

OMERS Proxy Voting Guidelines

CAPITAL MARKETS



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OVERALL PRINCIPLES

These proxy voting guidelines contain general statements about how we are likely to vote on an issue. These are not completely rigid positions, and we may consider extenuating circumstances that might call for a different vote than a specific guideline suggests. This may include taking into account different regulatory or corporate governance regimes and customary practices in different jurisdictions. In such circumstances, we consider the proposal on a case-by-case basis.

Nothing in these guidelines should be considered to be a constraint on the ability of OMERS to direct a vote on an issue other than as set out in these guidelines, where doing so is intended to meet OMERS fiduciary obligations. Moreover, while OMERS is generally seeking to support votes that emphasize long-term shareholder value, there may be circumstances where OMERS seeks to enhance short-term shareholder value in support of a trade or strategy.

Board of Directors

The Board of Directors of a company is responsible for providing stewardship and oversight of management and operations of the company and has a duty to act in the best interests of the corporation. Fulfilling this duty will ensure that the company is managed in the best interests of shareholders.

Its key responsibilities include:

- keeping the right management team in place;
- approving corporate direction and strategy; and
- monitoring how management is operating the business.

To fulfill its responsibilities, boards must be in a position to challenge management's plans and recommendations in a constructive manner while evaluating execution and results objectively. Our guidelines relating to boards of directors have been designed to encourage effective and independent boards.

Board Size

Guideline:

We support a board size that leads to effective board decision-making and governance. The board should be large enough to provide diversity of thought and expertise, and allow key committees to be staffed with independent directors, but small enough to encourage active participation of all members.



Routine Items Include:

- *Elect Directors;*
- *Adopt/Amend Nomination Procedures; and*
- *Ratify Auditors.*

Generally, we will support such routine items provided that they follow the principles set out in the guidance below.

We will not ordinarily vote against director candidates simply because the size of the board is questionable. We may do so, however, if the size of the board is inhibiting its effectiveness.

Discussion:

The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business.

Board size directly impacts the board's effectiveness. Board effectiveness in turn may impact shareholder value. Board size should not be too large to be cumbersome, but large enough to allow it to discharge its responsibilities. The board's top priority should be to ensure that it has enough competent and independent members, regardless of size.

Election of Directors

Guideline:

We support the election of directors individually rather than as a slate. We also support the establishment of a majority-vote standard for the election of directors. We will not support proposals that create a staggered board.

Discussion:

We believe that shareholders should have the opportunity to assess and vote on the qualification and performance of each individual director, rather than being presented with a vote on a "slate" of directors. Slate voting is an unacceptable practice from a corporate governance perspective as it deprives shareholders of the right to withhold votes from (or vote against in some jurisdictions) nominees on an individual basis. As a result, slate voting can serve to insulate directors with unsatisfactory records from being held accountable to shareholders.

We also prefer that companies adopt a majority-vote standard for the election of directors, meaning that directors are elected by a majority of votes cast by shareholders. Where plurality voting is used, we encourage boards to adopt director resignation policies asking that directors tender their resignations if the number of votes withheld from or cast against the nominee exceeds the votes for the nominee. However, we exercise discretion in applying this standard where there are more director nominees than board seats. In these cases, the plurality vote standard is more appropriate in order to avoid a situation where no candidates win a majority of the votes cast.

We prefer the annual election of all directors and will not normally support proposals that create a staggered board. When a staggered board has already been created, we will determine our position based on the specific circumstances.

If a board is subject to a contested election, we will evaluate the dissident's critique and proposed plan of action, and assess the qualifications, independence, experience and track record of the alternate slate of nominees relative to that of the incumbent board. We will support the dissident slate when we believe that it is responsive to shareholder concerns and would be better positioned to increase shareholder value over the long term than the incumbent slate.

Board Committees

Guideline:

We support independent board committees. We may vote against or withhold votes from individual nominees or an entire slate of nominees if non-independent directors serve on the Audit, Compensation or Nominating/Corporate Governance Committees, taking into consideration corporate performance and governance practices over a suitable timeframe.

Discussion:

We believe that the board should delegate certain functions to committees while maintaining overall responsibility for the work of the committees. Each board should have three key committees composed wholly of independent directors: (1) the Audit Committee; (2) the Compensation Committee; and (3) the Nominating/Corporate Governance Committee.

