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## **1 Introduction**

Healthcare of Ontario Pension Plan (“HOOPP”), as a beneficial owner of shares in public corporations in Canada and around the world, is entitled to vote on issues put forth by management and shareholders. Our votes are an important mechanism to influence companies and express our views as a shareholder.

These votes are cast, in most instances, by use of a proxy. A proxy, which is a legal transfer to another party of a shareholder’s right to vote, allows shareholders that cannot physically attend shareholder meetings to vote by mail or electronically.

### **1.1 Purpose**

This document outlines our views on good governance structures and practices, as well as other topics such as environmental and social issues, including those related to climate change. These guidelines provide a general indication of how HOOPP will vote and are not intended to provide an exhaustive list of every proxy issue. We evaluate ballot items on a case-by-case basis. New issues can and will arise and these will be examined and voted on in accordance with the principles outlined in this document. Portfolio managers may use discretion in the context of company performance and their view of company strategy, if appropriately documented.

### **1.2 Primary Principles**

HOOPP believes that strong, effective governance enhances and protects shareholder value and investments in well-governed companies help achieve the returns required to deliver on our pension promise. Voting our proxies in alignment with the principles of good governance is in accordance with our fiduciary duty to our Plan beneficiaries and part of how we responsibly steward our investments. Voting and corporate engagements are two key stewardship activities and may be used together. Voting results may inform future engagement discussions and engagement outcomes may inform voting action.

HOOPP also believes that public disclosure is a key tool which enables shareholders to evaluate a board’s performance. A corporation’s board of directors is responsible for ensuring that management enhances long-term shareholder value. Corporate management is accountable to the board of directors and the board is accountable to the shareholders. The board provides oversight of management and collectively represents all shareholders.

### **1.3 Process**

HOOPP has established procedures to ensure that our proxies are voted on a timely basis. HOOPP believes that proxy voting is part of portfolio management activities for fundamental strategies and therefore the relevant portfolio manager is responsible for the voting analysis, where applicable. As input to the internal analysis, we reference corporate disclosures, regulatory filings and receive research from proxy voting service providers. Our proxy voting activities and outcomes are reported annually to the HOOPP Board of Trustees. This document is reviewed annually by the Board as part of the Investment Policies and Guidelines.

## **2 Board of Directors**

Votes for or against nominees to a board of directors can be a means for shareholders to express satisfaction or dissatisfaction with a board’s oversight of management and the state of corporate governance of the corporation.

## **2.1 Board Independence**

HOOPP believes that the independence of the board from management is key and is best maintained if a majority of directors have no direct relationship with the corporation. Non-independent directors include executives and retired executives of the corporation as well as individuals who have a material business, personal or economic relationship with the corporation. In deciding upon a vote for or against director nominees, factors such as historical corporate performance and governance should be considered.

### **Voting Guidelines**

***Vote against the election of directors if a majority of the candidates for the board of directors are non-independent. Consideration will be given of non-independent boards that have a strong history of good corporate performance and governance.***

## **2.2 CEO – Chair Separation**

In order for the board of directors to maintain its independence from management of a corporation, a strong, independent leader is required. It follows that this leader should not be the Chief Executive Officer (CEO). In cases where the CEO and Chair are the same person, an independent lead director should be appointed by non-management board members and should have similar authority to the combined CEO-Chair role.

### **Voting Guidelines**

***Support the separation of the board chair and CEO and vote against the Chair and/or members of the Nominating Committee where the CEO and the Chair are the same person. Consideration will be given in cases where there is a strong history of good corporate performance and governance or where a strong, independent board leader has been appointed.***

## **2.3 Key Committees and Audit Function**

In addition to having a majority of independent directors on the full board, the board should have completely independent audit, nominating and compensation committees.

HOOPP's preference would be for the audit committee to select a large, well known and reputable accounting firm as auditor. Over time, HOOPP believes that a programmed rotation of auditors may better serve a corporation, although in some instances there may be a legitimate reason to stay with one firm.

HOOPP's preference would be that most, if not all, of the revenues earned by the accounting firm with respect to a corporation be associated with the audit rather than with other consulting business.

### **Voting Guidelines**

***Vote against or withhold votes for the non-independent directors on the committee in question when the audit, nominating, or compensation committees are not fully constituted of independent members.***

***Generally, support the choice of auditors recommended by the audit committee of the corporation. Vote against auditors where non-audit related fees exceed those that are audit related.***

## **2.4 Director Qualifications**

Boards should have the appropriate mix of skills, knowledge and experience to enable effective governance and oversight. We encourage boards to establish transparent and structured nomination and evaluation processes that ensure the board is composed of a diverse set of qualified directors.

