



2019 | Ninth Edition

Proxy Voting Guidelines



British Columbia Investment Management Corporation

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About BCI

BCI is a leading provider of investment management services to British Columbia's public sector. Our role is to generate investment returns that will help our institutional clients build a financially secure future. With our global outlook, we seek investment opportunities that will meet our clients' risk and return requirements over time. This compels us to integrate long-term environmental, social and governance matters into our investment decisions and activities. We offer investment options across a range of asset classes: fixed income; mortgages; public and private equity; real estate; infrastructure; and renewable resources.

Preface

BCI is a long-term investor in the global equity markets. We believe companies that take material environmental, social and governance (ESG) matters into account manage risk better and generate long-term value for investors.

It is also our belief that sound ESG practices contribute to the integrity of the public corporations we hold and to the creation of value for our clients. Accordingly, through proxy voting and other engagement with portfolio companies, we advocate for improvements

in both ESG disclosure and performance where necessary, in order to enhance overall company performance and shareholder value. This is in line with our role and responsibilities as stewards of our clients' assets.

PURPOSE

These guidelines set out our expectations with respect to the governance practices of the companies in which we invest; as well as expectations of how they will address environmental and social risks. This document describes how we approach these issues from a proxy voting perspective, and gives guidance to investee companies on how we are likely to vote the shares we own when such matters are put to a shareholder vote.

BCI respects the capabilities and expertise of company directors and management, and does not seek to interfere in day-to-day management functions. We expect that the implementation of these guidelines will assist and encourage boards to remain focused on the objective of building shareholder value while holding them accountable for actions taken.

PROCESS

BCI aims to vote every share that we own at every company meeting held, while recognizing that certain markets continue to employ additional administrative hurdles that may preclude us from the ability to vote. We apply the following guidelines on a global basis while also recognizing that practices can differ dramatically in different markets. These differences will sometimes influence actual voting decisions. In applying our guidelines, BCI reviews company filings, such as the proxy statement or information circular, and may also use research reports from external proxy voting service providers to assist in the voting process, however, we do not follow their voting recommendations.

DISCLOSURE

BCI is transparent about our proxy voting activity, disclosing all votes on our website at **BCI.ca**

Questions or comments about these guidelines or our voting activity can be directed to **corpgov@bci.ca**.



Facilitating Shareholders' Rights and Interests

PRINCIPLE

In view of the vital importance of the shareholder right to vote, BCI believes that all shareholders should have the ability to cast their votes, free of impediments or obstacles.

In addition, all shareholders should be treated equally, with no special ownership rights or privileges available to any one class of shareholder. In keeping with these beliefs, BCI will encourage

public companies to treat all shareholders equally and to facilitate shareholders' rights to vote in person or by proxy, at annual and special meetings.

PROXY VOTING GUIDELINES

Shareholder Meetings

Meeting Notice: Shareholder meetings occur annually and on an ad hoc basis (these are known as extraordinary or special meetings). Appropriate notice of shareholder meetings should be given by companies to ensure that shareholders have a reasonable opportunity to exercise their voting rights.

Voting Guideline: BCI will vote **AGAINST** proposals to shorten the meeting notice period to a length of time that is inadequate for global shareholders, such as BCI, to make an informed and timely vote.

Meeting Format and Location: Companies should make accountability and shareholders' convenience the primary criteria when selecting the format and location of the annual meeting. Meetings that allow the virtual participation of shareholders, as well as physical attendance, and the rotation of meeting locations may allow more shareholders the opportunity to take part.

Voting Guideline: BCI will vote **FOR** proposals to change the format and location of a shareholder meeting where such changes preserve or enhance the ability of shareholders to participate in the meeting.

Proxy Disclosure: Shareholders vote on proposals presented by management and shareholders at shareholder meetings. Appropriate quantity and quality of information regarding management and shareholder proposals should be given by companies to enable shareholders to make informed voting decisions.

Voting Guideline: BCI will vote **AGAINST** proposals if adequate information is not provided in the company's information circular, annual report, or other disclosures.

Proxy Solicitation: Companies should not adjourn or extend a meeting for the purpose of providing management with time to solicit more votes and enable them to prevail on proposals.

Voting Guideline: BCI will vote **AGAINST** proposals to provide management with the general authority to adjourn or extend a meeting to solicit more voting support for all meeting proposals. BCI will vote **FOR** proposals to provide management with the specific authority to adjourn or extend an annual or special meeting to solicit more support for a precise proposal (e.g., a company merger or acquisition) if BCI supports the proposal in question.

Other Business: Companies should not include vague proposals on the meeting agenda that would allow discussion and voting on "other business." This puts shareholders voting by proxy at a disadvantage as they cannot know ahead of time which issues will be brought up at the meeting, and therefore cannot instruct a fully-informed vote on these issues. BCI prefers to have all meeting proposals clearly specified in the proxy circular and agenda so that all shareholders can participate equally.

Voting Guideline: BCI will vote **AGAINST** proposals seeking approval to conduct unspecified "other business" at the shareholder meeting.

Shareholder Voting Rights

One Share, One Vote: Shareholders should have the right to vote in proportion to their economic ownership of the company. Each share of company common stock should have one vote. Companies should not have multiple classes of shares with different/unequal voting rights and privileges. Such shares entrench control and power in the hands of select shareholders.

Voting Guideline: BCI will vote **AGAINST** proposals to authorize or issue common shares that do not have full and equal voting rights. BCI will also generally vote **AGAINST** proposals that seek to create or perpetuate multiple share class structures. BCI will vote **FOR** proposals to eliminate or unify multiple classes of shares.

