



# **PROXY VOTING GUIDELINES**

## **Board-Approved Policy**

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# 1 General

## 1.1 Purpose and Scope

The Proxy Voting Guidelines provide guidance on the execution of voting rights for the publicly traded securities held by OPTrust. As a long-term investor, OPTrust believes that good governance practices support stronger long-term performance and enhance shareholder value. OPTrust actively exercises its voting rights for public securities held within its portfolios, where possible, according to OPTrust's Proxy Voting Guidelines.

The Proxy Voting Guidelines covers issues such as the composition of boards, executive compensation, shareholder rights, takeover protection and the disclosure of material ESG information. These guidelines are not to be considered rigid positions and OPTrust considers specific issues on a case-by-case basis.

The Proxy Voting Guidelines are a critical component of OPTrust's responsible investing activities. These activities support the organization's mission to deliver sustainable pension security for all members by contributing to the long-term sustainability of investment returns. OPTrust recognizes that environmental, social and governance ("ESG") factors have the potential to affect the Plan's investment performance. This approach to responsible investing is further detailed in OPTrust's Statement of Responsible Investment Principles (the "SRIP").

OPTrust takes a responsible stewardship approach to ownership by monitoring companies within its portfolios, actively voting at all company meetings, and engaging with investee companies and other entities in order to improve corporate ESG performance.

OPTrust's pursuit of good corporate governance practices within the companies it invests in is demonstrated by our vote record. We review our guidelines on an annual basis, taking into account best practice guidance issued by the following organizations:

- UN-supported Principles for Responsible Investment ("PRI")
- Pension Investment Association of Canada ("PIAC")
- International Corporate Governance Network ("ICGN")
- Canadian Coalition for Good Governance ("CCGG")

## 1.2 Legal Framework

As the legal administrator of the OPSEU Pension Plan (the “Plan”) and related pension fund (the “Fund”), OPTrust is subject to a fiduciary standard of care and duty of loyalty under the *Pension Benefits Act* (Ontario) (the “PBA”) and at common law. The content of these duties is determined by the courts and may be summarized as a requirement to engage in deliberate, even-handed decision-making with a view to the best interests of the plan beneficiaries as a whole. The UK courts have held that normally the best interests of the beneficiaries of a financial trust are their best financial interests. However, the concept of “best financial interests” is evolving. It is now widely accepted that best financial interests include both the short-term and long term interests of the plan membership and that ESG factors may be relevant to a plan’s financial performance over the long term.

The relevance of ESG factors to pension plan investing is reflected in amendments to the regulations under the PBA (the “PBA Regulations”) which came into effect January 1, 2016. The regulations require administrators to indicate in the plan’s Statement of Investment Policies and Procedures (“SIPP”) whether the administrator takes ESG factors into consideration and, if it does, how ESG factors are incorporated in investment decisions.<sup>1</sup> The PBA Regulations also require that administrators include in member statements wording to the effect that the administrator must establish a SIPP and include in the SIPP information about whether ESG factors are incorporated into the plan’s SIPP.<sup>2</sup>

The effect of the regulations is to require pension fiduciaries to engage in an intentional and deliberate decision-making process around ESG factors. As a result of these regulations, while administrators are not required to incorporate ESG factors into their investment decisions, there must be a reasonable basis for their decision not to do so. OPTrust’s policies, including Proxy Voting Guidelines, reflect the strategic decision of the Board of Trustees (the “Board”) that good pension governance requires OPTrust to consider ESG factors in its overall approach to pension fund investing and to define the manner in which ESG factors are incorporated into investment decision-making.

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<sup>1</sup> PBA Regulations, s. 78.

<sup>2</sup> See, e.g., PBA Regulation 40(1)(v).

### **1.3 Related Policies**

Policies which are directly related to the Proxy Voting Guideline are the SRIP, the SIPP, the Management Investment Policy, the Risk Appetite Statement and the Enterprise Risk Management Policy.

### **1.4 Guidelines and Procedures**

From time to time, guidelines, forms and procedures relating to this Policy may be issued. Any such guidelines, forms or procedures will be posted on the OPTrust Intranet.

### **1.5 Risk Management**

The Board has established the Enterprise Risk Management Policy (the “ERM Policy”) which identifies the key risks facing OPTrust, including investment and reputational risk, and approved the Risk Appetite Statement which establishes an overarching set of principles and metrics which guide management in its approach to assessing, understanding and taking risks in pursuit of its mission. This Policy is an integral component of the strategy for mitigating the risks identified in the ERM Policy. Specifically, the Proxy Voting Guideline helps to mitigate investment risk due to the failure of management to implement good governance as defined in the Policy by requiring those involved in selecting investments to take governance (including management’s approach to ESG) when voting shares (investment risk). The Policy also helps to mitigate reputational risk and establishes procedures which demonstrate OPTrust’s commitment to good governance.

## **2 Responsibility and Accountability**

The Board is responsible for approving and amending the Proxy Voting Guidelines, on the advice of management, and for monitoring implementation of the Policy.

The Board has delegated responsibility for operationalizing the Proxy Voting Guidelines to the President and Chief Executive Officer (the “CEO”), and the CEO, in turn, has delegated to the Chief Investment Officer (the “CIO”) responsibility for overseeing the proxy voting program and for ensuring that the Board receives the reporting it requires on the program.

The CIO has delegated responsibility for implementing the proxy voting program to the Managing Director, Strategic Relationships and Portfolio Intelligence who has delegated responsibility for the day-to-day implementation of the program to the Director, Responsible Investing.

The Responsible Investing Committee reviews proxy voting processes and recommends changes to the Proxy Voting Guidelines to the CIO.

### 3 Voting Process

OPTrust may use one or more external proxy voting advisory firms to provide research and to assist with share voting. OPTrust staff work closely with the voting firm(s) and monitor the vote record to ensure compliance with the *Proxy Voting Guidelines*. Issues that fall outside the guidelines are referred to OPTrust for direction on how the vote should be exercised.

