

# Proxy Voting Principles and Guidelines

February 9, 2022



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## I. Introduction

### 1. PROXY VOTING AND CORPORATE GOVERNANCE

We believe that good corporate governance enhances long-term shareholder value. Proxy voting is one component of the corporate governance process, enabling shareholders to express their views on a variety of issues. Shareholders can, of course, influence companies in other ways, such as direct engagement with boards and management. In addition, shareholders can work on governance matters in collaboration with other investors, as we do through the Canadian Coalition for Good Governance.<sup>1</sup>

Consistent with our mandate to maximize investment returns without undue risk of loss, CPP Investments includes governance factors as considerations in our investment decision making processes, and actively promotes the adoption of improved governance practices at companies in which we are invested.

These Proxy Voting Principles and Guidelines have two purposes: (i) to give the directors and officers of companies in which we own shares guidance on how CPP Investments is likely to vote on matters put to the shareholders; and (ii) to communicate our views on other important matters that boards will deal with in the normal course of business. We note that this document is generally intended to apply to publicly listed companies. Privately held companies differ from public companies in terms of protective measures available to shareholders and other governance features.

We stress that these are guidelines, not rigid rules, and we will respond to specific matters on a company-by-company basis. Recognizing that governance matters may involve tradeoffs between potential benefits and adverse effects on a company, we consider our proxy voting decisions in the context of the company's governance practices as a whole rather than evaluating items in isolation.

We recognize that there are often circumstances that even the most well thought-out guidelines cannot contemplate. In these situations, we would be pleased to hear from a company or director and have set up a special e-mail address, [proxyvote@cppib.com](mailto:proxyvote@cppib.com), for that purpose.

While we will take into account local laws and prevailing governance practices when exercising our votes, these Proxy Voting Principles and Guidelines are intended to apply globally.

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<sup>1</sup> Information on the Coalition's mandate, membership and governance can be found at [www.ccg.ca](http://www.ccg.ca)

## 2. BOARD AND MANAGEMENT RESPONSIBILITIES

In exercising our votes, we do not seek to manage the companies in which we own an interest. We accept the division of authority and responsibilities among the triad of interests that is the core of good corporate governance -- owners, directors and managers -- based on the following premises:

- i. the shareholders own the company and elect the directors to be stewards of the company;
- ii. the board of directors is responsible for the overall governance of the company, which includes approving the company's strategy, monitoring its implementation and overseeing management;
- iii. management is responsible for developing and implementing the company's strategy and for running its day-to-day operations; and
- iv. management is accountable to the board and the board is in turn accountable to the shareholders.

Generally, we support resolutions that empower boards of directors to act in the best interests of the company and reaffirm management accountability. We do not support resolutions that seek for shareholders to provide direct oversight of management.

## 3. LONG-TERM PERSPECTIVE

CPP Investments is a long-term investor with a multi-generational horizon. With billions of dollars committed to equity ownership, we cannot (nor do we choose to) walk away from companies by selling our shares every time we disagree with a position taken by management or a board of directors. Instead, as a long-term investor, we have the ability to act as a patient provider of capital and to work with companies to bring about change.

Good boards and management teams understand that they can best serve the company by taking a long-term view of its best interests and those of its stakeholders. As a long-term investor, we are committed to encouraging business leaders to adopt long-term mindsets and steward their companies towards long-term shareholder value creation, not just better results in the next quarter.

We oppose resolutions that are likely to diminish long-term shareholder value even though they may produce short-term gains.



#### 4. SUSTAINABLE INVESTING

The nature of business risks and opportunities has fundamentally changed in this century. Companies are operating in an increasingly competitive corporate landscape, in a digitally connected world, and seeking to provide goods and services for eight billion people. Heightened and rapidly evolving stakeholder expectations have brought environmental, social and governance (ESG) issues, including climate change to the fore.

We believe that organizations that anticipate and manage ESG risks and opportunities, with board oversight of ESG performance, are in the best position to drive enduring financial performance. This requires recognition that ESG factors can directly impact a company's profitability. Given our legislated investment-only mandate, we integrate ESG into our investment analysis, rather than eliminating entire investment categories based on ESG factors alone. As an owner, we monitor ESG factors and actively engage with companies to promote improved management of ESG, ultimately leading to enhanced long-term outcomes in the companies and assets in which we have a stake.

We expect boards to ensure material ESG issues are considered and integrated into the company's strategy; and disclose the magnitude of these risks and opportunities, their potential impact on business outcomes and how the company plans to mitigate or capitalize on them over time.

Our *Policy on Sustainable Investing* sets out the principles of our approach to sustainable investing and is available on our [website](#). Proxy voting is a key element in our approach to sustainable investing.

#### 5. HOW SHARES ARE VOTED

All of our proxy voting decisions are guided by these Proxy Voting Principles and Guidelines. We engage an outside advisor to make customized recommendations based on these Proxy Voting Principles and Guidelines. Where appropriate, our in-house Sustainable Investing team considers these recommendations, conducts internal research, consults with our investment teams and engages with companies and stakeholders, if necessary, to arrive at our voting decisions. We post how we intend to vote and, in limited cases, the rationale for our vote on our [website](#) prior to each shareholders' meeting.

