ONTARIO TEACHERS' PENSION PLAN

GOOD GOVERNANCE IS GOOD BUSINESS

2017 Corporate Governance Principles and Proxy Voting Guidelines

TABLE OF CONTENTS

CORPORATE GOVERNANCE DEFINED

Ontario Teachers' Pension Plan (Ontario Teachers') believes that good governance is good business. Companies implementing good governance practices are better positioned to make high-quality decisions that benefit the corporation and ultimately its shareholders.

Corporate governance is the system of structures a company puts in place to ensure it is effectively directed and controlled. In a corporate governance system there are three parties – the board of directors, management and shareholders. An effective corporate governance system relies on the clear delineation of the roles within the corporate model – shareholders elect directors, directors supervise management and management executes its strategy. Governance issues can arise when a group fails to adequately perform its role or when responsibilities of one or more groups deviate or infringe on the duties of another.

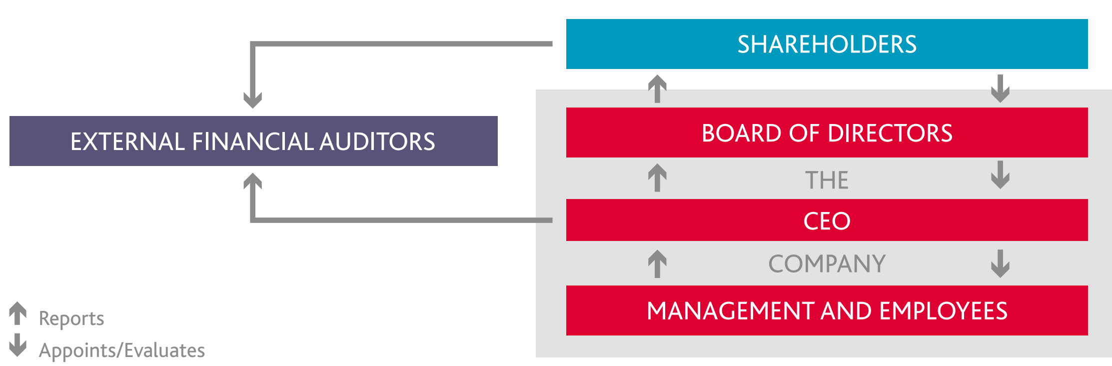
The board of directors has responsibility for the overall governance of the company which includes approving the company's strategic plan, monitoring its implementation and generally supervising management. Directors, depending on the jurisdiction, have a duty to act in the best interests of the shareholders and/or the corporation (although by extension, if directors are acting in the best interests of the corporation there is typically an alignment with shareholders).

Management is responsible to the board for developing and implementing the agreed-upon strategic plan as well as the day-to-day operations of the business. In addition, decisions taken by management (and approved by the board) to allocate the capital of the corporation should generate a return in excess of the cost of that capital.

The supervisory relationship that exists between the board and management necessitates that directors remain objective and are independent from management.

Shareholders appoint the board and the company's auditors, as well as satisfy themselves that the company has effective governance structures in place for the board to be independent and appropriately discharge its duties.

The following diagram illustrates the relationships among the various groups within a corporate governance system, as described above.



CORPORATE GOVERNANCE PRINCIPLES

Ontario Teachers' has adopted a number of corporate governance principles that we believe underpin an effective corporate governance system in any company. We believe well-governed companies apply these principles to their corporate governance structure and demonstrate consistency with them through the decisions the board makes.

BOARDS AND DIRECTORS:

- recognize the trust that shareholders have given to them and will not benefit from their election to the board by entering into self-serving activities;
- understand that shareholders provide capital to the firm in exchange for ownership of the company, and therefore expect to receive an appropriate return on that capital. Boards and directors should not enter into transactions that disproportionately transfer excessive amounts of capital to any group or individual, internal or external to the company;
- think and act independently from management, free from conflicts of interest and in accordance with their fiduciary duty. At the minimum, directors must demonstrate a working knowledge of the industry in which the company operates, including operations and risks, and must be willing and able to challenge management. Furthermore, they must continually undertake the necessary efforts to understand the current and emerging issues and risks facing the company and its industry in order to make decisions from the most informed perspective possible;
- need the freedom to apply their judgment and make decisions that they believe are in keeping with their obligations as directors, knowing that they will be held accountable for their decisions. Boards and directors understand that companies must take risks, but should not take risks inconsistent with the best interests of the corporation or its shareholders;
- give the highest regard to shareholder rights, equality in treatment of shareholders and the shareholder democratic process in their decision-making processes. All actions taken by the board will demonstrate this underlying respect for the owners of the corporation;

- take an objective approach to evaluating management and ensure that any compensation rewards are commensurate with performance and the creation of sustainable shareholder value;
- are sufficiently transparent and open in their written and verbal communication with shareholders. Independent directors should be ready and willing to meet with shareholders, listen to their concerns and have frank and open discussions about the board's governance practices;
- make a real and demonstrated commitment to board effectiveness by conducting annual board and director assessments (including performance and skills assessments) and seeking out and appointing qualified directors. When recruiting and selecting directors, boards should embrace diversity in all its forms in sufficient numbers and encourage the expression of different opinions to enhance discussion and debate.

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES TO PRIVATE COMPANIES

Our Corporate Governance Principles were developed within a public company context. Compared to public companies, shareholders of private companies experience fewer agency issues and can be afforded extra protections through shareholder agreements that are not available when investing in a public company. Therefore, we acknowledge that it is not always appropriate or necessary to apply the same governance structures and practices expected of publicly listed companies to those that are privately held.

RESPONSIBLE INVESTING

Ontario Teachers' has always taken a responsible approach to investing on behalf of our members. Our mandate and duty is to use diligence when investing other people's money and our investment decisions are based on the obligation of the pension plan to pay our members' pensions. We have established a set of five *Responsible Investing Principles* that guide our actions.

Arriving at a decision to invest is a complex process requiring an integrated approach. We assess the risks of a number of factors, and our investment decision considers the magnitude and management of the material risks versus the potential return uncovered through our research. We do not select or exclude an investment based solely on any one factor.

We are mindful of the impacts of environmental and social issues on the sustainability of a company's operations and business.

As a responsible investor, and stewards of our members' pensions, we consider good corporate governance to be the overarching framework for effective company management. Ontario Teachers' believes that a strong governance structure underpins a company's ability to effectively deal with risks.

In order to check accountability, we continually monitor a company after the investment has been made. We engage in a number of activities, some of which are regular and ongoing while others are conducted on a case-by-case basis, such as:

- encouraging regular engagement with companies;
- voting our shares in the most informed manner possible;
- examining and assessing the ability of the board to make effective decisions that are in the best interests of the corporation;
- collaborating with other investors where appropriate;
- entering into targeted discussions with companies when the situation warrants;
- taking any other action we deem to be appropriate under the circumstances.

This approach to responsible investing guides how we vote our shares. Our voting decision takes into account issues such as materiality of the risk, return objectives, the mindset of the company as well as alignment with our Corporate Governance Principles.

2017 PROXY VOTING GUIDELINES

PROXY VOTING

One of our most important rights as investors is the right to vote. We ensure that our votes are cast in a manner that is most consistent with our Corporate Governance Principles and in the best economic interests of company shareholders over the long term.

The right to vote is one of our most effective tools for promoting good corporate governance. We are also obligated by law to set out our policies and procedures with respect to voting rights and by our own *Statement of Investment Policies and Procedures* to exercise our right to vote.

We take voting very seriously. Our objective is to vote every share of every company we own at every meeting of that company's shareholders. All issues, routine or non-routine, are reviewed in detail within the context of our Corporate Governance Principles and corresponding Proxy Voting Guidelines. Our assessment process consists of consulting a variety of sources, including all relevant company filings and other materials such as proxy research reports and the services of third-party research providers.

INTEGRATED PROCESS

At Ontario Teachers', proxy voting is an integrated process. Where appropriate, each portfolio manager with an interest in a particular company is consulted to ensure his or her perspective is reflected in our proxy vote decision. Contentious issues or positions are regularly discussed with senior management in the Investment Division as well as the President and Chief Executive Officer. We may seek to contact the company for additional information or clarification.