We support the following principles regarding board committees:

- **Committee Independence:** Appointments to committees should not be made by the CEO.
- **Committee Charter:** Each committee should have a written charter that specifies its roles and responsibilities and the charter should be publicly disclosed.
- **Member Qualification:** We expect members of each committee to have suitable credentials for the committee work they will be asked to do. For example, we expect all members of the Audit Committee to be financially literate.
- **Succession Policy:** The board should proactively lead and be accountable for the development, implementation and continual review of succession plans for CEO and directors. The board should collaborate with the current CEO and senior management to identify candidates who possess the necessary leadership capabilities and ensure that appropriate career development opportunities are in place for any candidates within the company. Succession at board and CEO levels should be managed by a committee such as the Nominating/Corporate Governance Committee.
- **Access to Independent Advisors:** Committees should have the right to retain the services of independent advisors, and are encouraged to disclose the identity of these advisors and the nature and dollar value of the services performed.

Separation of Chair and CEO

Guideline:

We support the separation of the roles of Chair of the board and CEO. If one person is Chair and CEO, it is difficult for the board to hold management accountable.

Discussion:

A key duty of a board is to provide management oversight on behalf of shareholders. As part of this duty, the board is responsible for recruiting, rewarding and, if necessary, terminating the CEO. These responsibilities put a combined Chair/CEO in a difficult position when heading the body that is responsible for overseeing management. Thus, we generally support a non-management, independent director serving as the board Chair.

In cases where the role of the Chair is combined with the role of the CEO, an independent director should be appointed as Lead Director and be sufficiently empowered so as to counterbalance the influence of the joint position. The role of the Lead Director is to be the principal spokesperson for the independent directors and the leading advocate for the interests of non-management shareholders. This role is especially important in instances where the interests of management and non-management shareholders differ significantly.

We apply our policy flexibly under certain circumstances such as in the case of new, small or recently reorganized corporations. However, we would expect these companies to evolve and enhance the governance practices of the corporation over time as the corporation and its resources grow.

Diversity, Qualifications and Experience

Guideline:

We support director nominees with the appropriate qualifications, experience and availability to properly fulfill their duties. We support the implementation of processes for evaluating and improving board and board committee effectiveness. We may withhold votes from directors where there may be governance concerns, such as poor attendance or lack of adequate independence.

We support disclosure of the company's expectation for directors and their time commitment to the company. We may vote against or withhold our vote with respect to the election of candidates sitting on an excessive number of outside boards, taking into account the complexity of the other companies' businesses and the time commitment required of the director.

We support diversity of a company's directors. Boards should be sufficiently diverse to reflect a variety of perspectives and skills. We may vote against or withhold our vote for the chair of the nominating committee if a company's board lacks sufficient diversity, taking into consideration the size of the board, normal practices within the jurisdiction where the company is located, and length of time a company has been publicly listed.

Discussion:

A strong board composed of qualified directors should enhance corporate performance. The board's process for identifying, recruiting, nominating, appointing, and orienting and assessing directors is critical to ensuring the appropriate qualifications of the board.

An independent Nominating/Governance Committee with appropriate processes for selecting qualified candidates, proposing new nominees to the board, and assessing directors on an ongoing basis should be in place. The committee should further ensure that the board is inclusive of a diversity of perspectives and skills that will ultimately lead to better decision-making.

We encourage the adoption of an annual assessment process for the entire board of directors as well as its committees. We encourage disclosure of director attendance records and the number of other boards on which each director is active. This helps shareholders assess for themselves the commitment of each board member. Without being exhaustive, we will consider the following factors in assessing board and director effectiveness:

- **Overall Composition of the Board:** We will support the election of directors with the experience and qualification necessary to effectively oversee the company's business, taking into account the composition of the board as a whole.
- **Gender Diversity:** As a member of the Canadian Chapter of the 30% club, we support the goal of a minimum of 30% of women on the board and at the executive management level. We will consider using our voting rights, including withholding our vote for the chair of the nominating committee, if a company has no female directors and insufficient policies, such as lack of specific goals or targets, in place to increase the number of women on its board and at the executive management level.
- **Character and Integrity:** We will consider withholding votes from directors who have failed to demonstrate sufficient character and integrity to act in the long-term best interest of the company.
- **Economic Performance of the Company:** We will take into consideration current and historic performance of the company in absolute and comparative terms as a factor in assessing the board's ability to generate value for shareholders.
- **Board's Responsiveness to Shareholders:** Directors should be responsive to shareholder concerns. In situations where a shareholder proposal has received the support of a majority of shareholders, we expect the board to ensure the proposal is implemented or to provide a rationale outlining why it is in the best interests of the corporation that the board not adopt the proposal.
- **Attendance:** We expect directors to attend at least 75% of all board and committee meetings since their last election. We may not support directors who attend less than three-quarters of all board and committee meetings consistently and without a valid reason.
- **Outside Board Engagements:** We recognize that directors benefit from their exposure to other company boards and management. However, directors should ensure they can commit sufficient time and effort on the company's board to discharge their duties and responsibilities effectively.