We take our responsibility to exercise our votes very seriously and use our best efforts to exercise this right in all cases. However, in some circumstances it may be impractical, including for reasons related to the nature of the position, share lending and liquidity, or impossible for us to vote. For example, in international markets where share blocking<sup>2</sup> applies, we typically will not vote in order to preserve our ability to trade.

## II. Shareholder Voting

### 1. DISCLOSURE OF SHAREHOLDER VOTES

We believe companies should be transparent with respect to proxy voting, while providing confidentiality to individual shareholders. We urge companies to retain an independent third party service to verify votes.

The disclosure of shareholder votes informs shareholders about the level of support and opposition for matters brought to the shareholders for their consideration. It also encourages boards to pay attention to issues that are supported by a substantial number of shareholders.

**Guideline:** The percentage of votes cast for, against or withheld as well as the percentage of eligible votes cast should be tabulated and the results should be announced at shareholders' meetings and published as soon as possible thereafter. Consider voting against the chair of the nominating/governance committee (or chair of the board) if detailed voting results were not disclosed from the previous shareholders' meeting.

### 2. RESPECT FOR SHAREHOLDER VIEWS

Boards should encourage shareholder engagement and provide opportunities for shareholders to communicate directly with the board.

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<sup>2</sup> Share blocking is a mechanism used by certain countries whereby shares are frozen and may not be traded for a specified period of time prior to a shareholders' meeting. Share blocking is intended to facilitate the voting process, however, it also imposes constraints as a pending trade may fail if it settles during the blocked period.

Although in most cases boards have no legal obligation to do so, they should consider implementing resolutions that receive majority shareholder support in the context of their overall fiduciary obligations to the company. There should be valid reasons for not implementing a majority supported resolution.

When a management resolution receives low or failing levels of shareholder support, the board should engage with major shareholders to determine the specific concerns behind dissenting votes and take steps to address those concerns.

**Guideline:** Where a resolution receives majority shareholder support, the board of directors should report back within a reasonable time, not later than the next shareholders' meeting, on the action taken or explain why no action was taken. Unless a satisfactory explanation has been provided, we will consider voting against all board members for failing to implement a majority supported resolution.

Where a management resolution receives low (typically less than 70%) or failing levels of shareholder support, the board should report back within a reasonable time, not later than the next shareholders' meeting, on its engagement efforts to understand shareholder concerns and on the actions taken to address those concerns, or explain why no action was taken. If the board has not shown sufficient responsiveness ahead of the next shareholders' meeting, we will consider voting against relevant committee members.

### 3. SHAREHOLDER RIGHTS RESTRICTIONS

We oppose any attempt to constrain shareholder rights or restrict shareholders' ability to exercise their rights.

Shareholders should have the opportunity to consider material matters that require prompt attention and to take action between shareholder meetings, including through a right to act by written consent and right to call a special meeting. These rights should be structured with reasonable terms such that they are accessible to minority shareholders.

Bylaw amendments that may adversely affect shareholder rights should be submitted to shareholders for approval. This includes any amendments that may restrict shareholders' rights to pursue legal action and remedies, such as exclusive forum provisions that unduly limit shareholder rights.

**Guideline:** Oppose proposals that unduly limit shareholder rights or restrict their ability to exercise rights. Support proposals establishing the right to act by written consent or the right to call a special meeting with reasonable terms. Vote against the chair of the nominating/governance committee if the board has implemented an unduly restrictive bylaw without shareholder approval.

#### 4. SUPER-MAJORITY VOTE REQUIREMENTS

We oppose any attempt to create inequality among shareholders or to constrain minority shareholder rights.

Some companies require a vote of two-thirds or more of the outstanding shares to approve a resolution instead of a simple majority. Generally, such super-majority voting requirements are favoured by dominant or controlling shareholders to strengthen their position at the expense of minority shareholders.

**Guideline:** Oppose super-majority voting requirements, except as required by law.

#### 5. SHAREHOLDER PROPOSALS

We can and do support shareholder proposals. We will support proposals that are likely to enhance long-term company performance, reduce risk to long-term company performance or improve disclosure reasonably necessary to enable shareholders to assess their investment risk and opportunity. We weigh the benefits of a shareholder proposal against any potential adverse effects the proposal may have on a company. We do not support proposals that are overly prescriptive, seek to direct corporate strategy and/or designed to diminish the power of the board of directors of a company or place arbitrary or artificial constraints on a company.

**Guideline:** Review shareholder proposals on a case-by-case basis.

#### 6. ENVIRONMENTAL & SOCIAL (E&S) FACTORS

Disclosure of financially relevant, potentially material E&S factors allows investors to better understand, evaluate and assess potential risks and opportunities, including the potential impact of E&S factors on a company's long-term performance. We believe companies that are resilient, agile and able to anticipate, manage and integrate into their strategy material E&S factors, such as those related to climate change, human rights, human capital and water, are more likely to create and preserve value over the long term than those that do not.

**Guideline:** We review E&S-related shareholder proposals on a case-by-case basis. We do not support shareholder proposals if they are overly prescriptive, seek to direct corporate strategy, designed to diminish the power of the board of directors, and/or duplicative of initiatives already in place or underway, or if they are likely to diminish long-term shareholder value even though they may produce short-term gains.

