

# PROXY VOTING GUIDELINES & CORPORATE GOVERNANCE PRINCIPLES

MAY 2017



Alberta Investment  
Management Corporation

# PROXY VOTING GUIDELINES

---

## Table of Contents

PROXY VOTING GUIDELINES .....	2
1.0 INTRODUCTION.....	4
1.1 Purpose of Proxy Voting Guidelines.....	4
1.2 Voting Internationally .....	4
2.0 BOARD OF DIRECTORS .....	4
2.1 Independence .....	5
2.2 Size .....	5
2.3 Diversity.....	6
2.4 Over-Boarding .....	6
2.5 Staggered Boards.....	6
2.6 Cumulative Voting.....	7
2.7 Majority Vote Standard.....	7
2.8 Directors & Officers (D&O) Liability .....	7
2.9 Succession Planning.....	8
2.10 Separate Versus Slate Voting .....	8
2.11 Performance Review/Evaluations.....	8
2.12 Separation of Board and Management.....	8
2.13 Contested Elections/Proxy Contests .....	8
3.0 SHAREHOLDER RIGHTS .....	9
3.1 Dual Class, Unequal or Subordinate Voting Shares .....	9
3.2 Confidential Voting and Shareholder/Firm Communication.....	9
3.3 Shareholder Proposals.....	9
3.4 Proxy Access/ Advance Notice Policies .....	9
3.5 Linked Proposals .....	10
3.6 Supermajority.....	10
4.0 MANAGEMENT AND DIRECTOR COMPENSATION.....	11
4.1 Say-On-Pay .....	11
4.2 Employee Stock Purchase Plans .....	12
4.3 Golden Parachute .....	12
4.4 Loans to Managers and Directors .....	12
4.5 Director Fees .....	12
4.6 Equity Based Compensation Plans .....	13
4.7 CEO Compensation .....	13

5.0 AUDIT FUNCTION ..... 13

5.1 Independent Auditors ..... 13

5.2 Audit Fees..... 14

5.3 Audit Committee..... 14

5.4 Other Business..... 14

6.0 CAPITAL STRUCTURE ..... 14

6.1 Common Stock Voting Directive ..... 14

6.2 Private Placements ..... 15

7.0 TAKEOVER PROTECTION..... 15

7.1 Poison Pill ..... 15

7.2 Crown Jewel Defense..... 15

7.3 Reincorporation..... 16

7.4 Leveraged Buyouts (LBOs) ..... 16

7.5 Mergers and Acquisitions ..... 16

8.0 ESG REPORTING AND DISCLOSURE ..... 16

8.1 Climate Change ..... 17

8.2 Political Contributions ..... 18

9.0 MEMBERSHIP IN RELATED ORGANIZATIONS..... 18

10.0 DISCLOSURE AND REVIEW STATEMENT ..... 18



## 1.0 INTRODUCTION

### 1.1 Purpose of Proxy Voting Guidelines

Alberta Investment Management Corporation (AIMCo) is one of Canada's largest institutional investment fund managers, investing approximately CDN\$90 billion on behalf of 27 clients, including government and pension funds. One of the most important rights we have as an institutional investor is the right to vote on our publicly traded shares and exercise shareholder voice.

The purpose of these proxy voting guidelines is to describe the underlying corporate governance principles to which AIMCo subscribes, and to share AIMCo's voting rationale and potential voting stance to interested stakeholders. Good corporate governance enhances long term shareholder value. These guidelines and the corporate governance principles described herein are intended to positively impact investee firms' corporate governance and enhance the long-term value of our clients' investments, consistent with our fiduciary duty.

AIMCo has chosen a guidelines approach to allow for flexibility. These proxy voting guidelines serve as a guide only, as circumstances may vary beyond what is described in these guidelines. As such, AIMCo reserves the right to vote on a case by case basis.

### 1.2 Voting Internationally

AIMCo acknowledges that there is no single, universal approach to corporate governance. While these guidelines are intended to apply globally, it is acknowledged that procedural, cultural, legal and regulatory differences exist across various jurisdictions. These differences may impact the application of these guidelines. We encourage companies to implement relevant corporate governance frameworks including any applicable country codes, such as the UK Corporate Governance Code, the Code for Responsible Investing in South Africa (CRISA) and the Japanese Stewardship code, and generally accepted international standards, such as the OECD Principles of Corporate Governance, the International Labour Organization Conventions (ILO), the UN Global Principles on Business and Human Rights (UNGPs), the UN Global Compact and the UN Convention on Corruption.