Director Independence

Guideline:

We generally support boards that have a majority of independent directors. We may withhold votes in cases where board independence appears to be compromised.

Discussion:

A board with a majority of independent directors is generally better positioned to critically evaluate management and corporate performance. A board's independence is best maintained if the majority of the directors are independent and have no direct material relationship with the corporation other than board membership and appropriate holdings in the corporation.

Independent directors include directors who are independent of management and are free of any interest or business relationship which could materially interfere with the director's ability to act in the best interests of the corporation, other than interests and relationships arising from being a shareholder. Directors who are not independent are less likely to hold management accountable if they depend on the corporation for

fee income or other considerations.

Board independence may also be impeded through “interlocking directorships” where the CEO or board members sit on each other’s boards. We prefer that the corporation disclose the identity of each corporation where an interlocking relationship exists for each member of the board and/or the CEO.

While a majority independent board promotes better board oversight in most circumstances, such independence may not be practicable with equity controlled companies. A shareholder with a controlling equity interest is often aligned with maximizing the company’s long-term value, and its participation on the board can benefit all shareholders. In our view, it is reasonable for a controlling shareholder to have representation on the board of directors proportionate to its economic equity interest; however consideration will nonetheless be given to whether such representation has produced a strong history of good corporate performance and governance.

Director Liability

Guideline:

We support proposals that limit directors’ liability and provide indemnification provided that directors have acted honestly and in good faith with a view to the best interests of the corporation.

Discussion:

Limitations on directors’ liability can benefit the corporation and its shareholders by facilitating the attraction and retention of qualified directors while affording recourse to shareholders in areas of misconduct by directors. Consequently, in order to encourage the nomination of able directors, we believe that an appropriate indemnification policy is warranted. However, these policies should be limited to the director acting honestly and in good faith with a view to the best interests of the corporation and limited to the director having reasonable grounds for believing the conduct was lawful.

Quorum Requirements

Guideline:

We will review proposals to change quorum requirements for shareholder meetings on a case-by-case basis. We generally will not support reductions of quorum requirements below two persons holding 25% of the eligible vote.

Discussion:

Quorum requirements refer to the minimum number of shares and/or persons required to be present, in person or by proxy, so that business can be carried out at a meeting. Quorum requirements should be set at a reasonable level so that there is a sufficiently broad indication of shareholders’ approval for the business conducted at the meeting. However, we acknowledge that in certain cases, such as smaller companies, a corporation may have difficulty achieving quorum. Accordingly, we will review these proposals on a case-by-case basis. We believe that a reasonable quorum requirement is two persons holding 25% of the eligible vote and generally will not support resolutions of quorum requirements below this level.

Independent Auditors

Guideline:

We generally will support the choice of auditors recommended by the corporation's directors, or more specifically, by the Audit Committee. However, we generally will not support the ratification of auditors when non-audit fees are greater than audit-related fees and/or instances where it appears that auditor independence might otherwise be compromised. We will support enhanced disclosure of all audit-related and non-audit related fees and services paid to auditors.

Discussion:

We believe that external auditor independence is critical. Accordingly, we will consider disclosure of non-audit fees versus audit-related fees to determine if non-audit fees are excessive, which could potentially impact independence.

Executive and Director Compensation

We support market competitive salaries and incentives so that management remains engaged and focused on the best interests of the corporation. However, executive compensation should be reasonable, performance-based and structured in a manner that aligns management with the long-term interests of shareholders. We expect that a Compensation Committee comprised of independent directors will evaluate whether the compensation package is properly structured to enhance shareholder value.



Routine Items Include:

- *Advisory Vote on Say-on-Pay;*
- *Approve Remuneration of Directors; and*
- *Amend Omnibus Stock Plan.*

Generally, we will support such routine items provided that they follow the principles set out in the guidance below.

Effective Equity Compensation

Guideline:

We support transparent, reasonable and appropriately structured equity compensation plans that reward superior performance over the long-term. Executives should be encouraged to build equity in the corporation to align their interests with those of shareholders. We will review the features of each plan together with the other aspects of total compensation, and after considering each of the issues, we will determine whether the plan on the whole is reasonable.

Discussion:

When reviewing equity compensation plans, we consider the following principles:

- compensation plans should properly measure and reward performance;
- performance should be based on measurable risk adjusted criteria, and be structured to account for the time horizon of risk;
- corporations should promote transparency and accountability in the process of setting compensation; and
- boards are expected to show moderation in their compensation practices.