## **Voting Guidelines**

***Consider voting against or withholding our vote for individual director nominees if they lack the appropriate skills, knowledge and experience in the context of the composition of the full board. Support proposals to adopt and disclose a board skills matrix.***

### **2.5 Equity, Diversity, and Inclusion**

HOOPP believes that having a diverse board, including but not limited to gender, increases the effectiveness of board oversight and is likely to increase the prospect of positive outcomes for investors. In Canada, there are several initiatives and disclosure requirements related to equity, diversity and inclusion. Companies governed by the Canadian Business Corporations Act (CBCA) are required to provide disclosures along four dimensions of diversity: women, Indigenous peoples (First Nations, Inuit and Metis), persons with disabilities and members of visible minorities. We recognize there are additional underrepresented groups, such as the LGBTQ2SI+ community, not currently covered by the CBCA requirement. We support various initiatives related to advancing equity, diversity, and inclusion, such as the 30% Club Canada Investor Group and the BlackNorth Pledge.

We expect companies to disclose relevant policies and practices including performance metrics on equity, diversity and inclusion. We expect companies to have a robust plan to address the inclusion of underrepresented groups, both in their management teams and on their boards.

## **Voting Guidelines**

***Where a board has less than 30% women on the board, consider voting against or withholding our vote from the Chair of the Nominating Committee, or the entire Nominating Committee.***

### **2.6 Over Boarding and Attendance**

Directors should be able to commit an appropriate amount of time to their role and therefore any director who is a CEO should sit on a maximum of two additional outside boards and any outside directors, i.e. those holding no full-time executive position, should sit on a maximum of five boards. Directors should have a record of attending at least 75% of the meetings in any one year.

## **Voting Guidelines**

***Vote against or withhold from directors who are CEOs and sit on more than two outside boards and directors with no full-time executive position who sit on more than five public company boards.***

***Also vote against or withhold from directors who attend less than 75% of the aggregate of board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed.***

### **2.7 Director Compensation**

HOOPP believes that directors should be compensated reasonably in order to attract and retain qualified individuals. HOOPP encourages ownership of a meaningful holding of shares of the corporation by directors. Stock options, which align directors' interests more closely with those of management who hold stock options, are not a preferred type of compensation for directors.

## **Voting Guidelines**

***Vote against stock option plans that include awards to directors.***

## **2.8 Director Liability and Indemnification**

HOOPP believes that a limitation on directors' liability and appropriate indemnification of directors enables the attraction and retention of qualified directors while providing some recourse to shareholders on areas of misconduct by directors. HOOPP does recognize that directors might be more diligent if they were to be subject to personal liability, but HOOPP also believes that many qualified individuals would be reluctant to serve as corporate directors if this were the case.

### **Voting Guidelines**

***Vote for proposals that limit directors' liability and provide indemnification. However, these proposals should be limited to the directors acting honestly and in good faith with a view to the best interests of the corporation and, in criminal matters, to the director having reasonable grounds for believing the conduct was lawful.***

## **2.9 Annual Elections**

In a staggered board, directors are elected in groups, serving terms greater than one-year. Disadvantages with this structure are the difficulty in replacing individual undesirable board members and the inability to replace the entire board, making it difficult for shareholders to propose or vote for any change in control.

The counter argument is that by staggering the election of directors, some continuity and skill is maintained. HOOPP feels this can be addressed by annual elections, if the directors are careful to address the issue of succession.

### **Voting Guidelines**

***Vote for proposals that provide for annual elections of directors as opposed to staggered terms. When staggered terms for directors are already in place, vote for directors in those instances in which a vote for such directors is viewed to be in the interest of shareholders.***

## **2.10 Proxy Contests**

Most director elections in Canada and the U.S. are not contested. In the event of a contested election or a proxy contest, factors such as the long-term performance of the company relative to its peers and the track record of the current management team will be considered.

### **Voting Guidelines**

***Examine proxy contests on a case-by-case basis and vote for the option that is best aligned with long-term shareholder value.***

## **2.11 Majority Voting**

Majority voting for director elections is corporate governance best practice. Majority voting requires that directors are elected with at least 50% of votes cast. This standard is becoming more common in Canada and the U.S. due to developments in stock exchange listing requirements and developments in corporate law. Where majority voting is not otherwise mandated, we believe it should be implemented.