Confidential Voting & Vote Tabulation: All proxy votes should be confidential, with ballots counted by tabulators independent of management. Confidentiality should apply to all meeting proposals. Confidential voting protects shareholders from coercion or undue influence in making voting decisions. In terms of tabulating vote results, BCI supports a simple for/against for each proposal, removing the impact of abstentions.

Voting Guideline: BCI will vote **FOR** proposals to adopt confidential voting and exclude abstentions from the vote tabulation.

Supermajority Approval: Shareholders should have the right to approve matters submitted for their consideration with a simple majority of the shares voted. Companies should not impose supermajority voting requirements. Supermajority votes are generally favoured by dominant shareholders to deter outside challenge and change (for example, a takeover attempt) by imposing high voting barriers.

Voting Guideline: BCI will vote **AGAINST** proposals to require a supermajority shareholder vote, except if necessary under corporate law. BCI will vote **FOR** proposals to lower supermajority vote requirements.

Bundled Proposals: BCI expects the opportunity to vote on proposals individually. Bundled proposals combine more than one item into one votable resolution, giving shareholders an all-or-nothing choice to either accept or reject all of the matters contained therein. BCI believes that shareholders should be allowed to vote on separate and distinct proposals, without constraints.

Voting Guideline: BCI will vote **AGAINST** linked or bundled proposals in situations where the potential benefits of supporting the combined matters contained in the proposal are outweighed by any risks that we perceive as a result of support for such combination.

Quorum: A quorum of shareholders must be present and represented by proxy at the shareholder meeting, or no business can be conducted that is binding on the company. Typically, a majority of outstanding shares will constitute quorum, although, by statute, companies may have flexibility to set a lower quorum in their by-laws. Quorum requirements should be set at a reasonable level so that there is a sufficiently broad indication of shareholders' approval for business conducted at the meeting.

Voting Guideline: BCI will generally vote **AGAINST** proposals to reduce quorum requirements for shareholder meetings below 2 persons holding 25 per cent of the eligible votes/shares outstanding. In the case of a small cap or venture company, quorum requirements should not be set below 10 per cent of the shares outstanding.

Conflicting Management and Shareholder

Proposals: General meeting agendas can contain both management and shareholder proposals that relate to the same issue. Typically, shareholder proposals contain provisions that are more shareholder-friendly than those presented by management. In addition, in certain circumstances, management proposals can be tabled as a way to exclude shareholder proposals on the same issue from the meeting agenda.

Voting Guideline: In situations where there are management and shareholder proposals on the ballot that relate to the same issue, BCI will vote **FOR** the proposal that we believe is in the best interests of shareholders. In situations where support for either management or the shareholder proponent would represent an improvement over the status quo, BCI may vote **FOR** both the management and shareholder proposals. In situations where we believe that management have tabled a proposal as an attempt to exclude a shareholder proposal from the ballot, BCI may vote **AGAINST** the management proposal in question, in addition to voting **AGAINST** the Chair of the Governance Committee.

Shareholder Proposals Related to Shareholder Rights

Shareholders Calling Special Meetings:

Shareholders should have the right to call special meetings without onerous restrictions and the need to meet a high ownership threshold.

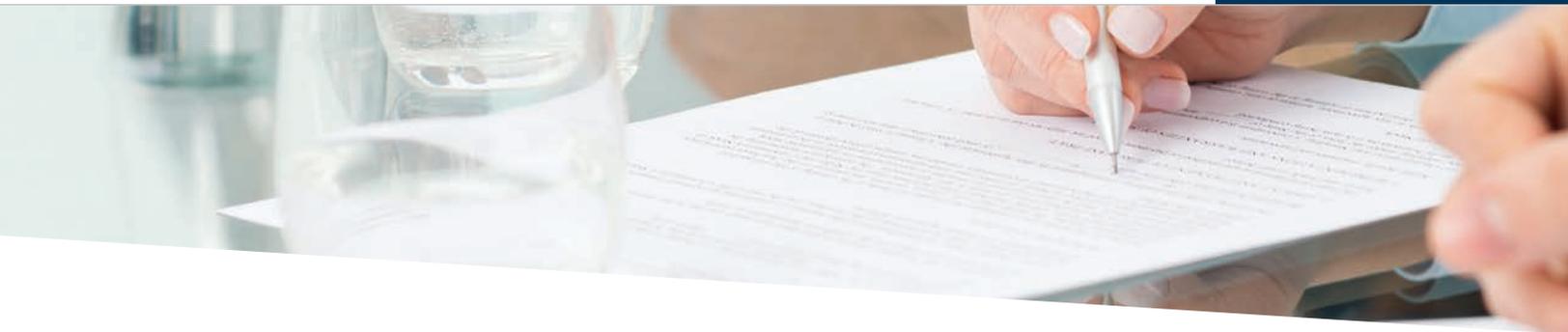
Voting Guideline: BCI will vote **FOR** proposals to provide shareholders holding 10 per cent or more of the company's outstanding shares with the right to call special meetings. BCI will be supportive of lowering the ownership threshold to call special meeting if it is above 10 per cent and/or eliminating onerous restrictions to call a special meeting.

Acting by Written Consent: Having the ability to act by written consent is beneficial for shareholders as the company does not need to incur added expenses to hold a special meeting and shareholders have the ability to act on issues in between company annual general meetings. Consents are similar to the proxy voting process except that, instead of a meeting taking place, shareholders simply return their signed consent which represents their vote and the matter is ratified.

Voting Guideline: BCI will generally vote **FOR** proposals to grant shareholders the right to act by written consent unless we have concerns about the lack of adequate safeguards such as a meaningful consent threshold.

Proxy Access: We consider proxy access to be an important shareholder right that complements other corporate governance best practices. Company proxy materials and related mailings should provide equal space and equal treatment for shareholder proposals including potential board candidates.