BUNDLED PROPOSALS

We expect to have the opportunity to review and vote on resolutions separately. However, companies occasionally "bundle" proposals – combine two or more related and/or unrelated items into one resolution. Bundled proposals often contain matters that shareholders would support and those they would likely oppose if voted on separately, presenting a dilemma for shareholders. We discourage bundling proposals as we believe it undermines the shareholder democratic process. If presented with a bundled proposal, we will evaluate each individual item on its own merit and will not vote in support of a bundled resolution if we hold significant reservations about any individual item, even if the bundle contains supportable elements.

DISCLOSURE

We will generally provide a rationale for our voting decisions when voting against a management recommendation or when a proposal is non-routine in nature. Explanations of our voting decisions are disclosed on our website in advance of the meeting date[1]. We also support the prompt public disclosure of the voting results of each proposal voted on at a meeting of shareholders.

ABSTAIN VOTES

Some ballots provide the option to abstain from voting for or against a proposal. We generally do not favour the abstain vote. We believe we have a responsibility to cast a definitive vote for or against a proposal. There are limited situations in which an abstain vote may be appropriate: for example, when a director withdraws his or her name from the ballot ahead of the general meeting, or when we do not have sufficient information to cast a definitive vote.

More fundamentally, abstain votes are treated inconsistently. Some companies do not count abstain votes as votes cast on proposals to elect directors; however, for other proposals, abstentions have the same effect as a vote against. This inconsistent approach depresses the calculated support for items such as shareholder proposals, while increasing the appearance of support for director elections.

Abstaining is choosing to not vote. In our view, abstain votes should therefore be excluded from any calculation to determine shareholder support of a proposal.

SIMPLE MAJORITY

A simple majority requires more than half of the votes cast to be in favour in order for a resolution to pass. Ontario Teachers' supports simple majority voting, except in situations where a higher majority is required by statute.

[1]By providing our decisions on our website, we do not intend to solicit the proxy of any other shareholders nor do we request any other shareholder to execute, not execute or revoke the proxies that have been solicited by management or anyone else. Please see "Important Legal Notice" in our Proxy Voting section of www.otpp.com for more information.

PROXY VOTING GUIDELINES

The following Proxy Voting Guidelines are based on our Corporate Governance Principles and articulate how we intend to vote on commonly raised or potentially contentious issues. These guidelines have been developed over a number of years and are intended to encourage companies to take actions that we believe are in the best long-term economic interest of shareholders.

We apply these guidelines to determine whether to support or oppose proposals presented for a shareholder vote. It would be inconsistent with our fiduciary responsibility to vote for any management- or shareholder-sponsored initiative that we believe is likely to diminish shareholder value over the long term. Fundamental to any voting decision is consistency with our Corporate Governance Principles, keeping in mind our rights as shareholders and our fiduciary responsibilities to the pension plan's beneficiaries.

Our guidelines are not regulations and will evolve as circumstances change. We commit to remain open-minded and pragmatic, and will apply the guidelines with thought, giving consideration to the individual circumstances of companies and alignment with our Corporate Governance Principles. These guidelines are annually reviewed by the Ontario Teachers' board.

Since we vote in a number of global markets, our guidelines are principles-based and cover a broad range of corporate governance matters, a number of which may not arise in every jurisdiction in which we invest. As a result, our guidelines provide us with the flexibility to tailor our approach to reflect the nuances of certain markets.

Each of the following guidelines is designed to encourage the board of directors to discharge its responsibilities in the most efficient and objective fashion possible and consistent with our Corporate Governance Principles, without placing unreasonable or arbitrary burdens on the company or the board.

We welcome comments or feedback on our guidelines and encourage you to contact us at corpgovernance@otpp.com.

CHANGES FOR 2017

There have been enhancements and clarifications to our Corporate Governance Principles and Proxy Voting Guidelines for 2017, including the following changes:

BOARDS OF DIRECTORS

We have broadened the discussion under Guideline 1.0 Boards of Directors to include what we believe are four key responsibilities of the board when executing their oversight function:

1. Developing a strong corporate governance culture
2. Undertaking effective risk management
3. Creating a robust succession plan
4. Communicating clearly and effectively with shareholders

Within Guideline 1.1 Independent Boards of Directors, we expand on our discussion of director tenure, stating that we believe boards benefit when there is a balance between experience and freshness. We also recognize that there is a point at which tenure can become problematic and outline our voting approach should we determine that tenure is having a negative impact on the board's decision making.

Furthermore in Guideline 1.1., we now articulate that in situations where a former CEO remains on the board past their retirement date we will consider voting against one or more of the following: the former CEO's election to the board, the Chair of the Nomination Committee (or equivalent) and/or the entire Nomination Committee, depending on the circumstances.

In Guideline 1.3 Director Nomination and Evaluation we encourage the adoption and disclosure of a skills matrix which describes the skills and expertise possessed by the individual directors. However, we encourage boards to limit disclosure of skills to those that are pertinent to executing their oversight of the corporate strategy and not provide a "laundry list" of skills.

EXECUTIVE COMPENSATION

When discussing pay ratios in Guideline 2.0 Management and Director Compensation, we state our preference for the ratio of CEO compensation to the average of the other named executive officers as one tool to assess CEO pay.

SHAREHOLDER RIGHTS

In Guideline 4.3 Increase in Authorized or Issued Shares, we state there is a point at which the dilution or other features associated with the authority become problematic, impacting our support of share issuances above 25% with a valid business reason.

Also, we provide our rationale for no longer supporting authorizations where an accompanying rights issue increases the total authorization to 66% of the current outstanding share capital.

Finally, in Guideline 4.5 Shareholder Proposals, we express concern that we are more frequently finding a shareholder proposal that we would consider supportable becomes unsupportable due to unreasonable restrictions related to the implementation of the proposal, such as needlessly onerous timelines, being placed on the board.

1.0 BOARDS OF DIRECTORS

KEY RESPONSIBILITIES OF A BOARD

Following are what we believe to be the key responsibilities of a board that contribute to effective oversight:

1. Developing a strong corporate governance culture
2. Undertaking effective risk management
3. Creating a robust succession plan
4. Communicating clearly and effectively with shareholders

Successfully executing on these responsibilities is instrumental to the creation of long-term sustainable corporate value.

In order to properly discharge the above responsibilities, boards must organize themselves to constructively challenge management's recommendations, and to evaluate corporate performance from an objective perspective.

Developing a Strong Corporate Governance Culture

We believe that the culture of the board is fundamental to effective governance, and sets a tone for the whole organization. We look to boards to set, promote and demonstrate a tone of integrity, openness, diversity and inclusiveness among its members and in its interactions with senior management. In our view, board culture should be an area of constant attention for the directors and this culture should drive how the board executes its oversight function. A strong and healthy board culture leads to a strong and healthy corporate culture that permeates the entire organization and is, in our view, an integral factor in the creation of long-term sustainable shareholder value.

Undertaking Effective Risk Management

Under effective risk management, a board oversees the decision of the level of risk a corporation is prepared to assume and the management's plan to generate an appropriate return based on that level of risk. A risk management system identifies, evaluates, and prioritizes risks to the company and develops a coordinated plan to effectively minimize, monitor, and control the probability and/or impact of the risk or to capitalize on the realization of opportunities presented by the risk.

Management has responsibility for identifying the risks facing the company, and developing an appropriate risk management system. The role of the board is to supervise the risk management process having regard for the company's return objectives. This requires the directors to keep up-to-date on the risk profile of the company and industry, including satisfying themselves that they have knowledge of existing and potential future risks facing the company.

The board should decide whether responsibility for the supervision of the risk management process should reside with the board as a whole, or be delegated to a committee of the board. However, each board committee should incorporate risk management into their regular responsibilities.

A board's ability to effectively manage risk requires a clear and thorough understanding of the company's business and the industry in which it operates.

Creating a Robust Succession Plan

Planning for the orderly succession of the CEO (and senior management) under both planned and unexpected scenarios is one of the board's most important tasks. The board should take a proactive approach to succession planning by working with the incumbent management team to understand the capabilities currently existing within the organization, identify and gain exposure to potential internal candidates, and facilitate their development. A quality succession plan should also prepare for the possibility of an external search being required.

