

International

Public Fund Proxy Voting Guidelines Updates

2018 Policy Recommendations

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OPERATIONAL ITEMS

Virtual Meetings (UK, Ireland, and Europe)

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
Public Fund Advisory Services Recommendation: [No current formal policy] <ul style="list-style-type: none"> Generally vote for proposals allowing for the convening of hybrid¹ shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs. Generally vote against proposals allowing for the convening of virtual-only² shareholder meetings. 	Public Fund Advisory Services Recommendation: <ul style="list-style-type: none"> Generally vote for proposals allowing for the convening of hybrid¹ shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs. Generally vote against proposals allowing for the convening of virtual-only² shareholder meetings.

Rationale for Change:

Several UK companies have requested shareholder approval for article amendments allowing for the convening of virtual (i.e. non-physical) shareholder meetings. Though the practice itself remains rare in the UK and Europe, it is becoming more common in the U.S.

Investor opinion on this development is divided. While there is recognition of the potential benefits of enabling participation at shareholder meetings via electronic means, many have raised concerns about moves to completely eliminate physical shareholder meetings, arguing that virtual-only meetings may hinder meaningful exchanges between management and shareholders and enable management to avoid uncomfortable questions. In ISS' 2017-2018 Governance Principles Survey, investor respondents were largely supportive of so-called "hybrid meetings", where companies employ technology to allow for virtual participation as a supplement to the physical shareholder meeting. In fact, with improving technology, hybrid meetings could become standard good practice.

Investor respondents were less supportive of virtual-only meetings however. Whilst a relatively large number indicated that virtual-only meetings could merit support if they were to provide the same shareholder rights as a physical meeting, at present it is difficult to draw any definite conclusions as to whether companies in the UK, Ireland, and Continental Europe will be able to meet this standard. In addition, even with improved technology, it is unclear how virtual-only meetings will be able to provide shareholders with the same opportunity for meaningful face-to-face dialogue with the board, particularly if the directors are not all in the same room.

Public Fund Advisory Services will generally recommend in favor of proposals allowing a company to hold "hybrid" shareholder meetings. Regarding proposals allowing a company to hold virtual-only meetings, Public Fund Advisory Services will generally recommend a vote against.

¹ The term "hybrid shareholder meeting" refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.

² The phrase "virtual-only shareholder meeting" refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting.

BOARD OF DIRECTORS

Director and Supervisory Board Member Elections

Overboarding

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p>Public Fund Advisory Services Recommendation:</p> <p>In markets where detailed information is generally provided, votes against or withhold votes on individual nominees, key committee members or the entire board can be triggered by one or more of the following concerns:</p> <p>...</p> <ul style="list-style-type: none"> › Directors serving on an excessive number of other boards which could compromise their primary duties. In markets where the number of board appointments is routinely available, an excessive number of boards is defined as: <ul style="list-style-type: none"> → Directors who hold more than five non-chair non-executive director positions. → A non-executive chairman who, in addition to this role, holds (i) more than three non-chair non-executive director positions, (ii) more than one other non-executive chair position and one non-chair non-executive director position, or (iii) any executive position. → Executive directors holding (i) more than two non-chair non-executive director positions, (ii) any other executive positions, or (iii) any non-executive chair position. › Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. › Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded. <p>...</p>	<p>Public Fund Advisory Services Recommendation:</p> <p>In markets where detailed information is generally provided, votes against or withhold votes on individual nominees, key committee members or the entire board can be triggered by one or more of the following concerns:</p> <p>...</p> <ul style="list-style-type: none"> › Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. › Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded. <p>...</p> <ul style="list-style-type: none"> › For TSX issuers within the Canadian market, "overboarded" will be defined as: a CEO of a public company who sits on more than one outside public company board in addition to the company of which he/she is CEO (withholds would only apply on outside boards these directors sit on), OR the director is not a CEO of a public company and sits on more than four public company boards in total. However, for meetings on or after February 1, 2019, Public Fund Advisory Services will vote withhold for individual director nominees who: <ul style="list-style-type: none"> › Are non-CEO directors and serve on more than five public company boards; or › Are CEOs of public companies who serve on the board of more than two public company besides their own – withhold only at their outside boards³.

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Rationale for Change:

The changes are mainly to simplify the wording of the overboarding policy.