The following points clarify our views on various aspects of equity compensation:

- **Board Discretion:** We will not support plans that give the board broad discretion in setting the terms and conditions of programs. Shareholder approval should be required when equity-based plans are instituted and when corporations seek to amend an existing plan's material terms and conditions, including eligible participants, dilution, price, or expiry terms.

- **Cost:** We will support plans where costs are reasonable relative to the total compensation package, the company's performance, and industry practices.
- **Change of Control:** We generally will support stock option plans with change of control provisions if the provisions do not allow option holders to receive more for their options than shareholders would receive for their shares. We will not support plans with change of control provisions if the provisions allow all equity compensation to automatically vest upon a change of control. We will not support change of control provisions developed in the midst of a change of control event that appears designed to entrench management. We will not support change of control provisions that take effect before a change of control transaction is complete. We will not support severance arrangements or "golden parachutes" given to departing executives that are excessive or that are triggered solely by a change of control. Payment of reasonable severance compensation may be justified when job loss or significant demotion occurs, but these payments should be triggered only when both a change of control and termination of employment or demotion occurs.
- **Concentration:** We will not support plans that authorize the allocation of 20% or more of the available equity incentives in any given year to a single individual.
- **Dilution:** We will generally support equity incentive plans if total potential dilution does not exceed 10%, and grants of options or the so-called "burn rate" is less than 2% per annum. We will review, on a case-by-case basis, equity incentive plans that provide for total potential dilution exceeding 10%, or where the "burn rate" exceeds 2% on an annual basis.
- **Employee Loans:** We will not support the corporation making loans to employees to allow employees to pay for equity compensation. Executives seeking to borrow to buy equities under equity compensation plans should be required to obtain credit from conventional sources at market rates.
- **Employee Share Purchase Plans:** We will support employee share purchase plans as a means of aligning employee interests with those of shareholders. We will generally approve employee share purchase plans where the purchase price is at least 85% of fair market value and the total potential dilution is less than 10%. If the company subsidizes an employee's share purchase, the employee should be required to hold the shares for an appropriate period of time.
- **Fixed Number of Shares:** We generally will not support plans that do not express as a fixed number the maximum number of shares that can be subject to options or other forms of equity compensation.
- **Expiry:** We generally will support plans whose equity incentives have a life of less than five years. We will review on a case-by-case basis those plans whose equity incentives have a life of more than five years. We will not support "evergreen" or "reload" option plans.
- **Omnibus Plans:** Omnibus plans generally refer to equity plans in which several equity awards may be granted under one plan. We are opposed to the form of omnibus plans as we believe shareholders should be able to vote on each aspect of a plan, rather than be forced to consider a "take-all" approach. Accordingly, we prefer that corporations establish separate plans for each award that can be considered and voted on separately. However, when considering an omnibus plan, we will generally assess all aspects of the plan and make a determination as to whether the plan meets our voting guidelines. Where any one aspect does not meet our voting guidelines we generally will not support the entire omnibus plan. In certain circumstances, where an omnibus plan, when viewed as a whole, appears to meet our voting guidelines, we may exercise

discretion to support the plan.

- **Price:** We generally will not support plans that permit options to be issued at a value that is less than 85% of the prevailing market price.
- **Re-pricing:** We will not support plans that allow the board of directors to lower the exercise price of equity incentives already granted. We will not support proposals that would, directly or indirectly, reduce the exercise price of incentives already granted.
- **Vesting:** We will support plans that have reasonable vesting periods. We will support plans that link the granting of equity incentives, or the vesting of equity incentives previously granted, to specific performance targets. We generally will not support plans that are 100% vested when granted.
- **Anti-Hedging and Anti-Pledging:** Hedging, pledging or other financial transactions designed to off-set a decline in the company's share price undermine the rationale behind equity compensation. An executive's interests are not aligned with those of the company if they use hedging or pledging arrangements to protect the value of their equity compensation in the event of a decline in the company's share price. We encourage companies to have policies which bar such practices and will not support plans that are permissive of such practices.
- **Recoupment:** We encourage companies to enact policies that allow them to recuperate, or "claw-back", incentive compensation in the case of a financial restatement or executive fraud or negligence.

Executive Share Ownership

Guideline:

We will support the use of compensation arrangements that require senior executives to hold a specified number of shares until the end of their tenure with the company.

Discussion:

Executive share ownership aligns the interests of executives with those of shareholders. The minimum ownership should be meaningful for the individual. The required ownership level should increase with seniority and should be expressed as a multiple of the executive's salary. Executives should be given a reasonable period of time to meet these requirements after they are adopted.

Director Compensation

Guideline:

We will support director compensation that reflects the expertise, responsibilities and time commitment expected from directors and that aligns their interests with those of long-term shareholders. We will review these proposals on a case-by-case basis to ensure that the director compensation program aligns directors' interest with those of long-term shareholders without compromising the ability of directors to be independent.