For shareholders to gain confidence that boards are addressing issues of succession, we support the appropriate disclosure of the board's approach to succession planning, on the basis that any such disclosure would not serve to undermine the integrity and effectiveness of the succession plan in place.

Communicating Clearly and Effectively with Shareholders

Boards must be willing and able to communicate clearly with shareholders in form and content. Boards' written communication (e.g., annual proxy statement) should be clear and they should also be available to have regular meetings with shareholders. The content of a board's communication should be transparent and include appropriate disclosures of the company's strategies and objectives. The expectation is that the shareholder-board communication will not involve material non-public information unless both parties mutually agree to enter into such a relationship.

1.1 INDEPENDENT BOARDS OF DIRECTORS

GUIDELINE

We ***support*** an independent[2] board of directors. Ordinarily, we will not vote against a corporation's director candidates simply because they fail to meet the independence standard. We will consider ***not supporting*** a director's election to the board if in our view:

- decisions taken by a director (or directors) have resulted in unsatisfactory corporate performance over a reasonable period of time and/or demonstrate a lack of independence from management;
- a director has (or directors have) demonstrated a pattern of behaviour that could negatively affect the long-term performance of the corporation; or
- a director's (or directors') business relationship with the company may compromise their independence.

In extraordinary circumstances where director behaviour results in a complete loss of confidence in a director's ability to act in the best long-term interests of the corporation, we would consider ***not supporting*** that director's election to any other board for which he or she is a nominee.

DISCUSSION

A board of directors should have a majority of independent directors and ensure that the board is truly independent of management. We believe that a board with a majority of independent directors, and whose key committees are staffed with independent directors, is better positioned to critically evaluate management and corporate performance.

We view independence as a state of mind whereby each independent director has both the expertise and the will to act in the best interests of the corporation. Moreover, to maintain independence, we believe that in appropriate circumstances (such as in matters in which management has an interest) directors must obtain unconflicted advice from external advisors.

We recognize that shareholders cannot adequately assess the state of mind of a director solely from the company's public filings. As a result, we look to a board's processes, the individual and collective decisions taken by directors, and the company's performance to assist with our independence assessment. Evaluating the decisions made by the board and its committees can often serve as an effective indicator of director independence. In terms of process, we believe that peer reviews and board assessments are useful tools toward ensuring independence of mind.

Some jurisdictions attempt to draw a connection between independence and a director's term on a board. While there may be examples where a director's length of service affected his or her independence, we do not believe that tenure alone is a reliable proxy to determine independence. Rather, it is the role of the nominating/governance committee to evaluate whether the length of service of a particular director

[2] In determining whether a director is independent, we look to the standards in National Instrument 58-101 of the Canadian Securities Administrators, Disclosure of Corporate Governance Practices, and the corporate governance listing standards of the New York Stock Exchange.

has reached a point where the director's independence may be impaired. This is best accomplished through a robust annual board and director evaluation program.

We understand there is a benefit of institutional knowledge that long-serving directors may possess. However, we also believe that boards benefit when there is a balance between directors with experience and "freshness" on a board. We have come across situations where, in our view, director tenure was an obstacle in the board's decision-making process. While we will continue to address the impact of tenure on a case-by-case basis, we are cognizant that there is a point at which tenure can be an impediment to effective board decision making. In situations where we conclude that tenure has had a negative impact on the board's ability to make effective decisions, we will take the appropriate action to encourage board refreshment. Depending on the circumstances, such action could be a vote against the long-tenured director(s), the Chair of the Nomination Committee (or equivalent) or the entire Nomination Committee.

A CEO who has announced retirement from his or her role should also resign from the board upon such retirement date. Should a retired CEO continue to serve as a director past his or her retirement date without a compelling rationale to support remaining on the board, we will determine the appropriate course of action which, depending on the circumstances, could be voting against the former CEO, the Chair of the Nomination Committee (or equivalent) or the entire Nomination Committee, or any combination thereof.

In circumstances where an investor has a significant ownership stake in a corporation, consideration should be given to provide for director representation on the board that is proportional to the investor's economic interest.

We expect the company will disclose the identity of each interlocking relationship that exists among its board nominees. An interlocking relationship is one in which one or more directors sit together on other company boards.

Given the fiduciary responsibilities of being a director and the importance of remaining objective, we do not support a director entering into a business relationship of any kind with the company if we conclude that relationship may interfere with their ability to act independently.

It is essential that we have confidence in the board's ability to act in the best long-term interests of the corporation. Generally, we will not support the re-election of a director in situations where we have determined the director has consistently acted in a manner that in our view inhibits the long-term performance of the corporation. Furthermore, we will evaluate on a case-by-case basis whether or not to support that director on any other public company board of which he or she is a member if we believe continued presence on those boards would be detrimental to the long-term performance of those corporations.

Generally, a vote against director candidates is not based on a single factor such as a lack of independence or unsatisfactory corporate performance, but will be considered in combination with other factors.

1.2 GOVERNANCE AND NOMINATING COMMITTEE

GUIDELINE

We ***support*** the establishment of an independent nominating/governance committee. We will not ordinarily vote against directors simply because the board lacks a properly constituted nominating/ governance committee but will do so if we believe that the absence of such a committee has adversely affected the composition of the board and the governance of the corporation.

We expect boards to respect the shareholder democratic process. We hold the chair of the governance committee (or equivalent) responsible for ensuring that all proposals put to a shareholder vote are implemented in accordance with the wishes expressed by a majority of shareholders, or we expect a convincing rationale as to why it is in the best interests of the corporation that the board not take action. However, if we determine that the lack of respect for the shareholder democratic process is frequent and serious, we will consider ***not supporting*** all members of the governance committee or the entire board.

We expect boards will not enact bylaws or policies that adversely affect shareholder rights without first putting the issue to a shareholder vote. In situations where such a bylaw or policy has been implemented without a shareholder vote, we will, depending on the circumstance, hold the chair or members of the corporate governance committee (or equivalent) responsible and ***not support*** their re-election to the board.

DISCUSSION

Each board should have an independent nominating/governance committee (or equivalent) comprising independent directors. The committee should be responsible for the oversight of a company's governance practices, as well as for the identification, recruitment, nomination, appointment and orientation of new directors.

We expect directors to respect the shareholder democratic process. In situations where a proposal on the ballot has received the support ("for" vote) or non-support ("against" or "withhold" vote) of a significant majority of shareholders, we would expect the chair of the governance committee (or equivalent) to ensure the proposal is implemented in accordance with the wishes expressed by a majority of shareholders, or provide a compelling reason(s) as to why not. When determining "significant majority," we will only include actual votes cast, and do not consider broker non-votes relevant.

Ontario Teachers' believes that any changes to bylaws or policies that can affect shareholder rights must first be approved by a majority vote of shareholders prior to adoption by the board. Examples of such items that should be put to a shareholder vote include, but are not limited to, adoption of poison pills and designation of a single jurisdiction where shareholders can file derivative lawsuits.

1.3 DIRECTOR NOMINATION AND EVALUATION

GUIDELINE

We ***support*** the establishment of processes for evaluating the performance and effectiveness of the board. We will not ordinarily vote against directors because the board fails to publicly disclose its nomination and evaluation processes. We will do so only if we believe that the absence of such disclosure has adversely affected the transparency of the board's commitment to director succession planning and evaluation.

DISCUSSION

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

The nominating/governance committee should set the policy for selecting qualified candidates, proposing new nominees to the board and assessing directors on an ongoing basis, while also being involved in the composition and assignment of responsibilities of the board's other committees. We expect public disclosure and transparency of the board's recruitment, selection and evaluation programs to enable us to evaluate the breadth and depth of these processes, as well as the extent to which diversity is considered by the board. The policy should focus on satisfying the needs of the board, with due regard for the diversity of skills, backgrounds, experiences and qualifications of the directors serving on the board. The committee should develop an approach to board evaluation and director selection that assesses the current skills set of directors against current and future needs, while fostering a diverse range of ideas and perspectives in the boardroom. We encourage the adoption and disclosure of a board skills matrix – which should highlight skills and areas of expertise that are relevant in the context of the company's strategy – as a best practice tool to achieve this. We do not encourage the disclosure of a "laundry list" of skills.