Voting Guideline: BCI will vote **FOR** shareholder proposals calling for the company to provide proxy access rights to a shareholder, or group of shareholders, having owned a minimum of 1 per cent of outstanding shares to nominate up to 25 per cent of the board of directors in each election. The features of the proposal should not impose unreasonable burden on the Nominating Committee while providing for necessary safeguards to the nomination process. In addition, BCI will vote **FOR** shareholder proposals that seek to amend currently in place proxy access provisions in situations where such amendments would enhance the rights of shareholders.



The Board of Directors

PRINCIPLE

The principal responsibility of the board of directors is to foster the long-term success of the company, consistent with its fiduciary duty to shareholders.

The board carries out this responsibility by:

- Providing input to and approval of corporate strategy
- Evaluating management performance and making executive changes when necessary
- Ensuring there are systems in place to effectively assess and manage all material risks
- Supervising the selection and work of the company's external audit firm.

Over the last decade, the expectations of, and demands on, corporate directors have evolved and

increased significantly. The shareholders that directors are accountable to expect greater levels of oversight, more robust evaluation of both management and the board itself, proactive and well-thought out succession planning, and the setting of an appropriate tone from the top of the organization; a tone that espouses the highest levels of integrity and accountability, while demonstrating the importance of diversity throughout.

To effectively perform these critical functions, the board of directors must be composed of members who are independent of management and possess a diversity of skills, backgrounds and experience that aligns with the strategic direction of the organization.

PROXY VOTING GUIDELINES

Board Membership

Director Independence: The board must be able to exert authority over management's recommendations and to objectively evaluate company and executive performance. This can be best achieved by ensuring that at least two-thirds of the board are independent directors.

An independent director is defined as an individual who is not a current or former executive of the company or its affiliates (former executives, except founders, chief executive officers (CEOs) and

chief financial officers (CFOs), will be considered independent after a five year cooling off period). An independent director does not currently, or within the past five years, have a business or personal interest as a significant customer or supplier of goods or services to the company, and has no other direct or indirect material relationship to the company, other than interests and relationships arising from being a shareholder and receiving director's fees.

In effect, directors should be free from any connection to the company or its management that may compromise the director's loyalty to shareholders.

We recognize that in some markets, such as Germany and Sweden, companies are subject to legislation imposing employee or labour representatives on their board of directors. For these companies, BCI expects the majority of the shareholder elected directors to be independent. In Japan, recent corporate governance reforms are moving the market toward increased director independence. Historically, most boards of Japanese companies were made up of company executives only; now the local code calls for each board to have a minimum of two directors who are independent and not company employees. The code also asks companies to aspire to achieving an independence level of one-third, and encourages companies to increase the number of female directors.

We also recognize that there may be some governance differences applicable to companies where there is a controlling shareholder(s). In these instances, where the company is controlled by virtue of equity ownership and not through multiple-voting shares, BCI expects the board to be at least majority independent.

Voting Guideline: BCI will vote **AGAINST** all non-independent nominees (except the CEO), where the proposed board (or shareholder elected portion of the board) will not be composed of two-thirds of independent directors. BCI will vote **AGAINST** management nominees other than the CEO given the Board's primary responsibility of overseeing management. BCI will vote **AGAINST** director nominees in cases where a nominee cannot be categorized as independent or non-independent due to lack of disclosure.

In Japan, BCI will vote **FOR** all outside nominees regardless of their independence status. In cases where the board is less than one-third independent, BCI will vote **AGAINST** top executives. BCI will vote **AGAINST** management nominees other than the President and Chairman. BCI will vote **AGAINST** top executives for sustained poor financial performance, such as a consistently low Return on Equity (ROE).

Director Effectiveness and Accountability: The board should be composed of individuals who can contribute knowledge and experience to the company's strategy and to board decisions. Other qualifications include, but are not limited to, diversity, commitment, and integrity. The board's processes for identifying, recruiting, orienting and assessing directors should be disclosed so that shareholders understand how boards acquire/maintain the strengths necessary for effective governance and management oversight. BCI will use its discretion to vote against nominees when we feel that it is necessary to hold someone accountable and there is no other ballot item for us to convey this. Examples of this would be voting against compensation committee members for companies with no say on pay vote or audit committee members when there is a history of financial restatements.

We support the following processes and criteria (and disclosure of such) for ensuring director effectiveness:

- **Attendance** — Directors should attend all board and committee meetings and prepare in advance of the meetings.

Voting Guideline: BCI will vote **AGAINST** nominees that fail to attend at least 75 per cent of board and committee meetings in aggregate without a valid reason.

- **Number of directorships** — Directors must ensure they are able to commit the appropriate amount of time and energy to their duties. When directors serve on an excessive number of boards, they are considered over-boarded and may not be fulfilling all duties.

Voting Guideline: BCI will vote **AGAINST** nominees that serve on more than five public company boards; for those nominees who are in executive roles BCI will vote **AGAINST** such nominees if they are on more than two public company boards, including his or her own company.

- **Tenure** — Boards should establish a maximum length of service for directors. A fixed director term will contribute to board vitality while allowing for a mix of seasoned and new directors.

Voting Guideline: Where average tenure of the board is 10 years or more, BCI will consider voting **AGAINST** individual nominees on a case-by-case basis, taking into account the overall composition of the board, in order to encourage board refreshment.

- **Responsiveness** — Directors should be responsive to shareholder concerns and engage with shareholders when vote results indicate a level of dissatisfaction.

Voting Guideline: BCI will vote **AGAINST** nominees that fail to respond to significant levels of shareholder concern. This may result in votes against the Compensation Committee when changes are not made following low levels of support for executive compensation or votes against the Governance Committee when shareholder proposals are not implemented after receiving a majority of affirmative votes.

