Federated Hermes

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Dear Sir/Madam,

EOS at Federated Hermes is a leading stewardship provider, advising on over US$1.3tn of assets (as of 31 December 2020), on behalf of global institutional investors. Our aim is to improve company governance and to help align company behaviors with the long-term interests of our clients and their beneficiaries by addressing the most material strategic, financial and environmental, social and governance (ESG) risks and opportunities the company may be facing. We believe this is essential to build a global financial system that delivers improved long-term returns for investors, as well as better, more sustainable outcomes for society.

Enclosed is a copy of our **2021 Canadian Corporate Governance Principles**. 2020 has been a year of significant uncertainty and change around the world, we emphasize here some of the key developments in our governance principles for the coming year:

Company purpose and pandemic response
Given the very hopeful recent vaccine developments, the end to the pandemic is likely in sight. Alongside the short to medium-term reactive approaches required before the pandemic winds down, many companies are considering long-term plans and building on their experience during the pandemic – how to adapt their business purpose and strategy to deal with even bigger challenges, such as job losses due to automation and other forms of technological disruption and dealing and responding to the inevitable impacts of climate change. In doing so, there is growing recognition of the critical interdependence of elements of society, including businesses, governments, employees, customers and supply chains. We expect that this will become central in the way boards are governed and strategic decisions are taken and communicated. We believe that business purpose and supporting a company's licence to operate, provides business opportunities as well as a way of mitigating risk.

When the Business Roundtable, a group of executives from major corporations in the US, released a statement on the purpose of a corporation that reflected a shift from shareholder primacy to a commitment to all stakeholders, some considered it a radical idea. However, this shift is consistent with recent Canadian corporate law. Boards of directors in Canada have incorporated similar concepts expressed in the Business Roundtable statement for over a decade[1]. Canada officially recognized the importance of stakeholder inclusivity in 2019 with changes enacted to the Canada Business Corporations Act (CBCA). These changes were included in Bill C-97 and codified the existing common law fiduciary duty by specifying that when acting in the best interests of the corporation, directors and officers may consider, but are not limited to the interests of shareholders and certain other stakeholders.

While the interpretation and implementation of Bill C-97 at the company level is still a work in progress, this development in one the world's most important capital markets is a clear signal that the shift to include non-shareholder interests is here to stay. There is also increasing academic evidence to support the focus on key stakeholders within company purpose. An influential 2011 paper demonstrated a positive relationship between employee satisfaction in US companies and

[1] https://corpgov.law.harvard.edu/2020/02/16/shareholder-governance-wall-street-and-the-view-from-canada

long-term equity market returns[2]. A very recent paper showed that companies which score highly on corporate purpose metrics, including stakeholder measures, outperform on profitability, valuation and investment return measures[3]. This paper demonstrates that the degree of relative outperformance by these companies has strengthened through the pandemic. The SEC chair's guidance of 8 April 2020 urges all US issuers to disclose forward-looking long-term strategies that include stakeholder strategies, because these disclosures "may be of material interest to investors"[4].

The governance and oversight of company-specific enactment and expression of company purpose is the domain of the board, as purpose should transcend corporate personalities, crises and business cycles.

Racial justice and diversity and inclusion

The death of George Floyd has re-energized the anti-racist movement in North America and around the world. Recent events have renewed concerns about unequal representation of ethnic minorities at different levels in organizations and the role that companies play in not only perpetuating but also reducing racial inequity in their workforces and in society. We believe every country and many companies, including our own, have much more to do to address this important and urgent problem. We welcome the steps taken by companies to acknowledge and commit to addressing racial inequity in the workforce and beyond, like the BlackNorth Initiative, and we expect these steps to be followed up with concrete action without delay. We also encourage adoption of the recommendations of the Ontario Capital Markets Modernization Taskforce related to setting diversity targets and time lines to achieve them including targets for women on boards and in executive management, as well as for BIPOC (Black, Indigenous, and other people of colour), LGBTQ+ and persons with disabilities with specific emphasis on Black and Indigenous representation. Advancing gender equality in company leadership, senior management and throughout organizations also remains critically important, with many companies still falling far short of equal representation. In 2021, we will continue to recommend voting against relevant committee chairs at companies that we judge are making insufficient progress on diversity and inclusion across all levels of the organization. At the largest companies, we expect a minimum of 40% gender and ethnic diversity on the board, as well as significant diversity on executive teams. In Canada, particular attention will be paid to the inclusion and representation of indigenous peoples and communities.