At a minimum, evaluations should be administered by the independent Chair and include peer reviews and self-assessments. Should the board not have an independent Chair, then the independent lead director or the chair of the governance or other similar committee should direct the evaluation process. The fact that such assessments are undertaken should be disclosed along with a description of the process. In addition, attendance records and the number of other boards on which each director is active should also be disclosed. This allows shareholders to assess the robustness of the director evaluation process and the commitment of each board member to the company.

A note on gender diversity: While Ontario Teachers' believes boards should be diverse across a number of dimensions, we agree with a number of studies that specifically describe the positive impacts of gender diversity. Thus, to encourage gender diversity on boards, we support a minimum of three women on a board[3], are members of the Canadian Chapter of the 30% Club and regularly engage with companies on the topic.

[3]That rationale for supporting a minimum of three women on a board can be found in the paper "Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance" by Vicki W. Kramer, Alison M. Kondrad and Sumru Erkhut (2006). This view is corroborated in an MSCI report, "The Tipping Point: Women on Boards and Financial Performance," published December 2016, which concludes "that having three women on a corporate board represents a "tipping point" in terms of influence, which is reflected in financial performance" (Source: Executive Summary, page 3).

1.4 ELECTION OF DIRECTORS

GUIDELINE

We prefer the annual election of all directors. We will generally ***not support*** proposals that create a staggered board[4]. However, we note that a number of companies in jurisdictions around the world have long-standing processes, which elect directors to staggered terms. In such cases, we do not believe it is appropriate to vote against directors simply as an indication of disagreement with the manner in which they are elected.

We ***support*** the establishment of a majority-vote standard[5] for the election of directors. In the absence of a majority-vote standard we expect issuers to adopt a majority-vote policy[6]. We also ***support*** the election of directors individually rather than as a slate. We will not ordinarily vote against the board candidates proposed by a corporation simply because the corporation fails to meet these standards.

In situations where cumulative voting is in place, we will allocate our votes for each director in a manner that we believe will best promote good corporate governance over the long term.

DISCUSSION

Annual Elections of All Directors

Proponents of staggered, or classified, boards argue that by staggering the election of directors, a certain level of continuity and skill is maintained. It is worth noting that this continuity can also be maintained with a policy of annual elections, if the directors properly address the issues of competence and succession.

We see many disadvantages with a classified system. Staggered terms for board members make it problematic for shareholders to make fundamental changes to the composition and behaviour of boards by making it extremely difficult for any challenge to, or change in, board control. In circumstances of deteriorating corporate performance, this difficulty could result in a permanent impairment of long-term shareholder value.

[4] In a staggered or classified board, directors are typically elected in two or more classes, serving terms greater than one year. Using an example of a three-year staggered board, at each annual meeting, one-third of the board members or nominees would be eligible for shareholder ratification for a three-year period.

[5] Under a majority-vote standard, shareholders vote "for" or "against" directors and only those directors receiving a majority of votes cast in favour are elected.

[6] Issuers not employing a majority-vote standard will elect directors using plurality voting. In plurality voting, shareholders vote "for" or "withhold" for directors and there is no ability to vote "against" a director, allowing directors to be elected with a single vote. Under a majority-vote policy, "withhold" votes are considered "against" votes and, should a director receive a majority of "withhold" votes, the director would be required to submit their resignation to the board. The board would then be required to either accept or reject the resignation and publicly disclose its decision, preferably within 90 days of the shareholder vote.

Individual Elections and Majority Voting

We prefer and encourage companies to design proxy structures that give shareholders the ability to vote for or against individual board nominees, rather than requiring them to vote for or against an entire slate of board nominees. In addition, we believe that companies should adopt a majority-vote standard for the election of directors.

Should a company not employ a majority-vote standard in its director elections, we expect the company to adopt a majority-vote policy for its director elections. Under the majority-vote policy, a director failing to receive majority support would be expected to resign from the board as soon as practical. We expect the board to accept the director's resignation and refrain from subsequently reappointing the director, unless compelling evidence has been presented by the board to justify any actions to the contrary.

We understand that majority voting may not be practical in contested elections where there are more director nominees than board seats, and therefore accept the use of the plurality standard in these circumstances. Under the plurality voting standard, a board nominee is elected by receiving the highest number of votes cast even if less than a majority.

Contested Elections

In the event that a board is subject to a contested election, we will evaluate the dissident's argument 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 would be better positioned than the incumbent nominees to effect positive change and increase shareholder value.

Universal Proxy: In a contested election, we prefer that universal proxy ballots are used in place of separate dissident and management proxy cards. A universal ballot lists all management and dissident nominees on a single proxy card, ensuring equal representation of all nominees to be voted upon by shareholders. Currently, in the vast majority of proxy contests, shareholders are restricted to casting votes for either management's nominees or the dissident's nominees using their respective proxy cards. We believe that a universal ballot provides shareholders with a less confusing and cumbersome way to select a combination of director nominees from all listed candidates, regardless of who nominated the candidates.

Cumulative Voting

In some markets we are asked to vote on a cumulative basis, which provides shareholders with a number of votes equal to the number of shares they own multiplied by the number of directors to be elected. These votes may then be apportioned among one, some or all director candidates by the shareholders as they see fit.

Cumulative voting allows for the possibility that a minority block of shares can be represented on a board, ensuring an independent voice at the boardroom table, but also allows for the possibility that a minority of shareholders could unduly influence the company.

1.5 INDEPENDENT AUDITORS

GUIDELINE

We ***support*** the establishment of an independent audit committee. We will generally ***support*** the choice of auditors recommended by the corporation's directors. The instances of auditors being changed other than as a result of routine rotation will be reviewed on a ***case-by-case*** basis.

We will generally ***not support*** the reappointment of the auditor if efforts have been made to use binding arbitration to limit or reduce an audit firm's liability.

DISCUSSION

We are committed to the principle of the independence of external auditors. Shareholders must be able to rely on the independent auditor. If they perceive that there is a lack of independence, whether or not such a deficiency exists, much of that value is lost.

A strong audit process is a necessary condition of good governance and should enhance corporate performance. The audit process involves the establishment, structure and composition of an audit committee and the retention of an auditor or auditors. Each board should have, and in many jurisdictions is required to have, an independent audit committee composed of independent and financially literate directors.

The role of the auditor is central to the audit committee's ability to fulfill its responsibilities. Our preference is that the audit committee retains the services of a well-known and reputable accounting firm. We would be concerned if the same partner of any firm has audited a company for excessively long periods or if there have been material restatements to the financial statements. In these circumstances, we may withhold our support from the auditor.

In some jurisdictions it has become common for an audit engagement letter to include binding arbitration as a means of dispute resolution between management and the auditors. The terms of these provisions may limit the amount of information that can be presented in relevant proceedings and may not allow decisions to be appealed. This restricts the company's ability to seek relief for damages (monetary or otherwise) and, in our view, is not conducive to a strong audit process. We will therefore vote against or withhold our vote from the appointment of the auditor if the audit engagement letter includes such provisions.

1.6 AUDIT FEES

GUIDELINE

A significant majority of revenues generated by the accounting firm through its relationship with the company should come from the audit function proper. Where there is no disclosure or where a breakdown of the fees shows the non-audit fee is greater than the audit fee, without further clarification we will ***not support*** the re-election of the outside auditor.

DISCUSSION

We prefer that all, or a significant majority, of the revenues generated by the accounting firm through its relationship with the company come from the audit function. Where non-audit fees have been detailed, we will consider each fee on a case-by-case basis in determining auditor independence, but we will not support the reappointment of the auditor where in our view it appears that its independence has been compromised.

1.7 COMPENSATION COMMITTEE

GUIDELINE

We ***support*** the establishment of an independent compensation committee. We will not ordinarily vote against a corporation's director candidates simply because the board lacks a properly constituted compensation committee. We will do so if we believe there is evidence of recurring failures of the compensation committee to link pay with performance or if there are extraordinary and unjustified decisions on the part of the committee.