Discussion:

We support director compensation that aligns directors' interests with those of long-term shareholders. We believe that director compensation should generally be a combination of a cash retainer and share awards. We will not ordinarily vote against director candidates simply because there is an absence of share rewards. We may

do so, however, taking into consideration corporate performance and governance practices over a suitable timeframe. For reasons discussed below, share awards should not be performance based. We encourage the establishment of specified ownership requirements for directors that permits a reasonable period of time for directors to meet these requirements. We also encourage corporations to adopt holding requirements that require directors to retain a significant portion of equity grants. Director compensation, stock ownership and holding requirements should be disclosed to shareholders on an annual basis.

We support equity-based awards as a portion of director compensation. However, we do not believe that directors should be incentivized in the same manner as executives and, for that reason, such grants should not be performance based. We believe that stock options are less effective and efficient than direct share ownership in aligning the interest of directors with those of the company. Accordingly, we generally will not support stock option plans for directors.

In addition, aside from appropriate meeting related expenses, directors should not be offered benefits or perquisites normally provided to employees such as health or life insurance, retirement benefits or special post-retirement perquisites.

Advisory Vote on Executive Compensation (Say-on-Pay)

Guideline:

In certain jurisdictions, advisory votes on executive compensation are mandated by law. In other jurisdictions, advisory votes are not mandatory but have been adopted by corporations voluntarily or through shareholder resolutions. In both cases, we will review these votes or proposals on a case-by-case basis.

Discussion:

The inclusion of an advisory vote on executive compensation policies or disclosure in a public company's proxy information circular is also referred to as "say-on-pay." We believe that a thorough review of pay practices is an important duty that boards of directors of corporations should exercise with diligence and care.

Although advisory votes on executive compensation have not been implemented by legislation in Canada, certain corporations have voluntarily agreed to these votes. The Canadian Coalition for Good Governance (CCGG) has recommended that boards voluntarily add to each annual meeting agenda an advisory shareholder resolution on the corporation's report on executive compensation. Further, the CCGG has proposed a framework for "say-on-pay" advisory votes, which we support. It can be summarized as follows:

- shareholders be asked to consider an annual non-binding advisory vote;
- the resolution provides that the vote is not intended to diminish the role and responsibilities of the board of directors;
- the resolution provides that shareholders accept the approach to executive compensation disclosed in the company's information circular;
- approval of the resolution requires an affirmative vote of a majority of the votes cast at the annual meeting of shareholders;
- the corporation will disclose the results of the advisory vote as part of its report on vote results for the meeting; and
- if a significant number of shareholders oppose the resolution, the board will consult with its shareholders and disclose a summary of the comments received

in the engagement process and any planned changes to compensation plans.

We recognize that there are alternative methods available to shareholders that permit them to express concerns surrounding executive compensation, such as voting against directors, particularly Compensation Committee members. Shareholders also have the ability to consider certain compensation issues independently, such as votes relating to a corporation's option plan.

We recognize that various jurisdictions approach advisory votes on executive compensation differently. In cases where corporations are required to hold, or have voluntarily adopted, an advisory vote on executive compensation, we will evaluate the executive compensation policy or report on a case-by-case basis taking into consideration the following compensation principles and practices:

- pay-for-performance alignment, with an emphasis on long-term shareholder value;
- presence of an independent and effective compensation committee;
- clear, comprehensive compensation disclosure; and
- avoidance of inappropriate pay to directors.

When an advisory vote is not required by legislation, but is being proposed by way of shareholder proposal or resolution, we will generally follow a case-by-case approach. In circumstances where a proposed advisory vote follows the suggested CCGG approach outlined above or when our compensation principles appear to be met, we generally will support an advisory vote on executive compensation.

Takeover Protection

Certain takeover protection measures can be detrimental to the long-term interests of shareholders. We distinguish between "new style" shareholders' rights agreements which may genuinely benefit shareholders and "old style" poison pills which can limit shareholders' returns by acting as an anti-takeover device.

General Principles Regarding Takeover Protection

Guideline:

Corporations have developed various protective mechanisms to insulate from unwanted takeover bids and even competitive bidding processes. We will look at takeover protection measures on a case-by-case basis. In exercising our shareholder rights, we will vote for proposals that enhance the long-term value of our investments. We will generally not support proposals that unduly deter a bid or fail to provide equal treatment for shareholders during a takeover. We will evaluate advance notice requirements on a case-by-case basis. However, we will not support advance notice provisions that place unnecessary burdens on shareholders wishing to nominate directors.

