



Proxy Voting Guidelines

June 2024

NEI

About NEI

NEI Investments is committed to providing Canadians with the investment solutions they need to achieve their goals. As an investment manager, NEI takes a differentiated approach to achieving investment returns for Canadians, leveraging a unique structure that includes a domestic and global network of money managers, proprietary investment management and asset allocation, and a dedicated responsible investing team. This structure is designed to deliver a broad array of outcomes to investors, with financial growth at the core. Assets under management in NEI funds and portfolios exceed \$11.7 billion as of May 31, 2024.

Contents

About NEI	1
1. Introduction to proxy voting.....	3
1.1 Our approach.....	3
1.2 What is proxy voting?	3
1.3 Why does proxy voting matter?.....	3
1.4 Purpose of the Proxy Voting Guidelines.....	5
1.5 General principles.....	5
1.5.1 Voting authority	5
1.5.2 Conflicts of interest.....	5
1.5.3 Securities lending.....	6
1.5.4 Limitations on voting	6
1.5.5 Application of the Guidelines	6
1.5.6 Proxy voting disclosure	7
1.6 Conclusion.....	7
2. Management proposals on corporate governance issues	7
2.1 Director elections.....	7
2.1.1 Context	7
2.1.2 Guidelines.....	9
2.2 Audit-related management proposals	20
2.2.1 Context	20
2.2.2 Guidelines.....	20
2.3 Compensation-related management proposals.....	21
2.3.1 Context	21
2.3.2 Guidelines.....	21
2.3.3 Other management proposals	26
3. Shareholder proposals	27
3.1 General principles.....	28
3.2 Governance shareholder proposals	29
3.2.1 Guidelines.....	29
3.3 Environmental and social shareholder proposals.....	32
3.3.1 Climate change	32
3.3.2 Human rights.....	33
4. Resources	34

1. Introduction to proxy voting

1.1 Our approach

NEI Investments is focused on producing strong financial outcomes for our clients, based on a disciplined investment process incorporating broad data sets, diverse perspectives, and a holistic view of investment opportunities. We seek to invest responsibly by considering all the factors that could impact companies' viability, profitability and future value. We also engage with companies in our portfolios to help them become more resilient over the long term.

We believe that companies can mitigate risk and take advantage of emerging business opportunities by improving their performance on environmental, social and governance (ESG) factors (also referred to as non-financial factors), and by integrating best practices into their strategies and operations. Further, we believe it is paramount for long-term sustainable value creation that companies carefully consider all forms of capital—that's economic capital, social capital, and natural capital. Without appropriate management of these inputs to a company's operations, the capital is at risk of being destroyed, perhaps permanently. In order to meet our clients' needs we take it upon ourselves, through stewardship, to influence the companies in our portfolio to improve their capital management for future cash-flow generation.

1.2 What is proxy voting?

Shareholders have the right to propose and vote on a wide variety of company policies and practices. The opportunity to exercise the shareholder vote comes every year as companies organize for their annual general meeting (AGM). By law, companies are required to submit management proposals on certain corporate governance issues. Companies may choose to submit other matters to a shareholder vote because it is considered good practice. In addition, in certain jurisdictions companies are required to put forward proposals sponsored by shareholders.

Proposals from management and shareholders appear as items in the company's management proxy circular. This document is made available to every shareholder prior to the company's AGM, setting out the time and location for the meeting and providing a financial, operational and strategic report. If shareholders cannot attend the meeting, they may vote directly by mail or online, or sign their votes over to another individual or institution—a proxy—to vote on their behalf (hence the term "proxy voting"). Investment fund unitholders do not directly hold the shares of the companies invested in by the investment fund. As such, the responsibility for voting falls to the investment fund managers.

In recent years an increasing number of public companies have adopted virtual components to AGMs. We believe that hybrid AGMs, where shareholders can attend in person and meet with management but also have the option to access the meeting online, have the potential to increase shareholder representation and participation. While virtual-only AGMs could be practical in certain circumstances and have certain benefits such as a lower environmental footprint and the potential to increase participation, they may also reduce management accountability to shareholders, as they take away the element of face-to-face communication and introduce the risk of companies filtering uncomfortable shareholder questions. Regardless of whether a company is utilizing a hybrid or virtual AGM, we believe companies should have transparent protocols and procedures in place that ensure shareholder rights are respected.

1.3 Why does proxy voting matter?

We see corporate governance as a foundational element of long-term performance. The quality of board oversight underpins the ability of a company to successfully implement its strategy and corporate vision.

Historically, many investors have been hesitant to challenge corporate management on issues such as corporate governance or executive compensation. They have followed the so-called "Wall Street rule" or "Wall

Street walk,” according to which an investor should either vote as management recommends or, if dissatisfied with management, sell the stock. But corporate scandals and growing interest in responsible investment have underscored the need for investors to take a more active role.

Through voting, shareholder opinion on important issues impacting the company and its stakeholders is communicated directly to the highest level of the company: its board of directors. A variety of critical matters are submitted to the vote, ranging from the election of the board of directors who oversee the company, to decisions on mergers and acquisitions that determine whether the company will continue to exist in its present form. Just as in political elections, voter turnout can affect the outcome.

We believe the diligent exercise of voting rights is a core duty of responsible investors. We consider proxy voting to be a key element of our comprehensive stewardship program.

Proxy voting: A pillar of our comprehensive stewardship program

At NEI, we use the special rights that come with shareholder status to mitigate material ESG risks and create positive change on behalf of our investors. Through engagement, we alert companies to ESG risks, propose solutions to the tough challenges they face and encourage them to improve their ESG performance. We seek to protect value for shareholders and keep companies accountable to all stakeholders. Our comprehensive program includes:

- holding in-depth dialogues with companies on key ESG issues, independently or through collaboration;
- filing shareholder proposals if dialogue is not progressing or may be limited;
- responding to proactive requests from companies for an investor perspective on sustainability issues;
- transparent, engaged proxy voting based on guidelines promoting sustainability and good governance;
- providing input to companies on their corporate governance practices through our “Feedback on Proxy” activity;
- engaging policymakers on corporate regulations and standards to create broader change and facilitate responsible investment;
- participating in multi-stakeholder sustainability initiatives.

“Feedback on proxy” - engaging boards on corporate governance

Proxy voting is most meaningful when companies understand why shareholders are voting for or against certain proposals. As well as scrutinizing the proposals we are asked to vote on, we also undertake an activity that we call “feedback on proxy.” This is when we write to corporate boards of a select number of companies where we have identified corporate governance concerns or notable good practices to explain the rationale for our voting decisions. This often leads to further dialogue. Companies have often told us that relatively few investment managers reach out to provide detailed proxy feedback, so we encourage more investors to adopt this stewardship practice.

1.4 Purpose of the Proxy Voting Guidelines

The primary purpose of our Proxy Voting Guidelines (the Guidelines) is to assist our proxy voting staff and the responsible investing team more broadly in reaching responsible and consistent decisions on voting items. Our predecessor company was the first mutual fund company in Canada to disclose proxy voting guidelines, long before it was compulsory. By publishing the Guidelines, we seek to:

- serve our unitholders by providing transparency on how we reach our vote decisions;
- encourage diligent voting by providing a resource for shareholders seeking to vote based on integration of ESG considerations;
- contribute to good corporate governance by enabling companies to understand how we reach our vote decisions;
- raise standards in corporate engagement by enabling proponents to understand how we reach our vote decisions on shareholder proposals.

To make it easier to use this document to explore how we voted, or to vote directly, we have laid out the Guidelines based on the order of items on a typical North American proxy ballot.

1.5 General principles

1.5.1 Voting authority

The Guidelines are primarily used for voting North American proxies of all NEI funds.¹ NEI retains the right to vote proxies and regards the proxies we hold on behalf of our unitholders as significant corporate assets. We make use of external research providers for proxy voting analysis. Our analysts review proxy information and third-party analysis and execute the proxy voting process for our funds. The final voting decision is based on the Guidelines and internal analysis.

1.5.2 Conflicts of interest

We recognize that conflicts of interest may arise in proxy voting:

- Organizational conflict of interest may arise when our company has a business relationship with a company soliciting proxies, in addition to holding shares in the company.
- Personal conflict of interest may arise when an individual who has influence on our voting decisions holds shares directly, has a personal relationship, or has a business relationship that extends beyond work undertaken for our company, at a company in which we hold shares.

To address potential conflicts of interest in proxy voting:

- Only designated staff members within the Responsible Investing team (the Proxy Voting Staff) make proxy voting decisions on behalf of our company.

¹ In certain circumstances the Guidelines are applied in markets outside North America. These instances are noted in the Guidelines. The principles laid out in the Guidelines can also apply to various voting decisions in markets outside North America, such as when voting on shareholder proposals.

- Proxy Voting Staff must disclose at regular proxy voting meetings if they have a potential personal conflict of interest, in which case they must recuse themselves from voting the securities of that company. Proxy Voting Staff must submit quarterly confirmation to the compliance department that they have followed our conflict-of-interest guidelines.
- Where we hold shares in a company to which we provide, or from which we receive, portfolio management-related services (including ESG services or sub-advisory services), and in any other situation where Proxy Voting Staff are aware of a business relationship between another entity and NEI, we will either vote according to the recommendations of our external proxy advisor, based on its interpretation of the Guidelines, or abstain if there are reasons to believe that a guideline has been misinterpreted or misapplied by the proxy advisor.
- As part of our commitment to transparency, we disclose potential organizational proxy voting conflicts of interest, and how they have been addressed, in the voting rationale disclosure in our [public proxy voting database](#).