## 2.0 BOARD OF DIRECTORS

### **General Principles:**

The Board is elected by shareholders to effectively steward the corporation and to make fundamental decisions in the best interests of the corporation. As such, the board should be comprised of a competent and diverse group of skilled, accountable and mostly independent directors. A board should collectively have relevant business expertise, display the highest level of integrity and be appropriately responsive to shareholder requests. We support full disclosure of the board member's experience and qualifications.

## 2.1 Independence

**Definition:** An independent board is independent of management, with no direct or indirect, material, or familial relationships with employees of the firm, its auditor(s), fellow board members, or service providers.

The principle of independence requires that directors do not sit on boards of companies with competing interests. Directors should not materially benefit from directorships beyond their director fees and share ownership. Some markets deem director independence compromised where director tenure is advanced beyond a certain number of years. Examples include France, where independence is considered compromised if a director's tenure exceeds 12 years and the UK, where independence is considered compromised if a director's tenure exceeds 9 years.

**Principles:** The virtue of director independence allows a director to evaluate corporate performance from an objective perspective, allowing him/her to challenge management decisions as required in order to act in the best long-term interests of the company.

The board of a publicly traded company should feature a majority of independent directors. If the board does not have an independent chairman, a lead independent director should be appointed to serve as a liaison with shareholders and between the Chair and directors of the board. Board terms encourage refreshment and greater board independence which mitigates the risk of creating the conditions for an entrenched board.

### **Voting Guidelines:**

In general, vote **for** boards and for committees comprised of at least a majority of independent directors, except where there is a market requirement, or acceptance for a higher/lower threshold as exhibited by local country corporate governance code/guidelines or related regulatory requirements.

Vote **against** or **withhold** votes from individual directors or nominees where any of the following conditions apply: i) the board or a key board committee does not comprise a majority of independent directors; ii) a new nominees' election would decrease the boards' level of independence to below 50%, except where there is market acceptance for a lower threshold, such as 33% for Japan; and iii) a director nominee for chair of a key board committee, namely audit, nominating, compensation or the corporate governance committee, is not independent, or is not considered independent according to local market protocols for excessive director tenure.

## 2.2 Size

**Principle:** Boards should be of a reasonable size to allow for effective governance. Generally, boards of publicly traded companies should be no less than 5 members and no greater than 16 members.

**Voting Guidelines:** Vote on proposals that will alter the size of the board beyond the recommended guidelines on a **case by case** basis. Where we choose to vote **against** a proposal on the basis of size of the board, we may either choose to vote **against** the director nominees and/or vote **against** the chair of the nominating committee.

## 2.3 Diversity

**Definition:** The attribute of board diversity is inclusive of skills, experience, gender, ethnicity and age.

**Principle:** Diversity, inclusive of gender, ethnicity, experience and age is a core attribute of a well-functioning board. Diverse boards offer a wide range of perspectives, competencies and valuable insights, fostering a higher quality of board governance overall. It is incumbent upon boards to ensure their composition is sufficiently diverse. AIMCo encourages companies to adopt diversity targets, policies, and board term limits to encourage refreshment and greater diversity. The attribute of board gender diversity is considered foundational to good corporate governance and positive investment outcomes.

AIMCo supports full disclosure of the nominating committees' recruitment processes in seeking qualified, diverse board nominees in accordance with relevant market protocols and best practices, such as Canadian National Instrument 58-101, which requires disclosure of relevant policies, objectives and recruitment processes for the consideration of women on boards and executive officer positions.

**Voting Guidelines:** Generally, vote **for** shareholder proposals that request companies to comply with applicable local market regulations for board diversity, such as disclosure of the processes to nominate women to their board. AIMCo may, subject to discretion and extenuating circumstances, vote **against** or withhold our vote from the chair of the nominating committee in developed country markets where the issuer exhibits low levels of board gender diversity, such as where there have been no women on the board for the last 2 or more years, with no stated targets to achieve gender diversity.

## 2.4 Over-Boarding

**Definition:** A board member who sits on multiple boards, thus impeding his/her ability to give each board due consideration in fulfillment of his/her duties as a director and/or as a committee chair/member is considered to be over-boarded.

**Principle:** Consideration should be given to a board member's ability to devote sufficient time and commitment to the increasing responsibilities of being a public company director, chairman of the board, or chairman of the audit committee.