- **Diversity** — Nomination and/or Governance Committees should ensure that boards are inclusive of a diversity of perspectives that will ultimately lead to better decision-making. There is mounting regulatory and investor pressure to boost gender diversity in particular. We believe that boards should also consider all forms of diversity in the director recruitment process. We expect boards to adopt and disclose a formal diversity policy that includes targets to increase levels of diversity at both the board and senior management level.

Voting Guideline: BCI will vote **AGAINST** the Chair of the Nomination/Governance Committee if a board lacks adequate female representation unless, there is a legitimate rationale or plan to

address this gap going forward. Currently BCI expects a minimum of either three female directors, or 25 per cent of the board to be represented by females. This threshold will increase over time to align with our commitment to the 30% Club¹.

- **Unilateral Actions** — Directors should provide shareholders with the opportunity to vote on all major corporate changes, including by-law amendments. Directors should not unilaterally enact bylaw amendments that restrict shareholder rights such as classifying the board, adopting a supermajority vote requirement or eliminating shareholders' ability to change by-laws.

Voting Guideline: Where a board has unilaterally adopted by-law amendments that restrict or degrade shareholder rights, BCI will vote **AGAINST** members of the Nomination/Governance Committee, or in certain circumstances, the entire board, in the first year after the amendments were ratified. BCI will consider continuing to vote **AGAINST** these members of the board in ensuing years on a case-by-case basis.

- **Environmental and Social Risk Management** — Board directors are responsible for ensuring the company has systems in place to effectively assess and manage risk, including environmental and social risks. Directors and Sustainability Committees should also be transparent in their efforts to assess and manage these risks. There is increasing regulatory and investor pressure on companies to provide climate-related disclosure.

Voting Guideline: BCI will vote **AGAINST** the chair or all returning members of the relevant board committee who, in our view, have not effectively performed this critical function and corporate performance has been unsatisfactory.

¹ The 30% Club, with chapters established in many global markets, campaigns for greater representation of women on boards and in senior management, with a target of 30 per cent representation in both by 2022. BCI is a signatory to the 30% Club Canadian Investor Group Statement of Intent. https://30percentclub.org/assets/uploads/Canada/PDFs/30_percent_Club_Canadian_Investor_Statement_FINAL_Sept_5_.pdf

Voting Guideline: On a case-by- case basis, where a company has been asked to provide relevant climate risk information, but has not done so, BCI may vote **AGAINST** the chair/members of the Sustainability Committee (or equivalent). If there is no Sustainability Committee or if it is not clear which committee is mandated to look at these risks, BCI may vote **AGAINST** the chair of the board.

Contested Elections: The board of directors is responsible for representing shareholders' interests. When the board fails to fulfill its governance responsibilities, dissident shareholders are able to challenge the board via proxy contests. A proxy contest occurs when an activist shareholder attempts to install their own slate of directors by encouraging the company's other shareholders to vote against the current directors and for the dissident slate.

In considering our vote on a proxy contest, BCI assesses which option will best serve the long-term interests of shareholders, and ultimately, our clients. We believe that each proxy contest is unique, and therefore the vote should be treated as such. From a starting point, we believe that an incumbent management team should be open to credible and well thought out plans that will create long term value for shareholders, irrespective of whether such plans were created by management or a company shareholder.

Ahead of a proxy contest vote, it is our expectation that both parties be open to communication with the company's shareholders.

Our preference is for a universal ballot in the case of a contested election, meaning that a single ballot is used listing all nominees, rather than an all-or-nothing option, where shareholders have to choose either management's slate or the dissidents' slate.

Voting Guideline: BCI will review dissident shareholder proposals for director nominees on a case-by-case basis, considering factors such as long-term company performance, board performance and responsiveness to shareholder concerns, the strategic plan of the dissident slate,

the quality of dissident critique against the current board, and the qualifications of director nominees (both slates).

Board Structures/Processes

Slate of Directors: Shareholders should have the opportunity to consider and vote on the qualifications and performance of each individual director, rather than being presented with a vote on a "slate" of directors.

Voting Guideline: BCI will vote **AGAINST** the entire slate of director nominees if presented this way due to our preference for individual director elections.

Board Size: The board should be large enough to ensure diversity of expertise and opinion and to allow key committees to be staffed by independent directors, but small enough to allow all views to be heard and to encourage the active participation of all members. BCI believes that a board's effectiveness generally declines once a certain threshold size has been reached. In a large board, individual directors may lose a sense of responsibility and accountability, which can result in opinions and advice not being voiced as effectively as they otherwise would be.

Voting Guideline: BCI will review proposals to increase or decrease board size on a case-by case basis, generally voting **FOR** proposals where the proposed board size will be between 7 and 16 directors.

Board Committees: The board should delegate certain functions to committees, although the board maintains overall responsibility for the work of the committees. Each board should have at least three key committees composed wholly of independent directors: the nominating committee, the compensation committee, and the audit committee. Each committee should create and disclose to shareholders a written mandate specifying its role and responsibilities.

Voting Guideline: BCI will vote **AGAINST** non-independent nominees who serve on the nominating, compensation or audit committees.

Board Discharge: In several European markets, boards request formal shareholder approval to discharge the directors from further responsibility for the actions they have taken during the past year. The formal discharge of the board represents shareholder approval of board policies and is an express vote of confidence in the company's oversight. In certain markets, it does not eliminate the possibility of future shareholder action.

Voting Guideline: BCI will vote **FOR** proposals to discharge the board and management, unless we have serious concerns about past conduct that has been detrimental to shareholder interests.