1.5.3 Securities lending

We may lend Canadian and U.S. securities, in which case we will aim to recall all loaned securities by the record date for the purpose of voting. We do not lend securities outside of these markets as this may affect our ability to vote on behalf of our unitholders. To enable us to keep our voting rights, we never lend out all our shares of a company. We may exclude some securities from our securities lending program if we are concerned that lending shares will impact our engagement and/or proxy voting efforts.

1.5.4 Limitations on voting

Absent any technical issues that may occasionally prevent vote execution, all proxies are voted for Canadian and U.S. holdings. NEI cannot guarantee the ability to vote shares of companies domiciled outside Canada and the U.S. at all times because of technical or practical restrictions on voting in various countries. For example, certain jurisdictions or issuers may impose shareblocking, where shareholders are blocked from selling shares in the company generally from the time they vote their proxies until after the AGM. In these cases we will not vote meetings subject to shareblocking unless we get approval from the portfolio manager, as we would be restricting the ability to trade shares during the shareblocking window.

1.5.5 Application of the Guidelines

The Guidelines are designed to be responsive to a wide range of issues that can be raised in proxy situations. Because we cannot anticipate every proxy item, as well as specific guidelines for certain commonly arising matters, we have established general principles for assessing proposals. While we strive to be accountable to the best practices that we lay out in the Guidelines, we don't believe investors should be dogmatic when it comes to corporate governance expectations. Indeed, we believe there may be instances where the unique corporate context requires a more nuanced interpretation. As such, many proposals require case-by-case decision-making. In these situations, we look to our Responsible Investing (RI) program criteria and corporate engagement goals for direction. We do not support proposals that are likely to harm a company's long-term financial or non-financial health.

NEI applies the Guidelines primarily in the North American (Canada and U.S.) markets, where our funds have the highest exposure, and our voting practice is likely to have the most significant impact on governance standards. In other markets, we generally align our international voting with local good governance practices that are reflected in the market-specific guidelines of our external proxy advisor (where available, the responsible investment version). Any specific guidelines applied outside North American markets are either highlighted in this document or issued as addenda to the Guidelines. We may modify our voting approach on a case-by-case basis, depending on the level of compliance to local market laws and corporate governance good practices that a company demonstrates.

Because of our strong position on many ESG issues, we frequently vote against the recommendations put forward by company management. However, we see no value in voting against management for its own sake. Where we are able to vote with management because standards of governance are improving, we view that outcome positively.

The Guidelines are reviewed annually to determine if any updates are required, based on developments in corporate governance or the regulatory landscape. Changes adopted between new editions of the Guidelines may be issued as addenda.

1.5.6 Proxy voting disclosure

We aim to provide investors with the best and most transparent proxy voting disclosure, and to enable all companies in our holdings to freely access detailed information on how we are voting, and why. Whenever possible, explanatory voting rationales are provided for each item. Our vote disclosure is updated daily in our public proxy voting database, and votes are generally disclosed within a day of submitting our vote, often prior to the AGM or special meeting itself.

1.6 Conclusion

As Graham and Dodd stated in their 1934 classic, *Security Analysis*, “the choice of a common stock is a single act; its ownership is a continuing process. Certainly there is just as much reason to exercise care and judgment in *being* as *becoming* a stockholder.”

We encourage all shareholders to exercise the right to vote, and we invite them to vote with us by following the Guidelines. We encourage our unitholders to check our proxy voting database and see how the Guidelines were applied to our votes at companies held in the funds they own.

2. Management proposals on corporate governance issues

Corporate governance is the system by which corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation: the board of directors, managers, shareholders, and other stakeholders. Corporate governance provides the structure for setting company objectives, establishing the means of attaining those objectives, and monitoring performance.

Good corporate governance means that directors are able to direct, monitor, and supervise the conduct and operation of the company and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction, and control for all key issues, including relevant environmental and social issues. We believe that the governance framework should recognize the rights of stakeholders (employees, communities, customers, suppliers, and future generations) and encourage active participation between corporations and stakeholders in creating long-term wealth, employment, safe workplaces, and healthy environments.

2.1 Director elections

2.1.1 Context

Management is responsible for day-to-day operations of the company and is responsible to the board of directors. The board, in turn, is responsible for overseeing management performance and setting tone from the top that enables effective corporate culture. In order to best fulfill its responsibilities, the board should consist predominantly of directors who do not depend on the corporation for any benefit or consideration apart from reasonable compensation for their duties.

By extension, the chair should be independent of management in order to guide the board in its responsibility to oversee management's performance. The separation of powers between an independent chair of the board and the chief executive officer is a fundamental tenet of good corporate governance. Key committees of the board should also be composed entirely of independent directors. Where directors are "interlocked" (sit together on more than one board), concerns may arise relating to "groupthink" and trading of favours; interlocks are particularly concerning when they are combined with other poor governance practices such as a lack of diversity or independence of the board.

With its broad oversight role, the board should mirror the diversity of the workforce and society within which the company operates and services, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making. Aspects of identity diversity include gender, age, ethnicity, Indigenous status, sexual orientation, cultural identity and disability. The board should be composed of effective directors who contribute to the full range of skills and expertise needed to provide effective oversight of risk and strategy, such as finance and accounting, executive compensation, management, but also social and environmental expertise relevant to the sector, with emerging issues addressed through board education.

Long-tenured directors may lose their independence over time, and board renewal is essential if diversity is to be achieved without expanding the size of boards. We encourage companies to adopt term limit policies that treat all directors consistently and fairly but allow for the exercise of good business judgement in determining the value of the continued presence of a director on the board.

Director tenure: How long is too long?

Board composition and renewal are essential aspects of good governance. While longer tenured directors might have a better understanding of the complexities of a company's operations, new directors bring fresh perspectives to the board, and a balance of both is needed for good board oversight.

Recent research indicates that boards with well-balanced tenure, where there is an even distribution of tenure lengths among directors, demonstrate better corporate performance and lower risk compared to industry peers.² Having an appropriate mix of director tenure ensures a diversity of viewpoints and drives variety in questions and concerns brought to management. Given these findings, and our long-standing commitment to advancing board diversity, we have implemented the following guidelines to address excessively long-tenured individual directors and imbalanced overall board tenure:

- **Entrenched directors:** We will vote against a director nominee if the individual has excessive board tenure and there are issues at the company relating to governance or ESG practices. We consider excessive board tenure to be over 15 years. At companies domiciled in North America, we consider long-tenured directors who have been on the board over 15 years to be non-independent.
- **Uneven distribution of board tenure:** We will vote against directors with excessive board tenure (over 15 years) if we consider that the distribution of tenure on the board is extremely uneven. This analysis is triggered when the average board tenure exceeds 12 years as this raises concerns that overall board tenure is skewed toward longer-tenured directors.

A robust board evaluation process includes board renewal and succession programs, including tenure guidelines. We will encourage such board refreshment practices and tenure distribution assessments through our engagement with companies.

² <https://www.issgovernance.com/library/board-refreshment-finding-the-right-balance/>

Directors must be able to devote sufficient time and energy to the board to oversee the corporation effectively. The role of a corporate director has become increasingly complex as the range and diversity of issues they are required to navigate on behalf of the company grows ever longer. Those who agree to be nominated should be prepared to attend all meetings and engage meaningfully in meetings. “Over-boarded” directors who sit on too many boards may not be able to meet the increasing time demands placed on directors.

Directors are in the awkward position of having to establish their own compensation. While shareholders are not routinely offered a vote on non-executive director compensation in North American markets, we consider several aspects to determine whether the director pay is appropriate or not. Acceptable forms of compensation for non-executive directors include cash, shares and deferred share units (DSUs), and they should be subject to share-ownership guidelines to help align their interests with the interests of shareholders. Stock options do not carry the same downside risk as the shares owned by stockholders and can incentivize directors to focus on stock price alone, potentially harming the long-term value the firm could provide for all stakeholders. Equity-based payments to directors, but not stock options, are acceptable to allow qualified persons of limited means to sit on boards that have adopted a minimum shareholding requirement. Pensions, severance arrangements and excessive director pay are inappropriate, as they may make directors too dependent on the company, as well as encouraging overly long tenure.

Withhold = Against?

The vote options available in director elections vary according to the jurisdiction in which a company is formed. Up to now, ballots for Canadian director elections have offered a list of nominees (one per vacancy in an uncontested election) and the voting choices FOR or WITHHOLD. In the past, this meant that a director could be elected with a single affirmative vote, but since 2014 directors of issuers listed on the S&P/TSX Composite Index not controlled by a majority shareholder have had to stand for election annually on an individual basis, and a majority voting policy must be adopted obliging directors to resign if they do not receive the affirmative support of the majority of votes cast. In 2018 the Canada Business Corporations Act was amended so that directors would be elected annually and on an individual basis by a majority vote of votes cast FOR and AGAINST. It remains to be seen if other Canadian jurisdictions will follow suit. Elsewhere, shareholders are given the option to vote FOR, AGAINST or ABSTAIN.