OPTrust takes the responsibility to exercise its votes very seriously and endeavours to do so on all occasions, where possible. The share lending agreements require lenders to recall all shares that are out on loan before the record date, on a best efforts basis, in order for OPTrust to vote the proxies associated with the shares. OPTrust staff monitors this process to ensure that its lenders adhere to their contractual obligations.

While the guidelines are intended to apply globally, it is recognized that differences can exist among jurisdictions. These differences can, on occasion, affect the application of these guidelines.

### 4 Voting Guidelines

#### 4.1 Standard Agenda Items

Shareholders are often asked to approve meeting formalities and other routine proposals such as the approval of financial accounts and reports, allocation of income and dividends, related party transactions and article amendments that are housekeeping in nature.

*Voting guideline: Vote **for** routine proposals that do not negatively impact shareholder rights or interests.*

*Vote **against** proposals to reduce quorum to less than 25%.*

*Vote **against** proposals transacting other business without advance circulation of proxy materials.*

*Vote **against** proposals to adjourn, suspend or extend a meeting for the purpose of soliciting more votes from shareholders.*

## 4.2 Board of Directors

The Board of Directors is elected to oversee management and provide overall stewardship of the company. In order to do this effectively, boards must generate effective debate and objectively evaluate management's recommendations and corporate performance. Directors should have the necessary experience, knowledge and commitment to represent the long-term interests of shareholders. Boards should also have clearly defined roles and responsibilities as well as processes in place to rigorously assess the performance of individual directors, committees and the board as a whole.

It is important that boards achieve a balance between board refreshment and renewal, and maintaining necessary continuity and experience. OPTrust believes that nominating committees should employ a transparent and professional recruitment process when seeking director nominees and avoid the automatic re-nomination of directors.

OPTrust supports practices to avoid board entrenchment such as limiting interlocking relationships or applying restrictions to the number of board positions a director may hold.

The following guidelines are designed to encourage effective boards.

### 4.2.1 Board Independence

OPTrust supports proposals that seek to ensure that a majority of directors are "outsiders" – independent of corporate management. We believe the independence of the board is best maintained if a majority of its members have no material relationship (other than a non-majority shareholders' relationship) with the corporation.

OPTrust's definition of an 'independent' director is one who:

- is not a former or present employee of the company
- is not associated with an enterprise that is a major customer or major supplier of the company
- is not a service provider to the company
- does not have material (past or present), personal or financial ties to the company or its top management
- is not associated with an organization that receives grants from the company
- is not part of an interlocking arrangement in which board members sit on more than one board together.

*Voting guideline: Vote **for** proposals that support an independent Board of Directors.*



Vote **against** or **withhold** votes from individual directors or nominees if:

- they are not independent **and** the board does not have at least a majority of independent directors
- a new nominees' election would decrease the boards' level of independence to below 50%
- the directors sit on a key board committee (e.g. audit committee, nominating committee, compensation committee or corporate governance committee) and are not independent.

#### 4.2.2 Director Elections

In addition to a director being independent, OPTrust will consider other factors for electing directors, such as:

- attendance
- stock ownership
- outside board engagements
- economic performance of the company relative to its industry
- the board's responsiveness and accountability to its shareholders

Voting guideline: Vote **against** or **withhold** votes from individual directors if **any** of the following items apply:

- if the director is not in attendance of at least 75% of all board and committee meetings, without a valid reason (e.g. sickness), since their last election
- if the director serves on more than five corporate boards, unless they are full-time corporate directors
- if the company has not provided sufficient information to make an informed voting decision.

OPTrust will review on a **case-by-case** basis, the election of directors who are outside CEOs and sit on more than two outside corporate boards.

**Withhold** votes from returning **compensation committee** members in cases where poor compensation practices exist, as described by these guidelines.

**Withhold** votes from the **relevant committee members** or the **entire board** if a board fails to implement a shareholder proposal that has received majority support.

Review on a **case-by-case** basis, and consider voting **against** or **withholding** votes from the entire board in cases where there are material failures of governance, stewardship, risk oversight or fiduciary responsibilities, including those related to environmental and social issues.

#### 4.2.3 Key Board Committees

OPTrust supports independent nominating, compensation, audit and governance committees for each Board of Directors.

*Voting guideline: Vote **for** proposals that support the creation and maintenance of independent board committees.*

*Vote **against** or **withhold** from individual nominees or an entire slate of nominees if non-independent directors serve on any key committees.*

#### 4.2.4 Controlled Corporations

Where companies are controlled by a family, a parent company or a group of shareholders through their holdings of common shares, OPTrust recognizes that the independence guidelines described above may not be equally applicable. The CCGG describes best practices that should be adopted by Boards of Directors of controlled companies when it comes to shareholder democracy and board composition. These include, but are not limited to:

- individual director elections, and
- acceptable proportions of independent directors on the board and key committees.

*Voting guideline: Review the election of directors who are or who represent controlling shareholders on a **case-by-case** basis, and generally support their election where they meet the criteria described by the CCGG. This guideline applies only to companies that are controlled by virtue of equity holdings, not those controlled by virtue of dual class or multiple voting share structures.*

#### 4.2.5 Majority Voting Standard for Election of Directors

OPTrust supports and encourages companies adopt a majority vote standard for the election of directors. In a majority vote standard, shareholders have the ability to vote for or against individual board nominees. In many markets, including Canada, regulators are moving to or considering a majority vote standard.

Under the majority vote standard, a director must be elected by a majority of the votes cast allowing shareholders to actually elect directors, rather than simply confirm the choices of the board.

*Voting guideline: Vote **for** proposals to adopt a majority vote standard for the election of directors. Support proposals that include an exemption in the case of a contested election (more nominees than board seats). In cases where the company has adopted a formal resignation policy that it believes represents a meaningful alternative to the majority voting standard, OPTrust will review the proposal on a **case-by-case** basis.*

**Withhold** votes from director nominees who did not receive majority support from shareholders the previous year, yet remain on the board. OPTrust will also consider **withholding** votes from **returning nominating committee** members in such instances.