### **Voting Guidelines**

***Support majority voting standards. Where such standards are not required by law or listing requirements, we will vote in support of proposals calling for majority voting.***

### **2.12 Cumulative voting**

Cumulative voting gives shareholders votes equal to the number of shares they own multiplied by the number of directors to be elected which can then all be cast for a single candidate, or for any two or more of them. Directors in place as a result of cumulative voting may have the interests of a special interest group ahead of those of all shareholders. However, there may be occasions, as in cases involving control blocks, when it is desirable to facilitate independent or minority representation on a board.

#### **Voting Guidelines**

***Vote against cumulative voting unless voting for it would facilitate independent or minority representation on an unresponsive board or a board controlled by a block of inside shareholders.***

## **3 Shareholder Rights**

HOOPP believes that shareholders' rights, which include the right to vote at shareholder meetings, are an important component of the value of an ownership position in a corporation. HOOPP will vote against proposals that erode or attempt to subordinate the rights of common shareholders.

Ownership rights should not be subordinated. Minority shareholders should not be treated differently from controlling shareholders. All shareholders have a right to receive proper notice of corporate actions and to vote on issues that have a material financial impact upon their investments.

The format, design and logistical set-up of shareholder meetings can also impact shareholders' rights and ability to interact with the board. Hybrid formats can make it easier for shareholders to attend but should provide the same level of transparency and opportunity for participation for all attendees.

### **3.1 Dual class share structure**

Dual class capitalization structures involve two classes of common shares with different voting rights. Generally, the shares that have lower or fewer voting rights can be bought and sold more easily than the shares that have superior voting rights. The shares that have superior voting rights are usually kept in the hands of management or a minority group who maintains control of the corporation. These classifications violate the principle of "one share, one vote" enabling management or a minority group to make changes to corporations without the support of the majority of shareholders.

#### **Voting Guidelines**

***Vote against the creation or extension of dual class voting stock with unequal voting rights.***

### **3.2 Proxy Access**

Proxy access refers to the ability of shareholders to nominate directors to the corporate board using the company's proxy circular. This tool is intended to increase board responsiveness to shareholder concerns. HOOPP believes that proxy access can be a useful shareholder right.

#### **Voting Guidelines**

***Support proxy access measures that are aligned with the Proxy Access Policy of the Canadian Coalition for Good Governance (CCGG). CCGG proposes that a group of shareholders owning at least 3% of the shares for at least 3 years may nominate up to the greater of two directors or 20% of the board.***

### **3.3 Linked/Bundled Proposals**

Linked proposals seek to bundle two or more issues together in one vote. Such proposals can be a way to have shareholders approve a proposal that they would not support if it were proposed on its own.

#### **Voting Guidelines**

***Vote against “linked proposals” where one or more of the proposals is not in the best interests of shareholders.***

### **3.4 Confidential voting**

HOOPP believes that the way HOOPP votes on proxy issues should be confidential unless HOOPP decides to make its votes public. HOOPP does, however, feel that it is beneficial that management is aware that HOOPP is a shareholder.

#### **Voting Guidelines**

***Vote for confidential voting resolutions.***

### **3.5 Supermajority Voting**

Super-majority voting requirements are designed to deter hostile takeovers by imposing voting barriers. They typically require the approval of well over 50% of shareholders to approve a particular transaction – often as high as 80%.

Such proposals erect barriers to potentially beneficial resolutions. Proposals that carry such provisions can impair share value.

#### **Voting Guidelines**

***Vote against proposals to increase the number of voters required on an issue above two-thirds of the outstanding shares unless it is in the best interests of shareholders.***

## **4 Executive Compensation**

Executive compensation should be structured in such a way as to provide management with incentive to act consistently with the long-term interests of the shareholders of the company and to ensure the motivation and retention of capable people. Total compensation should not be excessive and incentive plans should be tied to individual and corporate performance.

Incentive plans have become more complex over time. Proposals to implement or change the terms of such plans should be reviewed on a case-by-case basis in the context of management and corporate performance of the company. It is the role of an independent Compensation Committee to set executive compensation. Disclosure of compensation plan metrics, targets and rationale for deviations from the plan are essential for shareholders to ensure compensation practices are aligned with long-term value.

HOOPP will favour compensation arrangements that encourage the outright ownership of a significant number of shares of the corporation by management.

### **4.1 Equity Based Awards**

While stock options can be an appropriate way to compensate management, each plan should be scrutinized carefully to ensure that undesirable features are not included. HOOPP believes that the

outright ownership of shares of the corporation by management aligns the interests of shareholders and management much more closely than does ownership of options, which bear less downside risk.