2.1.2 Guidelines

2.1.2.1 Board level

We withhold from all incumbent members of the board where we have serious concerns about the representation of the interests of stakeholders, especially with regard to shareholder rights.

- ✖ The board has consistently failed to act in the best interests of all shareholders.
- ✖ The board has purposely misstated or concealed the financial condition of the company.
- ✖ The board has failed to address very significant environmental or social concerns that pose material risk to the value of the company or represent serious breaches of ESG norms.³
- ✖ The board has not responded adequately to concerns underlying the high level of opposition to a director who received a majority of votes “withheld” the previous year.

³ Examples include the norms set out in the OECD Guidelines for Multinational Enterprises. OECD (2023), OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, OECD Publishing, Paris, <https://doi.org/10.1787/81f92357-en>.

- ✖ The board has not responded adequately to concerns underlying a shareholder proposal that received majority support the previous year.
- ✖ The board has adopted an advance notice provision without shareholder approval.
- ✖ The board has adopted a takeover defense plan without shareholder approval during the current or prior year.
- ✖ The company presents the board as a slate and does not allow a vote on individual directors. (In this case, we withhold from both incumbent directors and new nominees.)
- ✖ The company has a dual class share structure with unequal voting rights. (On a case-by-case basis, we may make an exception at companies where the structure has a sunset provision, where the holders of multiple voting shares such as founders maintain a meaningful equity ownership stake and bring a unique contribution to the company, or where the company otherwise has sound corporate governance practices and is open to dialogue with shareholders.)
- ✖ Non-executive director compensation arrangements are inappropriate. (Examples include stock options at an established company, pensions, severance arrangements and excessive pay).
- ✖ The board has no gender and ethnic/racial diversity.
- ✖ The company is operating in a high impact industry (e.g., industries with a large direct or indirect greenhouse gas (GHG) emissions footprint such as oil & gas, utilities, materials, industrials, autos) and has repeatedly (i.e., over the course of several proxy seasons) shown no reasonable progress in developing a credible climate change strategy with reasonably ambitious GHG emissions reductions targets.⁴

2.1.2.2 Committee level

We withhold from incumbent members of the nominating committee where we have serious concerns relating to the composition of the board.

- ✖ The positions of chair of the board and CEO are combined.⁵
- ✖ The chair of the board is not independent.⁶
- ✖ The board is not at least two-thirds independent.⁷

⁴ Note that this represents the maximum escalation in our climate-related voting decisions for directors and would be used after having targeted individual directors in previous years, or where we have serious concerns that require escalation.

⁵ We may apply an exception for small-cap companies. On a case-by-case basis, we may find a non-independent Chair to be acceptable at companies with a lead independent director.

⁶ Ibid.

⁷ This expectation applies to Anglo-markets which include all issuers from the U.S., Canada, U.K., Australia and Ireland. On a case-by-case basis, we may apply an exception for smaller-cap companies such as family-owned businesses.

- ✖ There is a lack of gender diversity on the board, meaning there are not at least 30% independent female nominees.⁸ We consider a fully diverse board from a gender perspective to be made up of at least 40% each of women and men. Acknowledging the progress made by companies in enhancing gender diversity on their board, we would only withhold from the chair of the nominating committee (and not the whole committee) where the underrepresented gender is above 30% but less than 40% in Anglo-markets*, and Continental Europe . On a case-by-case basis, we may make an exception at companies that have published a strong, time-bound commitment to enhance diversity.⁹
- ✖ The board does not appear to have at least one racially/ethnically diverse director. We expect the board to have at least 20% ethnically/racially diverse directors in Anglo-markets.¹⁰ We would only withhold from the chair of the nominating committee (and not the whole committee) if the board exhibits some ethnic/racial diversity but it represents less than 20% of the board members.

* Throughout this document, Anglo-markets include the U.S., Canada, United Kingdom, Australia and Ireland.

⁸ Note that the Malaysian Code on Corporate Governance sets an expectation that companies have at least 30% female directors, as such this expectation is also applied to all issuers from Malaysia. Other international markets have an expectation of at least two female directors.

⁹ When applying this guideline, we will not withhold from independent female directors serving on the nominating committee based on gender diversity concerns only, as that would be counterproductive to the goal of achieving a more diverse board. At small-cap Canadian companies and other international markets, our expectation is that there should be at least 30% women on the board.

¹⁰ This guideline is only applied to Anglo-markets currently due to limitations on board ethnic or racial diversity data in other markets.

Board diversity: Who sits at the table?

Research shows that diverse boards display consistently better performance across various metrics, including improved decision-making processes, enhanced corporate performance and greater innovation success.

For over 15 years we have used our voting rights to withhold support from members of the nominating committee where there is no gender diversity on the board, and no credible commitment to enhancing diversity. We have engaged many companies in dialogue on the topic, including on setting good practice board diversity targets. Given the recent progress North American companies have made on nominating female board candidates, we encourage companies to enhance their board diversity target: a board made up of at least 40% each of women and men. This type of target emphasizes that men are part of diversity—that a board where all nominees are female is not more diverse than an all-male board. It also allows boards a degree of flexibility they would not have with a 50-50% target while striving to promote gender parity to the extent possible.

Given the progress made by companies in enhancing board diversity, we have decided to adopt a tiered approach so as not to penalize all members of the nominating committee where a company does not fully meet our expectation but has made/is making reasonable progress toward diverse representation.

- We would vote against the members of the nominating committee when there are not at least 30% independent women directors serving on the board. We would vote only against the chair of the nominating committee (and not the whole committee) where the board gender diversity is less than 40% but above 30% in Anglo-markets.

We will not withhold from independent female directors serving on the nominating committee where our only concerns are gender diversity concerns, as that would be counterproductive to the goal of achieving a more diverse board. We may make exceptions on a case-by-case basis at companies that have made credible commitments to enhancing board diversity or are demonstrating progress.

- For Canadian small-cap companies, the prevalence of family-owned businesses requires some nuance in our expectations relative to large-cap peers, even though we continue to increase those expectations. We have enhanced our expectation to 30% women on the board. We vote against the members of the nominating committee if the board has no gender diversity. We would only vote against the chair of the nominating committee (and not the whole committee) when the board has gender diversity, but it represents less than 30% of the directors.

Board diversity beyond gender: Diversity of identity

We have focused on gender diversity as an entry point for moving towards more diverse boards overall. In contrast to other types of diversity of identity, data on gender diversity, age and tenure are well-disclosed, and as such these are data points investors can more easily integrate into voting practice. In recent years however, attempts have been made to assess types of board diversity beyond gender, particularly racial diversity in the U.S. and Canada.

In 2020 we started to make voting decisions based on the “appearance” of board racial/ethnic diversity where a company does not disclose self-identified corporate diversity data on its board. Since then, company disclosures on diversity of identity on the board have grown, especially in the U.S., as more companies voluntarily share the information or are required to enhance their disclosure following regulatory developments. In this context, we continue to encourage companies to consider how they can improve their reporting on self-identified diversity data, including through our feedback on proxy campaign.

Where privacy considerations are at play, we encourage companies to explore how they can continue to respect the privacy of individuals while sharing diversity data on an aggregated basis. We appreciate that a growing number of companies are able to report on the ethnic/racial diversity of their board, whether at the individual or aggregate level. We encourage companies to have at least 20% ethnically/racially diverse directors.

Our current guideline stands as follows:

- We vote against the members of the nominating committee when the board does not appear to have at least one racially/ethnically diverse director. We vote against the chair of the nominating committee only (and not the whole committee) when the board has some racially/ethnically diverse directors but they represent less than 20% of the board members in Anglo-markets.

We withhold from incumbent members of the compensation committee where we have serious concerns about compensation practices and decision-making. We may withhold from all incumbent board nominees in egregious cases.

- ✗ The linkage of executive compensation to performance is especially poor.
- ✗ The quantum of CEO compensation is notably excessive relative to peer companies.
- ✗ The ratio of CEO compensation to compensation of the average named executive officer (NEO) is extremely inequitable (more than 5:1).
- ✗ The quantum of CEO or other individual NEO compensation is extremely excessive relative to median household income (more than 190 times at Canadian companies and more than 375 times at U.S. companies).
- ✗ The quantum of CEO is extremely excessive relative to the broader employee population (more than 375 times the median-worker pay at U.S. companies).
- ✗ Compensation governance is especially poor, with multiple problematic practices identified.
- ✗ Compensation disclosure is especially poor.
- ✗ Support for the most recent advisory vote on executive compensation is less than 80% and the committee has not responded adequately to address the concerns of those who voted against.
- ✗ The committee has selected a less frequent schedule for the advisory vote on executive compensation than the preference of a majority or significant plurality of shareholders, without adequate justification.
- ✗ The company does not offer an advisory vote on executive compensation, and we would have voted against if the vote had been offered.¹¹

We withhold from incumbent members of the audit committee where we have serious concerns about financial governance. We may withhold from all incumbent board nominees in the most egregious cases.