Advance-Notice Policies: Advance notice policies specify conditions under which nominees can be put forward for election to the board. While a number of these policies do not appear problematic, some may serve as a way for a widely held company to insulate itself from activist investors and may not be in the best interest of shareholders.

Voting Guideline: BCI will review advance notice policies on a case-by-case basis, but we will generally vote **FOR** proposals on the adoption of advance notice policies that meet market best practice, or where there is a legitimate threat of a stealth takeover at the annual general meeting.

Related Party Transactions: A related party transaction is a business deal or arrangement between two parties who have a pre-existing or special relationship, such as a transaction between a corporation and one of its directors. While related party transactions can play an important role and provide benefits to those involved, they can also result in conflicts of interest, and therefore the risk of abuse. BCI believes that boards should develop and disclose formal policies around the process undertaken for reviewing, monitoring and ultimately

approving related party transactions, including any conflicts of interest that may arise. We believe that such a process should involve only independent directors who are free to seek independent external advice if deemed necessary. In the case of related party transactions that have a material impact on the strategic direction or capital structure of a company, we believe shareholder approval should be sought.

Voting Guideline: BCI will review related party transaction proposals on a case-by-case basis, however, in situations where disclosure around a transaction is insufficient for shareholders to make a fully informed vote, BCI will vote **AGAINST** the relevant proposal(s).

Director Compensation

Director Share Ownership: Share ownership by directors can serve to motivate and align directors' interests with the long-term interests of shareholders. BCI's preferred compensation for directors is in the form of restricted shares or deferred share units. We do not support outside directors participating in the company's stock option plan or performance-based incentive plan.

Voting Guideline: BCI will vote **FOR** proposals that set a minimum share ownership level for company directors. BCI will vote **AGAINST** proposals that provide for director participation in company stock option plans or performance-based incentive plans.

Director Retirement Benefits: An outside director's independence could be compromised if they receive retirement benefits from the company. For this reason, we support the payment of retirement benefits to company employees, including executive directors, only.

Voting Guideline: BCI will vote **AGAINST** proposals that seek approval of retirement benefits for outside directors.

Separation of Board and Management:

A board's ability to exercise independent judgment of company management is weakened if one person fills both the positions of Chief Executive Officer and Chair of the board of directors. The board will be more effective in carrying out its critical role of appointing, monitoring and, if necessary, replacing the CEO, if different individuals hold the positions of CEO and Chair. Separating the roles assists in establishing an appropriate balance of power between management and directors, increases accountability and helps ensure that the board serves to represent the interests of shareholders, not management. Consequently, we believe that the board Chair should be an independent, non-executive director.

In addition, when a CEO retires, we believe that this person should leave the board. It has become more prevalent in some markets, particularly the US, for former CEOs to take on the role of Executive Chair after retiring. This can result in a blurring of management and board responsibilities, and ultimately lead to weaker board oversight of management. There may be limited circumstances when a retiring CEO is required to remain on the board, such as for a short transitional period to assist in the handover to new leadership, however when a former CEO of the company is appointed as Executive Chair, we have significant concerns over where the balance of power lies. While we support the creation of the Lead Independent Director role in situations where the Chair and CEO roles are combined, we do not believe this is an optimal long-term structure for the board.

Voting Guideline: BCI will vote **AGAINST** the Lead Director and/or the chair/members of the Nominating Committee in situations where the roles of Chair and CEO have been newly combined, irrespective of whether or not a Lead Independent Director has been appointed.

Where the roles are combined, BCI will vote **AGAINST** the chair/members of the Nominating Committee if an independent lead director has not been appointed.

Voting Guideline: BCI will vote **AGAINST** the Lead Director and/or the chair/members of the Nominating Committee, and **AGAINST** the Executive Chair, in situations where the former CEO is appointed as Executive Chair without sufficient justification.

Voting Guideline: BCI will vote **FOR** shareholder proposals to separate the board and management roles and to appoint an independent, non-executive director to the position of Chair.

Shareholder Proposals Related to the Board

Majority Voting and Director Resignation Policies:

Company by-laws should provide that directors are to be elected by an affirmative majority of the votes cast. If incorporation laws require plurality voting (or prohibit majority voting) for directors, boards should adopt director resignation policies asking that directors tender their resignations if the number of votes withheld from or cast against the nominee exceeds the votes for the nominee.

Voting Guideline: BCI will vote **FOR** proposals requesting that a majority voting or director resignation policy be established by a company.

Cumulative Voting: Commonly, shareholders are entitled to one vote per share per board position. Cumulative voting for directors gives shareholders the flexibility to cast all their votes for a single nominee or to "stack" them in favour of several nominees. There are valid arguments for and against cumulative voting. It can give board representation to shareholders who have minority ownership, ensuring an independent voice on the board, or it can give board representation to shareholders who are preoccupied with their own unique interests, rather than acting in the best interests of the company as a whole.

Voting Guideline: BCI will review cumulative voting proposals on a case-by-case basis and we will vote **FOR** such proposals when there is a proven need for them, for example, when the board has not adopted best corporate governance practices, and is unresponsive to shareholders.

Staggered Boards: All directors should stand for annual election to the board, as opposed to staggered or classified terms of office. With a “staggered” or “classified” board, directors are elected in two or more classes and serve for terms longer than one year. Staggered boards make it difficult for shareholders to hold directors accountable and to replace individual directors during periods of deteriorating company or board performance.

Voting Guideline: BCI will vote **FOR** proposals to abolish staggered boards and institute annual elections for all directors.



Audit Process

PRINCIPLE

The audit process is critical to verifying the financial performance of the company, and to ensuring that management has adequate internal control and financial reporting systems.