DISCUSSION

Each board should have a compensation committee composed of independent directors, at least one of whom has expertise in compensation matters. A strong and independent compensation committee will work to ensure that the incentives to the CEO, management and other employees are consistent with the maximization of long-term shareholder value, and that the incentive rewards are commensurate with performance. On a reasonable and periodic basis, the compensation committee should evaluate whether new and existing compensation packages are properly structured to enhance shareholder value and whether the incentives are commensurate with performance. The members of this committee should not be nominated or selected by the CEO, nor should the committee include the CEO.

The compensation committee must have the flexibility to seek outside advice on matters of executive remuneration. Only the services of independent, well-known and reputable consultants should be engaged by this committee, and such consultants should be responsible only to the members of the committee and should not perform any work for management. The identity of all consultants retained by the committee and/or management, and the nature and dollar value of all compensation services must be disclosed.

If the committee consistently disregards linking pay to performance or makes extraordinary compensation decisions that lack sound justification, we may vote against the committee chair or, in extreme cases, the entire committee.

1.8 BOARD SIZE

GUIDELINE

We ***support*** a board size of five to 16 members. We will not ordinarily vote against a corporation's director candidates simply because the size of the board is outside the guideline. We will do so if we determine that the size of the board is inhibiting its effectiveness.

DISCUSSION

We believe a board should be small enough to foster a diverse and constructive dialogue, but not so large that individual views cannot be heard. To that end, we prefer a board of no fewer than five and no more than 16 members, depending on the complexity of the corporation. However, the board's top priority should be to ensure that it has competent and independent members who bring diverse backgrounds and qualifications to effectively carry out the board's duties, regardless of size.

1.9 SEPARATION OF BOARD AND MANAGEMENT ROLES

GUIDELINE

We ***support*** the separation of board and management roles. We will not ordinarily vote against a corporation's director candidates where a separation of board and management roles does not exist. We will do so if we determine that the combination of roles is negatively affecting the effectiveness of the board and/or that corporate performance over a suitable time frame is unsatisfactory.

DISCUSSION

The Chair of the board has a critical role in setting the tone for the board and in establishing the standard of an independent mindset, in addition to being responsible for coordinating the activities of the board. The board, as a whole, is responsible for evaluating the performance of the company and its CEO. The CEO is responsible for the day-to-day operations and management of the company.

We believe that these responsibilities put a combined Chair/CEO in the very difficult position of coordinating the body that is responsible for evaluating his or her own performance. We are also concerned that in these situations too much power or control may reside in one individual.

For these reasons we believe it is appropriate to separate the roles of Chair and CEO. A separate Chair can deal with matters from the board's point of view, and provide a greater measure of independence to the board's oversight role. In our view there are limited circumstances where it may be justified that the roles be combined. When a board chooses to confer the roles of Chair and CEO on the same person, the reasons should be clearly disclosed, allowing shareholders to judge for themselves the appropriateness of a combined Chair and CEO.

In the absence of clear disclosure, we will be engaging with governance committee chairs (or equivalent) to discuss the board's rationale underlying the decision to combine the roles.

In situations where the same person holds the Chair and CEO titles, we advocate the practice of appointing a "Lead Director" for the board from the roster of independent directors. Furthermore, any standard description of the role and responsibilities of a Lead Director should be almost indistinguishable from that of an independent and non-executive Chair. We view the installation of a "Lead Director" as a transitory step to the ultimate separation of the roles of Chair and CEO.

We have significant concerns when a board that previously split the roles of Chair and CEO decides to revert to a combined Chair/CEO structure. In the absence of a persuasive explanation as to how the recombination of the roles is in the best interests of shareholders, we will consider voting against the chair of the governance committee (or equivalent) and/or its members responsible for this decision.

We generally do not support the role of Executive Chair because we believe the Chair should be independent of management and not be identified with management. Furthermore, we have significant concerns if the role appears to be a reward for past services, such as situations where former CEOs or Chairs remain on the board and are given the "Executive Chair" title. In these situations, there is a risk of former CEOs and Chairs inhibiting the new leadership from executing their duties as they see fit. Depending on our degree of concern, we will vote against one or more of the Executive Chair, the chair of the governance committee (or equivalent) and the committee members.

1.10 DIRECTOR LIABILITY AND INDEMNIFICATION

GUIDELINE

We will generally ***support*** proposals that limit directors' liability and provide indemnification, subject to the qualifications outlined below.

DISCUSSION

We recognize that corporate directors might be more sensitive to shareholders' concerns if they were to be subject to personal liability in the event of a successful suit by a shareholder. However, we also believe that many individuals would be reluctant to serve as corporate directors if they were to be personally liable for all lawsuits and legal costs.

Limitations on directors' liability can benefit the corporation and its shareholders by facilitating the attraction and retention of qualified directors and officers while affording recourse for shareholders in cases of alleged misconduct by directors. Consequently, in order to encourage the nomination of able directors, we believe that an appropriate indemnification policy is warranted.

2.0 MANAGEMENT AND DIRECTOR COMPENSATION

Complex management and director compensation plans have become prevalent. We believe that each compensation plan must be reviewed in its entirety to determine whether the individual parts serve the purpose of providing the right incentives to managers and directors, and whether the plan is reasonable on the whole.

Compensation and incentives to management and directors should be consistent with the long-term interests of the shareholders of the company. Salaries should reflect the requirements of the marketplace, with employees paid the amount necessary to attract and retain the skills and abilities required. All perquisites should reflect a justifiable corporate need and should be able to stand on their own merits under a cost-benefit analysis. Incentive compensation plans must have the overriding purpose of motivating and retaining individuals and must not be unduly generous. Such plans should be closely related to individual and corporate performance.

One of the most complex and contentious components of many incentive compensation plans is the use of equity incentives to motivate senior and middle managers. We are not opposed to the use of equity incentives to motivate managers; however, we are concerned that equity plans are sometimes poorly designed and administered, or abused.

Many equity plans base rewards on general market/sector performance or on the passage of time rather than on individual or company performance against the market or sector. We prefer to see that the exercise price or vesting schedule of the equity incentive be linked to the achievement of appropriate, company-specific, performance thresholds that are explicitly linked to the strategic objectives of the company, as approved by the board of directors.

A recent development in the compensation landscape is for issuers to disclose the ratio of the compensation of the CEO to the median compensation of their employees. We will review these disclosures on a case-by-case basis, and consider them in the wider context of a company's compensation plan. However, we believe that the ratio of CEO compensation to the average compensation of the other Named Executive Officers is a more useful tool to assess CEO pay.

Directors should have discretion in their compensation decisions. However, when discretion is applied, it must be done with care and be accompanied by a persuasive rationale to support its use. Discretion applied without a convincing reason cannot be supported.

2.1 EFFECTIVE EQUITY COMPENSATION

GUIDELINE

We assess proposed equity compensation on a ***case-by-case*** basis. We review the features of each plan together with the other aspects of total compensation and, after considering each of the issues, determine whether the plan on the whole is reasonable.

DISCUSSION

Equity compensation plans can increase the number of shares of a company and therefore dilute the value of existing shares. While such plans can be an effective compensation tool in moderation, they can be a concern to shareholders and their cost needs to be closely watched. The following points clarify our views on various aspects of equity compensation.

Issuing

Concentration: We will generally not support plans that authorize allocation of 25% or more of the available equity incentives to any one individual.

Cost: We will support plans whose costs are reasonable in the context of compensation as a whole and relative to industry practice. We consider grant date fair value to be the most appropriate cost to use as it reflects the value directors placed on the executives at the time of the granting of the award.

Dilution: We will generally support equity incentive plan amendments if the total potential dilution[7] does not exceed 5%, and the burn rate[8] is less than 1% per annum. We will review, on a case-by-case basis, equity incentive plans that provide for total potential dilution exceeding 5% but less than 10%, or where the burn rate exceeds 1% per annum. Where warranted and in limited circumstances, we will consider supporting equity incentive plan amendments with potential dilution rates exceeding 10%, or where the burn rate exceeds 2% per annum.

Fixed Number of Shares: We will generally not support plans that have a rolling maximum of shares available as options or other forms of equity compensation. We believe plans having a fixed number of shares available for grant place a discipline upon the board when awarding equity compensation.

Price: We will generally support plans whose underlying securities are to be issued at a value that is no less than 100% of the current market value.