- ✗ There are serious concerns about the company's accounting practices.
- ✗ There are serious concerns about the company's financial reporting.
- ✗ There are serious concerns about the auditor's conduct. Serious misconduct includes rendering an inaccurate opinion or concealing material information from shareholders.
- ✗ 50% or more of the total fees paid to the auditors in the previous year were for non-audit work.

¹¹ We may apply exceptions at small-cap Canadian companies where such an advisory vote is not common practice unless there is reason to believe that executive pay is egregious.

- ✖ The company's disclosure does not allow us to assess the percentage of total fees paid to the auditors in the previous year for non-audit work.
- ✖ The auditor's tenure is extremely excessive (more than 50 years).
- ✖ The company does not ask for shareholder approval to ratify its auditors.

2.1.2.3 Director Level

We withhold from individual director nominees where we have concerns about their integrity, independence or capacity; or, where we consider that they have special responsibility for an issue of concern by reason of their role within the board.

- ✖ The nominee has been convicted of a financial, corporate or securities offence.
- ✖ The nominee has a history of serious misconduct, regulatory sanctions or business ethics violations.
- ✖ The nominee has a conflict of interest.
- ✖ The nominee is non-independent and the board is not at least two-thirds independent.¹²
- ✖ The nominee is non-independent and holds the position of chair of the board.¹³
- ✖ The nominee is non-independent and sits on a key board committee (nominating, audit, compensation or governance committee).¹⁴
- ✖ The nominee is non-independent and the whole board performs the function of a key board committee (nominating, audit, compensation or governance committee).
- ✖ The nominee sits on the compensation committee at a company where the pay outcomes are problematic and serves at another company as the CEO or a senior executive.
- ✖ The nominee sits on five or more public company boards. We may make an exception at companies with an appropriate "over-boarding" policy, if the policy is applied consistently and there is 100% attendance at board and committee meetings.
- ✖ The nominee serves at another company as the CEO or a senior executive and sits on more than one "outside" public company board.
- ✖ The nominee attended less than 75% of board and committee meetings without a valid reason.

¹² We do not apply this guideline to CEOs serving on their own board as directorship is usually a requirement for the CEO position. We also may make exception at small-cap companies such as family-owned businesses, in which case we would withhold from a non-independent nominee if the board is not at least majority independent rather than two-thirds independent.

¹³ We may apply an exception at small-cap companies. On a case-by-case basis, we may find a non-independent Chair to be acceptable at companies with a lead independent director.

¹⁴ This expectation applies to all companies in Anglo-markets including the U.S., Canada, U.K., Australia and Ireland.

- ✖ The nominee has excessive board tenure (more than 15 years) and the company has issues relating to governance or ESG practices.¹⁵
- ✖ The nominee has excessive board tenure (more than 15 years) and there is an uneven distribution of tenure on the board.
- ✖ The nominee sits together on more than one board with another director and there are corporate governance concerns related to relevant issues including board diversity, director independence or the number of interlocks on the board.
- ✖ The nominee holds no company stock¹⁶ and has served on the board for more than a year.
- ✖ The nominee serves as the incumbent chair of the governance committee and detailed vote results from the previous AGM are not disclosed. Where no such committee exists, we may withhold from the chair of the board.
- ✖ The nominee serves as the incumbent chair of the board of a Canadian company and the company does not offer an advisory vote on executive compensation.
- ✖ The nominee serves as the incumbent chair of the audit committee at a company that operates in a high impact industry (e.g., industries with a large direct or indirect GHG footprint such as oil & gas, utilities, materials, industrials, autos) and we believe the company does not have a robust climate strategy in place with reasonably ambitious GHG emissions reduction targets.
- ✖ The nominee serves as the incumbent chair of the board at a company that operates in a high impact industry (e.g., industries with a large direct or indirect GHG footprint such as oil & gas, utilities, materials, industrials, autos) and we have major concerns that the company has not made meaningful progress in developing a robust climate strategy with reasonably ambitious GHG emissions reduction targets.¹⁷
- ✖ The nominee serves as the incumbent chair of the audit committee at a company that faces high exposure to climate-related risks (e.g., financials and real estate), and we believe it is not adequately addressing those risks.¹⁸
- ✖ The nominee serves as the incumbent chair of the sustainability committee (or the chair of the audit committee if there is no sustainability chair identified) at a company with high impacts or dependencies on nature that lacks adequate disclosure on how it mitigates and responds to nature-related risks and opportunities.
- ✖ The nominee serves as the incumbent chair of the sustainability committee (or the chair of the audit committee if there is no sustainability chair identified) at a company with high exposure to deforestation

¹⁵ We do not apply this guideline to CEOs serving on their own board as directorship is a requirement for the CEO position.

¹⁶ Equivalent instruments such as deferred share units (DSUs) are acceptable.

¹⁷ Note that this represents an escalation relative to the preceding bullet (vote against the chair of the audit committee), where we are looking to escalate our voting strategy based on a lack of progress. In such a case we would also be voting against the chair of the audit committee.

¹⁸ We will consider exceptions to this guideline where the company has made a commitment to address its shortcomings or where we have evidence it is actively engaging with investors on how to improve.

risk that lacks adequate disclosure on its approach to eliminating commodity-driven deforestation. The nominee serves as the incumbent chair of the sustainability committee (or the chair of the audit committee if there is no sustainability chair identified) at a company that lacks adequate disclosure on its approach to identifying, responding to, and mitigating against human rights risks.

- ✗ The nominee serves as the incumbent chair of the committee responsible for corporate responsibility at a company that has failed to address a significant ESG concern and has not responded to engagement. Where no such committee exists, we may withhold from the chair of the board.
- ✗ The company's disclosure is not adequate to allow us to assess the nominee.
- ✗ The nominee serves as the chair of the nominating committee and the board lacks gender diversity (more than 30% women on the board but less than 40% of the directors in continental Europe or an Anglo-market*).¹⁹ In cases where there are not at least 30% independent female directors, we will usually withhold votes from all incumbent members of the nominating committee.
- ✗ The nominee serves as the chair of the nominating committee of a company domiciled in an Anglo-market* and the board lacks ethnic/racial diversity (the board has at least one ethnically/racially diverse director but they represent less than 20% of the board members).²⁰

¹⁹ For small-cap Canadian companies, we would vote against the chair of the nominating committee when the board has some gender diversity, but it is less than 30%.

²⁰ For small-cap Canadian companies, we expect companies to have at least one racially/ethnically diverse director.

Human rights and the duty to respect

We expect companies to integrate respect for human rights into their operations as a matter of good business and maintaining alignment with international law and standards. When faced with potential or actual human rights violations, companies are exposed to operational, regulatory and reputational risks, making human rights issues financially material. At a systemic level, the ability of businesses (and thus investors) to generate long-term sustainable value is underpinned by respect for human rights.

Our understanding of human rights is informed by various international norms and conventions, including the International Bill of Human Rights (which is made up of the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights), the Geneva Conventions on International Humanitarian Law, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the UN Declaration on the Rights of Indigenous Peoples, and the eight fundamental International Labour Organization conventions.

We expect companies to identify, address and mitigate human rights risks that may exist in their operations and value chains. Companies should adopt a human rights policy, undertake meaningful human rights due diligence processes, provide accessible grievance mechanisms and facilitate a remedy where violations have occurred.

Where a company lacks adequate disclosure on its approach to identifying, responding to, and mitigating against human rights risks, we will vote against the chair of the sustainability committee. In companies where the chair of the sustainability cannot be identified or does not exist, we will vote against the chair of the audit committee.

Emerging governance risks - nature loss and deforestation

Businesses impact and depend on nature and the benefits of the ecosystem services that nature provides. Nature-related risks and opportunities also present as systemic risks that can affect the stability of ecosystems and our financial system. The importance of nature as a business, investment, and societal issue has been emphasized in the Kunming-Montreal Global Biodiversity Framework, and endorsed by governments, standard setting organizations, and other entities globally. As such, boards face increasing expectations when it comes to the oversight of nature-related risks.

Deforestation and conversion of natural ecosystems through land-use change are major drivers of nature loss. Forests facilitate carbon emissions reduction, support the livelihood of many communities, and are home to many different life forms—what we call biodiversity. We have committed to using our best efforts, primarily through stewardship activities, to eliminate commodity-driven deforestation in our investment funds by 2025.

We expect companies we own that could be exposed to a high risk of deforestation in their operations and value chain to make strong deforestation and conversion commitments, particularly with respect to forest-risk commodities such as cattle, soy, palm oil, and pulp & paper.

- We will vote against the incumbent chair of the sustainability committee (or the chair of the audit committee if there is no sustainability chair identified) when a company with high impacts or dependencies on nature lacks adequate disclosure on how it mitigates and responds to nature-related risks and opportunities.
- We will vote against the incumbent chair of the sustainability committee (or the chair of the audit committee if there is no sustainability chair identified) when a company with high exposure to deforestation risk lacks adequate disclosure on its approach to eliminating commodity-driven deforestation.