**Voting Guidelines:** Generally, vote **for** proposals to elect directors where the chairman of the board or the audit committee serves on 0-2 outside public boards; and where the rest of the directors serve on 0-4 outside public boards. Review other situations on a **case by case** basis, to determine the impact of a board member's external commitments on his/her ability to deliver quality work to the board in question.

## 2.5 Staggered Boards

**Definition:** Board terms are staggered such that directors are subject to rotating annual elections rather than all directors seeking re-election each year.

**Principle:** Companies should hold annual elections for all director nominees, with shareholders given the opportunity to approve or vote against individual directors.

Annual elections increase director accountability at public companies and are best practice. Staggered boards make it more difficult to replace directors, and may negatively impact board independence and /or shareholder rights.

**Voting Guidelines:** Vote **for** proposals to hold annual elections of directors.

## 2.6 Cumulative Voting

**Definition:** A method of voting wherein each share owned is equivalent to one vote multiplied by the number of directors up for election. This system encourages proportional representation.

Example: 100 owned shares x 5 directors = 500 votes to the shareholder

**Principle:** To encourage proportional representation and democratic process.

**Voting Guidelines:** Generally vote **for** cumulative voting proposals. We generally do **not** support proposals to eliminate cumulative voting.

## 2.7 Majority Vote Standard

**Definition:** In an uncontested election, where the number of nominees equals the number of directors, each director is elected by a majority of votes cast over the threshold of 50%.

By contrast, the plurality vote standard has a lower threshold, allowing directors who receive the most votes relative to another nominee to succeed even where no majority is reached. The TSX requires all TSX listed issuers to adopt a majority voting policy.

**Principle:** Directors should be elected by a majority of votes cast, and shareholders should be able to vote both for and against director nominees, preventing a situation in which a nominee is elected by a minority of shareholders although a majority of shareholders withheld their votes.

**Voting Guidelines:** Vote **for** resolutions requesting: (i) the board adopt a majority vote standard and director resignation policy for director elections; (ii) the company amend its bylaws to provide for majority voting; or (iii) shareholders be given the opportunity to cast votes against director nominees rather than withhold. Vote **against** or withhold, as applicable to each market from the chairman of the nominations, governance committee and/or the Board where: (i) there is no majority vote standard; (ii) there is no satisfactory director resignation policy requiring nominees who achieve less than majority votes to resign in due course. If greater than 50% of the votes for an individual director are counted as against or withheld, then his/her resignation should be required within 90 days.

## 2.8 Directors & Officers (D&O) Liability

**Definition:** Liability insurance to offset legal damages for board members where applicable.

**Principle:** D & O policies should generally be limited to the director acting honestly and in good faith with a view to the best interests of the corporation and, in criminal matters, limited to the director having reasonable grounds for believing the conduct was lawful.

**Voting Guidelines:** Vote **for** proposals that set reasonable limits on directors' liability and which provide reasonable indemnification, where a director has not been negligent and is acting in good faith with respect to his/her corporate actions.



## 2.9 Succession Planning

**Principle:** CEO succession planning should be routine and firm-wide, incorporating both short-term crisis management and long term sustainability elements, and should be disclosed to shareholders annually.

**Voting Guidelines:** Vote **for** proposals seeking the adoption of a CEO succession planning policy.

## 2.10 Separate Versus Slate Voting

**Definition:** A separate ballot for each director nominee rather than a ballot for a group or slate of director nominees.

**Principle:** Shareholders should have the right to nominate, appoint and remove directors on an individual basis.

**Voting Guidelines:** Vote **for** proposals allowing shareholders to vote for individual nominees. Consider **withholding** our vote if the board is presented as a slate, particularly where additional governance, performance or compensation concerns exist.

## 2.11 Performance Review/Evaluations

**Definition:** An established evaluation system of the board, committee(s) and individual director performance.

**Principle:** Corporate boards should have an effective means of evaluation to rate individual director performance.

Evaluations should: (i) be administered by an independent chair; (ii) include peer reviews and self-assessments; and (iii) be disclosed along with attendance records, allowing shareholders to consider each board member's commitment to the company.

**Voting Guidelines:** Vote **for** proposals calling for the adoption of an evaluation process for the entire board of directors.

## 2.12 Separation of Board and Management

**Principle:** A lack of separation of the roles of the Chairman and CEO may impede the independence of the board and negatively impact corporate governance and firm performance.

