

**TABLE OF CONTENTS**

1.	Introduction .....	1
2.	Primary Principle.....	1
3.	Other Principles .....	1
4.	Procedures for Voting Proxies .....	1
5.	Guidelines .....	2
5.1	Boards of Directors.....	2
5.2	Independence of Directors .....	2
5.3	Separation of Chief Executive Officer and Chair.....	2
5.4	Size of Boards and Board Effectiveness .....	3
5.5	Board Diversity .....	3
5.6	Contested Elections and Proxy Contests .....	3
5.7	Majority Voting.....	4
5.8	Proxy Access.....	4
5.9	Board Committees.....	4
5.10	Staggered Boards.....	4
5.11	Cumulative Voting .....	5
5.12	Director Liability and Indemnification.....	5
5.13	Appointment of Auditors .....	5
5.14	Executive and Director Compensation .....	6
5.15	Stock Option Plans .....	6
5.16	Anti-Hedging.....	6
5.17	Employee Loans .....	7
5.18	Severance Packages / Golden Parachutes.....	7
5.19	Director Compensation.....	7
5.20	Takeover Protection .....	7
5.21	Leveraged Buyouts.....	8
5.22	“Lock-Up” Arrangements .....	8
5.23	Poison Pills / Shareholder Rights Plans .....	8
5.24	Reincorporation .....	9
5.25	Shareholders’ Rights .....	9
5.26	Dual Class Capitalization.....	9
5.27	Linked Proposals .....	10
5.28	Stakeholder Proposals .....	10
5.29	Authorized Shares .....	10
5.30	Super-majority Voting Requirements .....	11
5.31	Confidential Voting .....	11
5.32	Environmental, Social and Governance (“ESG”) Issues .....	11

## **1. Introduction**

Healthcare of Ontario Pension Plan (“HOOPP”), as a beneficial owner of shares in corporations in Canada and around the world, is entitled to vote on issues put forth by both management and shareholders at annual, general and special meetings. 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 such meetings to participate nonetheless.

This document provides guidelines as to how votes attached to shares owned by HOOPP will be cast on various types of management and shareholder proposals. HOOPP recognizes that, depending upon the jurisdiction, certain of these issues are not always brought to shareholders for a vote.

## **2. Primary Principle**

In accordance with HOOPP’s overriding fiduciary duty to the Plan beneficiaries, proxies will be voted so as to maximize the long-term shareholder value of its investments.

## **3. Other Principles**

As well, HOOPP subscribes to the following general principles of corporate governance adopted by the Pension Investment Association of Canada:

- Corporate management is accountable to the Board of Directors. The Board of Directors is responsible for maximizing long-term growth of shareholder value. The Board reports to the shareholders. The Board should reinforce these concepts in making its appointments and by appropriately defining the separate roles of Board members and management.
- 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 proxy vote is an important asset of the Fund. Ownership and voting rights should be used to support ethical conduct but not any particular external social or political agenda at the expense of long-term returns. Fiduciaries are obligated to exercise their ownership rights in order to optimize the long-term value of their investments.

## **4. Procedures for Voting Proxies**

HOOPP has established procedures that ensure that all proxies are carefully examined by our portfolio managers and are voted on a timely basis. HOOPP believes that the decision on how to vote proxies is best made by the portfolio manager with responsibility for acquiring the relevant corporations’ shares. As input to the internal examination, HOOPP receives research on all proxy issues from outside proxy analysis services.

All proposals are individually assessed to determine the probable effect on share price, shareholders’ rights and governance and will be voted in such a way as to enhance long-term shareholder value.

From time to time, HOOPP meets with the management of corporations to discuss the issues contained in their proxies.

Shares held in segments of HOOPP’s Fund that are managed by external investment managers will be voted in accordance with these guidelines and the managers provide a quarterly report on proxy voting to HOOPP.

All proxy decisions are recorded and maintained by HOOPP and its external investment managers.