Climate change governance starts at the top: further considerations

Climate change is the defining ESG issue of our time and effective governance of the risks related to climate change should be a strategic priority for any company. While no sector is immune to the potential impacts of climate change, companies with a high exposure to climate-related physical and transition risks are facing potentially existential challenges. As such, we would expect these companies to have robust climate change and energy transition strategies in place, provide good disclosure on how they are addressing the risks, and demonstrate effective oversight of climate-related risks at the board level. We expect companies to support the Paris Agreement and align themselves with its goal of limiting global warming to less than 1.5°C. Companies that are actively resisting shareholder requests for better disclosure on their climate strategy, or are engaged or supporting lobbying activities against effective climate policy, are not meeting our expectations for good governance.

Given the importance we place on effective oversight of climate-related risks, we have created a suite of expectations specific to the context of the companies in our portfolio. We aim to follow the guidance of the Net Zero Investment Framework (NZIF) in assessing the alignment of portfolio companies to a net-zero pathway and have developed an internal assessment tool to identify priority companies in our portfolio. In line with NZIF guidance, we have placed our most rigorous expectations on companies operating in high-impact industries in recognition of the fact that these companies represent the greatest opportunity to reduce real-world emissions. We have adopted the following voting guidelines:

For companies operating in high-impact industries (e.g., industries with a large direct or indirect GHG footprint such as oil & gas, utilities, materials, industrials, autos):

- We will vote against the chair of the audit committee where we believe the company lacks a reasonably robust climate strategy and has not set adequately ambitious GHG emissions reduction targets.

If we have previously voted against the chair of the audit committee at a company and it has not made sufficient progress on developing its strategic response to climate risks or has not responded adequately to the concerns we have raised, we will consider the following escalation steps:

- We will vote against the chair of the board (in addition to voting against the chair of the audit committee).
- We will vote against all the incumbent members of the board if the pattern continues over several years, or where there has been an egregious climate-related governance failure at the company.

For other companies (not high impact) that otherwise face a high exposure to climate-related risks (e.g., sectors with a small physical GHG footprint but significant exposure to climate-related risks and impacts such as the financial sector):

- We will vote against the chair of the audit committee where we believe they are not adequately addressing those risks.

For all other companies, we will assess the adequacy of their response to climate-related risks on a case-by-case basis. Further considerations that may impact our voting decisions for all companies include:

- The company has poor climate-related disclosure and/or is actively resisting shareholder requests to improve its disclosure.
- The company is resistant to shareholder requests for dialogue on the topic.
- The company has directly or indirectly lobbied against effective climate policy.
- There is no explicit responsibility for oversight of climate-related issues at the board level.
- The company is otherwise implicated in a climate-related controversy.

We will consider exceptions to this guideline where the company has made a commitment to address its shortcomings or where we have evidence it is actively engaging with investors on how to improve.

2.1.2.4 Contested elections

In a contested election (“proxy battle”), shareholders are usually asked to choose between a slate of board nominees proposed by management and a dissident slate proposed by another shareholder or group of shareholders. There are two ballots of different colours: one offering the list of management nominees, and the other offering the dissident’s list. Shareholders must choose one of the ballots, making it impossible to support a combination of management and dissident nominees unless the dissident’s ballot contains the names of incumbent directors, or a rare universal ballot is offered including all nominees. In recent years, shareholders in the U.S. have been advocating for “proxy access”, the ability for long-term shareholders to place alternative board nominees on the same ballot as management’s nominees, making it possible to support a combination of management and dissident nominees. More companies have started to adopt proxy access, which we view positively.

We vote case-by-case in contested elections, depending on the type of ballot(s) offered. In deciding how to vote, we assess how the change in corporate policy advocated by opposing sides will affect the corporation, employees, and other stakeholders. Alternative slates of directors, or shareholder nominees at companies with proxy access, will be given consideration where there is compelling evidence that the company has performed poorly over time, the incumbent management has been unresponsive to shareholders, or existing directors have clearly failed to perform their duties. The dissident slate, or shareholder nominees at companies with proxy access, must have a viable strategy for enhancing stakeholder value and nominees must satisfy the usual independence and qualification requirements.

2.2 Audit-related management proposals

2.2.1 Context

Shareholders must have confidence that they can rely on audit information and that the auditors who produced the information are independent, free from conflict of interest, and act ethically. In many cases, companies hire external auditors as consultants to provide other services. Some auditing firms use auditing services as loss-leaders and give their auditors commissions for selling consulting and other services to clients. We believe these practices compromise auditor independence. We strongly prefer auditors who have not performed other services for the corporation and who do not hold contracts to perform services other than the annual audit.

2.2.2 Guidelines

Vote against the ratification of auditors

- ✗ There are serious concerns about the company’s accounting practices.
- ✗ There are serious concerns about the company’s financial reporting.
- ✗ There are serious concerns about the auditor’s conduct. Serious misconduct includes rendering an inaccurate opinion and concealing material information from shareholders.
- ✗ 25% or more of the total fees paid to the auditors in the previous year were for non-audit work.
- ✗ The company’s disclosure does not allow us to assess the percentage of total fees paid to the auditors in the previous year for non-audit work.
- ✗ The auditor tenure is excessive (more than 25 years).

Vote against other audit-related proposals

- ✗ Vote against discharge of auditors or directors from liability if there are concerns about the actions of either, or limitations are placed on shareholder rights to take legal action in the future.
- ✗ Vote against approval of a financial or directors' report if the report is not provided to all shareholders before the shareholders meeting or limitations are placed on shareholder rights to take legal action in the future.

2.3 Compensation-related management proposals

2.3.1 Context

We believe that compensation should be linked to factors that lead to the long-term sustainable success of the business. The board is responsible for compensation of the CEO and senior executives. In recent years, the adoption of the shareholder advisory vote on executive compensation, or "say-on-pay", has spread from Europe to North America. In Canada, say-on-pay votes are voluntary but many of the largest publicly traded companies have adopted the practice. In the U.S., say-on-pay is mandatory for most listed companies. A new trend in Europe is say-on-pay votes that are mandatory and binding.

In evaluating executive compensation, we look for:

- a quantum of pay that is enough to retain and motivate talented executives of high integrity, but is not excessive or inequitable;
- clear linkage of pay to performance against the company's strategic objectives based on financial, environmental and social metrics of long-term value that allow for an appropriate risk-taking and do not encourage misconduct;
- good structure and disclosure that allows shareholders to make informed decisions on pay and allows stakeholders to understand the board's decision-making process regarding compensation;
- adoption of generally-accepted good governance practices regarding compensation.

2.3.2 Guidelines

2.3.2.1 Advisory vote on executive compensation (say-on-pay)

Depending on the market, companies may be required to offer shareholders a vote on executive compensation, or they may choose to do so voluntarily. We value this practice as it allows us a more nuanced way to express concerns about pay than withholding our vote from directors whose wider contribution to the board may be positive. Where we are not offered a say-on-pay vote, we may withhold our vote from compensation committee members based on concerns that would only have triggered a vote against executive compensation at a company that does offer the vote.

In voting on executive compensation, we consider a wide range of issues and decide on balance whether to vote for or against the package. Vote decisions are case-by-case, drawing on the compensation principles outlined below.

In some markets, shareholders are given the opportunity to vote separately on actual compensation awarded for the previous year, and on policy for future compensation arrangements. In markets that only offer a single advisory vote on executive compensation, if our assessment of compensation awarded for the previous year was negative but the company has announced changes that would likely lead to a positive assessment in coming year, we may take this into consideration in our voting.

Linking pay to long-term sustainable performance

Pay for performance is a key determinant for whether we will vote in favour of a compensation plan. Although our perspective on what constitutes “performance” is not restricted to short-term share price fluctuations alone, we believe that among other considerations executive compensation should reflect returns to shareholders, as a key stakeholder group.

Over the past decade, we have been advancing environmental and social performance metrics as key components of executive compensation design through research and engagement with companies, regulators, and standards-setting bodies. Many companies have begun to integrate key metrics relating to strategic non-financial goals into executive compensation design, for example, by rewarding top managers for improving customer satisfaction, employee engagement, safety performance, or reducing environmental impacts. In the following instances we will generally vote against the compensation plan if:

- ✖ The linkage of executive compensation to long-term corporate performance is poor.
- ✖ Significant environmental or social concerns arising during the previous year have not been reflected in compensation decision-making.

Adoption of performance-based awards

Bonuses should not be paid when company or individual performance has been poor and has not met targets. We believe short-term incentive awards should be entirely performance-based. We believe longer-term equity-based incentive awards should also be predominantly performance-based rather than time-based.

We do not consider stock options to be performance-based. Unless they are tied to an appropriate range of performance conditions, options may simply be rewarding a rise in stock price during a bull market that has nothing to do with executive performance, while in bear markets both inferior and exceptional performance on key long-term value drivers may lead to the same result: no reward. In addition, options can greatly increase the inherent complexity of executive compensation. We are encouraged to see a market trend generally toward reduction in the use of options, and at some companies, their complete elimination from compensation frameworks.

We do not favour giving compensation committees broad discretion. We prefer compensation packages that are based on clearly disclosed formulas and metrics. The metrics should represent stretch targets. If the performance goals are lowered, we believe related executive awards should be adjusted downward to reflect the reduced degree of challenge in achieving the goals.