[7]For our purposes, total potential dilution is the total number of shares available for grant (equity pool) plus unexercised shares that have been previously granted divided by the total shares outstanding.

[8]The burn rate is defined as the annual equity grant divided by the total outstanding shares and provides us with a measure of how fast the company is using the equity pool and diluting its shareholders.

Vesting

Automatic Vesting: We will generally not support plans that are 100% vested when granted.

Change of Control: We will generally not support plans with change of control provisions that allow all equity compensation to automatically vest upon a change of control. We will not support change of control arrangements developed in the midst of a takeover fight specifically to entrench management. We will not support the granting of equity incentives or bonuses to outside directors "in the event" of a change of control, as the independence of outside directors will be compromised if they are eligible for additional benefits in the event of a change of control.

Performance Vesting: We will generally support plans that link the granting of equity incentives, or the vesting of equity incentives previously granted, to specific performance targets.

Retesting: Retesting occurs when a performance condition that is not met in the current period is deferred to a future period. We generally do not support this practice and believe that for targets to be meaningful under pay-for-performance they need to be strictly adhered to and not be deferrable.

Vesting Provisions: We will review on a case-by-case basis the terms of the vesting of equity awards, paying particular attention to vesting conditions that are triggered for achieving performance below the median of the company's comparative group.

Exercising

Employee Loans: We will generally not support the corporation making loans to employees to allow employees to pay for equity compensation. Furthermore, when loans become excessive they expose the company to risk as a result of potentially uncollectable debts and may inhibit the termination of employees who owe the company. Executives seeking to borrow to buy equities under equity compensation plans should be required to obtain credit from conventional, market-rate sources, such as banks or credit unions.

Expiry: We will generally support plans whose equity incentives have a life of no more 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, but we will generally not support plans with "evergreen" provisions[9].

Repricing: 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, directly or indirectly, would reduce the exercise price of incentives already granted.

[9]Evergreen provisions are features in a plan that allow for equity plans to automatically renew and/or have an indefinite life.

Other

Board Discretion: We will not support plans that give the board broad discretion in setting the terms and conditions of equity incentive programs. Such programs must be submitted to shareholders with adequate detail regarding their cost, scope, frequency and schedules for exercising the equity incentives.

Disclosure: We strongly support the disclosure of all significant aspects of the equity compensation plan including full transparency of performance goals and vesting conditions.

Director Eligibility: We will generally support equity incentive plans for directors where the terms and conditions of director incentives are clearly defined and are reasonable. In particular, we look for a specific and objective formula for the award of director equity incentives. We will generally not support those plans that provide for discretionary director participation.

Omnibus Plans: We will review omnibus plans (three or more types of awards in one plan) on a case-by-case basis. Generally, we believe that shareholders should vote on the separate components of such plans rather than be forced to consider the "take-all" approach of an omnibus collection. Although we are generally opposed to the concept of omnibus plans, we will review each element to determine whether the specific benefits being offered adhere to our other guidelines in this category.

Pledging and Hedging: We generally do not support arrangements made on the part of executives to pledge as collateral or hedge their equity ownership.

2.2 ADVISORY VOTE ON COMPENSATION (SAY-ON-PAY)

GUIDELINE

Where we are required to vote with respect to management compensation proposals in an advisory or legally binding capacity, we will review compensation on a case-by-case basis to ensure that it meets our criteria as set out in these guidelines. We will generally vote in ***support*** of advisory votes on compensation if we believe that the compensation plan has met our guidelines, and is adequately designed to align pay with performance.

DISCUSSION

We believe that a properly-constituted board should address compensation issues in the normal course of fulfilling its responsibilities, and that a board generally requires the freedom and flexibility to develop and establish a compensation system in the manner that is best for the individual company. However, we also recognize that compensation plans can represent a significant cost to shareholders and we believe that shareholders should be entitled to express their opinion on the efficacy of the compensation program. At present this is best done through an advisory vote on compensation ("say-on-pay" vote).

Say-on-pay votes have become an important tool to facilitate compensation-related dialogue between directors and shareholders.

We will review say-on-pay proposals on a case-by-case basis, assessing compensation plans based on the features discussed in Guideline 2.3 Management Compensation.

In instances where we are satisfied that a compensation plan is adequately designed to align pay with performance, we will generally vote in support of the say-on-pay resolution.

If we have concerns with an issuer's remuneration program, we may choose to either support or oppose a compensation plan, depending on the gravity of our concerns. We have identified certain trigger points that, depending on their severity, could result in a vote against a say-on-pay resolution. This list should not be considered exhaustive, and includes:

- an evident disconnect between pay and performance, or the strategic objectives of the company;
- issues around the vesting of equity (length of vesting inconsistent with the type of compensation, such as long-term compensation with a short vesting period; lack of performance vesting for equity);
- poor structure or lack of a long-term plan;
- similar metrics to award both short- and long-term compensation without a compelling rationale as to why this is appropriate;
- unchallenging or inappropriate performance criteria used to award compensation or to determine the vesting of equity;

- disproportionate compensation paid to the CEO relative to other senior executives;
- a poorly constructed or inappropriate application of peer groups;
- one-off discretionary payments without sufficient justification and/or one-off discretionary awards that become habitual or routine.

Whenever we have issues with a compensation program and irrespective of our voting decision, we will outline our concerns to the company directly. In situations where either the committee has failed to respond to our concern(s) or has made decisions that in our view represent a significant disconnect between pay and performance, we will consider voting against members of the compensation committee in addition to not supporting the say-on-pay resolution.

We expect boards to respect the shareholder democratic process with respect to say-on-pay resolutions. In the event that a say-on-pay proposal receives significant voting opposition from shareholders in any given year, we will generally hold the chair of the compensation committee responsible to ensure that significant improvements are subsequently made to the compensation plan.

Frequency of the Say-on-Pay Vote

Given the role the say-on-pay vote has come to play in the shareholder-director engagement process, we see value in an annual vote.

One-off Discretionary Awards

We have noticed a number of issuers making one-time awards to an executive outside the normal compensation plan. Often these awards are made for retention and motivation purposes, or to recognize individual performance. We review one-off discretionary payments on a case-by-case basis and generally do not support these awards when the company has not provided a compelling reason for the award. Ontario Teachers' believes that awards outside the normal compensation plan can bring the design of current arrangements into question and, particularly when used for retention purposes, they can be a sign of weak succession planning.

We recognize the need for flexibility when determining compensation levels, and occasionally circumstances may arise in which discretionary awards are necessary. In these situations, the awards should be subject to sufficiently challenging performance conditions that occur over an extended period of time. However, if the current compensation arrangements are not acting as an appropriate incentive for management, we believe the company should review and amend these arrangements instead of continuing to make one-off discretionary awards.

2.3 MANAGEMENT COMPENSATION

GUIDELINE

We will review management compensation plans on a ***case-by-case*** basis. We review the features of each plan and determine whether the plan on the whole is reasonable.

DISCUSSION

We look to support compensation plans containing the following features:

- a clear statement by the board of directors of its executive compensation philosophy and how this philosophy is related to the company's strategic objectives;
- incentives for performance that address both short- and long-term corporate objectives that we believe will be stable and not require alteration through the company's business cycle;
- a minimum one-year post-retirement hold period of equity awards, although we prefer two years;
- minimum share ownership requirements for executives;
- meaningful industry and company performance metrics for the awarding and/or vesting of incentives;
- full disclosure of all benefits including the present value of pension benefits and supplemental executive retirement plans in the compensation table in the management information circular;
- identification of changes in philosophy or performance targets;
- a relatively simple methodology that is easy to understand; and
- clawback provisions allowing the company to recoup compensation already paid in the event of financial restatements or misconduct.

In a number of instances, newly appointed CEOs and senior management will be granted signing bonuses or "golden hellos." We will evaluate such compensation arrangements on a case-by-case basis considering the reasonableness and necessity of the award along with any conditions attached to the ultimate receipt of the award.

2.4 DIRECTOR COMPENSATION

GUIDELINE

We will generally ***support*** proposals that call for a certain percentage of directors' compensation to be in the form of common stock (or restricted share units). We will not ordinarily vote against directors where there is no practice of paying some percentage of director compensation in common stock. We will do so if corporate performance, over a suitable time frame, is unsatisfactory.