**Voting Guideline:** Vote **for** proposals to appoint an independent director as a lead director in cases where separation does not currently exist and the company otherwise has a strong governance structure. Vote **against** proposals which combine the role of Chairman and CEO.

## 2.13 Contested Elections/Proxy Contests

**Definition:** Voting for director nominees in contested elections.

**Voting Guidelines:** Review competing proposals on a **case by case** basis and determine which are most likely to resolve issues of poor firm performance. Criteria under consideration will include the relative qualification of nominees, long-term financial performance, board performance, management track record and compensation plans.



## 3.0 SHAREHOLDER RIGHTS

**Principle:** The proxy system is a fundamental tenet of shareholder rights and is the principle means by which shareholders exercise voice, regardless of whether a shareholder is a majority or minority shareholder.

### 3.1 Dual Class, Unequal or Subordinate Voting Shares

**Principle:** Ordinary or common shares should generally feature one vote for each share. Divergence from a one share, one vote standard which gives certain shareholders voting power disproportionate to their equity ownership should be disclosed. Companies should keep such structures under regular review and put their retention up for regular approval by shareholders. Dual class structures should be accompanied by commensurate extra protections for minority shareholders.

**Voting Guidelines:** We generally do **not** support the creation or extension of dual-class share structures. Transactions to collapse corporations with dual-class structures will be reviewed on a **case by case** basis.

### 3.2 Confidential Voting and Shareholder/Firm Communication

**Principle:** Proxies should be kept confidential to uphold the integrity of the voting process. However, every company should be entitled to require registered owners of that same company to provide the identity of beneficial owners or holders of voting rights.

**Voting Guidelines:** Vote **for** shareholder proposals requesting that corporations adopt confidential voting and the use of independent vote tabulators and inspectors of elections. Vote **for** proposals which support increased communication between firms and their shareholders.

### 3.3 Shareholder Proposals

**Definition:** Proposals submitted by shareholders for voting at upcoming meetings which: (i) are included in the proxy statement; and (ii) which allow all shareholders an opportunity to vote for or against the proposal. Such proposals may force the firm to consider alternative action.

**Principle:** Companies should enable holders of a specified portion of its outstanding shares or a specified number of shareholders to call a meeting of shareholders. Hurdles should be low enough to enable appropriate accountability of the company to its shareholders.

**Voting Guideline:** Evaluate shareholder proposals on a **case by case** basis. AIMCo will generally vote **for** shareholder proposals that request companies report and disclose how the company manages relevant ESG risk provided the company does not already report on these risks. AIMCo will vote **against** proposals that place undue constraints on the issuer and do not align with enhanced shareholder value, or which are merely duplicative of reporting protocols already in place.

### 3.4 Proxy Access/ Advance Notice Policies

**Definitions:** Proxy access refers to the right of shareholders to nominate candidates of their own choosing as director nominees for consideration in company proxy materials. Advance notice policies establish the conditions for proxy access to ensure all shareholders are treated equally and given timely notice of alternate director nominees. Advance notice policies are intended to

protect the company from activist, dissident shareholders who are attempting to unseat the incumbent board without due warning to the company and to other shareholders.

**Principles:** The ability of significant shareholders to have the opportunity to nominate director nominees of their own choosing in company proxy materials, within a reasonable time frame, is considered a fundamental right in many markets. Proxy access gives shareholders a voice in the nominations process, fostering greater board independence. Significant shareholders are generally defined as those who own higher percentages of shares in the company.

To prevent stealth proxy contests, there should be sufficient notice and information provided to allow shareholders to research and consider the proposed merits of the dissident nominee(s). However, an advance notice bylaw amendment should not be drafted by the company for the express purposes of frustrating any attempt by shareholders to nominate a director(s) to the board.

**Voting Guidelines:** AIMCo will evaluate each advance notice policy or bylaw amendment on a **case by case** basis. In general, we will support proposals requesting that companies implement processes allowing shareholders to nominate candidates subject to reasonable notice and share ownership requirements. Best practices for proxy access indicate shareholders who have held at least 3% of the voting power of the company's securities for a minimum holding period, as appropriate to each market, should be eligible to nominate up to 25% of the board. AIMCo will generally **not** support by-law amendments that seek to thwart shareholder attempts to nominate directors by placing undue burdens upon shareholders.