## 5. Guidelines

These guidelines are intended to provide a general indication of how HOOPP will vote on proxy issues. Issues will be examined on a case-by-case basis with consideration of all factors involved.

This document is not intended to provide an exhaustive list of every proxy issue. New issues can and will arise and these new issues will be examined and voted on in accordance with the overriding principles previously discussed.

### 5.1 Boards of Directors

HOOPP believes that the board of directors is responsible to shareholders of a corporation for ensuring that the management of the company performs in such a way as to maximize long-term shareholder value for all shareholders.

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.

### 5.2 Independence of Directors

HOOPP believes that the independence of the board from management is key and is best maintained if a majority of board members have no direct relationship with the corporation. Non-independent members include executives and retired executives of the corporation as well as individuals who have a material business, personal or economic relationship with the corporation, either directly or indirectly through their firms or former members.

In deciding upon a vote for or against a slate of directors, factors such as historical corporate performance and governance should be considered.

#### Voting Guidelines

***Generally, 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.***

### 5.3 Separation of Chief Executive Officer and Chair

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.

#### Voting Guidelines

***Generally, vote against boards where the CEO and the Chair are the same person. Consideration will be given in cases where they are the same person where there is a strong history of good corporate performance and governance or where a strong, independent board leader has been appointed.***

#### **5.4 Size of Boards and Board Effectiveness**

The number of directors on a board should be between five and twenty so that it is not too large to be effective and yet not so small that all the different types of expertise required are not available.

Boards should include directors with appropriate and diverse experience and knowledge.

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 six boards.

Cross-directorships should be discouraged.

Directors should have a record of attending at least two-thirds of the meetings in any one year.

#### **Voting Guidelines**

***Consider the appropriateness of the number of directors, their experience and knowledge and their effectiveness when deciding whether to vote for boards of directors.***

***Generally, vote against fixing the size of boards where there is less than a majority of independent directors.***

#### **5.5 Board Diversity**

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. With respect to gender diversity, we are a signatory to the 30% Club Canadian Investor Group's Statement of Intent, which has an established objective to achieve a minimum of 30% women on the boards and at the executive level of companies by 2022.

#### **Voting Guidelines**

***Where a board has less than two female directors, consider voting against or withholding our vote from the Chair of the Nominating Committee, or the entire Nominating Committee, unless the board has a robust public policy on gender diversity or a robust public policy on board renewal that addresses gender diversity.***

#### **5.6 Contested Elections and 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, HOOPP will review the specific issues involved in the individual case and decide how to vote our proxy based on our judgment of which option will create the most value for shareholders in the long-term.

#### **Voting Guidelines**

***In the event of a contested director election or a proxy contest, HOOPP will vote guided by our fiduciary duty to maximize long-term shareholder value. We will consider factors including: the long-term performance of the company relative to its peers; the track record of the current management team; the background to the contested election; and the different strategic plans of the two parties and the likelihood that the goals of either party can be achieved.***

## 5.7 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

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

## 5.8 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. Several versions of Proxy Access have been discussed in Canada and the U.S. HOOPP believes that Proxy Access can be a useful shareholder right.

### Voting Guidelines

***HOOPP supports Proxy Access measures that are aligned with the Proxy Access policy of the Canadian Coalition for Good Governance (CCGG). The 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.***

## 5.9 Board Committees

In addition to having a majority of independent directors on the full board, the audit and nominating committees should be primarily if not totally made up of independent directors. The compensation committee should be completely independent and should not be nominated or selected by the CEO.