#### 4.2.6 Term and Age Limits for Directors

OPTrust supports efforts to encourage healthy refreshment and renewal, while maintaining necessary continuity and experience at the board level. We believe the length of tenure of each director should be reviewed regularly by the nomination committee, but OPTrust does not support proposals to limit the tenure of board members through term limits and age restrictions. While these provisions can be useful in promoting board renewal, they can arbitrarily force experienced and effective directors off the board. Where possible, OPTrust will express its dissatisfaction with directors by withholding votes from them.

*Voting guideline: Vote **against** proposals to set terms or age restrictions for directors.*

#### 4.2.7 Board Diversity

Shareholders may introduce proposals asking the company to increase its efforts to diversify the board. OPTrust supports the appointment of qualified directors with diverse backgrounds, including those with social and environmental expertise where relevant. OPTrust supports proposals that encourage diversity in the candidate pool. OPTrust believes that boards should employ a professional recruitment process and disclose any diversity targets as well as their progress for meeting those targets. In some markets, including Canada, there is regulatory pressure to increase gender diversity on boards.

*Voting guideline: Vote **for** proposals asking companies to pursue diversity on the Board of Directors and we will support qualified directors (i.e. experienced and knowledgeable) with diverse backgrounds.*

*Vote **against** the Chair of the Nomination/Governance Committee if a company has no women on the board and either does not disclose its policy on diversity or that policy is not adequate.*

#### 4.2.8 Slate Elections

OPTrust supports the election of directors individually rather than as a slate. Slate voting is an unacceptable practice from a corporate governance perspective as it obliges shareholders to vote for all or none of the nominees, regardless of individual qualifications. Slate elections can serve to protect directors with unsatisfactory records from shareholder disapproval and are a barrier to director accountability.

*Voting guideline: Vote **for** proposals allowing shareholders to vote for individual nominees.*

**Withhold** votes from or vote **against** a slate of directors, if the board is not majority independent or in cases where there are material failures of governance, stewardship, risk oversight or fiduciary responsibilities, including those related to environmental and social issues.

#### **4.2.9 Proxy Contests**

Proxy contests involve an attempt by dissatisfied shareholders (“dissidents”) to replace the current board with an alternate slate of directors. Dissident shareholders typically carry out these contests when they believe that an alternate slate of directors would help bring the company out of a long period of poor corporate performance, or when the current board has not acted in the best interests of shareholders.

Where an alternate slate or individual directors are proposed by dissident shareholders, OPTrust will review the proposal on a case-by-case basis. OPTrust will consider the long-term performance of the company, board and management responsiveness to shareholder concerns, the viability and potential impacts of the dissident’s business plan, and the qualifications and backgrounds of the nominees.

*Voting guideline: Review proxy contests on a **case-by-case** basis.*

#### **4.2.10 Director Liability and Indemnification**

An indemnity policy limits the personal liability of directors, while maintaining recourse to shareholders in areas of misconduct not covered by the indemnity. Such a policy benefits the corporation and its shareholders by making it easier to attract and retain qualified directors and officers.

*Voting guideline: Vote **for** proposals that set reasonable limits on directors’ liability and provide reasonable indemnification where a director has not been negligent and is acting in good faith with respect to his/her corporate actions.*

#### **4.2.11 Size of Boards of Directors**

While the top priority should be to ensure that the board has enough competent and independent members, OPTrust prefers a board that is not too large and can therefore function efficiently. A board that is too large reduces the voting power of individual members, while one that is too small reduces the range of specialties and counsel offered by its members.

*Voting guideline: Vote **for** proposals that support a board of reasonable size – 5 to 16 members – depending on the size of the company.*

*Vote **for** proposals to fix the board at a reasonable size.*

Vote **against** proposals giving management the ability to change the size of the board.

#### 4.2.12 Cumulative Voting for Directors

Cumulative voting entitles shareholders the flexibility to cast all their votes for one nominee or distribute them among any or all the nominees as they see fit. It is intended as a method to facilitate minority representation on a board, however, there is concern that directors who gain office as a result of cumulative voting might be preoccupied with their own agenda, or that of special interest groups, rather than the welfare of all shareholders.

*Voting guideline: Review proposals for cumulative voting on a **case-by-case** basis.*

Vote **for** proposals that will ensure an independent voice on an otherwise unresponsive board.

#### 4.2.13 Classified or Staggered Boards

In a classified or staggered board, directors are typically elected in two or more classes, serving terms greater than one year. While this system can provide for continuity of leadership, it can also create difficulty in replacing individual board members who may prove to be undesirable. OPTrust prefers annual elections for all directors.

*Voting guideline: Vote **for** directors standing for appointment to a staggered board in cases only where their appointments will serve the financial interests of shareholders and conform to our guidelines for election of directors.*

*Vote **for** proposals to declassify a board.*

Vote **against** management proposals to classify a board.

Vote **for** proposals to hold annual elections of directors.

#### 4.2.14 Separation of Board Chair and CEO

To ensure a clear distinction between operations and oversight, OPTrust supports the separation of the roles of Chair and Chief Executive Officer (“CEO”). In cases where these roles are combined, too much power or control may reside with one individual who may experience conflicts of interest. At minimum, companies that do not have an independent Chair should establish a lead independent director responsible for guiding the board in its responsibility for overseeing management’s performance. The lead director must be sufficiently empowered so as to offset the influence of the joint Chair/CEO.

*Voting guideline: Vote **against** proposals to combine the role of Chair and CEO.*

Vote **for** proposals to separate the role of Chair and CEO.

Vote **for** proposals to appoint an independent director as lead director in cases where separation does not exist, is not proposed, and the company otherwise has a strong governance structure.

Review on a **case-by-case basis**, the election or re-election of the combined Chair and CEO if there is no independent lead director and there are ongoing corporate governance concerns.

#### 4.2.15 Proxy Access

In certain jurisdictions, shareholders do not have the right to put forward candidates for director on the company's proxy ballot. Instead, they must invest the time and money to prepare a separate proxy statement and proxy card, which for most investors is cost prohibitive. This limitation can make it difficult for shareholders to hold directors accountable for poor governance practices or to unseat unresponsive directors.

OPTrust supports giving shareholders the right to nominate directors, provided the nominees are well qualified and prepared to act in the interests of all shareholders. Shareholder nominations should be subject to a reasonable minimum stock ownership to discourage frivolous nominations.