### 3.5 Linked Proposals

**Definition:** A proposal that can only be voted upon in conjunction with another proposal(s).

**Principle:** A proposal that does not seem acceptable by itself is not generally improved when packaged or linked with a more acceptable proposal.

**Voting Guideline:** Vote **for** linked proposals only if AIMCo is supportive of all proposals individually. We generally discourage boards from linking proposals. Vote **against** linked proposals which appear to be an effort to make an otherwise highly objectionable proposal more acceptable.

### 3.6 Supermajority

**Definition:** A requirement that greater than 50% majority of shareholders vote in favour for the approval of important changes.

**Principle:** AIMCo believes that supermajority vote requirements impede shareholder action on ballot items critical to shareholder interests. A simple majority is generally appropriate to approve all matters presented to shareholders.

**Voting Guidelines:** Generally, vote **against** proposals in which management seeks to increase the number of votes required on an issue above two-thirds of the outstanding shares.

## 4.0 MANAGEMENT AND DIRECTOR COMPENSATION

**Principle:** Compensation for management and directors should be: (i) fully disclosed; (ii) reasonable so as to attract qualified candidates; and (iii) structured in a manner which provides appropriate incentives commensurate with performance. Compensation for directors should align directors' interests with shareholder interests. The board and the compensation committee of publicly traded companies are responsible for establishing compensation philosophy for management and for the board, including setting performance measures and assessing performance.

### 4.1 Say-On-Pay

**Definition:** The purpose of 'say on pay', an advisory vote in Canada, is to provide shareholders the opportunity to validate the structure and objectives of the executive compensation plan, by providing feedback to the compensation committee of the board. Although the vote may only be advisory, it allows shareholders to register their opinions, enhancing transparency, and may compel the board to re-examine its practices and re-evaluate its choices.

**Principle:** Say-on-pay emphasizes improved disclosure, the alignment of pay with performance, the balancing of interests between executive management and shareholders, and it fosters enhanced accountability of the compensation committee which determines executive compensation. Say on pay analysis should be comprised of both quantitative and qualitative measures.

**Voting Guidelines:** Vote on a **case by case** basis on proposals that seek an annual advisory vote on executive compensation. Vote **against** plans which support egregious, problematic pay practices, in which case we may vote **against** the chair and/or all members of the compensation committee.

In general, evidence of problematic pay practices constitutes one or more of the following:

- A clear disconnect between pay and performance;
- Director and management compensation are vastly disproportionate compared to peers;
- The ratio of monies paid to the CEO and to the next nearest executive officer is disproportionate compared to peers;
- A distinct lack of long-term incentives;
- Excessive severance compensation arrangements (golden parachutes);
- Excessive bonuses or discretionary awards; The absence of appropriate recoupment measures leading to a situation where monies paid have not actually been earned, due to any of the following: a change in control, financial restatements, negligence, employee misconduct and/or non-compliance with applicable rules.

## 4.2 Employee Stock Purchase Plans

**Principle:** Employee stock purchase plans serve to align the interests of employees with shareholders. If the share purchase is subsidized by the firm, employees should hold shares for an appropriate period of time.

**Voting Guidelines:** Vote **for** employee stock purchase plans with: (i) a reasonable limit on employee contribution; (ii) employer contribution of no more than 25% of employee contribution and no other price discount; or (iii) the purchase price being at least 85% of fair market value without employer contribution. The potential dilution together with all equity plans should be less than 10% of outstanding shares, require shareholder approval for any amendments, and should not exceed a 5- year term.

## 4.3 Golden Parachute

**Definition:** A lucrative benefits plan given to top executives in the event that a company is taken over by another firm, resulting in the loss of their job. Benefits generally include stock options and severance pay with the intent of discouraging a future takeover attempt.

**Principle:** Golden parachutes may be construed as excessive or egregious pay practices and should be generally avoided.

**Voting Guidelines:** Vote **against** golden parachutes that seem excessive, or are ‘single trigger’ arrangements, wherein a change of control of a company may cause the impacted executive to voluntarily leave to collect his/her golden parachute.

## 4.4 Loans to Managers and Directors

**Principle:** Issuers should not make loans to employees/directors in order to allow them to pay for equity incentives or the purchase of shares.

**Voting Guidelines:** Vote **against** preferential loans to employees or directors and oppose loans secured by company shares or granted to purchase company shares.