### **Voting Guidelines**

***Vote for stock option plans that contain features that align the interests of shareholders and management. Vote for proposals to link vesting of options with appropriate performance measures.***

***Vote against plans that have any of the following features:***

- i. Dilution of more than the greater of 10% in total or 1% per annum.***
- ii. The ability to lower the strike price of outstanding options.***
- iii. Options are awarded at strike prices that are at a discount to the market price.***
- iv. Omnibus plans (where several types of awards are included in one plan) unless each individual type of award is appropriate.***
- v. Evergreen plans (where options that have been exercised are loaded back into the pool available for grant).***
- vi. Accelerated vesting of awards in the event of a change in corporate control.***
- vii. Options vest immediately.***
- viii. Terms of more than ten years.***
- ix. Option ownership is concentrated among a small number of senior executives.***

### **4.2 Employee loans**

Loans to employees to purchase stock or to exercise options beyond their ability to repay engender risk to the company as a result of uncollectible debt should the share price fall. The company may feel that termination of employees who are substantially in debt is more difficult.

### **Voting Guidelines**

***HOOPP does not support corporations making loans to employees to allow employees to pay for stock or to exercise options.***

### **4.3 Severance Packages**

Golden parachutes are payments paid to directors or senior officers whose appointment or employment is terminated following a merger or takeover of the corporation. In many cases these payments are viewed by shareholders as excessive, however they can also be viewed in other cases as being viable in order to retain management during takeover speculation.

Shareholders typically do not have the right to vote on golden parachutes, but they can be taken into consideration when voting on other compensation-related proposals or for boards of directors.

### **Voting Guidelines**

***Vote against excessive severance compensation packages paid to any director, officer or employee, which are contingent upon the merger or acquisition of the corporation with a resulting change in control. Excessive in this case is defined as being more than three times the salary plus bonus of the individual.***

***Withhold votes from directors on the compensation committee who have approved of excessive severance compensation packages which have not clearly provided shareholder value.***



#### **4.4 Hedging and Pledging**

Compensation in the form of equity or stock options is often issued to senior officers in order to align their medium and long-term interests with those of shareholders. For this reason, HOOPP deems reasonable equity compensation as desirable, however hedging, pledging or other financial transactions designed to off-set any declines in the company's share price in general negate the original alignment principle of such grants.

#### **Voting Guidelines**

***Vote against equity compensation plans that do not explicitly disclose a prohibition against financial transactions for the purpose of hedging, pledging or otherwise designed to eliminate the "at risk" nature of such compensation.***

#### **4.5 Advisory Vote on Compensation**

Advisory votes on executive compensation or "Say on Pay" votes are an important mechanism for shareholders to communicate their views on the alignment of pay and performance and compensation practices. If an advisory vote on executive compensation receives relatively low support, HOOPP expects the board to engage shareholders and respond appropriately to their concerns.

#### **Voting Guidelines**

***Vote for annual advisory votes on executive compensation. If there is no advisory vote on executive compensation on the ballot and there are concerning compensation practices, we will consider voting against Compensation Committee members.***

### **5 Corporate Structure and Capital Management**

#### **5.1 Takeover Protection**

There have been several different mechanisms developed over time by corporations seeking to protect themselves from unwanted takeover bids or to inhibit competitive bidding for ownership positions. In many cases, these mechanisms are not in the best interests of all shareholders or may undermine shareholder rights.

#### **Voting Guidelines**

***Vote against anti-takeover defenses unless they can be shown to be in the best interest of shareholders.***

#### **5.2 Shareholder Rights Plans**

Poison pills are shareholder rights plans that may be triggered most often as a result of a hostile takeover bid. They provide existing shareholders with the ability to purchase additional shares or to sell shares at advantageous prices. This has the result of imposing a financial penalty on the potential acquirer.

Poison pills can be acceptable to shareholders if they ensure that all shareholders are equal in the event of a change of control of a corporation or if they are a method of providing the board of the target company enough time to search for a better alternative to the existing takeover bid.

HOOPP will vote in favour of a shareholder rights plan if it complies with all the criteria specified below:

- There must be a “permitted bid” which goes directly to the shareholders with no residual discretion by the corporation’s board to refuse to allow the bid.
- The takeover threshold should be at least 20%.
- Partial bids should be permitted.
- The permitted bid must remain outstanding for 45 - 60 days, by which time there should be a response from the corporation’s board announcing either:
  - an alternative bid, or
  - the success of the original bid, i.e. more than 50% of shares have been tendered.
- The offeror should have the right to amend the offer at any time before the expiry of the bid.
- A majority of the outstanding shares tendered to the bid should be sufficient to approve the offer.
- The plan should be submitted for shareholder approval at least every three years.
- Any “break fee” should be based on the direct costs of the acquirer’s bid and should not be intended to discourage other bids.
- The plan must contain an exemption for permitted lock-up arrangements.