We acknowledge that boards may sometimes need to exercise discretion in revising incentives, when changed circumstances have rendered metrics established at the start of the year inadequate for assessing final performance. However, both excessive and unexplained discretion can be problematic in setting executive compensation. Our preference is for compensation committees to use discretion only in limited circumstances and to disclose the extent to which discretion was used, as well as the justification for doing so, in those circumstances. In our opinion, even when discretion must be exercised, clearly disclosed metrics make it easier for boards to explain, and shareholders to understand, the rationale for deviation from the compensation plan. In the following instances we will generally vote against the compensation plan if:

- ✖ The short-term incentive award is not 100% performance-based.
- ✖ The short-term incentive award is not at least two-thirds based on quantitative performance metrics.

- ✖ The long-term incentive award is not sufficiently performance-based. (We prefer awards that are at least two-thirds performance-based.)²¹
- ✖ The framework of the compensation metrics is not sufficiently disclosed.
- ✖ The executive incentive plans (neither the short-term nor long-term incentive award) do not integrate ESG performance metrics.²²

Restricting excessive quantum and encouraging equitable pay

We give extra scrutiny to compensation plans where executive pay appears excessive relative to a reasonably-defined peer group of companies. We also look for evidence of efforts to control disparity in pay and conditions, both between members of the executive team, and between executives and other stakeholders such as employees and the broader society. We believe that increasing pay disparity within companies is not only a fairness issue, but also a potential business risk. A disconnect between executive compensation and salaries at lower levels of the company may de-motivate employees, and thus undermine the strategic objective of attracting and retaining talented people.

Excessive pay at senior executive levels can likewise lead to an unhealthy focus on individuals to guide corporate strategy. Concerns have also been raised that compensation design and high pay levels for top executives do not take into account how people are actually motivated and lead to needlessly complex pay disclosure in proxy circulars. We also pay attention to significant increases in executive pay at companies that have experienced significant layoffs. Prevailing approaches to executive compensation have led inexorably to excessive levels of executive compensation. High pay, in turn, is contributing to greater income inequality, which has been identified as a key threat to economic and social stability. In the following instances we will generally vote against a compensation plan if:

- ✖ The quantum of CEO compensation is excessive relative to peer companies.
- ✖ The ratio of CEO compensation to compensation of the average NEO is inequitable (more than 3:1).
- ✖ The quantum of CEO or other individual NEO compensation at a Canadian or U.S. company is excessive relative to the respective median household income (more than 120 times at Canadian companies and more than 280 times at U.S. companies). Evidence of equitable compensation practices within the company, such as the use of vertical comparison metrics in setting compensation, will be considered as a mitigating factor.
- ✖ The quantum of CEO compensation is excessive relative to the broader employee population (more than 280 times the median-worker pay).²³

²¹ For small-cap Canadian companies, we expect companies to have, at least, a majority of performance-based long-term incentive awards.

²² Besides North America, this guideline is also applied at European companies, as Europe is considered a more mature market from an ESG disclosure perspective.

²³ This guideline is applied in the U.S. only due to data availability.

Excessive quantum of CEO compensation: How much is too much?

North American CEOs are among the highest-paid globally. Reflecting our long-time concerns about the negative social and economic impact of income inequality—concerns shared increasingly by leading economic authorities—we apply an additional guideline for U.S. and Canadian companies, focusing on excessive quantum of executive compensation. Effectively, this guideline sets a cap on the level of CEO or other individual NEO pay that we can support in the U.S. and Canadian markets.

Our test for defining very high quantum relates CEO total compensation to median household income. We use median household income to reflect concerns about the impact of income inequality on the economy, as it is an indicator of the financial well-being of typical families. We define a “CEO pay quantum range of concern” based on multiples of the most recently available data for median pre-tax household income. We use different thresholds in the U.S. and Canada to reflect the reality of higher CEO pay and greater income inequality in the U.S.

At the time of publication, we set the quantum range of concern as follows:

- U.S. companies: 280 to 375 times U.S. median household income – approximately U.S. \$20.9 million to \$28 million.²⁴ For context, the median reported CEO compensation in 2023 in the S&P 500 was approximately US\$ 16.3 million.²⁵
- Canadian companies: 120 to 190 times Canadian median household income in 2021– approximately C\$11.8 to C\$18.7 million.²⁶ For context, the CEO compensation in 2022 for Canada's 100 largest publicly traded companies averaged approximately C\$14.9 million.²⁷

If CEO or other individual NEO total compensation falls in the quantum range of concern, in principle we will vote against the compensation package unless we find evidence of internal equitable compensation practices intended to ensure that employees across the whole company enjoy excellent pay and conditions. Equitable compensation practices could include efforts by the compensation committee to tie executive pay to pay across the broader workforce, such as the use of various types of vertical metrics in setting compensation.

If CEO or other individual NEO total compensation exceeds the quantum range of concern, we will vote against the compensation package. We will also vote against the incumbent members of the compensation committee if there are no equitable compensation practices in place. We do not believe this is inconsistent with our pay-for-performance philosophy. We continue to apply our pay-for-performance voting guidelines to all compensation plans if the CEO or other individual NEO's pay quantum falls in the range of concern that triggers additional scrutiny. In our proxy analysis, we often see the use of caps *within* incentive plans. For example, maximum annual bonus payouts based on a multiple of salary, whether performance exceeds, or only meets, the level associated with a maximum payout. We are merely extending this perspective to the compensation plan as a whole. We also query conventional wisdom that a very high quantum of pay is the most effective way to motivate talented, committed executives of the greatest integrity. Other motivation factors may be equally important, and there may be a point at which increasing the quantum of pay becomes redundant or leads to diminishing returns.

We have increasingly considered additional vertical pay metrics beyond CEO total compensation to median household income that companies cite when determining their executive compensation. U.S. companies have been required under the SEC rules for several years now to disclose their pay equity ratio which captures the ratio of the total CEO compensation relative to the median worker pay ratio. While we recognize the limitations of this ratio and debates on the methodology used, we believe this ratio has some utility. We believe that a high

²⁴ <https://www2.census.gov/programs-surveys/cps/tables/time-series/historical-income-households/h08.xlsx>

²⁵ <https://www.equilar.com/reports/110-equilar-associated-press-ceo-pay-study-2024.html>

²⁶ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000901>

²⁷ <https://policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2024/01/canadas-new-gilded-age.pdf>

pay equity ratio may indicate the presence of pay equity concerns at the company and should be further examined. In this context, we have decided to vote against the compensation package when the CEO-to-median worker pay ratio is excessive and against the compensation committee members at U.S. companies when we believe this pay equity ratio is extremely excessive. To determine excessiveness, we have opted to consistently apply the multiples we use relative to the median household income, which is between 280 to 375 times in the U.S. We acknowledge that many stakeholders may consider even the bottom end of our quantum range of concern to be excessive. In the absence of any precedent to follow, based on the reality of current North American executive pay levels, and mindful of the implications for our proxy analysis workload, we set the range to direct additional scrutiny to the compensation of the very highest-paid CEOs. We hope more institutional investors will make public their perspective on “how much is too much,” and we welcome further debate that would help us to refine our methodology.

Adoption of compensation good governance practices

We expect companies to adopt common compensation good governance practices. We consider the following to be examples of poor compensation governance practices.

- ✖ The company does not disclose an anti-hedging policy.
- ✖ The company does not have share ownership guidelines that encourage executives to hold significant amounts of company stock.
- ✖ The company lacks a claw-back policy to retrieve compensation earned through misleading financial representation and misconduct.
- ✖ The company lacks a double-trigger standard for change-in-control payments. (In a double-trigger structure, payout only occurs if the CEO loses their job in the event of a majority takeover.)
- ✖ The company uses tax gross-ups to compensate for taxable benefits received.
- ✖ Excessive loans have been made to company executives.
- ✖ The company's disclosure is not adequate to allow us to assess compensation.

2.3.2.2 Equity-based compensation plans

Equity-based compensation plans should not have an excessive impact for the company's outstanding shares, nor should they give company insiders advantages that are not available to ordinary shareholders. The following considerations may be taken into account both for advisory votes on executive compensation in the previous year, and for proposals to approve the terms of future equity-based compensation plans.

All equity-based plans

- ✖ The total cost of the plan is unreasonable and excessive.
- ✖ Dilution exceeds 10%. Share dilution is when a company issues additional stock, reducing the ownership proportion of a current shareholder.
- ✖ Burn rate exceeds 1%. In the context of equity compensation, burn rate refers to the potential dilutive effect of equity grants on a company's outstanding equity over a certain time period, usually a fiscal year.
- ✖ Accelerated vesting is allowed.
- ✖ Awards are 100% vested when granted.

- ✗ More than 10% of the stock available for compensation in a given year is allocated to a single individual.
- ✗ Change-in-control provisions are developed during a takeover battle.
- ✗ A new stock option plan is created, or additions are made to an existing plan, at an established company.

Existing stock option plans

- ✗ “Evergreen” stock options are allowed.
- ✗ Discounted stock options are allowed.
- ✗ Re-pricing or re-issue of “underwater” options is allowed.
- ✗ Reloading of stock options is allowed. A reload option allows an employee can be granted more employee stock options (ESOs) when they exercise currently available ESOs.
- ✗ Stock options can be granted to non-executive directors. Exceptions may be made on a case-by-case basis for start-up companies.
- ✗ Stock options can be granted to consultants, contractors, or other short-term employees.