We generally support:

- Proposals that request the reasonable disclosure of information related to material E&S factors which enable shareholders to assess investment risk and opportunity, the E&S impacts of a company’s operations and products, and initiatives to mitigate E&S impacts unless sufficient information is already available to shareholders. We encourage companies to report in alignment with SASB Standards.<sup>3</sup>
- Proposals that improve practices and disclosure on governance, strategy, risk management, performance metrics, and targets and opportunities related to climate change. We encourage companies to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).<sup>4</sup>
- Proposals that request the adoption or review of policies and/or practices with regard to E&S factors that are likely to enhance long-term company performance and/or mitigate potential exposure to E&S impacts. While policies are important, we ask that companies also explain why they have identified these material E&S factors, how they manage them and their performance and targets to improve them.

## 7. BUNDLED PROPOSALS

Boards and shareholders sometimes bundle two or more unrelated proposals in one resolution in the hope that a proposal popular with shareholders will cause them to approve proposals that they would likely oppose if voted on separately.

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<sup>3</sup> Information on SASB Standards can be found at [www.sasb.org](http://www.sasb.org).

<sup>4</sup> Information on the TCFD can be found at [www.fsb-tcf.org](http://www.fsb-tcf.org). The final recommendations of the TCFD can be found [here](#), and an implementation guide for the recommendations, [here](#).

**Guideline:** Support bundled proposals only if supportive of all proposals individually and discourage boards of directors from bundling proposals.

## 8. SHAREHOLDER MEETING FORMAT

Companies may consider using an in-person, virtual or hybrid (virtual and in-person) format for their shareholders' meetings. We encourage companies to adopt a meeting format that allows for shareholders to choose whether they attend virtually or in-person, without compromising shareholders' ability to attend, participate and communicate with the company.

**Guideline:** Support in-person, virtual or hybrid shareholders' meetings where such formats preserve shareholders' ability to meaningfully attend, participate and communicate with management and directors of the company. Consider voting against the board chair if the meeting format unreasonably restricts shareholder attendance, participation or communication, including where shareholders are only permitted to attend the meeting in-person, without a sufficient rationale.

## III. Director Elections

### 1. ANNUAL ELECTIONS

Companies should hold annual elections for all directors. Staggered boards (where not all of the directors are up for election each year) reduce director accountability by making it more difficult to replace directors and by depriving shareholders of the opportunity to express any concerns by withholding votes from (or voting against) one or more directors.

**Guideline:** Support annual elections for all directors. Support proposals to institute annual elections for all directors. Where votes against one or more directors are warranted under these guidelines at a company with a classified board, we will consider voting against all directors up for election.

### 2. SEPARATE VOTING VS. "SLATE" VOTING

Shareholders should have the opportunity to vote for or against each director separately, rather than voting on a slate of directors recommended by the company.

**Guideline:** Support process whereby directors are elected individually. We will consider voting against all board members if the nominees are presented as a slate and other governance, performance or compensation concerns exist.

### 3. MAJORITY VOTE STANDARD

Companies should employ a majority vote standard for the election of directors. If a director nominee does not receive support of a majority of the votes cast, the nominee should not be elected. An exemption to the majority vote standard should apply in cases of contested elections, where there are more director nominees than board seats.

Many companies have adopted formal corporate governance policies requiring the resignation of a director who does not receive support of a majority of votes cast unless extraordinary circumstances exist. These policies present an acceptable alternative to a majority vote standard.

**Guideline:** Support proposals calling for directors to be elected by a majority of votes cast unless a satisfactory resignation policy already exists. The proposal should include an exemption for contested election situations. We will consider withholding our votes from members of the nominating/governance committee if there is no majority vote standard or satisfactory director resignation policy and other governance, performance or compensation concerns exist. Unless a satisfactory explanation has been provided, we will withhold votes from directors standing for re-election who failed to obtain majority support in the previous year. In this circumstance, we will also consider withholding votes from the members of the nominating committee.

### 4. CUMULATIVE VOTING FOR DIRECTORS

Cumulative voting enables a shareholder to cast all votes for a board of directors in favour of one nominee. It is intended to give board representation to shareholders who have minority ownership.

**Guideline:** Despite the value we see in electing directors by majority vote, we will examine cumulative voting proposals on a case-by-case basis. We may support cumulative voting proposals where the board has been unresponsive to shareholder concerns.

### 5. DIRECTOR NOMINATION PROCESS

We expect boards to establish a transparent and structured process for nominating director candidates which ensures directors are nominated based on merit and the anticipated needs of the board. Boards should implement and disclose a policy used to ensure that diversity is appropriately considered as part of the nomination process.

Shareholders of companies in certain jurisdictions do not have the right to nominate candidates for election to the board of directors in the company’s proxy materials and must instead incur the cost of a proxy contest to put forward their candidates. In order to improve board accountability to shareholders in these jurisdictions, we believe that shareholders should have access to a company’s proxy materials for purposes of director nominations.

**Guideline:** Support transparent and formal director nomination processes that seek a diverse pool of qualified candidates.

Generally support proposals that provide shareholders with the ability to nominate candidates for election to the board of directors in the company’s proxy materials, subject to reasonable limitations including appropriate notice, share ownership and holding period requirements. Oppose restrictions that make the right overly burdensome or impractical for shareholders to use. Support nominating frameworks which ensure that shareholders have sufficient information and time to assess the suitability of potential nominees to the board.

## 6. PROXY CONTESTS

We review dissident shareholder proposals for director nominees on a case-by-case basis from our perspective as a long-term investor. We oppose proposals that are likely to diminish long-term shareholder value even though they may produce short-term gains.