### **Voting Guidelines**

***Review shareholder rights plans on a case-by-case basis considering the above features.***

#### **5.3 Lock-up arrangements**

“Lock-up” arrangements are agreements entered into by shareholders to sell their shares to an acquirer, often without the knowledge of management or directors. These agreements are sometimes structured so that the shareholders who are party to the agreement are not able to get out of the agreement should a more attractive bid come along. Competitive bidding ensures that shareholders receive the highest price for their shares. Restrictive practices such as “lock-up” arrangements provide no such assurance, thus, impair shareholder value.

### **Voting Guidelines**

***Vote against arrangements that lock up a bid so that other bids are prevented.***

#### **5.4 Corporate Transactions**

Leveraged buyouts involve offers to buy a company by a group that includes management of the company. One of the implications of such an offer would be that management, as insiders, would have more information than the shareholders as to the company’s prospects.

### **Voting Guidelines**

***Evaluate leveraged buyout proposals on a case-by-case basis. Consider whether:***

- other potential bidders have had an opportunity to investigate the company and make competing bids;***
- management with a controlling interest is willing to match or exceed competing offers in buying out the remaining public shareholders or, alternatively, sell its shares to the highest bidders;***
- an independent valuation and / or an independent fairness opinion has been issued.***

***If the evaluation indicates that management is not pursuing shareholders’ best interests, vote against the leveraged buyout proposal.***

### **5.5 Reincorporation**

From time to time, corporations will submit proposals to shareholders to change the jurisdiction of incorporation of the corporation. This can be done for a number of legitimate, economic reasons. It can, however, also be proposed by boards that seek to limit directors' liability or as part of an anti-takeover defence.

#### **Voting Guidelines**

***Vote for reincorporation proposals if there are sound financial or business reasons for the move.  
Vote against reincorporation proposals that are posed as part of an anti-takeover defence or solely to limit directors' liability.***

### **5.6 Authorization of shares**

Management may propose increases in the number of authorized but unissued shares. This can provide a company with flexibility needed to deal with changing financial conditions, e.g. implement a stock split, aid in a restructuring or acquisition. However, increases can also be used to thwart takeover bids which, in some instances, are in the best interests of shareholders.

"Blank cheque" preferred shares are one of the types of shares sometimes used as a defence against takeover bids. They provide a board with broad discretion in determining the shares' voting rights, conversion rights, etc. In almost all cases, once an increase in authorized shares is approved, shareholders no longer have control over the use of the shares when issued.

#### **Voting Guidelines**

***Vote for proposals for an increase in authorized common shares provided the amount requested is reasonable and there are sound business reasons.***

***Vote against the authorization of or an increase in "blank-cheque" preferred shares.***

## **6 Environmental and Social Issues**

HOOPP believes that environmental and social factors can materially impact a company. HOOPP believes that corporations that effectively manage these are likely to be more financially successful over the long-term than those which do not. ESG factors can take the form of risks or opportunities and can impact a company at the strategic, operational or reputational level. These ESG factors include those related to climate change, which is a systemic risk and may impact a company through the physical effects of climate change and/or the transition to a low carbon economy. Credible transition plans and progress against those plans allow investors to assess if companies are effectively managing these risks.

HOOPP encourages reasonable disclosures related to relevant E&S topics. The International Sustainability Standards Board (ISSB) created disclosure standards IFRS S1, which covers general requirements for disclosure of sustainability-related information and IFRS S2, regarding climate governance, strategy, risk management and metrics and targets. We expect companies to report using the ISSB standards or equivalent jurisdictional standards.

HOOPP will examine shareholder proposals on ESG issues on a case-by-case basis.

### **6.1 E&S Disclosures and Risk Management**

#### **Voting Guidelines**

***Typically vote for reasonable policies, practices and disclosure related to material environmental and social issues that will improve the company's management of related risks and opportunities.***

***Consider voting against the relevant board members if any of the following are applicable. A company is:***

- 1) not providing adequate disclosure of information, such as metrics or risk management, regarding these topics; and/or***
- 2) not adequately managing the risks of material environmental and social issues in a way that has had a meaningful impact on stock price performance or is reasonably likely to in the future;***

## **6.2 Say on Climate**

Say on climate proposals request shareholder approval of the company's climate plan. We believe corporate strategy, including climate strategy, is the domain of management and the board due to the in-depth knowledge of the company required to set the strategy. Thus, we believe it is not appropriate for shareholders to vote on the climate strategy.

### **Voting Guidelines**

***Generally vote against shareholder proposals requesting an annual say-on-climate vote.***