*Voting guideline: Vote **for** proposals to allow shareholders to nominate directors in the company's proxy materials where the shareholder meets a reasonable ownership threshold over a reasonable time period.*

### 4.3 Appointment of Auditors

OPTrust generally supports the choice of auditors recommended by the corporation's directors, specifically by the audit committee. An audit committee should be composed of independent directors. OPTrust supports proposals that ask for disclosure of both audit and non-audit fees. We may be concerned about the auditor's independence if the proportion of non-audit fees comprises more than 50% of total fees generated.

*Voting guideline: Vote **for** proposals asking for disclosure of audit and non-audit fees in the company's annual report and/or proxy statement.*

Vote **for** the ratification of auditors, unless:

- an auditor has a clear conflict of interest, **or**
- the auditor has failed to render an accurate financial opinion of a company's financial status, **or**

- *the auditor incurs more than 50% of its fees from non-audit services.*

***Against or Withhold*** votes from returning audit committee members if more than 50% of the auditor's fees come from non-audit services.

#### **4.3.1 Authorize Remuneration of the Auditors**

*Voting guideline: Vote **for** the authorization of the Board of Directors to determine the remuneration paid to auditors, unless there is evidence of excessive compensation relative to the size and nature of the organization.*

## **4.4 Executive Compensation**

OPTrust supports the review of executive compensation arrangements by shareholders and discussion of compensation at the shareholder meeting. Compensation and incentives to management should reflect the requirements of the marketplace, allowing the company to attract and retain qualified executives; yet still be consistent with the long-term interests of shareholders.

OPTrust considers all proposals related to compensation, in the context of the total compensation package offered to executives, with reference to industry and regional peer practices. OPTrust supports transparent, reasonable and appropriately structured compensation plans that reward superior performance over the long-term and embody the following principles and practices:

- “pay for performance” – a clear alignment between pay and long-term performance exists
- avoid arrangements that risk “pay for failure”
- independent and effective compensation committee
- clear and comprehensive disclosure
- avoid inappropriate types and levels of pay to non-executive directors
- reasonable severance, change of control entitlements and pension benefits.

#### **4.4.1 Advisory Vote on Executive Compensation (Say on Pay)**

OPTrust supports shareholder proposals seeking an advisory vote on a company's executive compensation plan as a method for shareholders to express their views on all elements of a company's executive compensation policies and practices. In some jurisdictions, this has been mandated by law, in others, including Canada, some companies have provided an advisory vote voluntarily.

*Voting guideline: Vote **for** proposals that seek an annual advisory vote on executive compensation.*

*In cases where a company is holding an advisory vote on executive compensation, OPTrust will evaluate on a **case-by-case** basis taking into consideration the principles described above. In jurisdictions where companies are required to hold a binding vote on future remuneration, OPTrust will also apply these principles.*

#### **4.4.2 Equity-Based Compensation**

In principle, the inclusion of equity-based compensation and incentives, including stock option plans, can benefit a company's shareholders by encouraging executives to own stock in the company and thereby aligning their interests with those of the shareholders.

OPTrust believes that equity-based compensation and incentive plans should be performance-based where the performance criteria are challenging, relevant to individual and corporate performance and clearly disclosed to shareholders. The Board of Directors should not have broad discretion to change criteria or to provide exemptions in cases where one or more targets are not met. The merits of all equity-based compensation plans will be carefully evaluated.

OPTrust will generally not support plans or plan amendments that contain any of the following elements:

- 1. Excessive dilution** – OPTrust does not support plans if the total dilution exceeds the greater of 10%; or 2% per annum over the life of the options. OPTrust will look at plans with dilution exceeding 10% on a case-by-case basis. Exceeding this dilution level could cause unnecessary reduction in the value of current shareholders' holdings.
- 2. Excessive Cost** – The total cost of the plan is unreasonable relative to the total compensation package, the company's performance, its peers and industry practices.
- 3. Awarding of options at below-market discounts** – This is an immediate gift to the recipient that does not reflect the results of a contribution to the future success of the company.
- 4. Repricing** – Lowering the exercise price of "underwater" option (where the exercise price is higher than the market value of the underlying shares and therefore, has no value) goes against the purpose of stock options, which are designed to align management's interests with the long-term interests of shareholders.
- 5. Expiry** – Options with a life of five or more years. OPTrust may review, on a case-by-case basis, plans where the lifespan of options is more than five years, however, we will not support plans with evergreen or reload features.



6. **Board discretion** – The plan should not allow the board or administering committee discretion in setting the terms and conditions of the program, make mid-course adjustments in a performance program’s goals or to create new awards without seeking shareholder approval.
7. **Vesting** – Accelerated vesting of awards in the event of defined changes in corporate control. OPTrust does not support vesting periods that are less than 12 months.
8. **Insufficient Information** – OPTrust will not support plans where there is inadequate disclosure of plan terms or amendments.

*Voting guideline: Vote **against** the adoption or amendment of an equity compensation plan that contains any of the negative factors listed above.*

*Vote **for** shareholder proposals requiring shareholder approval of stock option repricing.*

*Vote **for** proposals to adopt performance-based equity compensation and/or incentive plans, where performance criteria are challenging and relevant to individual and corporate performance. OPTrust will examine those proposals that would extend to non-executive employees on a **case-by-case** basis.*

*Vote **against** the adoption of performance-based compensation schemes where the award criteria are not adequately disclosed to shareholders.*

OPTrust will also consider the following elements of a proposed equity-based compensation and may consider voting against the plan or the plan amendment if more than one of the features listed below exist.

**Types of Awards** – Not all stock-based awards effectively align the interests of management and shareholders. This includes stock appreciation rights (“SARs”), which are paid out immediately, and limited stock appreciation rights (“LSARs”), are triggered by a change in ownership or control. The rights holder is awarded with the difference of the exercise price and the market value of the underlying security, in cash. As there is no downside risk to this type of award, it can be a cause for concern. OPTrust may also be concerned with restricted stock giveaways that reward tenure rather than performance. While holders of “restricted” shares cannot sell them for a stated period of time, they are eligible to receive dividends and vote the shares. There is no strike price or cost to the recipient, nor is the granting of restricted stock tied to, or contingent on, performance. OPTrust considers such programs to be gifts that are not in the best interest of the corporation or the shareholders in the long run.