In reviewing dissident shareholder proposals, we start from the premise that the interests of shareholders are best addressed by the board, which is responsible for providing management oversight and performance review. The onus is on the dissident shareholder to make a compelling case for why changes in the board and/or the company’s strategy are necessary to enhance long-term shareholder value. In reviewing proposals, we consider factors such as:

- long-term company performance;
- board performance and responsiveness to shareholder concerns;
- the strategic plans of the dissident shareholder;



- the qualifications of the dissident director nominees and their alignment with the long-term best interests of the company; and
- the strength of the dissident shareholder’s position and the board’s response.

We encourage companies to offer universal proxies for all contested meetings. Universal proxies include the names of all known management and dissident nominees to the board and provide shareholders with the ability to select the optimal combination of candidates.

**Guideline:** Review proxy contests on a case-by-case basis with a view to enhancing long-term shareholder value.

## IV. Board of Directors

### 1. INDEPENDENCE

The cornerstone of effective corporate governance is that boards are required to act in the best interests of the company. This can best be achieved in part by ensuring that a substantial majority of directors are independent.

A director is independent if they have no direct or indirect material relationship with the company or the company’s senior management or controlling shareholder. A material relationship is a relationship which could, in the view of the company’s board of directors, reasonably be expected to interfere with the exercise of an individual’s independent judgment.

Board independence may also be impeded through interlocking directorships, where CEOs sit on each other’s boards. We do not believe such interlocking directorships are appropriate.

While a majority independent board helps ensure effective board oversight in most circumstances, we recognize that equity-controlled companies may warrant a different independence standard. In our view, it is reasonable for a controlling shareholder to have representation on the board of directors proportionate to its economic equity interest.

**Guideline:** For non-controlled companies, support election of boards that contain at least a majority of independent directors.

## 2. DIRECTOR QUALIFICATIONS

The experience, qualifications and character of directors is of utmost importance. The board as a whole must have general business acumen (including specific qualifications in finance, accounting and governance matters), relevant industry expertise and appropriate diversity. Furthermore, each director is expected to act with high standards of integrity, demonstrated by a pattern of behaviour and decision making that is consistent with the long-term best interests of the company.

**Guideline:** Support disclosure of the company’s expectations for directors. Support disclosure of the business and professional experience and qualifications of each director as they relate to effective oversight of the company’s business. Support disclosure of each director nominee’s experience, qualifications and attributes in the form of a matrix to summarize the strengths and potential gaps on the board as a whole.

Support the election of directors with the experience and qualifications necessary to effectively oversee the company’s business, taking into account the composition and diversity of the board as a whole. If we have concerns about a director’s willingness or ability to act in the long-term best interests of the company, we will consider voting against that director.

## 3. BOARD DIVERSITY

We believe that companies with diverse and inclusive boards and executive management teams are more likely to achieve superior financial performance. Diversity should be considered in all its forms, including but not limited to gender, ethnicity, race, age and disability. The appointment and inclusion of directors with diverse experiences, views and backgrounds ensures the board as a whole applies diverse perspectives to meaningfully and effectively evaluate management and company performance. We strongly encourage boards to disclose the diverse attributes of their directors where appropriate and where directors have granted permission to do so, to allow shareholders to fully and accurately evaluate board diversity holistically.

**Guideline:** In Canada, the United States, developed Europe, Australia, New Zealand and South Africa, we will oppose the election of the chair of the board committee responsible for director nominations if the board has less than rounded 30% female directors, provided there are no extenuating circumstances.<sup>5</sup> In all other markets, we will oppose the election of the chair of the board

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<sup>5</sup> This threshold is consistent with our call to action for companies on the S&P/TSX composite index, set out in the 30% Club Canadian Investor Group: Statement of Intent, available [here](#).

committee responsible for director nominations if the board has no female directors, provided there are no extenuating circumstances. We will consider voting against the entire committee responsible for director nominations, or, where appropriate, all incumbent directors, if sufficient progress on gender diversity has not been made in subsequent years. We support diversity with accountability; we hold all directors accountable for their board responsibilities. We will continue to reevaluate these threshold expectations and consider updates to our expectations for board diversity over time.

#### 4. DIRECTOR OVERBOARDING

Considering the significant responsibilities and regulatory demands facing board members, it is important that directors are not overextended to the extent that they jeopardize their ability to serve as effective board members. While directors benefit from their exposure to other company (including not-for-profit) boards, the time demands limit the number of commitments they can manage without compromising their effectiveness.

**Guideline:** We will question companies that have directors sitting on an excessive number of other company boards, taking into account the complexity of those other companies' businesses and the time commitment required of the director. We will also question companies that have a director who is a CEO and has multiple directorships.

#### 5. MAINTAINING EFFECTIVE BOARDS

Boards should consider drafting and publishing a charter of expectations for directors. Boards should implement an annual process for evaluating the effectiveness of the board as a whole, its committees and each director individually. The process should focus on evaluating the need for any board membership change to ensure that the board as a whole has the necessary experience, qualifications and diversity to serve the interests of the company. In evaluating its own effectiveness, the board should also consider whether it is sufficiently focused on the long-term best interests of the company.

Directors who underperform or contribute to material environmental, social or governance failures should be asked to resign promptly. Triggers, such as age or term limits, or poor meeting attendance, while potentially useful, are not sufficient to ensure the effectiveness of the board.