While companies may have internal auditors to help them comply with legal and regulatory requirements and with professional accounting standards, independent, external auditors are a necessary condition of good corporate governance. They can also leave an indelible mark on a company's public

reputation and on investor confidence. Recent accounting scandals have served to further highlight the critical importance of auditor independence, and their ability to exercise professional skepticism towards a company's financial statements.

PROXY VOTING GUIDELINES

Auditor Independence: BCI supports the engagement of external auditors that provide qualified, competent advice and support in the best interests of the company and its shareholders, and avoid any actual or appearance of conflict of interest or undue influence of management.

Voting Guideline: BCI will vote **AGAINST** proposals to appoint and/or remunerate the recommended auditors if the audit firm's tenure is 20 years or more; or if tenure is not disclosed; or, if the firm earns 25 per cent or more of the total audit fees from non-audit work.

Financial Statements: The financial statements and auditor reports are valuable documents when evaluating company performance. BCI will ratify the statements and reports unless we have concerns about their quality, the performance and independence of the auditors who prepared them, or the documents have not been made available to shareholders prior to the annual meeting.

Voting Guideline: BCI will generally vote **FOR** proposals to approve a company's financial statements and auditor reports, except if we have questions about their reliability, or the auditors who prepared them, or the company has not made them publicly available.



Executive Compensation

PRINCIPLE

BCI believes that management compensation is a critical aspect of a company's governance. Pay decisions are one of the most direct and visible ways for shareholders to assess the performance of the board of directors.

Boards must strike a balance between compensation packages that, on the one hand, are required to attract, retain and motivate qualified executives, and, on the other hand, show moderation and restraint. Boards should seek to align the interests of management with the interests of shareholders through compensation arrangements that are linked to the achievement of long-term company success and do not incentivize excessive risk-

taking. In addition, boards should ensure a level of consistency with the experience of employees, and also take into account the broader economic environment, when considering any pay increases for executives. We believe that any salary increases for executives should be in line with inflation, barring any exceptional circumstances, which should be explained fully in a company's compensation discussion and analysis.

PROXY VOTING GUIDELINES

Management Stock-Based Awards: BCI is not opposed to the use of equity incentives, including stock options, restricted stock and deferred share units, to motivate managers and further the interests of shareholders. But poorly designed stock-based awards can permit excessive or abusive pay that is detrimental to the company and to shareholders. Excessive dilution² is a cause for concern for shareholders. BCI prefers to see dilution limited to 5 per cent but will evaluate plans that may result in up to 10 per cent dilution as long as the plan is

sufficiently performance based and meets all of our other criteria.

Voting Guideline: BCI will vote **AGAINST** stock-based plans with the following features:

- the re-pricing of options or extension of expiry dates is permitted;
- evergreen and/or reload provisions are present whereby options automatically replenish the shares held in reserve for stock incentives once the currently issued options have been exercised;

² The reduction of shareholders' proportional ownership in a company following the issuance of new shares.

- potential dilution is over 10 per cent of the shares outstanding unless unique circumstances exist;
 - burn rates³ are in excess of 2 per cent;
 - immediate vesting of awards is permitted or options have a lifespan over 5 years;
 - there is concentration in a single recipient defined as more than 20 per cent of available awards;
 - there are no associated predefined and relevant performance targets;
 - consultants or contractors are eligible participants, or grants can be transferred to others, except in the case of death;
 - corporate loans to acquire stock or stock-based incentives can be made;
 - excessive change in control provisions;
 - amendment procedures that leave too much discretion to the board.
- do not emphasize a pay-for-performance philosophy, with linkage to protecting and building long-term shareholder value;
 - provide largely discretionary and/or guaranteed forms of compensation;
 - do not provide clear and comprehensive disclosure that enables shareholders to evaluate the pay for performance linkage;
 - target pay above the median of peers;
 - use narrow or duplicative metrics in both the long term and short term incentive plans;
 - provide for excessive pay levels or contractual arrangements;
 - rely excessively on stock options with no associated performance conditions; or
 - lack sufficient risk mitigation features.

Advisory Vote on Compensation: Providing shareholders with the ability to vote on company pay policies/decisions should encourage executive compensation that is clearly disclosed, reasonable, has a strong link to long-term shareholder value, and minimizes potential “pay for failure” components. In addition, “say on pay” votes offer a more targeted way for shareholders to signal discontent, rather than voting against board members for the ratification of poor compensation practices.

Voting Guideline: BCI will vote **FOR** proposals requesting an advisory (non-binding) vote on compensation packages as a means of reinforcing director accountability to shareholders. When voting on the frequency of such votes, BCI will support annual advisory votes on compensation.

When casting an advisory vote, BCI will take a case-by-case approach but will generally vote **AGAINST** compensation structures that:

Golden Parachute Votes: In some instances, investors have the opportunity to vote separately on compensation arrangements in connection to a merger or acquisition. There is some benefit to these contractual arrangements when they are designed in a way that incentivizes executives to act in the best interests of the company versus protecting their own financial interests.

Voting Guideline: BCI will review golden parachutes on a case-by-case basis but will vote **AGAINST** arrangements with single-trigger change in control provisions and/or features that provide for accelerated vesting of equity awards.

Employee Share Ownership: We support stock ownership plans that give company employees the opportunity to become shareholders, which gives them a stake in the company growth.

³ The rate at which a company uses the shares it has available for incentive purposes.

Voting Guideline: BCI will vote **FOR** proposals to adopt or revise employee stock purchase plans with a maximum of 10 per cent of outstanding shares reserved for the plan; maximum 15 per cent purchase price discount; and reasonable hold periods.

Shareholder Proposals on Compensation

Adopt a Clawback Policy: Such policies allow companies to recoup incentive compensation if the circumstances under which it was earned were questionable.