**Concentration** – 25% or more options to one individual.

**Loans to Employees** – OPTrust does not support the corporation making loans to employees to allow them to pay for stock or options with a promissory note or to borrow money from the company. Such practices engender risk to the company as a result of uncollectable debt and may inhibit the termination of employees who are in debt to the company.

*Voting guideline: Vote **against** the adoption or amendment of an equity compensation plan that contains more than one of the negative factors listed above, or if a particularly egregious concern exists.*

#### **4.4.3 Extraordinary Benefits – Supplemental Executive Retirement Plans (“SERPs”)**

OPTrust supports full disclosure of the coverage of and benefits provided by SERPs as well as the costs of these supplemental plans. Cost disclosure should include accrued liabilities as well as the value of benefits earned by the named executives in any given year. OPTrust supports shareholder proposals to submit extraordinary SERP benefits (for example, service credit for time not worked or the inclusion in covered compensation of either capped short-term bonus in a final average defined benefit plan or income from any long-term incentive plan) to a shareholder vote.

*Voting guideline: Vote **for** proposals to disclose who is covered by, the benefits offered by, and the accrued liabilities and annual costs associated with the SERP, unless mechanisms are already in place that ensure adequate disclosure.*

*Vote **for** proposals to submit benefits under a SERP to a shareholder vote.*

*Vote **for** proposals to set reasonable limits on the amount of benefits paid, such as excluding incentive and bonus pay from the definition of covered compensation under the plan.*

#### **4.4.4 Omnibus**

OPTrust does not support stock option plans in which three or more types of awards exist in one plan. Shareholders should vote on the separate components of such plans, not on a “take-all” omnibus proposal. Although OPTrust is opposed to the concept of omnibus plans, it will review each element to determine whether the specific benefits being offered are contrary to the OPTrust guidelines in this category.

*Voting guideline: Review individual elements of omnibus proposals for compliance with OPTrust guidelines. If **all** individual elements comply with our guidelines on compensation schemes, vote **for** the omnibus proposal.*

#### 4.4.5 Recoupment (Claw-Back) Policies

OPTrust encourages companies to consider requiring management to repay an appropriate portion of any performance-based compensation based on financial results that must later be restated. At minimum, companies should have a policy providing for the recoupment of performance-based compensation from executives who engage in fraudulent activity, negligence or willful misconduct.

*Voting guideline: Vote **for** shareholder proposals to adopt a policy to recoup all performance-based compensation paid to any executive later determined to have engaged in fraud, negligence or willful misconduct.*

*Review, on a **case-by-case** basis, shareholder proposals to adopt a policy to recoup any unearned performance-based compensation paid to executives based on financial information that must later be restated.*

#### 4.4.6 Employee Severance Benefits

Golden parachutes can represent excessive severance compensation paid to any executive contingent upon the merger or acquisition of the corporation, with a resulting change in control. While these arrangements are intended to provide financial assurance to executives in the event of a takeover, and allow them to continue to make decisions in the best interests of the company and its shareholders, golden parachutes may result in a generous payment for periods of underperformance leading up to a change in control. These proposals must be carefully analyzed on a case-by-case basis in order to prohibit abusive programs that work to the economic disadvantage of shareholders. Ideally, management should not be able to trigger parachutes and payments should not be triggered by a single event.

*Voting guideline: Vote **against** golden parachutes where the arrangement:*

- *can be triggered by management, **or***
- *is single-triggered. Compensation should only be payable after a change in control and if the executive's employment is terminated because of the change.*

*Vote **for** proposals to seek shareholder approval of golden parachutes. OPTrust will examine proposals to ban golden parachutes on a **case-by-case** basis.*

#### 4.4.7 Employee Stock Ownership Plans

OPTrust supports employee stock ownership plans that allow employees to purchase company stock at a discount, thereby aligning the employees' interests with those of the shareholders.

*Voting guideline: OPTrust will **support** the use of stock purchase plans as long as **all** of the following criteria are met:*

- *the discount is not greater than 15% of the fair market value*
- *dilution is less than 5%*
- *maximum of 27-month offering period*
- *there is broad employee participation.*

*Review self-replenishing or evergreen employee stock purchase plans, on a **case-by-case** basis.*

#### **4.4.8 Pay Disparity**

Vertical pay comparisons between the compensation of a company's CEO and that of its median employee are becoming more frequent. The US Securities and Exchange Commission will require companies to disclose their vertical pay comparisons, beginning in 2017.

*Guideline: Vote **case-by-case** on proposals calling for an analysis of the pay disparity between corporate executives and other non-executive employees.*

### **4.5 Director Compensation**

OPTrust supports fair compensation for directors that reflects their responsibilities, expertise and time commitment. The compensation plan should be transparent and align directors' interests with those of the shareholders. However, it should not include retirement benefits, change in control or severance provisions, and other perquisites that are normally reserved for employees of a corporation.

*Voting guideline: Vote **for** director compensation plans as long as the amounts are not excessive and there is no evidence of abuse.*

*Vote **against** director compensation proposals if the amounts are not disclosed to shareholders.*

#### **4.5.1 Director Share Ownership**

Compensation through share ownership supports an alignment of interests of directors with shareholders. Compensation packages should encourage sufficient ownership to support this principle. Boards may consider setting a minimum stock ownership requirement for directors as well as a mandatory holding period. However, directors should be given sufficient time to meet the requirements. We do not encourage loans, or requirements for stock ownership beyond the purchasing ability of directors.

OPTrust supports share ownership plans based on a reasonable multiple of annual director compensation after tax.

*Voting guideline: Vote **for** share ownership proposals based on a reasonable multiple of director compensation, after tax.*

*Vote **for** proposals to set minimum stock ownership requirements for directors.*

*Vote **against** stock options for outside directors.*

#### **4.5.2 Director Retirement Plans**

OPTrust does not support the use of director retirement plans because it compromises a director's independence. Implicit in a retirement package is that the director has tenure and is being rewarded for it.