We will review total compensation paid to directors on a ***case-by-case*** basis to ensure that the director compensation program provides appropriate compensation without compromising the director's ability to be independent.

DISCUSSION

Individual directors should be appropriately compensated and should be motivated to act in the best interests of the corporation. While we do not subscribe to the idea of a specific quantum or limits for director compensation, we believe there is a point at which the amount of compensation may negatively impact a director's ability to act independently. In determining this tipping point, we may consider a peer comparison and/or our assessment of decisions taken by the board and/or directors.

We believe that share ownership by directors better aligns their interests with those of other shareholders. For this reason, we believe that meaningful share ownership by directors is in the best interest of the company.

We believe that the degree of ownership should be determined by the circumstances of the individual director's financial position, but that the financial commitment should be material to said director. As a minimum guideline, we suggest that each director should own an amount of stock equal in value to at least one year's compensation as a board member.

We also encourage boards to adopt a policy of paying a percentage of directors' compensation in the form of common stock, which the directors undertake to hold so long as they remain directors of the company.

2.5 SEVERANCE COMPENSATION

GUIDELINE

We will review severance compensation arrangements on a ***case-by-case*** basis. We will ***not support*** "golden parachutes" that we deem to be excessive or that are "single-trigger" arrangements.

DISCUSSION

A golden parachute is a severance compensation arrangement to be paid to an employee whose employment is terminated. In some cases, the payment is contingent upon the merger or acquisition of the corporation with a resulting change of control. These benefits can take the form of severance pay, a bonus, vesting of equity compensation, or a combination thereof.

Single-trigger golden parachute arrangements are those that typically require only that a change of control occurs or is deemed to have occurred, and not that the individual also loses his or her job, or has his or her responsibilities curtailed for reasons not of their own volition. Double-trigger arrangements require both a change of control and that the individual ceases to be employed in a manner that is similar or reasonably comparable to his or her current role. Payment of reasonable severance compensation is justified when job loss or significant demotion occurs, but is not acceptable when it is excessive and/or in circumstances where the individual continues to be employed in the same or similar capacity as he or she was prior to the trigger event occurring.

We recognize the need for competitive severance arrangements, particularly to enable management to continue making decisions in the best interests of a company and its shareholders, regardless of their own welfare, in the event of a successful takeover. However, when golden parachutes are excessive they serve to entrench management.

3.0 TAKEOVER PROTECTIONS

Through our voting decisions we seek to enhance the long-term value of our investments. We will look at takeover protection measures on an individual basis with this principle in mind. We recognize that takeover protections, when properly used, may optimize shareholder value, but they must not unduly deter initial unsolicited bids or follow-on offers. While takeover protection measures must strike a balance between targets and bidders, in our view they must primarily serve the interests of long-term shareholders.

3.1 SHAREHOLDER RIGHTS PLANS

GUIDELINE

We will review shareholder rights plans on a ***case-by-case*** basis. We will generally ***not support*** shareholder rights plans that go beyond ensuring equal treatment of shareholders in the event of a bid, allowing the company sufficient time to consider alternatives to a bid and permitting shareholders to make an informed decision about the bid and available alternatives.

DISCUSSION

A shareholder rights plan provides the shareholders of a target company with rights to purchase additional shares or to sell shares at very attractive prices in the event of an unwanted offer for the company. These rights, when triggered, impose significant economic penalties on a hostile acquiror.

In our view, there are limited legitimate purposes of a shareholder rights plan: 1) ensuring that all shareholders are treated equally in connection with a change of control of the company; 2) allowing the board of the target company sufficient time to determine whether there is a better alternative to the offer; and 3) permitting shareholders to make an informed decision about the bid and available alternatives.

Many shareholder rights plans go much further than these legitimate aims. In such circumstances, they may be used to discourage a takeover bid, or to prevent shareholders from responding to a bid or from determining the best course of action for the company. We believe it is appropriate for shareholders to determine whether a rights plan should be implemented and subsequently remain in effect, whether within the context of a bid or otherwise. As owners, they are less likely to be subject to the conflicts of interest that could influence the judgment of the board and management.

3.2 ADVANCE NOTICE REQUIREMENT

GUIDELINE

We will evaluate advance notice requirement bylaw amendments on a ***case-by-case*** basis and will ***not support*** bylaw amendments that place unnecessary burdens on shareholders wishing to nominate directors.

DISCUSSION

Advance notice requirements are designed to protect issuers and shareholders from a situation where a dissident shareholder arrives at the meeting with sufficient proxies to unseat the incumbent board without prior warning. This can leave the board and shareholders vulnerable to an unwanted takeover of the board that may not be in the best interests of either the issuer or shareholders. We believe that in the case of contested elections, the company's and shareholders' interests are best served when there is sufficient debate on the merits of proposed nominees and the dissident's rationale for taking the action. Thus, we agree with the spirit of advance notice requirements in that they protect issuers and shareholders from unwanted or surprise changes to the board without proper discussion.

However, the advance notice bylaw amendments should not be drafted to include unnecessary or unreasonable hurdles for shareholders to nominate directors to the board. In our view, the processes and requirements for a shareholder to nominate a director or directors should be similar to those in place for the issuer.

We will evaluate advance notice bylaw amendments on a case-by-case basis and support those amendments that do not put unreasonable requirements on shareholders and not support those that we determine do.

Generally, we believe such amendments are most suited for smaller issuers and those with a shareholder base that is concentrated in a smaller number of investors. We do question the utility of adopting such a bylaw amendment for an issuer with a large and diverse shareholder base or one with a controlling shareholder.

3.3 GOING-PRIVATE TRANSACTIONS, LEVERAGED BUYOUTS AND OTHER PURCHASE TRANSACTIONS

GUIDELINE

We will evaluate going-private transactions, leveraged buyouts and other purchase transactions on a ***case-by-case*** basis, but we will ***not support*** transactions that do not adequately compensate minority shareholders.

DISCUSSION

Going-Private Transactions/Leveraged Buyouts

Whenever a publicly traded corporation seeks to become privately owned via a going-private transaction or a leveraged buyout, we will carefully evaluate the proposal to determine whether the transaction is in the long-term best economic interests of shareholders, or whether it is designed mainly to further the interests of one group of stakeholders at the expense of other shareholders.

In addition to this economic analysis, we will review the process by which the proposal was received and consider whether:

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

Other Purchase Transactions

We review all transactions on a case-by-case basis and will support those that we believe are clearly in the best interests of shareholders.

3.4 REINCORPORATION

GUIDELINE

We will ***support*** reincorporation proposals when management and the board can demonstrate sound financial or business reasons for the move. However, we will generally ***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 company in a different legal jurisdiction. There are a number of legitimate reasons why a company may want to reincorporate, but it is often a tactic by management to frustrate a potential takeover, or to limit director liability or other shareholder rights.

4.0 SHAREHOLDERS' RIGHTS ISSUES

4.1 DUAL-CLASS SHARE STRUCTURES

GUIDELINE

We ***support*** one class of shares. We will generally ***not support*** the creation or extension of dual-class share structures. We will review transactions to collapse controlled corporations with dual-class structures on a ***case-by-case*** basis.

DISCUSSION

Dual-class share structures create classes of common stock with either superior or inferior voting rights to those of the existing class of stock. The shares that have inferior voting rights sometimes pay a greater dividend and can usually be transferred more readily than the shares that have superior voting rights. To the extent that shareholders opt for the subordinated voting shares, management, or certain shareholders, maintain effective control of the corporation by keeping for themselves the shares that have superior voting rights. Other forms of unequal share structures include those that allow a certain class of shareholders to elect a disproportionate percentage of directors.

Dual-class share provisions create a subordinated class of common shares in every sense of the term. Such proposals allocate voting rights in a manner that is disproportionate to economic ownership, thus depriving some shareholders of certain rights and controls. A dual-class structure with unequal voting rights violates the principle of "one share, one vote" and exposes shareholders to the risk that the controlling shareholder(s) may use their disproportionate influence to force the company to take actions that are contrary to the best interests of all shareholders.

While we do not support the creation of dual-class share structures, we understand that this structure does exist in many corporations. 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. For example, we consider coattail provisions[10] appropriate to be included in the share provisions of any dual-class structure.