Discussion:

We recognize that takeover protections can improve shareholder value but such protective measures should not deter unsolicited bids or follow-on offers.

Although these measures should strive to balance the interests of targets and bidders, they should primarily serve the interests of long-term shareholders. Given the complexity and size of our investments, we may find ourselves on either side or both sides of a takeover offer. As a result, we must evaluate the offer not simply in terms of its fairness from the financial point of view, but also in terms of what is in



Vote Items Include:

- *Adopt, Renew or Amend Shareholder Rights Plans; and*
- *Approve Transaction with a Related Party.*

OMERS best interest.

Shareholder Rights Plans

Guideline:

We will consider the approval or ratification of shareholder rights plans on a case-by-case basis. We support shareholder rights plans that permit the board and management sufficient time to respond to takeover offers in a manner that enhances long-term shareholder value for all shareholders. We generally will not support shareholder rights plans that go beyond trying to ensure the equal treatment of shareholders and allowing the corporation sufficient time to consider alternatives, in the event of a bid.

Discussion:

A shareholder rights plan also known as a “poison pill” provides the shareholders of a target corporation with rights to purchase additional shares or to sell shares at very attractive prices, in the event of an unwanted offer for the corporation. These rights, when triggered, impose significant economic penalties on a hostile bidder.

Shareholder rights plans may have the following legitimate purposes: (1) providing shareholders with sufficient time to make an informed decision and consider available alternatives; (2) ensuring that all shareholders are treated equally in connection with a change of control of the company; and (3) allowing the board of the target company sufficient time to determine whether there is an alternative to the offer.

In reviewing a shareholder rights plan, we will consider the following:

- the company’s governance structure;
- equal treatment of shareholders;
- board independence; and
- existing takeover defenses.

We generally will support plans with the following attributes:

- allows for partial bids;
- the threshold for triggering the plan is at least 20% of the company’s shares;
- does not allow for the redemption of rights without shareholder ratification;
- exempts soft lock-up agreements;
- does not contain exemptions for private placements;
- does not authorize the board to waive the plan’s application unless the plan is waived for all other subsequent bids;
- places a modest limit on the granting of any “break fees”; and
- requires shareholder ratification at least every three years.

Purchase Transactions

Guideline:

We will review proposed “going private” transactions and other purchase transactions on a case-by-case basis to determine if the proposed transaction is the best interests of OMERS.

Discussion:

A going private transaction has the effect of transforming a public corporation into a private corporation and thereby eliminating the public shareholders. In such a transaction, shareholders sell their equity interest in the corporation at a price offered by another shareholder, who assumes control.

A going private transaction may involve a group of buyers that includes management of the corporation. These transactions may provide opportunities for shareholders to maximize investment returns. However, such transactions may also have the potential to primarily serve the interests of existing management.

We will consider the following in determining whether or not a proposed transaction is in OMERS best interests:

- in the case of related party transactions:
 - a proper review was undertaken by an independent committee of the board; and
 - minority shareholders are given the opportunity to vote on the proposal separately from those shareholders who are related parties.
- other potential bidders have had an opportunity to investigate the corporation and make competing bids; and
- a valuation and/or fairness opinion has been obtained from a qualified and independent party, and the analysis and recommendations contained in that valuation or opinion support the proposal.

Reincorporation

Guideline:

We will support reincorporation proposals in cases where management and the board can demonstrate sound financial or business reasons for the proposal. However, we generally will not support reincorporation proposals that are made as part of an anti-takeover defence or solely to limit directors' liability.

Discussion:

Reincorporation involves a proposal to re-establish the corporation in a different legal jurisdiction. There are a number of legitimate reasons why a corporation may want to reincorporate, including a merger agreement, indemnification provisions, or tax savings. However, it is often a tactic used by management to frustrate a potential takeover or to limit director liability or other shareholder rights.

Shareholder Rights

We believe that shareholder rights, including the right to vote at shareholder meetings, are an important component of share ownership. Certain structures or proposals have the ability to detract from shareholder rights. We will generally oppose structures or proposals that attempt to limit or subordinate the rights of shareholders. Examples of proposals that could potentially limit shareholder rights include dual-class share structures, super-majority voting rights, linked proposals and blank-cheque preferred shares.

*Vote Items Include:*

- *Authorize Share Repurchase Program;*
- *Provide Right to Act by Written Consent; and*
- *Adopt Proxy Access Right.*

Dual-Class Share Structures

Guideline:

We will generally not support the creation of dual-class share structures.