*Voting guideline: Vote **for** proposals to eliminate director retirement plans.*

*Vote **against** proposals to adopt director retirement plans.*

#### **4.5.3 Change in Control**

OPTrust does not support granting bonuses, options or severance packages to outside directors in the event there is a "change in control" of the corporation. Such benefits represent a conflict of interest for the director. The independence of outside directors will be compromised if they are eligible for additional severance benefits in the event of a change in control.

*Voting guideline: Vote **against** bonuses, options or severance packages to outside directors linked to a "change in control."*

### **4.6 Mergers and Acquisitions**

In examining each merger or acquisition, OPTrust will consider:

- the vote recommendation of our investment manager(s); where applicable
- the economic merits
- the opinion of the financial advisor
- potential conflicts between management's interests and those of shareholders (e.g. golden parachutes, finders' fees, accelerated vesting of awards in the event of changes in corporate control)
- impacts on corporate governance and shareholder's rights (e.g. reincorporation).

Each merger or acquisition is unique. The ultimate voting decision will be based on what OPTrust believes to be in the best economic long-term interests of shareholders.

*Voting guideline: OPTrust will examine merger and acquisition proposals on a case-by-case basis.*

## 4.7 Takeover Protection

In its role as a fiduciary, OPTrust must vote on takeover protection proposals with a view of what would be in the best interests of shareholders in the long term. OPTrust acknowledges that takeover protections, when properly used, can offer shareholder value, but will generally not support proposals that unduly deter a bidder or fail to provide equal treatment for shareholders in the event of a takeover.

### 4.7.1 Reincorporation

A company may wish to reincorporate in another U.S. state, or another country for several reasons including a merger agreement, indemnification provisions, or tax savings. Reincorporation, however, can also be used as an anti-takeover defense, limit directors' liability and can erode shareholder rights.

*Voting guideline: Vote **for** reincorporation proposals where management can demonstrate sound financial or business reasons.*

*Vote **against** reincorporation/continuance proposals that:*

- *are posed as part of an anti-takeover defence*
- *solely limit directors' liability*
- *may result in shareholders' interests being subordinated to other factors*
- *are not in shareholders' best interests*
- *include aspects related to corporate activities that OPTrust does not support (e.g. mandatory classified board structures).*

***Support** proposals to opt out of anti-takeover statutes.*

### 4.7.2 Shareholder Rights Plans

Shareholder rights plans or "poison pills" generally involve the issuance of rights or warrants to shareholders allowing them to purchase additional stock, at a significant discount, should the company become the target of a takeover that has not been approved by the board. When triggered, these rights can create significant economic difficulties for the bidder.

The only legitimate purposes for shareholder rights plans are to allow the board sufficient time to explore alternative value enhancing arrangements including soliciting competing bids and to ensure that all shareholders are treated equally in the event of a takeover.

Plans that go beyond these purposes may become tools to insulate existing management from competitive bids or to prevent shareholders from determining the desirability of the takeover offer. These plans are not acceptable.

*Voting guideline: Consider the adoption of shareholder rights plans on a **case-by-case** basis.*

*Vote **for** proposals to adopt shareholder right plans that include **all** the following criteria:*

- *the threshold for triggering the plan is at least 20% of the company's shares*
- *the plan's definition of 'acquiring person' excludes anyone, such as passive institutional investors, who strays beyond the threshold without intending to take over the company*
- *the plan allows a permitted bid and a minimum bid period of no longer than 60 days*
- *the plan allows for partial bids*
- *the board does not have discretion to waive or redeem the plan without shareholder approval*
- *rights can only be redeemed with shareholder ratification*
- *the plan does not contain exemptions for private placements*
- *the plan does exempt soft lock-up arrangements*
- *break fees, if any, do not exceed 2.5%*
- *shareholder ratification is required at least every three years*
- *amendments to the plan will be submitted to shareholders for approval.*

*Vote **for** proposals requiring shareholder approval to adopt shareholder rights plans or to make amendments.*

*Vote **for** shareholder proposals seeking shareholder rights plans to be rescinded if they were not submitted for shareholder approval.*

#### **4.7.3 Advance Notice Requirement**

Advance notice requirements include a reasonable notice period and disclosure requirements for a shareholder wishing to nominate directors. They are designed to protect issuers and shareholders from a stealth proxy contest which could unseat the incumbent board without prior warning.

*Voting Guideline: Vote **case-by-case** on advance notice proposals. Vote **against** bylaw amendments that place unnecessary burdens on shareholders wishing to nominate directors.*

#### **4.7.4 Other Takeover Protection Measures**

OPTrust will review other takeover protection measures on a case-by-case basis. OPTrust will generally not support crown-jewel defences or proposals that allow management to enter into lock up arrangements, unless it is clear that it is in the best interests of shareholders. OPTrust will also review going private transactions, leveraged buyouts and other purchase transactions on a case-by-case basis to determine if they are in the best interests of shareholders. OPTrust will not support proposals that do not adequately compensate minority shareholders.

OPTrust does not support the payment of “greenmail” or the election of directors who have previously authorized the payment of greenmail or have taken other specific actions considered particularly detrimental to shareholder interests.

*Voting guideline: Review takeover protection measures including, but not limited to, crown jewel defences, lock up arrangements, going private transactions and leveraged buyouts on a **case-by-case** basis. Vote **against** transactions that are not clearly in the best interests of all shareholders.*

*Vote **against** proposals involving greenmail.*

*Vote **for** proposals seeking to restrict a company's ability to make greenmail payments.*

## **4.8 Capital Structure**

### **4.8.1 Common Stock Authorization**

Companies often request increases in authorized common stock for a variety of purposes: funding of stock dividends, employee stock option plans, stock splits, acquisitions, public offerings, or poison pills. OPTrust will support increases in common stock authorization as long as the amount is reasonable and it is to be used for legitimate business purposes (e.g. to fund stock-based compensation plans, stock dividends, stock splits, and an approved acquisition). OPTrust does not support such authorizations to fund anti-takeover defences. Management should state how authorized shares would be deployed.