We support the collapsing of dual-class structures insofar as the transactions eliminating such structures are in the best long-term interests of the corporation. We would generally not support transactions that transfer a significant amount of wealth as a control premium to the controlling shareholder(s).

We view any attempt to provide extra benefits, such as increased voting rights or higher dividends, to longer-term shareholders to be the same as creating a dual-class structure. Thus, we will not support the creation of such "loyalty shares."

[10] Coattail provisions allow for the holders of subordinated shares to be treated equally to the superior shares in the event of a formal bid for the company.

4.2 SUPERMAJORITY APPROVAL OF BUSINESS TRANSACTIONS

GUIDELINE

We will review supermajority proposals on a ***case-by-case*** basis; however, we will generally ***not support*** proposals in which management seeks to increase the number of votes required on an issue above two-thirds (66.7%) of the outstanding shares.

DISCUSSION

Supermajority amendments are generally designed to deter hostile takeovers by imposing artificially high voting barriers. They typically require the approval of three-quarters (75%) or more of shareholders for a particular transaction.

We agree that in some circumstances a supermajority approval is appropriate; however, we feel that in these circumstances a two-thirds (66.7%) approval level is sufficient. Such a vote requirement, in our opinion, is reasonable and yet provides sufficient protection against unwarranted invasions on the corporation. This threshold also has some support using corporate law as a precedent.

4.3 INCREASE IN AUTHORIZED OR ISSUED SHARES

GUIDELINE

We believe shareholders should be entitled to vote in circumstances where a corporation seeks to increase the authorized or issued share capital by 25% or more. We will generally ***support*** proposals for the authorization or issuance of additional shares provided the amount requested is necessary for sound business reasons.

We will generally ***not support*** proposals that seek to increase the authorized or issued shares by 25% or more when management does not demonstrate a specific and valid need. We will generally ***not support*** proposals where the increase in authorized or issued shares does not contain pre-emptive rights, other than in the case of an all-stock takeover bid or merger.

DISCUSSION

An increase in the number of authorized or issued shares provides a company's board of directors with flexibility to meet changing financial conditions. Additional shares may be needed to:

- implement a stock split, which can expand and improve the market for the company's securities;
- aid in a restructuring or acquisition, which can improve the company's competitive position;
- provide sufficient shares for use in stock option or other executive compensation plans; or
- implement a shareholder rights plan or other takeover defence.

However, an increase in the number of authorized or issued shares presents significant dilution risk. We believe that shareholders should have input on major decisions regarding authorized shares and share issuance.

We acknowledge that there is a point where such authorities become problematic because of dilution or other features embedded in the request, which may result in a vote against the proposal.

Over the past few years we have seen management proposals requesting an increase in authorized shares with a matching rights issue, which can increase the total authorization being requested to 66% of the current outstanding share capital. These proposals were introduced as a temporary measure in response to the difficulty in raising capital as a result of the most recent financial crisis, with some of these proposals including safeguards against misuse. Having seen very few instances when this authority has been used and recognizing that the financial markets have largely recovered from crisis levels, we no longer believe the need for such authorities exists. As a result, we are becoming concerned that what was introduced as an extraordinary request has become routine and that ongoing support for these proposals exposes shareholders to significant dilution risk.

Consequently, we will no longer support such proposals requesting an increase in authorized shares where the total authorization being requested equates to 66% of the current outstanding share capital, unless a sound business reason has been provided.

4.4 "BLANK-CHEQUE" PREFERRED SHARES

GUIDELINE

We will generally ***not support*** either the authorization of, or an increase in, "blank-cheque" preferred shares.

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 (a blank cheque) to establish voting, dividend, conversion and other rights in respect of these shares.

"Blank-cheque" preferred shares might provide corporations with the flexibility needed to meet changing financial conditions. They may also be used as a vehicle for a defence against hostile suitors, or may be placed in friendly hands to help block a potential takeover bid. A concern for many shareholders is that once these shares have been authorized, shareholders have no further power to determine how or when these shares will be designed and allocated.

4.5 SHAREHOLDER PROPOSALS

GUIDELINE

We will evaluate shareholder or stakeholder proposals on a ***case-by-case*** basis. We will generally ***not support*** proposals that in our view place arbitrary constraints on the company, its board or management, duplicate existing practices and/or hinder the creation of long-term shareholder value. We will generally ***support*** proposals that enhance disclosure on issues we believe may present a material risk to the company or generally improve the company's corporate governance processes and practices.

DISCUSSION

While we empathize with the spirit of many shareholder and stakeholder proposals, we must ensure that the implementation of a proposal does not introduce artificial or arbitrary constraints upon a company or duplicate practices already in place. We believe that the board and management must maintain sufficient flexibility to organize the company in a manner that they believe to be most appropriate at that time. Introducing unreasonable constraints, such as needlessly onerous timelines for implementation of the proposal, or requiring a duplication of effort will not assist, and may often hinder, the company's ability to create long-term value for its shareholders.

While a number of shareholder proposals have strong merit, we may end up not supporting them because of an unreasonable constraint being placed on the board. Unfortunately, we can only cast a vote based on the contents of the proposal as drafted by the proponent and presented in the meeting materials. There is no ability for us to alter the contents of the proposal or cast a conditional vote.

Environmental and social issues, and how they are managed, are material risks to companies and to shareholders. Boards are coming under increasing levels of pressure and expectation to show that they are not only aware of the environmental and social risks facing a company, but that they have the appropriate oversight and controls in place to ensure that these risks are sufficiently mitigated and managed. Consequently, shareholders are increasingly scrutinizing company disclosures, and using the shareholder proposal as a means to call for improvements. Like all shareholder proposals, these will be evaluated on a case-by-case basis. Those that request improved disclosure of a material risk to the company will generally be supported whereas those that mandate a specific course of action or place arbitrary constraints upon a company will generally not be supported.

4.6 EXCLUSIVE FORUM PROVISIONS

GUIDELINE

We will review board requests to adopt an exclusive forum provision on a ***case-by-case*** basis. We will generally ***support*** proposals where the company can demonstrate a sufficient rationale for the amendment and where we are comfortable with the jurisdiction being proposed.

DISCUSSION

We believe that shareholder derivative lawsuits provide shareholders with an important mechanism to ensure that directors and officers fulfill their fiduciary duties. When a board requests the adoption of an exclusive forum provision, it is seeking the authority to amend the company bylaws so that shareholder derivative lawsuits would be limited to a single jurisdiction.

Although there are legitimate reasons why a company may want to adopt such a provision, this can be a tactic to discourage the pursuit of derivative lawsuits by increasing their difficulty and cost, and therefore limit shareholder rights. We recognize that companies may have an interest in an environment that is highly litigious, and there may be a genuine need to adopt an exclusive forum provision to avoid frivolous litigation. However, we will generally not support these requests if we feel the company is using it solely as a way to restrict shareholder rights.

As stated in Guideline 1.2 Governance and Nominating Committee, we expect boards will not enact bylaws or policies that adversely affect shareholder rights without first putting the issue to a shareholder vote. In situations where exclusive forum provisions are implemented without first going to a shareholder vote, we will, depending on the circumstance, hold the chair or members of the corporate governance committee (or equivalent) responsible and not support their re-election to the board.

4.7 DIRECTOR NOMINATION BY SHAREHOLDERS (PROXY ACCESS)

GUIDELINE

We will review requests to adopt proxy access on a ***case-by-case*** basis. We generally ***support*** proposals containing thresholds that equate to a sufficiently high dollar amount of share ownership so as to avoid potential abuse of proxy access authority.

DISCUSSION

Ontario Teachers' believes that shareholder involvement in the director nomination process is fundamental to good corporate governance and supports the corporate model. Proxy access allows shareholders to add director candidates to the shareholder ballot under specific conditions such as minimum share ownership requirements and limits on the number of directors that can be included on the ballot.

While we are sensitive to the concerns around abuse of this provision, we believe that the ability of shareholders to nominate directors is a fundamental shareholder right. In addition, we note that placement on the ballot does not equate to election to the board, as ultimately shareholders retain the right to elect those directors they deem most suitable.

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