### Voting Guidelines

***While HOOPP will not generally withhold the vote for a slate of directors because of inappropriately constituted board committees, in cases of poor corporate performance or excessive executive compensation, this should be considered.***

## 5.10 Staggered Boards

In a staggered board, directors are generally elected in groups, serving terms greater than one-year. Using an example of a three-year staggered board, at each annual meeting a third of board members would be up for re-election for a further three-year period. 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 financial interest of shareholders.***

### 5.11 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.

HOOPP would be concerned that directors in place as a result of cumulative voting 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.***

### 5.12 Director Liability and Indemnification

Generally, 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.***

### 5.13 Appointment of Auditors

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

***HOOPP generally supports the choice of auditors recommended by the audit committee of the corporation.***

***HOOPP supports disclosure of the breakdown of revenues earned by auditors into audit and other consulting categories.***

***Vote against auditors where non-audit related fees exceed those that are audit related.***

#### **5.14 Executive and Director Compensation**

Executive and director 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 prevalent and complex over the past several years. 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.

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

#### **5.15 Stock Option Plans**

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 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.***

***Vote for proposals to link vesting of options with appropriate performance measures.***

#### **5.16 Anti-Hedging**

Compensation in the form of equity or stock options is often issued to directors and 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.

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**

***HOOPP generally will not support 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.***

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

### 5.18 Severance Packages / Golden Parachutes

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.***

### 5.19 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.***

### 5.20 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 defences unless they can be shown to be in the best interest of shareholders.***



## 5.21 Leveraged Buyouts

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:***

- i. other potential bidders have had an opportunity to investigate the company and make competing bids;***
- ii. 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;***
- iii. 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.***

## 5.22 “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.***

## 5.23 Poison Pills / 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.

In Canada, such shareholder rights plans must be approved by shareholders. However, in the U.S., they are generally adopted without a shareholder vote.

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 “poison pill” only if it complies with all the criteria specified below.

Shareholder rights plans should have the following features:

- 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.***

### **5.24 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.***

### **5.25 Shareholders' 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. Several mechanisms exist in the marketplace that have the ability to detract from this value. HOOPP will vote against proposals that erode or attempt to subordinate the rights of common shareholders.

### **5.26 Dual Class Capitalization**

Dual class capitalization structures involve two classes of common shares with different voting rights. Generally, the shares that have lower or fewer voting rights pay a higher dividend and 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.***

## 5.27 Linked 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.***

## 5.28 Stakeholder Proposals

Traditionally, corporate governance requires corporate officers and directors to recognize that their first priority is to the owners of the corporation, its shareholders. Stakeholder proposals are proposals to grant directors the authority to consider the effects of the board’s decisions on corporate constituencies other than shareholders, e.g. employees, customers or creditors.

HOOPP recognizes that to manage a corporation effectively, directors must consider the interests of not only shareholders, but also employees, customers, suppliers, creditors and the community.

However, HOOPP takes the view that the directors should not be put in the position of having to give equal or more consideration to other stakeholders than to the long-term interests of shareholders.

### Voting Guidelines

***Consider on a case-by-case basis, but generally vote against proposals referred to as “stakeholder proposals” which seek to alter the responsibility of directors to the shareholders of the corporation.***

## 5.29 Authorized Shares

Management will often 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 that, in some instances, are in the best interests of shareholders. Additional authorized shares can be issued in connection with poison pill defences, or with special voting rights that will make a takeover extremely difficult.

“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 voting rights, conversion rights, etc. with respect to the shares.

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.***

### **5.30 Super-majority Voting Requirements**

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.***

### **5.31 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.***

### **5.32 Environmental, Social and Governance (“ESG”) Issues**

HOOPP believes that corporations that effectively implement responsible environmental, social and governance policies and practices are likely to be more financially successful over the long-term than those which do not.

In voting HOOPP’s proxies, HOOPP will encourage reasonable disclosure of the performance of companies in ESG matters.

HOOPP will examine shareholder proposals on ESG issues on a case-by-case basis, taking into account the possible effects that any proposed actions would have on the long-term value of the investment.

#### **Voting Guidelines**

***Vote for proposals for reasonable disclosure of policies and practices in the areas of environmental, social and governance issues unless the cost of doing so outweighs the benefits.***

***Vote for boards that have a record of implementing practices that manage the risks of environmental, social and governance issues as set out in HOOPP’s Responsible Investing Policy.***