*Voting guideline: Vote **for** requests to increase a company's common stock authorization up to 25% of its existing common stock authorization, if it will be used to fund a legitimate business activity. Requests beyond this threshold will be reviewed and voted by OPTrust on a **case-by-case** basis.*



Vote **against** proposals for unlimited capital authorizations.

#### 4.8.2 Share Issuances

Companies may seek shareholder approval to issue shares, with or without pre-emptive rights, to address a specific business purpose or to create flexibility to meet changing financial conditions. Since new share issuances can have a dilutive effect on shareholders, OPTrust supports issuance proposals that include pre-emptive rights. Pre-emptive rights allow existing shareholders to maintain their share of ownership in a company and ensure that a new issue does not dilute current shareholders' ownership in the company. Companies should clearly disclose the amount of new shares requested and a sound business reason for the issuance.

*Voting guideline: Where the company has provided sufficient disclosure, vote **for** issuance requests, with pre-emptive rights, that are in the best interests of shareholders.*

#### 4.8.3 Share Buybacks, Private Placements and Dividends

*Voting guideline: Generally support share buybacks that are limited to 10% of shares and reasonable private placements. Support paying out net income to shareholders as dividends for established companies with sustainable profitability.*

*Vote **for** requests to reissue repurchased shares, unless there is clear evidence of abuse of this authority.*

#### 4.8.4 Demergers or Spin-offs

In the event of an approved demerger or spin-off of a company's division or subsidiary, OPTrust will support proposals to carry out the formalities of reducing and cancelling the outstanding share capital by a certain stated amount, and creating new shares in the demerged entity.

*Voting guideline: Vote **for** the implementation of spin-offs if shareholders and the presiding court in the relevant jurisdiction have approved them.*

#### 4.8.5 Reduction of Share Capital

Companies may propose to reduce share capital in the face of insolvency or bankruptcy. Reasons that they would want to do this include removing dividend-paying obligations on preferred shares.

*Voting guideline: Vote **for** proposals to reduce capital unless the terms are unfavourable to shareholders.*

## 4.9 Shareholder Rights

### 4.9.1 Dual Class Share Structures

Dual class share structures involve the creation of a second class of common stock with either superior or inferior voting rights to those of the existing class of stock. The shares that have inferior voting rights sometimes pay a greater dividend and can be transferred more readily than those with superior voting rights. To the extent that shareholders opt for the higher paying but lower voting shares, management maintains effective control of the corporation by keeping for itself the shares that have superior voting rights. This dual class capitalization, with unequal voting rights, violates the principle of “one share, one vote” and gives certain groups of shareholders voting power which is disproportionate to their equity ownership. Where such structures exist, the share provisions should ensure the equal treatment of all shareholders.

*Voting guideline: Vote **against** the creation or extension of dual class voting stock.*

*Review proposals to collapse dual class share structures on a **case-by-case** basis, supporting those where the terms are in the best interests of long-term shareholders.*

### 4.9.2 Super-Majority Approval of Business Transactions

Super-majority amendments are generally designed to deter hostile takeovers by imposing voting barriers. They typically require the approval of two-thirds to 80% of shareholders to approve a particular transaction. They also erect barriers to potentially beneficial resolutions to shareholders and against the entrenched interests of management.

*Voting guideline: Vote **against** proposals in which management seeks to increase the number of votes required to approve an issue above the level provided for in local law. Such a vote requirement, in the opinion of OPTrust, is reasonable and provides sufficient protection against frivolous intrusions into the operations of the corporation.*

*Vote **for** proposals to reduce the super-majority requirement.*

### 4.9.3 Linked Proposals

OPTrust generally does not support proposals which seek to “link” two elements or issues together in one. OPTrust considers such proposals an attempt by management to have shareholders approve a proposal they would not support if proposed alone. An exception to this policy would be the situation where both issues being linked are beneficial to shareholders. In this case, we will support the proposal.

*Voting guideline: Vote **against** linked proposals unless both issues are beneficial to shareholders.*

#### **4.9.4 Unlimited Share Issues - “Blank Cheque” Preferreds**

OPTrust does not support resolutions that allow the Board of Directors to issue unlimited amounts of shares, or provide the board with the ability to issue “blank cheque” preferreds. In addition to carrying a fixed dividend and ranking ahead of common shares in liquidation, blank cheque preferreds give the board complete discretion to determine what features, rights, privileges and limitations that stock will have.

The use of these shares may provide a company’s Board of Directors with the flexibility to meet changing financial conditions, but such increases can be used in connection with poison pill defences or placed with friendly investors to thwart both hostile and desirable takeovers, or Boards of Directors should not be given authorization to create preferred shares with completely discretionary voting privileges, conversion rights and other conditions that could deter unwelcome acquisition bids.

*Voting guideline: Vote **against** the authorization of, or an increase in “blank-cheque” preferred shares.*

#### **4.9.5 Voting at General Meetings**

All proxy votes should be confidential and subject to safeguards that ensure protection from coercion or undue influence for shareholders.

Vote results, including the votes cast, for, against or withheld and the percentage of eligible votes cast should be tabulated and promptly disclosed after the meeting. It is not sufficient to say that a resolution passed or failed by a show of hands. Votes should also be independently verified.

*Voting guideline: Vote **for** proposals for confidential voting for shareholders.*

*Vote **for** proposals to disclose detailed vote results.*

*Review, on a **case-by-case** basis, the election of certain directors if detailed vote results are not disclosed.*

#### **4.9.6 Shareholder Proposals**

OPTrust recognizes that to effectively manage a corporation, directors and management must consider the interests of not only shareholders, but also employees, customers, suppliers, creditors, the community and the environment. OPTrust supports shareholder proposals that are in the long-term interest of shareholders. OPTrust will generally not support proposals

that ask directors to subordinate shareholders' interests or place arbitrary or artificial constraints on the company.

*Voting guideline: OPTrust evaluates shareholder proposals on a **case-by-case** basis where they fall outside the scope of these guidelines. OPTrust will vote **against** proposals that are not in the long-term interest of shareholders and the beneficiaries of the Fund.*

#### **4.10 Corporate Social and Environmental Responsibility**

OPTrust's fiduciary obligation to Plan members is to obtain the long-term rate of return on its investments required to meet the pension promise. OPTrust recognizes that social and environmental factors may affect the performance of its investment portfolios. Strong corporate governance practices, the responsible management of: employees, suppliers, customers, and the environment, as well as responsiveness to the interests of local communities may contribute to long-term corporate profitability.