## 4.5 Director Fees

**Definition:** Fees paid to directors of the board as compensation for their service.

**Principle:** Compensation for directors should align directors’ interests with shareholder interests. Every board should have a compensation committee comprised of independent directors, at least one of whom has sufficient expertise in compensation matters, and/or a consultant expert should be hired to advise the committee. Compensation guidelines for directors should be reasonable so that fees for directors are sufficient to attract high caliber candidates, but not so generous that directors become beholden to the issuer and compromise their independence.

**Voting Guidelines:** Vote **for** reasonable director fee levels which appropriately reflect the expertise of the individuals, their responsibilities and time commitment expected. Vote **against** director compensation plans which appear poorly structured or excessive compared to normative pay practices.

## 4.6 Equity Based Compensation Plans

**Definition:** Linking a portion of a senior executive's compensation to firm performance

**Principle:** Equity based compensation plans, including stock option plans, can benefit shareholders by encouraging executives to own stock in the company, thereby aligning executives' interests with shareholders' interests. Performance criteria and results should be clearly disclosed to shareholders, and changes should not be made to equity based compensation plans without shareholder consent. AIMCo carefully evaluates the merits of all equity based compensation plans.

**Voting Guidelines:** AIMCo will generally vote **against** equity-based plans or plan amendments that: (i) are considered to be excessively dilutive; (ii) which appear excessively costly relative to company performance and peer norms; (iii) which award stock options to executives at below market discounts; (iv) have an exercise price of the options higher than market value; (v) have evergreen options; (vi) allow for accelerated vesting of awards in the event of a change of control; or (vii) do not properly disclose plan terms or award criteria.

AIMCo will assess proposed equity compensation plans and generally vote **for** proposals requesting shareholder approval of stock option repricing and **for** proposals to adopt performance based equity compensation or incentive plans

For all other equity based compensation matter, AIMCo will vote on a **case by case** basis.

## 4.7 CEO Compensation

**Principle:** CEO compensation packages should be reasonable, sufficient to attract top quality candidates and linked to risk-adjusted performance.

**Voting Guidelines:** Vote on a **case by case** basis. Generally, vote **for** formal processes to support a review of CEO performance and **for** compensation packages which link CEO pay to performance. Consider **withholding** if there is insufficient information regarding the structure of the compensation package. Vote **against** packages which support egregious compensation disconnected from firm performance, and/or where the ratio of monies paid to the CEO and to the next nearest executive officer is vastly disproportionate compared to peers.

## 5.0 AUDIT FUNCTION

**Definition:** The board is ultimately responsible for ensuring an independent, sound and thorough review of the company's financial statements, financial processes and disclosure, and in retaining, reviewing and affirming the work of external auditors.

### 5.1 Independent Auditors

**Principle:** Auditors should be free from conflicts of interest and should avoid situations requiring a choice between the interests of the auditor and the public.

**Voting Guideline:** Vote **for** proposals: (i) which support the creation and maintenance of an independent audit committee; and/or (ii) to appoint independent, financially literate auditors.

## 5.2 Audit Fees

**Principle:** In order to maintain freedom from conflict of interest, a disproportionate majority of fees generated by the accounting firm through its relationship with the company should come from the audit function only. The audit committee has the primary responsibility for ensuring the audit processes are robust.

**Voting Guideline:** Where the non-audit fees are disproportionately large, and at a minimum greater than the audit fees, AIMCo will vote **against** the re-election of the outside auditor. If adverse accounting practices are identified, such as accounting fraud, misapplication of applicable accounting standards, and/or material weaknesses identified in internal control processes, then AIMCo will vote **against** the chair and key member(s) of the audit committee.

## 5.3 Audit Committee

**Principle:** The audit committee of the board is directly responsible for overseeing and verifying the work of the external auditor, company financial reporting, processes and disclosure. The audit committee of a publically traded company should be comprised of fully independent, qualified members, with a minimum of three directors sitting on the audit committee.

**Voting Guideline:** Vote **for** proposals at Canadian companies which align with Canadian National Instrument 52-110 which sets out best practices for the composition of the audit committee, including independence criteria financial literacy, and committee responsibilities. Use Canadian NI 52-110 as a guide for other markets. Vote **against** proposals which are contrary to best practice in all markets, such as where audit committee independence is insufficient or compromised.

## 5.4 Other Business

**Definition:** Management or shareholder proposals on proxy ballots seeking blanket shareholder approval for unspecified 'other business.'