2.3.2.3 Golden parachutes

Golden parachutes are severance arrangements for executives contingent upon a change in control of a company. Golden parachutes are intended to ease managers’ fears about losing their jobs in the event of a successful takeover, and thus help them make decisions in the best interests of the company in those circumstances. The quantum of compensation in these packages, however, is often excessive. At U.S. companies, these provisions are subject to a shareholder advisory vote. While such votes are not offered in Canada, a generally accepted formula is twice the executive’s base salary and bonus, whereas in the U.S., three times base salary and bonus is considered reasonable.

- ✗ The severance arrangements are not contingent upon a change in control of the company.
- ✗ The quantum of the severance arrangements is excessive.
- ✗ The company has failed to demonstrate that the severance arrangements are in shareholders’ long-term interests and do not create a conflict of interest for recipients.
- ✗ Change-in-control provisions are included for non-executive directors.

2.3.3 Other management proposals

2.3.3.1 Context

In general, all major changes in a corporation should be submitted to a vote by shareholders. Various actions require shareholder approval, such as mergers and acquisitions and share issuances. We assess most of these management proposals on a case-by-case basis.

2.3.3.2 Guidelines

- ✗ Vote against a proposal requesting approval of unspecified other business.
- ✓ Vote for the collapse of a multiple class share structure with unequal voting rights.

- ✘ In general, vote against a proposed merger or acquisition that would create a company ineligible for investment by NEI funds with a responsible screening (RS) mandate.
- ✘ In general, vote against a proposal to reincorporate in another jurisdiction that appears to be motivated primarily by aggressive tax planning.

3. Shareholder proposals

Shareholders that meet legally established requirements on size and duration of holdings have the right to file proposals. These are included in the proxy circular and on the ballot alongside the management proposals and are voted on at the AGM. We support well-designed shareholder proposals that we believe address important issues affecting corporate value and values. We may vote for, against or abstain, depending on the ballot choices available.

The role of shareholder proposals in our corporate engagement strategy

Occasionally, we file shareholder proposals to advance our corporate engagement goals. We have a strong preference for dialogue. When a company is not willing to engage in dialogue, or where engagement alone may be limited in the context of a serious concern at the company, or we have a difference of opinion that cannot be resolved, we may file a shareholder proposal to put the issue in front of other investors and solicit their support. For us, this is not the first choice.

Even if we have filed a proposal, our preference is that it should not go to a vote. Proposals can be a powerful tool for raising the awareness of an issue among directors, senior executives and other shareholders. The time between filing and the finalization of the management proxy circular is often fruitful for dialogue, because companies prefer to see proposals withdrawn before they reach the AGM.

In general, we will withdraw a proposal if:

- the company agrees to adopt our proposal without a vote;
- the company partially agrees to the proposal and commits to follow-up allowing us to explore the issue further together; or
- the company shows that the proposal is “moot” because it is already dealing with the issue.

If the proposal is not withdrawn, it will be printed in the proxy circular with a response from company management. We issue a Proxy Alert challenging the company’s response and offering additional detail on why investors should support our proposal.

More and more shareholder proposals have won majority support in recent years, but they do not necessarily need to gain majority support to be effective. Recognizing that shareholder concern about an issue is building, and that the proposal we have advanced offers an effective response to a significant business challenge, companies are often willing to negotiate and begin adopting stronger policies that address the concerns raised.

3.1 General principles

Proposals are evaluated on a case-by-case basis, taking into account the following principles.

- ✓ The proposal addresses a clear risk or opportunity for the long-term sustainable value of the company (e.g., demonstrated by controversies, litigation, fines, or research by reputable sources).
- ✓ The proposal supports values to which we are committed, such as international standards, norms, conventions, and fundamental rights that we endorse.
- ✓ The proposal will enhance disclosure on key issues allowing us to better assess the company's exposure to risk and opportunities.
- ✓ The company's current response to the issue raised in the proposal makes it an outlier compared to peers.
- ✓ The company's rebuttal of the proposal is unconvincing.
- ✓ The proponent has made good faith offers to engage the company on the issue, but the company has refused to engage, or it has not been possible to reach a withdrawal agreement.

If we are faced with a shareholder proposal that we would normally support, but management recommends a vote against because the company has already decided to implement the proposal, rendering it moot, we will vote for the proposal to encourage the company to make good on its commitment, while indicating that we would prefer to have seen the proposal withdrawn before the proxy circular was issued. The following are considerations to vote against a shareholder proposal:

- ✗ We do not view the issue raised in the proposal as relevant for protecting corporate value.
- ✗ The issue raised in the proposal has already been addressed by the company.
- ✗ The proposal deals with a concern that we share, but we do not agree with the solution proposed, or the solution proposed is overly-prescriptive, in which case we may also choose to abstain if this option is offered.
- ✗ The company has made a convincing rebuttal of the proposal.
- ✗ The proposal contains substantive inaccuracies.
- ✗ The proposal is unclear or poorly-framed.
- ✗ The proposal uses language that is disrespectful or intemperate.
- ✗ The proposal could harm the company's long-term financial or non-financial health and is not in the best interests of its stakeholders, including shareholders.
- ✗ Responding to the proposal would involve unreasonable costs or put the company at a significant competitive disadvantage.
- ✗ There are strong indications that the proponent has not responded to good faith offers by the company to attempt to resolve the issue through dialogue.

3.2 Governance shareholder proposals

We vote all shareholder proposals on a case-by-case basis. Below we outline our position on some of the more common governance topics that may be addressed through shareholder proposals.

3.2.1 Guidelines

- ✓ Changes in governance policies, practices and structures that will make them more consistent with the Guidelines.

3.2.1.1 Board elections and policies

Majority voting

- ✓ Directors should be elected by an affirmative majority of votes cast.
- ✓ Directors who do not receive a majority of votes cast should resign from the board.

Independent chair

- ✓ Split the position of board chair and CEO.
- ✓ Prevent non-independent directors from becoming board chair.

Board diversity

- ✓ Gender diversity policy should aim for at least 30%-40% each of women and men board members. The lower end is the expectation for small-cap companies.
- ✗ Gender diversity policy should not allow either men or women to make up 100% of board members, as this would be contrary to the goal of diversity.
- ✗ Gender diversity policy should not insist on 50/50 representation of men and women on the board, as this does not allow flexibility for board effectiveness and could exclude candidates who do not identify as either gender.
- ✓ Recruit director nominees with significant experience in relevant environmental and social matters, where this expertise is not present on the board.
- ✓ Adopt or enhance board diversity policy to promote diversity beyond gender. Aspects of diversity beyond gender include age, ethnicity, Indigenous status, sexual orientation, cultural identity and disability.

Board capacity and renewal

- ✓ Limit the total number of boards on which a non-executive director may serve to four.
- ✓ Establish a tenure policy, if proposed term limits are consistent with the Guidelines.
- ✓ Establish shareholder proxy access that includes appropriate safeguards for the director nomination process.

3.2.1.2 Compensation

Say-on-pay

- ✓ Adopt an annual advisory vote on executive compensation (say-on-pay).

ESG Compensation

- ✓ Relevant ESG performance measures should be included as variables in establishing compensation packages for senior executives.

Equitable compensation

- ✓ The compensation committee should explain how it addresses equitable pay and conditions across the company, and how this relates to executive compensation decisions.
- ✓ Disclose how the company takes into consideration income levels across society to assess the risks associated with income inequality and integrate these risks into its compensation framework.
- ✓ Disclose gender or race/ethnicity pay gaps and how the gaps are addressed in order to achieve pay parity and promote equal leadership opportunities.
- ✓ Adopt a living wage policy.
- ✓ Disclose the average or median worker pay within the company where such disclosure is not yet mandated by law. Proposals that seek to set a cap on executive compensation at a specific multiple of average or median worker pay will be reviewed on a case-by-case basis.

Equitable compensation practices: Next steps?

Beyond applying our existing guidelines that address excessive executive compensation, we support growing trends that help promote equitable compensation practices, including paying workers a living wage and increasing transparency on gender or ethnicity-related pay gaps. Fueled by growing public concern about the negative economic and social effects of income inequality, shareholder proposals in North America on these topics are becoming increasingly common, with major targets being companies in the retail, technology and financial sectors. Considering the currently limited disclosure on living wage adoption and pay gaps, our priority is to advance this disclosure through engagement with companies and standard-setters, which would enable us to effectively implement voting guidelines in this area. We also generally support shareholder proposals asking for thoughtful disclosure of this kind of pay data.

- Paying at a minimum the living wage: When assessing internal pay equity, a company's commitment to implement a living wage policy may mitigate our concerns about high executive compensation as it may indicate the company's commitment to addressing general pay levels. In this context, we support efforts to enhance disclosure on whether a company has explicitly adopted payment of a living wage, what living wage is being paid and what methodology is used to determine the wage level.

Living wage ≠ minimum wage

We recognize challenges in calculating and implementing a living wage across countries and within countries. In certain cases, companies may find it sufficient to raise their minimum wage. Although that is a good step, adopting a living wage is much more than that, as it takes into account the cost of living to pay as a minimum the amount required to ensure a basic but decent lifestyle for employees and their families.

