- ✘ Discounted stock options are allowed.
- ✘ Re-pricing or re-issue of “underwater” options is allowed.
- ✘ Reloading of stock options is allowed.
- ✘ Stock options can be granted to non-executive directors. (Exceptions may be made on a case-by-case basis for start-up companies.)
- ✘ Stock options can be granted to consultants, contractors, or other short-term employees.

### 2.3.2.3 Golden Parachutes

Golden parachutes are severance arrangements for executives contingent upon a change in control of a company. Golden parachutes are intended to ease managers’ fears about losing their jobs in the event of a successful takeover, and thus help them make decisions in the best interests of the company in those circumstances. The quantum of compensation in these packages, however, is often excessive. At U.S. companies, these provisions are subject to a shareholder advisory vote. While such votes are not offered in Canada, a generally-accepted formula is twice the executive’s base salary and bonus, whereas in the U.S., three times base salary and bonus is considered reasonable.

- ✘ The severance arrangements are not contingent upon a change in control of the company.
- ✘ The quantum of the severance arrangements is excessive.
- ✘ The company has failed to demonstrate that the severance arrangements are in shareholders’ long-term interests and do not create a conflict of interest for recipients.
- ✘ Change-in-control provisions are included for non-executive directors.

## 2.3.3 Other Management Proposals

### 2.3.3.1 Context

In general, all major changes in a corporation should be submitted to a vote by shareholders. Various actions require shareholder approval, such as mergers and acquisitions and share issuances. We assess most of these management proposals on a case-by-case basis.

### 2.3.3.2 Guidelines

- ✘ Vote against a proposal requesting approval of unspecified other business.
- ✓ Vote for the collapse of a multiple class share structure with unequal voting rights.
- ✘ In general, vote against a proposed merger or acquisition that would create a company ineligible for investment by NEI funds with a responsible screening (RS) mandate.
- ✘ In general, vote against a proposal to reincorporate in another jurisdiction that appears to be motivated primarily by aggressive tax planning.

### 3.Shareholder Proposals

Shareholders that meet legally-established requirements on size and duration of holdings have the right to file proposals. These are included in the proxy circular and on the ballot alongside the management proposals, and are voted on at the AGM. We support well-designed shareholder proposals that we believe address important issues affecting corporate value and values. We may vote for, against or abstain, depending on the ballot choices available.

#### **The Role of Shareholder Proposals in our Corporate Engagement Strategy**

Occasionally, we file shareholder proposals to advance our corporate engagement goals. We have a strong preference for dialogue. When a company is not willing to engage in dialogue, or we have a difference of opinion that cannot be resolved, we may file a shareholder proposal to establish the views of other investors. For us, this is not the first choice.

Even if we have filed a proposal, our preference is that it should not go to the vote. Proposals can be a powerful tool for raising the awareness of an issue among directors, senior executives and other shareholders. The time between filing and the finalization of the management proxy circular is often fruitful for dialogue, because companies prefer to see proposals withdrawn before they reach the AGM. In general, we will withdraw a proposal if:

- the company agrees to adopt our proposal without a vote;
- the company partially agrees to the proposal and commits to follow-up allowing us to explore the issue further together; or
- the company shows that the proposal is “moot”, because it is already dealing with the issue.

If the proposal is not withdrawn, it will be printed in the proxy circular with a response from company management. We issue a Proxy Alert challenging the company’s response and offering additional detail on why investors should support our proposal.

Because many investors vote with management automatically without considering the merits of the case, when our shareholder proposals go to the vote, they seldom win majority support. But they seldom need to. Recognizing that shareholder concern about an issue is building, and that the proposal we have advanced offers an effective response to a significant business challenge, companies are often willing to negotiate and begin adopting more progressive policies.

The International Corporate Governance Network (ICGN) offers guidance on institutional investor responsibilities: <https://www.icgn.org/policy/committees/shareholder-responsibilities>

#### 3.1 General Principles

Proposals are evaluated on a case-by-case basis taking into account the following principles.

The following are considerations to vote for a shareholder proposal.

- ✓ The proposal addresses a clear risk or opportunity for the long-term sustainable value of the company (for example, demonstrated by controversies, litigation, fines, or research by reputable sources).
- ✓ The proposal supports values to which we are committed (such as international standards, norms, conventions, and fundamental rights that we endorse).
- ✓ The proposal will enhance disclosure on key issues allowing us to better assess the company’s exposure to risk and opportunities.

- ✓ The company's current response to the issue raised in the proposal makes it an outlier compared to peers.
- ✓ The company's rebuttal of the proposal is unconvincing.
- ✓ The proponent has made good faith offers to engage the company on the issue, but the company has refused to engage, or it has not been possible to reach a withdrawal agreement.

If we are faced with a shareholder proposal that we would normally support, but management recommends a vote against because the company has already decided to implement the proposal, rendering it moot, we will vote for the proposal to encourage the company to make good on its commitment, while indicating that we would prefer to have seen the proposal withdrawn before the proxy circular was issued.

The following are considerations to vote **against** a shareholder proposal.