Voting Guideline: BCI will vote **FOR** the adoption of a clawback policy as a sound risk mitigation measure and part of a comprehensive compensation program.

Pro-Rata Vesting of Equity Awards: It is common for equity awards to vest immediately under a change in control circumstance, which makes the performance metrics under which the awards were granted irrelevant.

Voting Guideline: BCI will vote **FOR** the adoption of pro-rata vesting of equity awards to reinforce the underlying performance connection of such awards at the time of grant.

Share Retention Policies: Such policies strengthen the alignment of interests between management and shareholders by requiring executives to maintain a certain level of share ownership throughout their tenure. The ownership is derived from the routine granting of equity awards and is, therefore, not onerous to achieve.

Voting Guideline: BCI will vote **FOR** the adoption of share retention policies for management, provided the threshold is reasonable.



Capital Issues

PRINCIPLE

BCI believes that shareholders should have the ability to participate in the fundamental decisions that affect long-term corporate viability.

For this reason, BCI takes all share issuance and use of capital requests seriously, and we will support requests that have a valid corporate purpose — that is, will help management pursue long-term value creation. Alternatively, we will not support

any sustained erosion of the value of outstanding shares, or approve of issuances that will be used in a manner inconsistent with adding long-term shareholder value.

PROXY VOTING GUIDELINES

Authorized Shares: When companies request that shareholders approve an increase in the number of common shares available or authorized for issuance, the increase should serve a specific business purpose. BCI supports company requests for limited increases in authorized shares if they are necessary for clearly disclosed, sound business reasons. Limited capital structures protect against excessive dilution and can be increased when needed with shareholder approval.

Voting Guideline: BCI will vote **AGAINST** unlimited share authorization. BCI will vote **FOR** limited increases in authorized share capital if the proposed increases are intended for legitimate, clearly stated business purposes.

New Share Issues: From their authorized pool of share capital, companies may seek shareholder permission to issue a specific amount of stock. The proposed issuances may have attached provisions, such as pre-emptive rights, to prevent dilution to the value of outstanding shares. The issuance of shares can be a valuable tool for management when raising capital, and therefore we recognize that a certain level of flexibility should be afforded to companies on such issues, particularly when opportunities arise at short notice and there is a need to act quickly. In these situations, we believe management and the board should have the latitude to take actions that they believe will best serve the long-term interests of shareholders. However, there may be cases where proposed share issuances have unspecified rights, restrictions and terms (often called “blank cheque shares”), and could be used in ways that dilute the value of outstanding shares and are not in the best interests of existing shareholders.

Voting Guideline: BCI will generally vote **FOR** limited general purpose share issues without pre-emptive rights and vote **AGAINST** the issuance of blank cheque preferred shares. BCI will vote **FOR** share issues up to 50 per cent dilution without pre-emptive rights if the issues meet a legitimate, clearly stated business purpose. BCI will vote **FOR** share issues with pre-emptive rights for general or explicit business purposes.

Dividend Policy and Share Repurchases: BCI believes that it is important for the board to have the discretion on appropriate dividend payments as well as share repurchases. However, we do not support the implementation of share repurchase programs that do not have sufficient disclosure or reasonable purchase price limits or that may be used to prevent a company takeover.

Voting Guideline: BCI will consider dividend and share buyback proposals on a case-by-case basis.



Mergers, Acquisitions and Corporate Restructurings

PRINCIPLE

Decisions to prevent or to enter into mergers or restructurings have important implications for shareholders and we must evaluate each circumstance carefully from a financial point of view in addition to considering other factors. In all cases, BCI believes it is necessary to examine proposed transactions in terms of what is in the best long-term interests of shareholders. We will support corporate actions and takeover protection measures that preserve or enhance shareholder rights and create shareholder value over the long-term.

PROXY VOTING GUIDELINES

Mergers and Acquisitions: A merger or acquisition occurs when one corporation is absorbed into another and ceases to exist in its current form. The combined or surviving company gains all of the rights, powers, duties, assets and liabilities of the partner or target company. The shareholders of the absorbed company receive stock, cash or other securities of the newly formed company as provided by the plan of arrangement. When voting on mergers and acquisitions, BCI will take into account the following factors:

- **Valuation** — Is the value to be received by the target company, or paid by the acquirer, reasonable?
- **Market reaction** — How has the market responded to the proposed deal?
- **Strategic rationale** — What are the long-term prospects of the combined company? Are the cost and revenue synergies reasonably achievable, or overly aggressive or optimistic?
- **Negotiations and process** — Were the terms of the transaction negotiated at arm's length so that insider and controlling shareholders' interests are not put ahead of outside or minority shareholders? Was there a fair auction process to obtain the best terms? Where laws and regulations permit, will shareholders of both companies be given the opportunity to vote on the transaction, for example, when the acquiring company will be substantially diluted, or there will be a significant change in management and/or strategy in the combined company?
- **Conflicts of interest** — Are insiders or controlling shareholders benefiting from the transaction disproportionately and inappropriately as compared to outside or minority shareholders?

- **Deal protection costs** — Are break fees and other deal protection costs, including change of control payments to target management and success fees, reasonable and appropriate?
- **Governance** — Will the combined company have a better or worse governance profile than the parties to the transaction?

Voting Guideline: BCI will review and vote on merger and acquisition proposals on a case-by-case basis.

Corporate Restructurings: Corporate restructurings are more commonly seen on meeting agendas of companies located outside North America, particularly in European countries that have historically had complex holding structures. Restructurings include leveraged buyouts, asset spin-offs and liquidations, and going private transactions. When voting on corporate restructurings, we give primary consideration to fair valuation for shareholders with long-term investment horizons, strategic rationale, planned use of sale proceeds, sales process, and managerial incentives (i.e., conflicts of interest).