Discussion:

Dual-class share structures involve the creation of a second class of common shares with different or unequal voting rights to those of the existing class of shares. These structures may give a group of shareholders, such as the founding investors, voting control for a relatively low level of equity ownership. The argument for dual-class shares is that superior voting rights can ensure stability and continuity in ownership and management. However, these structures may entrench management and may lead to the possibility that the corporation may fail to take action without the true majority of shareholders. These structures undermine the basic principle linking voting to equity ownership on the basis of “one share, one vote”.

While we will not support the creation of dual-class share structures, we understand that this structure does exist in many corporations and may be appropriate in certain situations, particularly where an issuer has had a dual-class share structure since the time of its IPO, and all shareholders purchased their shares with knowledge of such structure. In these cases, it is important that the share provisions allow for fair and equitable treatment of both classes of shareholders, which we will assess on a case-by-case basis.

Super-Majority Voting Rights

Guideline:

We will review super-majority proposals on a case-by-case basis. We generally will not support any super-majority voting right that exceeds two thirds (66 ⅔%) of the outstanding shares, unless it is in OMERS best interest.

Discussion:

Super-majority voting rights require a level of shareholder approval above a simple majority. In some circumstances, such as certain fundamental corporate changes or actions, a super-majority approval is appropriate. However, we believe that in these circumstances, a two-thirds (66 ⅔%) approval level is sufficient. This vote requirement is reasonable and yet provides sufficient protection against unwarranted invasions on the corporation. This threshold is required by the *Canada Business Corporations Act* and its provincial counterparts for certain fundamental changes.

Payment of Greenmail, etc.

Guideline:

We will generally not support proposals that allow for the payment of “greenmail” to a potential undesired bidder for the corporation, or other defences that frustrate a competitive auction process and reduce shareholder value.

Discussion:

Greenmail is the payment from corporate funds of a premium price to selected shareholders (often to an undesired potential bidder for a company in an effort to suspend a threatened takeover) without the opportunity for all shareholders to

participate in such a purchase program. Because these purchases are usually done at a price above the then-current market price of the company's shares, there is a transfer of value from the company to one shareholder or group of shareholders, placing the remaining shareholders at an economic disadvantage. Anti-greenmail resolutions generally require shareholder approval of a major share repurchase at prices that exceed the market, unless the same purchase price is offered to all shareholders.

Other defensive measures, such as "crown jewel" defences and excessive break-fees, can have a similar detrimental effect on shareholder value.

Linked Proposals

Guideline:

We generally will not support linked or bundled proposals except in cases where each individual issue is in OMERS best interests.

Discussion:

In certain cases, shareholders are presented with linked proposals which are resolutions that link two or more issues together. These proposals can be a way to force shareholders to approve an issue that they would otherwise not approve if presented separately. We believe that shareholders should have the opportunity to vote on each issue separately and therefore these types of resolutions should generally be discouraged.

Authorized Shares

Guideline:

We generally will support fixed increases in authorized shares of up to 25%. We will review increases in authorized shares of greater than 25% on a case-by-case basis.

Discussion:

We believe that shareholders should have the opportunity to approve the issuance of shares. When corporations request that shareholders approve an increase in the number of common shares available or "authorized" for issuance, the increase should serve a legitimate business purpose.

We generally will support proposals for the authorization of additional shares provided the amount requested is necessary for sound business reasons.

New Share Issues

Guideline:

We will review proposals for new share issues on a case-by-case basis.

Discussion:

Corporations may seek shareholder approval to issue a specific number of shares for an explicit business purpose or to obtain flexibility to meet changing competitive and economic conditions.

Despite the increased flexibility an additional issuance of shares may provide the corporation, there can also be a dilutive effect on shareholders. Consequently, we

prefer issuance proposals that have pre-emptive rights attached. Pre-emptive rights allow existing shareholders to maintain their share ownership level and to ensure that new issues do not dilute current shareholders' ownership.

We will support new share issues where it is in our best interests to do so and the amount requested is clearly disclosed and for sound business reasons.

Blank-Cheque Preferred Shares

Guideline:

We generally will not support either the authorization of, or an increase in, blank-cheque preferred shares, unless the proposal is in the best interests of OMERS.

Discussion:

Blank-cheque preferred shares usually carry a preference as to dividends, rank ahead of common shares upon liquidation, and give a board broad discretion to establish voting, dividend, conversion and other rights in respect of these shares. Blank-cheque preferred shares may provide corporations with the flexibility needed to meet changing financial conditions. However, since the rights have not been defined, shareholders may not fully understand how the rights attached to blank-cheque preferred shares may impact other classes of shares.

Share Buybacks and Dividends

Guideline:

We will support dividend and share buyback resolutions on a case-by-case basis.