OPTrust is mindful of its social responsibility as a long-term institutional investor, which obliges it to consider the consequences of its own investment decisions on society and the environment. OPTrust's Board of Trustees are mindful of their fiduciary duty to ensure sustainable pension security many decades into the future, and exercise proxy voting rights in a way that will maintain social, economic, and environmental structures upon which long-term investment returns are enhanced.

In looking at each specific resolution, OPTrust will consider whether the proposal will contribute to the long-term corporate profitability and the economic best interests of plan members and their beneficiaries.

Proxy votes on social and environmental issues tend to be addressed by shareholder proposals, rather than management proposals, and the range of possible issues is vast. Instead of developing guidelines for all potential proxies, OPTrust identifies internationally accepted standards and norms against which these issues will be assessed.

OPTrust will consider the following international standards and initiatives in the evaluation of environmental and social issues across our global investments:

- International Labour Organization Conventions ("ILO")
- Organisation for Economic Co-operation and Development ("OECD") Guidelines for Multinational Enterprises
- UN Global Compact

- CDP (formerly the Carbon Disclosure Project)
- Global Reporting Initiative (GRI)
- UN Principles for Responsible Investment (PRI)
- UNEP Finance Initiative (UNEP FI)

*Voting guideline: In general, vote **for** proposals that call on companies to adhere to principles established in these international agreements.*

*OPTrust has developed guidelines for some specific issues. All other proposals are voted on a **case-by-case** basis.*

#### **4.10.1 Disclosure of Social and Environmental Information**

With most resolutions, shareholders are requesting more disclosure on corporate activities and policies. OPTrust generally supports these types of resolutions, as it believes owners of a corporation have a right to this information, as long as costs are reasonable, the information is not redundant, and proprietary or confidential information is not divulged.

In many instances, shareholders ask management to provide disclosure on a variety of issues including; labour relations, workplace health and safety, human rights, greenhouse gas emissions, water consumption, product safety, and political contributions.

In general, OPTrust believes that shareholders have a right to know about the company's potential liabilities. With adequate disclosure, we believe that shareholders and management are better equipped to understand and manage social and environmental issues and to assess the long-term value of shares. If companies do not disclose material details on these issues, it may demonstrate that risks are not being managed appropriately by the firm.

OPTrust supports reporting that is in line with the Global Reporting Initiative guidelines ("GRI"). The GRI is a standardized reporting format for the disclosure of ESG information in a manner that is universally applicable and comparable.

*Voting guideline: **Support** proposals seeking reasonable disclosure of material ESG factors or preparation of reports if **all** of the criteria, below, are satisfied:*

- *the proposal can be implemented at a reasonable cost to the company*
- *proprietary and/or confidential information is not divulged*
- *implementation of the proposal would not be significantly duplicative (i.e. we would not generally support proposals where the company has already provided the requested information and it can be readily accessed by the public).*

#### 4.10.2 Labour and Human Rights

OPTrust supports the spirit and the intent of the ILO labour standards, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises. OPTrust generally supports proposals related to the labour and human rights standards outlined in these principles including: freedom of association, the right to organize, hold meetings and bargain collectively without coercion or interference.

*Voting guideline: Unless comparable policies and programs already exist:*

*Vote **for** proposals to adopt the ILO core labour conventions or employment standards that are consistent with the ILO.*

*Vote **for** proposals that ask companies to provide independent verified reports on their progress in implementing the ILO standards.*

*Vote **for** proposals that ask companies to adopt and/or comply with international human rights standards.*

#### 4.10.3 Workplace Diversity and Discrimination

OPTrust does not support companies discriminating on the basis of race, ancestry, place of origin, colour, ethnic origin, religion, age, citizenship, sex, sexual orientation, gender identity, gender expression, marital status, family status, record of offences, creed, or disability.

OPTrust believes that corporations should be committed to fairness in pay, developmental opportunities, selection, promotion and evaluation practices. OPTrust expects that equal employment and labour practices will benefit the company by increasing diversity, reducing the likelihood of litigation and improving shareholder value.

*Voting guideline: Vote **for** proposals to adopt a policy of prohibiting discrimination based on race, ancestry, place of origin, colour, ethnic origin, religion, age, citizenship, sex, sexual orientation, gender identity, gender expression, marital status, family status, creed, record of offences, or disability, including proposals to expand or clarify anti-discrimination policies.*

#### 4.10.4 Climate Change

Climate change has emerged as a significant environmental and economic concern for companies and investors. Shareholder proposals asking a company to issue a report to shareholders (at reasonable cost and omitting proprietary information) ask that the report include descriptions of: efforts within companies to reduce emissions; their financial exposure and potential liability from operations that contribute to global warming; and their goals in reducing these emissions from their operations.

*Voting guideline: Vote **for** resolutions requesting that a company disclose information on the impact of climate change on the company's operations as well as associated policies and procedures to address such risks and/or opportunities, unless the company already provides current, reasonably comprehensible, publicly-available information.*

#### **4.10.5 Political Lobbying and Contributions**

In jurisdictions where such contributions are allowable under the law, companies should disclose to shareholders the full amount they spend on political contributions and any other activities they engage in to influence public policy, including lobbying. Companies should also develop, and publicly disclose policies related to all political activities, including donations, political action committees ("PACs") and lobbying positions. Oversight of these policies should be the responsibility of the boards.

*Voting guideline: Vote **for** proposals seeking full disclosure of political contributions and/or lobbying activities, unless the company already provides current, reasonably comprehensible, publicly-available information.*

*In jurisdictions where they are allowable by law, vote **for** management proposals seeking shareholder approval to make political contributions where all local regulations are met including prescribed limits and necessary disclosures.*

#### **4.11 Other Issues**

Any issues or resolutions that are not covered in the preceding pages should be referred to OPTrust. Each matter will be evaluated on a **case-by-case** basis.