The revised overboarding thresholds for Canada will further align the policy with feedback received from Canadian institutional investors during roundtable discussions and one-on-one policy outreach meetings. Given the large number of Canadian issuers that are dual-listed in both Canada and the US, institutional investors have indicated in ISS' 2017 comment period that it would be appropriate to harmonize Canadian and US overboarding thresholds. The updated thresholds are also aligned with those [recommended](#) by the Canadian Coalition for Good Governance (CCGG). Commenters also requested that subsidiary boards (>50 percent owned) upon which the parent company CEO serves, be exempted when determining the vote recommendation for the CEO under this policy, which further aligns the Canadian overboarding policy with the approach under the current U.S. policy. The updated policy for Canada will be in effect commencing February 2019.

³ Although a CEO's subsidiary boards will be counted as separate boards, Public Fund Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

Gender Diversity Policy (S&P/TSX Composite Index companies only)

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p>Public Fund Advisory Services Recommendation: [No current policy]</p> <ul style="list-style-type: none"> For S&P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where: <ul style="list-style-type: none"> The company has not disclosed a formal written gender diversity policy⁴; and There are no female directors on the board of directors. <p>This policy will be applied to all TSX Companies starting in Feb 2019.</p>	<p>Public Fund Advisory Services Recommendation:</p> <ul style="list-style-type: none"> For S&P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where: <ul style="list-style-type: none"> The company has not disclosed a formal written gender diversity policy⁴; and There are zero female directors on the board of directors. <p>This policy will be applied to all TSX Companies starting in Feb 2019.</p>

Rationale for Change:

Gender diversity has become a high profile corporate governance issue in the Canadian market since the Canadian Securities Regulators implemented revised [National Instrument 58-101 Disclosure of Corporate Governance Practices](#) that became effective prior to 2015 proxy season. NI 58-101 includes a requirement that companies disclose whether, and if so how, the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. Also required is disclosure of targets regarding the representation of women on the board. The disclosure requirement has been a catalyst for the addition of women on the boards of many larger TSX-listed reporting issuers, including Composite Index companies. However, among non-Composite Index TSX-listed issuers, many have disclosed that they have not adopted a gender diversity policy, or goals or targets in this regard. Further, approximately 50 percent do not have any women on the board of directors.

In addition, the Canadian Coalition for Good Governance (CCGG), whose members comprise institutional investors who together manage approximately \$3 trillion in assets, has espoused the need to enhance gender diversity on boards in its October [2015 Board Gender Diversity Policy](#). CCGG states that it views the underrepresentation of women on boards to be a governance issue and therefore an appropriate policy focus for CCGG.

Canadian institutional investors have already begun to indicate their frustration with the slow movement of lagging boards of directors in this regard, by increasingly developing voting policies and withholding votes from nominating committee members or board members responsible for board recruitment. During a summer roundtable discussion on the topic, Canadian institutional clients overwhelmingly supported the adoption of a board gender diversity policy. They also indicated that

⁴ Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.

the policy should apply to all TSX companies, with a few indicating that size may be a consideration for policy application so as not to onerously burden the smallest TSX companies where it may be impractical to add women to the board of directors. Further, some indicated that over time the policy expectation should be increased to only support a critical mass of 20 to 30 percent of each board comprising female directors. General consensus was expressed that the rigor of the disclosed policies, if any, should also be taken into account and that, in addition to the absence of any targets or goals, boilerplate language, or contradictory language that appears to dismiss the importance of diversity in the boardroom, should be found unacceptable under the policy. Client participants also supported that withhold votes should be recommended for either the chair of the nominating committee or the entire nominating committee or other directors charged with the responsibility of the nominating committee.

Based on institutional investor feedback obtained during roundtable discussions, one-on-one client meetings, and the comment period, many of the clients canvassed supported a one-year transition before implementing the new policy for non-Composite Index companies. Therefore, Public Fund Advisory Services will not implement the new policy for these smaller non-Composite Index companies until February 2019.

According to ISS' 2017-2018 Governance Principles Survey, 69 percent of investor respondents replied that they could consider it problematic if there were no female directors on a public company board: 43 percent said that the absence of women directors could indicate problems in the board recruitment process, while 26 percent indicated concerns could be mitigated if there is a disclosed policy/approach that describes the considerations taken into account/or statements to increase gender diversity. A majority (54 percent) of non-investor respondents answered "yes" (could be problematic), although more than half of these respondents said their concerns might be mitigated by a company's disclosed policy or approach.