**Guideline:** Support the implementation of processes for evaluating and improving the effectiveness of the board as a whole, its committees and each director individually. Vote against the re-election of a director who underperforms or contributes to a material environmental, social or governance failure. Consider voting against the re-election of the nominating committee chair for permitting a director who underperforms or contributes to a material environmental, social or governance failure to remain on the board.

## 6. BOARD RENEWAL

In considering director succession planning and the appropriate tenure of directors, the board should balance the objectives of maintaining sufficient continuity and ensuring that new and diverse perspectives are being regularly added to the board.

In our view, any decision to adopt age or term limits for directors should be made by the board itself. However, as noted under Director Qualifications, we believe the nominating process should primarily focus on the experience, qualifications and character of a director, and the director's contribution to the board, rather than imposing set limits on a director's age or tenure.

**Guideline:** Review on a case-by-case basis shareholder proposals that are aimed at facilitating board refreshment.

## 7. ATTENDANCE

Given the board's key role in corporate governance and its overall responsibility for the company's affairs, it is critical that directors attend virtually all board meetings and the meetings of committees of which they are a member in order to discharge their duty.

**Guideline:** Support disclosing each director's board and committee attendance record. Vote against a director who attends less than 75 per cent of such meetings without a valid reason.

## 8. IN-CAMERA MEETINGS

A good governance practice is for the independent directors to meet separately at every board and board committee meeting without management and non-independent directors present. After each in-camera meeting, the chair of that meeting, or if appropriate, the chair of the board should meet with the CEO to advise them of any issues identified by the independent directors.

**Guideline:** Support in-camera meetings without management and non-independent directors present.

## 9. SEPARATION OF CHAIR AND CEO

A key duty of a board is to provide management oversight on behalf of the shareholders. For example, the board is responsible for recruiting, rewarding and, if necessary, terminating the CEO. The duty of management is to manage the business in the best interests of the company. For example, the CEO is responsible for recruiting, rewarding, promoting and terminating other members of management within policies and procedures approved by the board.

These different responsibilities warrant different leaders. Consequently, we believe that the board chair should be an independent, non-management director.

The board chair should lead the board and ensure that it acts in the long-term best interests of the company. In our view, an independent lead director is not a suitable alternative to an independent board chair.

**Guideline:** Support separation of the board chair and CEO. Support proposals requiring the board chair to be an independent, non-management director.

## 10. BOARD COMMITTEES

While we recognize that it is the experience, qualifications and character of directors, rather than mere independence, that is of greatest importance, we nonetheless encourage all companies to adopt the practice of having only independent directors oversee audit, nomination and compensation matters.

**Guideline:** Support audit, compensation and nominating/governance committees or those committees overseeing these matters being constituted solely by independent directors. Support formal terms of reference for these committees.

## 11. INDEPENDENT ADVISORS

Companies should have a process for the board, its committees and individual directors to retain independent outside legal and other advisors to assist them with their responsibilities. These costs should be paid by the company.

**Guideline:** Support boards, their committees and individual directors having the right to retain outside advisors.

## 12. CEO SUCCESSION PLANNING

One of the most important decisions that a board must make is the selection of the CEO of the company. We believe boards should be actively engaged in CEO succession planning. Boards should collaborate with the current CEO and senior management to identify candidates who possess the necessary leadership capabilities and ensure that appropriate career development opportunities are in place for any candidates within the company.

**Guideline:** Support active engagement by the board in CEO succession planning.

## 13. CLIMATE CHANGE

Climate change remains one of the largest and most challenging investment considerations of our time, and specifically addressing climate change in our investment activities better positions us to make more informed long-term decisions. We actively assess companies' risk and opportunity profiles against specific scenarios that consider physical and transition-related impacts from climate change. In our role as a shareholder, we respect that companies we invest in determine their own specific climate-related transition strategies. However, we expect boards and executives to have integrated climate risks and opportunities into their strategy, operations and where material, disclosure consistent with long-term value creation for the company.

**Guideline:** For companies that contribute the largest climate change risks in our public equities portfolio, and where boards have failed to demonstrate adequate consideration of physical and transition-related impacts from climate change, we will vote against the reappointment of the chair of the committee responsible for oversight of climate change (or an appropriate equivalent committee). We define this failure as having no disclosed governance structure for monitoring climate risks or opportunities, no identification or quantification of these, and/or no articulation of how the company has integrated related insights into strategy and operations. We support issuers leveraging the TCFD as a framework for disclosing how they identify and manage climate risks and opportunities. We will consider escalating this voting practice to the entire risk committee, the board chair and entire board where we see inaction in addressing this area in future years.

## V. Director Compensation

The compensation package for directors should align the interests of directors with the long-term interests of the company and should be transparent to and easily understood by shareholders.

### 1. DIRECTOR FEES

We believe that fees for non-management directors should be commensurate with their responsibilities as directors, consistent with their focus on the long-term best interests of the company and at a level that makes serving as a director financially worthwhile for qualified individuals.

**Guideline:** Support non-management director fee levels that reflect the responsibilities, qualifications and time commitment expected.

### 2. DIRECTOR SHARE OWNERSHIP

Share ownership has the potential to align the long-term interests of directors with the long-term interests of the company. We support equity-based awards as a portion of director compensation. However, we do not believe that directors should be incentivized in the same manner as executives and, for that reason, such grants should not be performance-based.