- ✗ We do not view the issue raised in the proposal as relevant for protecting corporate value or values.
- ✗ The issue raised in the proposal has already been addressed previously by the company.
- ✗ The proposal deals with a concern that we share, but we do not agree with the solution proposed, or the solution proposed is overly-prescriptive. (In this case we may also choose to abstain, where this option is offered.)
- ✗ The company has made a convincing rebuttal of the proposal.
- ✗ The proposal contains substantive inaccuracies.
- ✗ The proposal is unclear or poorly-framed.
- ✗ The proposal uses language that is disrespectful or intemperate.
- ✗ The proposal could harm the company's long-term financial or non-financial health and is not in the best interests of its stakeholders, including shareholders.
- ✗ Responding to the proposal would involve unreasonable costs or put the company at a significant competitive disadvantage.
- ✗ There are strong indications that the proponent has not responded to good faith offers by the company to attempt to resolve the issue through dialogue.

## 3.2 Governance Shareholder Proposals

We vote all shareholder proposals on a case-by-case basis, but we outline below our position on some of the more common governance topics that may be addressed through shareholder proposals.

### 3.2.1 Guidelines

- ✓ Changes in governance policies, practices and structures that will make them more consistent with our Guidelines.

### 3.2.1.1 Board Elections and Policies

#### Majority voting

- ✓ Directors should be elected by an affirmative majority of votes cast.
- ✓ Directors who do not receive a majority of votes cast should resign from the board.

#### Independent Chair

- ✓ Split the position of chair of the board and chief executive officer.
- ✓ Prevent non-independent directors from becoming the board chair.

#### Board Diversity

- ✓ Gender diversity policy should aim for a minimum of 30-40% each of both men and women board members.
- ✗ Gender diversity policy should not allow either men or women to make up 100% of board members, as this would be contrary to the goal of diversity.
- ✗ Gender diversity policy should not insist on 50/50 representation of men and women on the board, as this does not allow flexibility for board effectiveness and could exclude candidates who do not identify as either gender.
- ✓ Recruit director nominees with significant experience in relevant environmental and social matters, where this expertise is not present on the board.

#### Board Capacity and Renewal

- ✓ Limit the total number of boards on which a director may serve to four.
- ✓ Establish a tenure policy, if proposed term limits are consistent with our Guidelines.
- ✓ Establish shareholder proxy access that includes appropriate safeguards for the director nomination process.

### 3.2.1.2 Compensation

#### Say-on-Pay

- ✓ Adopt an annual advisory vote on executive compensation (Say-on-Pay).

#### ESG Compensation

- ✓ Relevant ESG performance measures should be included as variables in establishing compensation packages of senior executives.



## Equitable Compensation

- ✓ The compensation committee should explain how it addresses equitable pay and conditions across the company, and how this relates to executive compensation decisions.
- ✓ Disclose how the company takes into consideration income levels across society as the whole to assess the risks associated with income inequality and integrate these risks into its compensation framework.
- ✓ Disclose gender or race/ethnicity pay gaps and how the gaps are addressed in order to achieve pay parity and promote equal leadership opportunities.
- ✓ Adopt a living wage policy.
- ✗ It is problematic to cap executive compensation at a specific multiple of average or median worker pay within the company, as we are not yet in a position to judge what that multiple should be at individual companies. (In this case we may also choose to abstain, where this option is offered.)

## Equitable Compensation Practices: Next steps?

Beyond applying our existing guidelines that address excessive executive compensation, we support emerging trends that help promote equitable compensation practices, including paying at a minimum the living wage and increasing transparency on gender or ethnicity-related pay gaps. Fueled by growing public concern about the negative economic and social effects of income inequality, shareholder proposals in North America on these topics are becoming increasingly common, with major targets being companies in the retail, tech and financial sectors. Considering the currently limited disclosure on living wage adoption and pay gaps, our priority is to advance this disclosure through engagement with companies and standard-setters, which would enable us to effectively implement voting guidelines in this area. We also generally support shareholder proposals asking for thoughtful disclosure of this kind of pay data.

- **Paying at a minimum the living wage:** When assessing internal pay equity, a company's commitment to implement a living wage policy may mitigate our concerns about high executive compensation as it may indicate the company's commitment to addressing general pay levels. In this context, we support efforts to enhance disclosure on whether a company has explicitly adopted payment of a living wage, what living wage is being paid and what methodology is used to determine the wage level.

### ***Living wage ≠ minimum wage***

We recognize challenges in calculating and implementing a living wage across countries and within countries. In certain cases, companies may find it sufficient to raise their minimum wage. Although that is a good step, adopting a living wage is much more than that, as it takes into account the cost of living to pay as a minimum the amount required to ensure a basic but decent lifestyle for employees and their families.

- **Increasing transparency on pay gap ratios:** We support actions that will allow us to better understand the pay practices within a company and how these address income inequality business risks. As such, we value voluntary disclosure of pay gaps based on both gender and ethnicity/race where such disclosure is not yet mandated by law. We also see merit in encouraging companies to disclose both adjusted and unadjusted pay gaps considering that both types of pay gap ratios bring to light different aspects of income inequality.
  - **Adjusted pay gaps** are controlled for factors such as job title, seniority and geography, allowing companies to demonstrate they provide equal pay for equal work. The more factors that are taken into account, the smaller this gap is likely to be.
  - **Unadjusted pay gaps** are based on the average difference of hourly wage across the company. A significant unadjusted pay gap can reveal, for example, that women occupy more of the lower-paid positions within a company than men.