The new policy aligns with Public Fund Advisory Services client expectations and recommended best market practices in board gender diversity.

CAPITAL STRUCTURE

Share Repurchase Plans

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p>Public Fund Advisory Services Recommendation:</p> <ul style="list-style-type: none"> › For Italy and Germany, vote for share repurchase plans and share reissuance plans that would use call and put options if the following criteria are met: <ul style="list-style-type: none"> › The duration of the authorization options is limited in time to no more than 18 months; › The total number of shares covered by the authorization is disclosed; › The number of shares that would be purchased with call options and/or sold with put options is limited to a maximum of five percent of currently outstanding capital (or half of the total amounts allowed by law in Italy and Germany); › A financial institution, with experience conducting sophisticated transactions, is indicated as the party responsible for the trading; and › The company has a clean track record regarding repurchases. 	<p>Public Fund Advisory Services Recommendation:</p> <ul style="list-style-type: none"> › For Italy and Germany, vote for share repurchase plans and share reissuance plans that would use call and put options if the following criteria are met: <ul style="list-style-type: none"> › The duration of the authorization options is limited in time to no more than 18 months; › The total number of shares covered by the authorization is disclosed; › The number of shares that would be purchased with call options and/or sold with put options is limited to a maximum of five percent of currently outstanding capital (or half of the total amounts allowed by law in Italy and Germany); › A financial institution, with experience conducting sophisticated transactions, is indicated as the party responsible for the trading; and › The company has a clean track record regarding repurchases.

Rationale for Change (Italy and Germany):

This change is for clarification purposes only, since the term "authorization" could be misunderstood as referring to the share repurchase authorization.

COMPENSATION

Executive Compensation

Current Public Fund Advisory Services Recommendation, incorporating policy changes:	New Public Fund Advisory Services Recommendation:
<p>Public Fund Advisory Services Recommendation: Vote case-by-case on management proposals seeking ratification of a company's compensation policy.</p> <ul style="list-style-type: none"> › Generally vote against a company's compensation-related proposal due to one or a combination of the following factors: <ul style="list-style-type: none"> › The proposed compensation policy/report was not made available to shareholders in a timely manner; › The level of disclosure of the proposed compensation policy is below what local market best practice standards dictate; › There is a significant misalignment between CEO pay and company performance (pay for performance); › Concerns exist with respect to the disclosure or structure of the bonus or other aspects of the remuneration policy such as pensions, severance terms, and discretionary payments; › Concerns exist surrounding the company's long-term incentive plan(s), including but not limited to, dilution, vesting period, and performance conditions; › Excessive severance arrangements/payments; › Overly generous perquisites and/or tax gross-ups, and/or other excessive arrangements; › Provision of stock option grants, or similarly structured equity-based compensation, to non-executive directors; or › Where boards have, otherwise, failed to demonstrate good stewardship of investors' interests regarding executive compensation practices. 	<p>Public Fund Advisory Services Recommendation: Vote case-by-case on management proposals seeking ratification of a company's compensation policy.</p> <ul style="list-style-type: none"> › Generally vote against a company's compensation-related proposal due to one or a combination of the following factors: <ul style="list-style-type: none"> › The proposed compensation policy/report was not made available to shareholders in a timely manner; › The level of disclosure of the proposed compensation policy is below what local market best practice standards dictate; › There is a significant misalignment between CEO pay and company performance (pay for performance); › Concerns exist with respect to the disclosure or structure of the bonus or other aspects of the remuneration policy such as pensions, severance terms, and discretionary payments; › Concerns exist surrounding the company's long-term incentive plan(s), including but not limited to, dilution, vesting period, and performance conditions; › Excessive severance arrangements/payments; › Overly generous perquisites and/or tax gross-ups, and/or other excessive arrangements; › Provision of stock option grants, or similarly structured equity-based compensation, to non-executive directors; or › Where boards have, otherwise, failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.

Rationale for Change:

The policy is being updated to formally include additional factors that Public Fund Advisory Services currently considers when evaluating proposals seeking ratification of executive compensation policy.

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