**Guideline:** Support reasonable share ownership requirements for directors. Support share grants or deferred share units as a portion of director compensation. Support directors being required to hold such share grants or deferred share units for a mandatory period.

### 3. DIRECTOR STOCK OPTIONS

We believe that stock options are less effective and efficient than direct share ownership in aligning the interests of directors with those of the company.

**Guideline:** Oppose stock options for directors.

### 4. OTHER DIRECTOR COMPENSATION

Compensation for non-management directors should not include retirement benefits, severance payments, significant incentive payments or consulting fees or perquisites that are normally reserved for employees of the company. These forms of compensation increase directors' financial reliance on the company and could compromise their independence.

**Guideline:** Oppose retirement benefits, severance payments, significant incentive payments or consulting fees or perquisites for non-management directors.

#### 5. DISCLOSURE OF DIRECTOR COMPENSATION AND SHARE OWNERSHIP

It is important that shareholders know how directors are compensated, including the commitment that individual directors have made to the company through share ownership.

**Guideline:** Support detailed disclosure of director compensation and share ownership.

### VI. Executive Compensation

The board of directors and the compensation committee are responsible for, and must be actively engaged in, establishing and overseeing executive compensation policies. Executives should receive market competitive total compensation and incentives which are tied to individual and company performance and incentivize them to focus on serving the long-term interests of the company, which includes considering material ESG factors where appropriate and under their control. Compensation plans should reward appropriate risk-taking consistent with the risk profile of the company but should discourage executives from taking excessive risks in order to achieve short-term, unsustainable performance. When structuring executive pay, we expect boards to take into account economic and market impacts in a reasonable manner that reflects the shareholder experience and how this performance was achieved.

Peer group assessments should compare companies of similar size, geographic location, complexity and performance and they should reflect companies that are competing for executive talent. We caution companies against over-reliance on external peer benchmarking, as it can lead to a structural escalation in executive pay unsupported by company performance. If used, external peer benchmarking should be balanced against internal, company specific metrics.



Determining compensation and incentives that relate to the achievement of financial objectives and other less precisely measurable performance is one of a board’s most important challenges. An independent compensation committee should review and make recommendations to the board with respect to executive compensation and should consult advisors who are independent of management.

**1. DISCLOSURE OF SENIOR EXECUTIVE COMPENSATION AND SHARE OWNERSHIP**

To help shareholders understand whether senior executives are fairly compensated and how that compensation relates to corporate performance, companies should disclose the total compensation for each senior executive for whom such disclosure is required under the applicable securities legislation. The disclosure should be in plain language form and should include a detailed explanation of the rationale and structure of the company’s executive compensation plan. There should be detailed disclosure of how and why specific compensation decisions were made, including: a discussion of the company’s business strategy; disclosure of performance targets, and how they are tied to the compensation paid; and a discussion of advice provided by compensation consultants and other experts. A pay for performance analysis should be provided, including a comparison of performance and compensation to those in the peer industry group used as a reference for the company’s compensation decisions. Peer groups used for benchmarking or other comparisons should be disclosed. To the extent the peer group used for compensation purposes differs from that used to compare company performance, the differences between the groups and the rationale for choosing them should be explained.

Every component of the total compensation package, including elements such as dollar amounts for signing bonuses, pension plans, supplemental executive retirement plans, perquisites and severance packages should be identified and discussed in detail so that it is clear how all elements fit together. The value of each pay element should be based on recognized actuarial standards and be the same numbers upon which the compensation committee bases its decisions.

Share ownership by senior executives is also important information which should be disclosed.

**Guideline:** Support full disclosure of total senior executive compensation packages and share ownership.

**2. EXECUTIVE COMPENSATION AND PERFORMANCE REVIEW**

The past performance and future performance expectations for executives, as well as related compensation plans, should be reviewed annually by the board and its compensation committee. Compensation packages should incentivize outcomes consistent with serving the long-term best interests of the company and should encourage appropriate risk taking and consideration of material ESG factors where appropriate and under their control. It is important that there is a significant relationship between executive compensation and performance. In order to ensure this relationship, compensation should be linked to meaningful performance targets which are disclosed. Companies should not offer excessive severance or change of control packages, supplemental executive retirement plans or discretionary awards that reward executives when performance objectives have not been met during the term of their employment.

**Guideline:** Support a formal process to review the performance of, and compensation for, executives. Support compensation that is linked to performance (meeting targets set by the compensation committee and approved by the board). In situations where there is a significant disconnect between the compensation awarded to executives and company performance, we will consider a number of options, including engaging with the compensation committee and/or voting against an advisory vote on executive compensation as described under Advisory Vote on Executive Compensation. If there is no annual advisory vote on executive compensation and either concerns about compensation practices exist or the board has been unresponsive to shareholders’ views on compensation, we will consider voting against compensation committee members.

### 3. EQUITY-BASED COMPENSATION PLANS

We believe that the granting and vesting of equity-based compensation should be sufficiently performance-based, with clearly disclosed performance criteria and hurdles that are relevant to long-term value creation for shareholders.

Generally, we believe that properly structured stock-based compensation is superior to option-based compensation plans because it provides better alignment of interests of employees with those of shareholders and it is a more efficient and predictable form of compensation.

Shareholders should be allowed to vote on all equity-based compensation plans (including option plans) because of the potential dilutive effect on their existing ownership.