**Principle:** Shareholders have the right to be informed as to the nature of the proposal they are voting on.

**Voting Guideline:** Generally vote **withhold** regarding proposals called 'other business' which do not specify what the business constitutes, as shareholders cannot know in advance what they are approving and, where warranted, vote **against** the chairman of the governance committee or the chairman of the board, as authorizing a blanket proxy is an impediment to shareholder rights.

## 6.0 CAPITAL STRUCTURE

**Definition:** The capital structure refers to how a firm finances its overall operations and growth using different sources of funds, including long-term debt, specific short-term debt, common equity and preferred equity.

### 6.1 Common Stock Voting Directive

**Principle:** Shareholders should have the opportunity to approve the issuance of common shares which will have a dilutive effect on their holdings.



**Voting Guideline:** Vote **for** requests to increase a company's common stock authorization up to 25% of its existing common stock authorization, if used to fund a valid business activity. Requests beyond this threshold will be reviewed and voted upon on a **case by case** basis.

## 6.2 Private Placements

**Principle:** Companies are required to obtain shareholder approval for private placements which exceed 25% of outstanding shares during any six- month period.

**Voting Guideline:** Vote on a **case by case** basis to determine if the proposal is in the best interest of shareholders.

## 7.0 TAKEOVER PROTECTION

**Principle:** Takeover protection is part of a shareholder protection rights plan that serves to increase the time period a permitted bid may remain outstanding in order to allow the firm to develop an alternative plan and ensure all shareholders are treated equally. Takeover protection should optimize shareholder value without unduly deterring initial unsolicited bids or follow-on offers. It should strike a balance between targets and bidders and must primarily serve the interests of the long term shareholders.

**Voting Guideline:** Vote **for** proposals that strengthen the capacity of a board and management to respond to takeover offers in a manner that enhances long-term shareholder value.

### 7.1 Poison Pill

**Definition:** Takeover defense used to discourage unwelcome acquisitions by making the company stock less attractive to the acquirer.

**Principle:** A poison pill, once enacted, may prevent shareholders from receiving a buyout premium for their stock since its potential impact on shareholders is direct and substantial. A board should not enact nor amend a poison pill except with shareholder approval

**Voting Guideline:** Vote **for** a proposal only if the required trigger threshold to activate the pill is not unreasonably low (below 20%) and where: i) the offer is not all-cash; ii) the offer is not required to remain open for greater than 90 days; iii) the offeror may make amendments to reduce or change the terms; iv) there is no fairness opinion requirement; v) there is a low to no premium requirement; and vi) further poison pills must be approved by shareholders every 3 years.

### 7.2 Crown Jewel Defense

**Definition:** A company may employ a crown jewel defense by creating anti-takeover clauses which compels the sale of their most precious assets if a hostile takeover occurs.

**Principle:** This tactic is generally employed to dissuade a potential takeover attempt; however, it may thwart the interests of shareholders and should be voted on, and accepted by, a majority of shareholders.

**Voting Guidelines:** Will review on a **case by case** basis. We will generally **not** support crown jewel defenses unless they are clearly in the interest of all shareholders.



### 7.3 Reincorporation

**Definition:** Proposals to change a company's jurisdiction of incorporation.

**Principle:** When considering reincorporation, corporations should analyze jurisdictional laws, corporate governance requirements, shareholder protection, capital market structure, macro-economic and firm specific economic factors. Proposals should include the rationale for reincorporation.

**Voting Guideline:** Vote **for** reincorporation proposals where management and the board can demonstrate sound financial or business reasons for the move. Vote **against** reincorporation proposals that are made as part of an anti-takeover defense in order to impose restrictions on shareholder democracy, or solely to limit directors' liability, i.e. where business implications are secondary to negative governance implications.

### 7.4 Leveraged Buyouts (LBOs)

**Definition:** Take-over of a company using a significant amount of borrowed money (bonds or loans).

**Principle:** LBOs must take minority shareholder rights into account.

**Voting Guidelines:** Vote **for** proposals that strengthen the capacity of a board and management to respond to takeover offers in a manner that enhances long-term shareholder value. 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.

### 7.5 Mergers and Acquisitions

**Definition:** A merger is a combination of two companies which form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

**Principle:** Proposed mergers, acquisitions and corporate restructurings have important impacts on shareholder value. Such transactions should be structured to maximize shareholder value without compromising the rights of shareholders.