Voting Guideline: BCI will review and vote on corporate restructuring proposals on a case-by-case basis.

Reincorporation: When a company requests approval for reincorporation into a new jurisdiction, BCI makes a careful comparison of the differences between corporate governance and corporate responsibility rules and shareholder rights under the new laws. Also considered is management's rationale for the change.

Voting Guideline: BCI will vote **FOR** reincorporation proposals that have a strong business rationale. BCI will vote **AGAINST** reincorporation proposals that aim to take advantage of more relaxed local corporate governance, environmental and social standards or would weaken shareholder rights and interests.

Shareholder Rights Plans: The purpose of shareholder rights plans (also known as “poison pills”) and other takeover protection measures is to ensure that boards of directors of a company subject to a takeover bid have additional time to maximize shareholder value by developing an alternative transaction or soliciting a competing takeover bid. Beyond this purpose, BCI will not support shareholder rights plans or other measures that serve insiders by making takeover bids more difficult, or that prevent shareholders from considering potentially attractive offers to buy their shares.

Voting Guideline: BCI will vote **FOR** proposals to adopt measures that are appropriately structured to not put excessive control in the hands of directors at the expense of shareholders (for example, in Canada, a new generation of rights plans has developed with many favorable features, such as specific definitions of “acquiring person” and “permitted bid”, a 20 per cent ownership trigger, and clear limits on the board's ability to arbitrarily waive or redeem the plan), and are intended to promote the realization of long-term shareholder value. We will vote **AGAINST** proposals to implement lock-up arrangements, crown jewel defenses, and to pay greenmail and excessive break-up fees or other measures that frustrate a competitive auction process and reduce shareholder value. We will vote **AGAINST** or **WITHHOLD** from director nominees seeking re-election if they have implemented anti-takeover measures that are not in the best interests of shareholders.



Proposals on Environmental and Social Risk

PRINCIPLE

BCI believes companies that do not give careful consideration to issues of environmental and social responsibility risk failing to create shareholder value. We recognize that good business conduct can enhance a company's reputation and long-term economic performance, and we encourage boards and management to adopt policies and practices that appropriately address corporate responsibility matters that are relevant to their businesses.

In voting on shareholder proposals and engaging portfolio companies on environmental and social risks, BCI seeks to encourage actions by company boards of directors and management that we believe will add long-term value to shareholders, including BCI clients. More specifically, BCI will support shareholder proposals and communicate with companies on issues that are likely to improve the

firm's public image and reputation, and reduce its exposure to potential material risks.

We believe it is prudent to apply a case-by-case approach to corporate responsibility given the extensive list of social and environmental challenges that companies may face, as well as the specific features of the proposal on the ballot.

Environmental Risks

A non-exhaustive list of environmental subject matters on which shareholders are most frequently asked to vote on covers the following: climate change & environmental risk assessments, greenhouse gas emissions disclosure & emissions reduction targets, hydraulic fracturing, methane emissions & natural gas flaring, packaging/recycling/waste management, sustainable palm oil, sustainability reporting, and water consumption and conservation.

Social Risks (Communities, Employees and Human Rights)

A non-exhaustive list of social subject matters on which shareholders are most frequently asked to vote covers the following: animal welfare, board and senior management diversity, corporate political contributions and lobbying activities, data privacy and cybersecurity, employee health and safety, equal employment opportunity & non-discrimination policies, genetically modified organisms and labeling, human rights policies/risk assessment/board committees, product safety and tax policy principles.

PROXY VOTING GUIDELINES

We will typically support proposals that seek additional company reporting when companies lag their peers in disclosing environmental or social impacts, policies and/or practices, unless sufficient information is already disclosed and available to shareholders. In some instances, when we consider investors do not have sufficient information to assess emerging risks that could have a material impact in the short or long-term, we will carefully review proposals calling for supplementary disclosure at a reasonable cost to the company. We will also consider supporting efforts to require companies to take specific reasonable management actions to mitigate environmental and social risks or to adopt specific policies and/or implement initiatives aimed at protecting the environment, employees, customers, communities and broad society.

In contrast, we usually are not supportive of shareholder proposals that are written in a prescriptive way and/or calling for excluding or adding activities to companies' business lines, as such decisions should be left to management. Finally, we may be sympathetic to the concerns raised about a firm's corporate citizenship but may not believe that the reforms or actions requested of the company provide an effective solution for those issues. In such cases, BCI will support the company board of directors and management recommendations.

BCI supports disclosure frameworks and recommendations such as those that have been issued by the Task Force on Climate Related

Financial Disclosures (TCFD)⁴ and the Sustainability Accounting Standards Board (SASB)⁵ as a means for investee companies to better disclose decision-useful information around climate-related risks. BCI will generally support shareholder proposals that seek for companies to report in line with such frameworks and recommendations.

Our approach to corporate responsibility set out in these Guidelines also seeks to be consistent with the commitments BCI has made to responsible investor organizations and initiatives as outlined in our Shareholder Engagement Guidelines. We will generally be supportive of proposals calling for companies to adopt policies and practices in line with internationally recognized best practice standards and frameworks.

We generally support requests if:

- the company does not have well-documented environmental and social management systems and/or does not monitor impacts; or
- the company's actions and policies lag its peers; or
- there has been controversies, litigations or fines stemming from its treatment of environmental and social risks; or
- there is growing consumer concern and increasing regulation around product use; or
- the proposed actions and policies are likely to enhance its reputation as a market leader and its long-term ability to operate.

⁴ Task Force on Climate Related Financial Disclosures: fsb-tcfd.org

⁵ Sustainability Accounting Standards Board: sasb.org



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