**Guideline:** We will evaluate equity-based compensation plans on a case-by-case basis. We will generally vote against a plan if any of the following factors apply:

- the total cost of the company's equity-based compensation plans is unreasonable;
- the plan contains provisions allowing for excessive payouts in the event of a change of control of the company;
- the plan expressly permits the repricing of stock options without prior shareholder approval; or
- the plan is a vehicle for poor pay practices and is not sufficiently performance-based.

#### 4. EXECUTIVE SHARE OWNERSHIP

Executives should be required to own a minimum amount of the company's shares and to own that minimum while employed by the company and for at least one year after their departure from the company. The minimum amount should be meaningful for the executive and increase with the executive's seniority. Executives should have flexibility in liquidating excess holdings for personal use while maintaining a strong long-term alignment with shareholders.

**Guideline:** Support minimum share ownership requirement for executives.

#### 5. LOANS TO MANAGEMENT AND DIRECTORS

We do not support loans to directors or employees unless such lending is the company's normal business and only then if the loans are on normal commercial terms.

**Guideline:** Oppose preferential loans to employees or directors. Oppose loans secured by company shares or granted to purchase company shares.

#### 6. EMPLOYEE STOCK PURCHASE PLANS

We support employees having the opportunity to acquire shares of the company in which they are employed on favourable terms. We will generally approve employee stock purchase plans where the purchase price is at least 85 per cent of fair market value and the potential dilution is less than 10 per cent. Where their share ownership is subsidized by the existing shareholders, employees should be required to hold shares purchased for an appropriate period.

**Guideline:** Support employee stock purchase plans, the terms of which align employee interests with creating long-term value for shareholders.

## 7. ADVISORY VOTE ON EXECUTIVE COMPENSATION

We believe that engaging with companies is an effective way to encourage companies to improve their compensation practices and disclosure and that an advisory vote on executive compensation is an important part of the engagement process. We encourage companies to voluntarily adopt an annual advisory vote on executive compensation. We will generally not support other compensation-related shareholder proposals as they tend to be overly prescriptive or duplicative of what can be achieved through engagement and the advisory vote.

**Guideline:** When voting on an advisory vote on executive compensation, we will evaluate the compensation practices and disclosure on a case-by-case basis taking into consideration the compensation principles and practices outlined in these Proxy Voting Principles and Guidelines, including the following:

- pay-for-performance alignment, assessed against meaningful performance targets, which incentivize executives to focus on serving the long-term interests of the company;
- compensation packages which emphasize long-term company performance and discourage excessive risk taking;
- independent and effective compensation committee;
- clear, comprehensive compensation disclosure;
- well-structured incentive plans, supported by a clear and detailed rationale for any year-over-year changes and for the use of any non-standardized financial performance metrics or adjustments;
- avoidance of inappropriate pay, including significant incentive payments or consulting fees to non-management directors and discretionary awards granted to management outside of regular incentive plans; and
- reasonable severance, change of control entitlements and pension benefits.

Support shareholder proposals requesting an annual advisory vote on executive compensation. If there is no annual advisory vote on executive compensation and either concerns about compensation practices exist or the board has been unresponsive to shareholders' views on compensation, we will consider voting against compensation committee members.

## 8. RECOUPMENT (CLAW-BACK) POLICIES

In order to ensure that performance-based pay is only awarded in cases where performance targets are actually met, we encourage companies to consider requiring executives to repay or forfeit performance-based compensation based on misstated financial results or other performance metrics, or their misconduct.

**Guideline:** Support shareholder proposals requesting that boards adopt a policy to recoup, for the benefit of the company, all performance-based compensation paid to executives who have engaged in fraud, negligence or willful misconduct that contributed to or resulted in a restatement of financial results or otherwise had a negative impact on the company. We will review, on a case-by-case basis, shareholder proposals requesting that boards adopt a policy to recoup, for the benefit of the company, all unearned performance-based compensation from executives to the extent that their corresponding performance targets were later determined not to have been achieved.

## VII. The Audit Function

An important determinant of investor confidence is the integrity of a company's financial reporting. The board's audit committee has special oversight responsibilities relating to a company's financial affairs and financial disclosure. Among other duties, it must assess whether management has adequate internal controls and procedures for financial reporting.

We place great importance on the quality and independence of a company's external auditors.

**Guideline:** Generally support the appointment of the auditor recommended by the board. Vote against the reappointment of the company's auditor where it appears that its independence has been compromised or where the auditor's past performance is questionable.

## VIII. Capital Structure

### 1. INCREASE IN AUTHORIZED SHARES

We believe that shareholders should have the opportunity to approve the issuance of common shares which will have a dilutive effect on their holdings.

**Guideline:** Generally support fixed increases of up to 25 per cent in authorized common shares. Support larger increases on a case-by-case basis if a specific business need, which will enhance long-term shareholder value, is demonstrated. Oppose unlimited increases in authorized shares.

## 2. DUAL-CLASS SHARE STRUCTURES

In dual-class share structures, one class of shares has more votes per share than other shares. These structures give a group of shareholders, usually the founding investors, voting control for a relatively low level of equity ownership and can lead to value deterioration over time. One argument for dual-class share structures is that those with the superior voting rights can ensure stability, continuity in ownership and facilitate a long-term perspective. We disagree with this argument and consider dual-class share structures to be contrary to good governance. They can entrench the board and management, compromising their accountability to shareholders and undermining the basic principle linking voting to equity ownership on the basis of one-share-one-vote. In our view, enhanced shareholder engagement can foster a long-term shareholder base and serve to negate the perceived need for a controlling share structure. Where such structures do exist, we support the adoption of sunset clauses for classes of shares with unequal voting rights to prevent these structures from existing in perpetuity.