- Increasing transparency on pay-gap ratios: We support actions that will allow us to better understand the pay practices within a company and how these address income inequality business risks. As such, we value voluntary disclosure of pay gaps based on both gender and ethnicity/race where such disclosure is not yet mandated by law. We also see merit in encouraging companies to disclose both adjusted and unadjusted pay gaps considering that both types of pay-gap ratios bring to light different aspects of income inequality.
 - Adjusted pay gaps are controlled for factors such as job title, seniority and geography, allowing companies to demonstrate they provide equal pay for equal work. The more factors that are taken into account, the smaller this gap is likely to be.
 - Unadjusted pay gaps are based on the average difference of hourly wage across the company. A significant unadjusted pay gap can reveal, for example, that women occupy more of the lower-paid positions within a company than men.

In response to shareholder proposals requesting pay gap disclosures, companies often disclose only their adjusted pay gap, which gives investors insight into whether they provide equal pay for equal work but does not measure the structural issues an unadjusted pay gap would reveal, such as whether there are equal career advancement opportunities for both men and women. We recognize that when gaps are identified this does not necessarily mean a company has acted inappropriately or has discriminatory pay practices in place. As such we value proactive corporate disclosure of pay gaps that allows for a better understanding of pay data and encourages early action to close identified gaps.

3.2.1.3 Tax base erosion

- ✓ Block or prohibit the company from re-incorporating in a tax haven.
- ✓ Establish and disclose a responsible tax policy.

3.2.1.4 Political expenditures and lobbying

- ✓ Disclose on political expenditures, lobbying and trade association participation, and how these align with corporate responsibility values, where this is not current practice.

3.2.1.5 ESG disclosure

- ✓ Disclose on key ESG risks and opportunities that are not covered in existing reporting.
- ✓ Provide reporting on ESG issues on an annual basis, where this is not current practice.

3.3 Environmental and social shareholder proposals

We support shareholder proposals on environmental and social issues that we believe to be in the best long-term interests of stakeholders, including shareholders and the corporation. We vote these proposals on a case-by-case basis, looking for direction to:

- our principles for assessing shareholder proposals;
- our RI Program criteria and corporate engagement goals and objectives;
- our commitments to support specific conventions, norms, standards and initiatives.

The range of topics that may be raised through environmental and social shareholder proposals is wide and fast-changing, making it challenging to set out specific guidelines in this area. However, we have highlighted below two dominant themes: climate change and human rights.

3.3.1 Climate change

Given the state of urgency to address climate change, we expect companies to adopt a robust transition strategy that aligns with a net-zero trajectory and is backed by real capital commitments. As part of our climate strategy and goal to align NEI assets under management with a net-zero pathway, we have higher expectations for companies in high-impact sectors to ensure their strategies also align. In the drive to net zero, it is important that we keep the broader goals of a just transition in mind.

We would generally support proposals asking companies to:

- Enhance disclosure on a company's GHG emissions not only from its direct operations (scope 1 & 2) but also from its value chain (scope 3) where material²⁸;
- Enhance transparency on direct and indirect climate-related lobbying;
- Disclose how a company will navigate the transition to a low-carbon economy and achieve net zero;

²⁸ "Essentially, scope 1 are those direct emissions that are owned or controlled by a company, whereas scope 2 and 3 indirect emissions are a consequence of the activities of the company but occur from sources not owned or controlled by it." Definition taken from National Grid, <https://www.nationalgrid.com/stories/energy-explained/what-are-scope-1-2-3-carbon-emissions>

- Increase the robustness of planned or existing GHG emissions reduction targets and align corporate net-zero strategies with the Paris Agreement;
- Enhance practices to accurately measure and report on methane emissions and sources.

We will vote on shareholder resolutions asking companies to adopt an annual advisory vote on climate (also known as say-on-climate) on a case-by-case basis. We continue to have reservations on the use of a say-on-climate vote as a blanket expectation but believe there are situations that would merit supporting such a vote. Among other considerations, key factors we consider would be the quality of the company's current climate disclosures and commitments, and the company's responsiveness to engagement on its climate strategy.

3.3.2 Human rights

We firmly believe there is an onus on businesses to integrate respect for human rights into their operations. This expectation is one that is consistently supported by international law and standards, and by a variety of other stakeholders. We expect companies to consider human rights risks in their decision-making, and we believe consideration for human rights should be embedded in corporate risk analysis and strategy. In this context, we would generally support well worded proposals poised to provide shareholders with meaningful information asking companies to:

- Perform a third-party human rights impact assessment or other forms of human rights due diligence across their operations and supply chain as applicable.
- Conduct third-party audits to detect racial equity, civil rights and discriminatory issues and/or to assess the effectiveness of existing policies. Increase disclosure on how they identify, respond to, and mitigate human rights and labour rights risk in their operations and supply chains, and disclose corrective measures and remedies when risks are identified.

Why abstain?

Where we opt to utilize the option to abstain on a vote, it is typically in making voting decisions on shareholder proposals. In cases where we strongly agree with the concerns raised by a filer but disagree with the proposed solution, we will use the abstain option instead of simply voting against the proposal (note that not all jurisdictions provide the option to abstain). In this instance we are unhappy with the company's response to the issue but do not want to support a proposal that may have negative or unintended consequences.

Our basic expectation is that companies should comply with all applicable environmental and social related laws and regulations. In addition, we encourage companies to adopt voluntary standards relevant to their sector.

4. Resources

The following is a non-exhaustive list of conventions, norms, standards and initiatives that we support and take into consideration in proxy voting.

Sustainability reporting

- [Canadian Sustainability Standards Board](#)
- Global Reporting Initiative
- [International Sustainability Standards Board](#)
- [Sustainability Accounting Standards Board \(SASB\) \(now consolidated within the International Sustainability Standards Board\)](#)

Sustainability frameworks

- [Organization for Economic Cooperation and Development – Guidelines for Multinational Enterprises](#)
- [Responsible Business Conduct for Institutional Investors](#)
- [OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector](#)
- [OECD Due Diligence Guidance for Responsible Mineral Supply Chains](#)
- [OECD-FAO Guidance for Responsible Agricultural Supply Chains](#)
- [OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector](#)
- [International Labour Organization – Declaration on Fundamental Principles and Rights at Work](#)
- [International Labour Organization – Tripartite Declaration of Principles Concerning Multinational Enterprise and Social Policy](#)
- [International Labour Organization – Guidelines for Occupational Health Management Systems and Code of Practice on Recording and Notification of Occupational Accidents and Diseases](#)
- [United Nations Global Compact – Principles](#)
- [United Nations Sustainable Development Goals](#)

Governance

- [Canadian Coalition for Good Governance's Stewardship Principles](#)
- [International Corporate Governance Network's Global Governance Principles](#)
- [Interfaith Center of Corporate Responsibility](#)
- [OECD Principles of Corporate Governance](#)

Climate change

- [Task Force on Climate-related Financial Disclosures](#)
- [Climate Action 100+](#)

- CDP (formerly the Carbon Disclosure Project)
- Glasgow Financial Alliance for Net Zero
- Net Zero Asset Managers initiative
- Net Zero Investment Framework
- Climate Engagement Canada

Human rights

- International Bill of Human Rights - Universal Declaration of Human Rights
- United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles Reporting Framework)
- United Nations Declaration on the Rights of Indigenous Peoples
- United Nations Voluntary Principles on Security and Human Rights
- FAIRR Initiative
- Global Network Initiative
- Investor Alliance for Human Rights
- World Benchmarking Alliance

Nature

- Taskforce on Nature-related Financial Disclosures

Finance

- Equator Principles

Extractive industries & chemicals

- Organization for Economic Cooperation and Development – Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict – Affected and High Risk Areas
- International Cyanide Management Code
- Extractive Industries Transparency Initiative
- International Council on Mining & Metals – Position Statements
- The Mining Association of Canada – Towards Sustainable Mining
- Initiative for Responsible Mining Assurance
- Oil & Gas Methane Partnership 2.0
- Oil and Gas Climate Initiative (OGCI)
- Forest Stewardship Council

- Responsible Care

Consumer

- Plastic Solutions Investor Alliance
- Circular Economy Leadership Coalition
- Accord on Fire and Building Safety in Bangladesh (succeeded by the International Accord for Health and Safety in the Textile and Garment Industry)
- Business Benchmark on Farm Animal Welfare

Health & nutrition

- Access to Medicine
- Access to Nutrition
- All Trials - Clinical Trial Transparency
- Investors for Opioid and Pharmaceutical Accountability (IOPA)
- International Code of Marketing of Breast Milk Substitutes

Internet technology & telecommunications

- Ranking Digital Rights
- Responsible Business Alliance (RBA) – Code of Conduct
- Global Network Initiative (GNI)

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus and/or Fund Facts before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Views expressed regarding a particular security, industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. Please consult with your own professional advisor on your particular circumstances. The views expressed herein are subject to change without notice as markets change over time. NEI Investments endeavors to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information that is accurate and complete. However, NEI Investments makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein.

NEI Investments is a registered trademark owned by Northwest & Ethical Investments L.P. Northwest & Ethical Investments Inc., is a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is a wholly-owned subsidiary of Aviso Wealth Limited Partnership, which in turn is owned 50% by Desjardins Financial Holdings Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.