Discussion:

Share buybacks can enhance long-term shareholder value by reducing the number of shares outstanding or by providing support to share prices. However, buybacks also have the potential to inflate the value of option-driven compensation. We will not support the implementation of share buyback programs that do not have sufficient disclosure regarding the number of shares which may be repurchased or reasonable purchase price limits.

We support corporate dividend payout guidelines that are in line with expected long-term earnings growth. We expect a reasonable dividend payout from mature companies with a steady, reliable profit stream. In the case of growth companies or companies that require heavy capital outlays, we understand that long-term shareholder value may be created from retaining cash to invest in the business or in acquisitions.

General Principles Regarding Shareholder Rights Proposals

Guideline:

We will review shareholder rights proposals on a case-by-case basis. We will support proposals where we believe doing so would enhance the value of our investment. We will weigh the benefits of the proposal against the possible adverse effects on the issuer and will not support shareholder proposals that place undue constraints on the issuer, its board, its management, or are targeted towards the issuer's operations (which are the responsibility of management). We will not support shareholder rights proposals if, given the ownership structure of the issuer, the proposed right would

provide one shareholder, or a group of shareholders, with improper advantages.

Discussion:

We believe that shareholder rights, including special meeting rights, proxy access rights and rights to act by written consent, are important components of equity ownership.

The following points detail our views on common shareholder rights proposals:

- **Special Meeting Rights:** These rights enable shareholders to call a meeting before the issuer's next scheduled annual general meeting. Special meeting rights should be subject to ownership requirements such as ownership thresholds and/or minimum hold periods.
- **Proxy Access Rights:** These rights allow shareholders to nominate candidates for directors in the issuer's proxy materials subject to sufficient share ownership requirements. We will generally support proxy access proposals that include thresholds for size of ownership interest that are sufficient to prevent abuse by shareholders without a material interest in the issuer. We believe that shareholders can contribute meaningfully to the director nomination process and that board composition will benefit from shareholder input. We do not require a minimum time period holding requirement for shareholders seeking to utilize the proxy access mechanism. However in assessing these proposals, we will not withhold support for provisions setting out a reasonable holding period, such as three years.
- **Rights to Act by Written Consent:** These rights allow shareholders to act on issues in-between annual general meetings without holding a special meeting. Shareholders can pass a proposal through written consent by returning signed copies of consent to a proposal. The matter is ratified if the support provided by written consent is equal to or greater than the level of support the proposal would require if it were decided at a shareholder meeting.
- **Virtual Meetings:** Virtual-only shareholder meetings may unduly restrict the ability of shareholders to participate. We may vote against or withhold votes from members of an issuer's governance committee if a board intends to hold a virtual-only meeting without demonstrating that shareholders would have the same rights as they would be entitled to at an in-person meeting.

Environmental, Social and Governance

We believe that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights and the communities in which they do business and that these actions contribute to long-term financial performance. Corporations should account for their behaviour and its implications for the creation of value. We support the view that companies should maintain policies and procedures with respect to environmental, social, and governance issues that materially affect company performance. These policies should be an integral part of the overall management of a company.

Guideline:

We will review environmental, social, and governance (ESG) proposals on a case-by-case basis. We generally will support proposals that request the reasonable disclosure of information or development of policies related to ESG factors. We will not support proposals that are overly prescriptive, duplicate existing practices or disclosure, or detract from shareholder value.



Vote Items Include:

- *Climate Change/Green House Gas Emissions Proposals;*
- *Political Contributions and Lobbying Disclosure Proposals; and*
- *Proposals to Improve Human Rights Standards or Policies.*

Discussion:

We believe that the effective management of the risks associated with ESG matters are an important part of the performance of companies in which we invest.

We support the view that companies should publish and update their policies and procedures with respect to ESG issues that materially affect long-term shareholder value. These policies should be an integral part of the overall management of a company. Accordingly, we encourage companies to develop policies and practices to address issues of social and environmental responsibility that are relevant to their businesses, including:

- the environmental impact of the corporation’s products and operations;
- the impact of the corporation’s strategies and decisions on the communities and constituencies directly affected by its products and operations; and
- human rights and work standards in their operations.

We will assess the disclosure of the impact of ESG issues on investment risks and may engage with corporations who in our view could improve the quality of their disclosures.

We believe that it is prudent to apply a principles-based approach to corporate responsibility given the extensive list of social and environmental challenges that companies may face, including climate change, human rights, political contributions and workforce diversity. Accordingly, we review shareholder proposals related to ESG factors on a case-by-case basis. We generally support shareholder resolutions that encourage the disclosure of ESG factors which assist investors in assessing the extent to which corporate decisions may contribute to or detract from investment performance.

Next renewal date:	April 2020
Frequency of review:	Every 2 years