**Guideline:** Oppose new dual-class share structures. Support the collapse of existing dual-class share structures and adoption of sunset clauses on terms that are in the long-term best interests of the company. For companies with existing dual-class share structures, oppose any non-equal treatment of shareholders on a change of control transaction or any proposal intended to preserve the dual-class share structure or increase the voting power disparity between the company's share classes.

## 3. PRE-EMPTIVE RIGHTS, PRIVATE PLACEMENTS, DIVIDEND POLICY AND SHARE BUYBACKS

Returning capital to shareholders may be beneficial in the short-term, but may divert resources from expenditures that increase the long-term value of the company.

**Guideline:** Generally support pre-emptive shareholder rights and reasonable private placements. Consider capital return to shareholders, including dividend payments and share buyback plans, on a case-by-case basis taking into account whether they are in

the long-term best interests of the company. Scrutinize any changes or cancellations to capital allocation policies and payments, including the stated rationale for those changes.

## IX. Corporate Transactions

### 1. MERGERS, ACQUISITIONS AND OTHER TRANSACTIONS

We evaluate mergers, acquisitions and other corporate transactions based on what is in the long-term best interests of the companies involved. We consider factors including the strategic rationale, valuation and impact on shareholder rights. The board's decision-making process should be clearly disclosed.

Executive compensation arrangements in connection with a corporate transaction should be structured to incentivize management to act in the long-term best interests of the company, rather than to protect individual financial interests.

**Guideline:** Review corporate transactions and related compensation arrangements on a case-by-case basis.

### 2. REINCORPORATION

Companies may request shareholder approval to reincorporate in a new jurisdiction for various reasons. We will evaluate reincorporation proposals based on the long-term best interests of the company, including the financial and strategic rationale for the proposed move, as well as the comparative corporate governance and shareholder rights available in the current and proposed jurisdictions.

**Guideline:** Consider reincorporation proposals on a case-by-case basis, taking into account the rationale and implications for corporate governance and shareholder rights.

## X. Takeover Protection

### 1. TAKEOVER OFFERS

Because of the size and scope of CPP Investments’ equity portfolio, we sometimes find ourselves on both sides of a takeover offer. Consequently, we must evaluate the offer not just in terms of its fairness from a financial point of view to the shareholders, but also on the basis of what is in the long-term best interests of the company.

In some cases, an offer might be in the best short-term interests of shareholders of the target company in releasing unrealized value, but not be in the best interests of long-term investors such as CPP Investments for whom the company’s continued independence may create more substantial value over the longer term.

**Guideline:** Support proposals, policies or plans that strengthen the capacity of a board and management to respond to takeover offers in a manner that enhances long-term shareholder value.

## 2. POISON PILLS

Poison pills (also referred to as shareholder rights plans) can be a reasonable defensive mechanism in the event of a takeover bid, giving the company additional time to consider alternatives to maximize shareholder value. We support poison pills that are structured in the best interests of shareholders. We do not support poison pills that discourage takeover bids or that prevent shareholders from responding to potentially attractive bids.

**Guideline:** Evaluate shareholder rights plans on a case-by-case basis, considering the ownership trigger threshold, time limits placed on the plan, the board’s rationale for its adoption, limits on the board’s ability to amend or waive the plan, and whether the plan would be put to a shareholder vote for renewal. Consider voting against the governance committee chair or other relevant directors where the board implements or renews a poison pill without shareholder approval.

## XI. Related Party Transactions

As related party transactions can give rise to conflicts of interest, they should receive enhanced scrutiny by the board to ensure that their terms are fair and reasonable. We believe that related party transactions should be (i) reviewed and approved by independent directors of the board with, where appropriate, the benefit of advice from independent and qualified experts, (ii) completed on arm’s length terms, (iii) publicly disclosed, and (iv) where appropriate, submitted to shareholders for approval.



**Guideline:** Review related party transactions on a case-by-case basis.

## XII. Newly-Public Companies

The transition from a private to a public company generally involves undertaking significant corporate governance changes to meet listing standards and new shareholder expectations. In some cases, companies adopt anti-takeover measures on IPO that would not be considered best practice for a public company, such as dual class share structures, classified boards, supermajority vote requirements and other measures that limit shareholder rights. We oppose these measures and maintain the same governance expectations for all public companies.

**Guideline:** Apply our governance expectations to newly-public companies with a reasonable grace period for full compliance where appropriate. Oppose the adoption of restrictive anti-takeover measures and consider voting against relevant committee members where such measures have been adopted.

## XIII. Standards and Guidelines of Business Conduct

We believe companies that adopt and enforce high standards of business conduct are likely to achieve better long-term performance.

All companies should publicly disclose their corporate governance guidelines, codes of business conduct, and conflict of interest management procedures. The governance committee of the board should formally review such policies on at least an annual basis and require them to be published on the company's website.

**Guideline:** Support disclosure of corporate governance guidelines, codes of business conduct, and conflict of interest management procedures.