In response to shareholder proposals requesting pay gap disclosures, companies often disclose only their **adjusted pay gap** – which gives investors insight into whether they provide equal pay for equal work, but does not measure the structural issues an **unadjusted pay gap** would reveal, such as whether there are equal career advancement opportunities for both men and women. We recognize that when gaps are identified this does not necessarily mean a company has acted inappropriately or has discriminatory pay practices in place. As such we value proactive corporate disclosure of pay gaps that allows for a better understanding of pay data and encourages early action to close identified gaps.

### 3.2.1.3 Tax Base Erosion

- ✓ Block or prohibit the company from re-incorporating in a tax haven.
- ✓ Establish and disclose a responsible tax policy.

### 3.2.1.4 Political Expenditures and Lobbying

- ✓ Disclose on political expenditures, lobbying and trade association participation, and how these align with corporate responsibility values, where this is not current practice.

### 3.2.1.5 ESG Disclosure

- ✓ Disclose on key ESG risks and opportunities that are not covered in existing reporting.
- ✓ Provide update reporting on ESG issues on an annual basis, where this is not current practice.

## 4.Environmental and Social Shareholder Proposals

We support shareholder proposals on environmental and social issues that we believe to be in the best long-term interests of stakeholders, including shareholders and the corporation. The range of topics that may be raised through environmental and social shareholder proposals is so wide and so fast-changing that it is no longer practical to set out specific guidelines in this area. We vote these proposals on a case-by-case basis, looking for direction to:

- our principles for assessing shareholder proposals;
- our ESG Program criteria and corporate engagement goals and objectives;
- our commitments to support specific conventions, norms, standards and initiatives.

Obviously, our basic expectation is that companies should comply with all applicable environmental and social related laws and regulations. In addition, we encourage companies to adopt voluntary standards relevant to their sector. The following is a non-exhaustive list of conventions, norms, standards and initiatives that we support and take into consideration in proxy voting.

### Sustainability Reporting

- [Sustainability Accounting Standards Board \(SASB\)](#)

### Sustainability Frameworks

- [Organization for Economic Cooperation and Development – Guidelines for Multinational Enterprises](#)
  - [Responsible Business Conduct for Institutional Investors](#)
  - [OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector](#)
  - [OECD Due Diligence Guidance for Responsible Mineral Supply Chains](#)
  - [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)
  - [OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector](#)
- [International Labour Organization – Declaration on Fundamental Principles and Rights at Work](#)
- [International Labour Organization – Tripartite Declaration of Principles Concerning Multinational Enterprise and Social Policy](#)

- [International Labour Organization – Guidelines for Occupational Health Management Systems and Code of Practice on Recording and Notification of Occupational Accidents and Diseases](#)
- [United Nations Global Compact – Principles](#)
- [United Nations Sustainable Development Goals](#)

## Climate Change

- [Task Force on Climate-related Financial Disclosures](#)
- [Climate Action 100+](#)
- [CDP](#) (formerly the Carbon Disclosure Project)

## Human Rights

- [International Bill of Human Rights - Universal Declaration of Human Rights](#)
- [United Nations Guiding Principles on Business and Human Rights \(UN Guiding Principles Reporting Framework\)](#)
- [United Nations Declaration on the Rights of Indigenous Peoples](#)
- [United Nations Voluntary Principles on Security and Human Rights](#)

## Finance

- [Equator Principles](#)

## Extractive Industries & Chemicals

- [Organization for Economic Cooperation and Development – Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict – Affected and High Risk Areas](#)
- [International Cyanide Management Code](#)
- [Extractive Industries Transparency Initiative](#)
- [International Council on Mining & Metals – Position Statements](#)
- [The Mining Association of Canada – Towards Sustainable Mining](#)
- [Initiative for Responsible Mining Assurance](#)
- [Methane Guiding Principles](#)
- [Oil and Gas Climate Initiative \(OGCI\)](#)
- [Forest Stewardship Council](#)
- [Canadian Boreal Forest Conservation Framework](#)
- [Responsible Care](#)

## Consumer

- [Plastic Solutions Investor Alliance](#)
- [Circular Economy Leadership Coalition](#)
- [Accord on Fire and Building Safety in Bangladesh](#)
- [Business Benchmark on Farm Animal Welfare](#)

## Health & Nutrition

- [Access to Medicine](#)
- [Access to Nutrition](#)
- [All Trials - Clinical Trial Transparency](#)

- [Investors for Opioid Accountability \(IOA\)](#)
- [International Code of Marketing of Breast Milk Substitutes](#)

## **IT & Telecoms**

- [Ranking Digital Rights](#)
- [Responsible Business Alliance \(RBA\) – Code of Conduct](#)
- [Global Network Initiative \(GNI\)](#)