**Voting Guidelines:** Evaluate proposals on a **case by case** basis based on such features as: (i) appropriate valuation assessments with emphasis on commensurate offer premium, (ii) strategic rationale (iii) negotiating process; (iv) changes in corporate governance; (v) conflict of interest; (vi) impact on shareholder value; and (vii) shareholders' rights.

## 8.0 ESG REPORTING AND DISCLOSURE

**Principle:** Responsible Investing considers the positive or negative impacts that environmental, social and governance factors are likely to have on investment risk and return, to multiple stakeholders and to society in general, for current and future generations.

AIMCo is committed to implementing best practices in responsible investment and has adopted the United Nations Principles for Responsible Investment (UNPRI) as listed below:

- We will incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes.
- We will incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by entities held by AIMCo.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will enhance effectiveness in implementing the Principles through collaboration.
- We will report on activities and progress towards implementing the Principles.

AIMCo is committed to the application of these principles during the proxy voting process, consistent with our fiduciary duty. AIMCo encourages all investee firms to properly disclose any material environmental, social and governance risks.

**Voting Guidelines:** Vote **for** proposals that seek to promote disclosure of relevant environmental, social and governance (ESG) risks and/or mitigation of significant ESG risk exposure. In cases where a company has failed to adequately address material or egregious risks stemming from questionable ESG practices, we will recommend that shareholders vote **against** ratification of the board and/or management acts.

Vote **for** shareholder proposals requesting companies to report on ESG protocols and performance, and/or requesting investee firms to adopt internationally accepted codes of conduct, where this is deemed to increase shareholder value. Evaluate requests for standardized reporting on ESG issues on a **case by case** basis.

## 8.1 Climate Change

**Principle:** Climate change increasingly presents significant physical, regulatory and liability risks for investors while climate change preparedness can also be a source of competitive advantage for companies. Investors should be concerned with systemic environmental and social impacts, resultant stranded asset risk, asset impairment, legal liability and reputational risk. Shareholder proposals may request that companies disclose their greenhouse gas emissions, water or waste management performance, other related targets, and any actions they have taken to offset such exposures.

**Voting Guidelines:** Evaluate shareholder proposals which request that a company disclose non-proprietary policies and procedures to address climate change risk on a **case by case** basis. Generally, vote **for** proposals that request the company adopt or disclose whether it has such policies and procedures. Generally, vote **against** proposals that require disclosure of propriety information, that are deemed duplicative where the company already provides suitable, publicly available information or is otherwise deemed not to be at risk.

## 8.2 Political Contributions

**Definition:** Companies' contributions to political organizations and/or to political campaigns

**Principle:** Where companies are legally allowed to contribute to political parties, companies should publically disclose the full amounts spent, as well as the nature and intent of any lobbying activities. Relevant policies should ensure board oversight of company political donations and lobbying.

**Voting Guideline:** Vote **for** shareholder proposals that request companies to annually disclose their discretionary financial contributions to political or nongovernmental organizations.

## 9.0 MEMBERSHIP IN RELATED ORGANIZATIONS

AIMCo participates in broader dialogue with other institutional investors in order to contribute to the evolving field of responsible investment. AIMCo is a member of the following organizations committed to responsible investment:

- UN Principles for Responsible Investment Initiative (UNPRI)
- International Corporate Governance Network (ICGN)
- Canadian Coalition of Good Governance (CCGG)
- Responsible Investment Association (RIA)
- Pension Investment Association of Canada (PIAC)
- Pension Investment Research Council (PIRC)

These organizations often advocate on behalf of their members and may invite AIMCo to play a role in collaborative engagement with other companies. AIMCo supports the broad principle of collaborative engagement with other institutional investors within membership organizations, as collaboration leverages internal resources and is an effective way to encourage transparency and improved ESG performance across portfolios.

**Principle:** AIMCo's approach to proxy voting seeks to be consistent with its Responsible Investment Policy. Disclosure is the key that allows investors to better understand, evaluate and assess potential risks and return.

**Voting Guideline:** Vote **for** proposals that require full and timely disclosure of all policies, practices and matters that may materially affect shareholder value.

## 10.0 DISCLOSURE AND REVIEW STATEMENT

AIMCo is committed to timely and full public disclosure of our proxy voting record and voting rationale. Voting records are publicly available online at our website:

<http://www.aimco.alberta.ca/How-We-Think/Proxy-Voting>

The Responsible Investment Committee will review our record of compliance with these Proxy Voting Guidelines at least once per annum and will ensure these guidelines are thoroughly reviewed at least every two years.