Climate change

In November 2020, the federal government of Canada introduced Bill C-12, the Canadian Net-Zero Emissions Accountability Act; its objective being to achieve net-zero emissions in Canada by 2050 and meet Canada's international commitments in respect of mitigating climate change. Still, Canada faces a unique challenge as it transitions to a low carbon economy with an economy heavily exposed to the energy sector and an environment that has exhibited faster warming and climate change vulnerabilities than the rest of the world (Canada's Changing Climate Report and https://www.bbc.com/news/world-us-canada-47754189). Globally, human-induced warming is leading to more frequent and severe storms. The past 12 months have seen wildfires ravage the western US, as well as Australia, Brazil, and Russia, releasing stored carbon from long-standing forests. These impacts are devastating to society, leading to a loss of human life, destruction of communities and disruption of ecosystems and the services they provide. The world is running out of time to enact climate change solutions. The climate crisis has and will have dire economic as well

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[2] Alex Edmans, 'Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices' (2011) 101 Journal of Financial Economics 621-640 (extended in 'The Link between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility' (2012) 26 Academy of Management Perspectives 1-19

[3] Tomlinson, Brian and Milano, Gregory Vincent and Yiğit, Alexa and Whately, Riley, The Return on Purpose: Before and during a crisis (October 21, 2020).

[4] https://www.sec.gov/news/public-statement/statement-clayton-hinman

as societal consequences. We have seen increasing pressure on politicians and companies to act. Companies have a vital role to play in mitigating climate-related risks in the interests of investors and other stakeholders. In order to mitigate climate change transition risks, companies need to establish and implement plans for reducing emissions across their entire value chains in line with scenarios which limit global warming to well-below two degrees, with the ambition of mitigating warming to 1.5 degrees. For nearly all companies, this means science-based targets with net-zero emissions by 2050 or sooner, consistent with a scenario to achieve an average emissions reduction of 45% by 2030. Companies should consider the impacts of climate change and the energy transition on society, mitigate unequal stakeholder impacts and facilitate a just transition. Finally, in conjunction with a transition strategy, companies must increase resilience to physical climate change impacts throughout their value chain and disclose these resilience actions.

Executive compensation

The pandemic of 2020 has deeply affected many stakeholders, including but not limited to, employees losing jobs, customers unable to obtain goods and services and suppliers struggling to tackle unprecedented levels of supply chain disruption. We continue to be concerned that executive pay is often far too high and not incentivizing the long-term managerial behavior, corporate culture and financial outcomes. We expect executive pay to align with the realities of these expectations and to consider and respect the economic burden imposed on stakeholders by the pandemic. We have strengthened our voting guidelines for executive compensation agenda items. We may not recommend support for pay schemes where the overall quantum of pay appears excessive. We also continue to be concerned about the lack of mechanisms and use of board discretion to hold executives to account for poor or unethical behavior. We also continue to support simpler pay schemes that include: an increased use of board discretion, alignment to long-term success and the desired culture in the organization, an emphasis on long-term share ownership for executives with metrics tied to long-term value creation. At the largest companies, we expect that executives hold a minimum of 600% of their base salary in shares for a period past their departure.

Feedback

We ask for your any comments and observations on our 2021 Corporate Governance Principles and welcome the opportunity to answer any queries or concerns. Please contact a member of our growing North America team if you would like to discuss our 2021 Principles or any other matter.

Timothy Youmans
Lead, North America
EOS at Federated Hermes

Corporate Governance Principles

Canada

Our expectations of Canadian-listed companies

EOS at Federated Hermes
2021

Federated Hermes

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For professional investors only

INTRODUCTION

EOS at Federated Hermes represents a broad range of long-term investors, who seek to be active stewards and owners of their beneficiaries' assets, including the shares or debt of the companies in which they invest. EOS engages with these companies around the world to promote long-term, sustainable returns. These Principles express our expectations of Canadian companies across important strategic, governance, environmental and social topics. More detail on our expectations, particularly on environmental and social topics, can be found in our public, annually updated Engagement Plan[1].

Collaboration

Principle

Our model of engaging on behalf of a collective of our investor clients aims to make our engagement more efficient and effective for companies by pooling client inputs to engagement, along with their collective investment assets. We also aim to reduce potential conflicts of interest through our clients' collective focus on long-term, sustainable returns. Within our stewardship role, we will participate in developing public policy and corporate best practice in line with these principles.

As an associate of the Canadian Coalition of Good Governance we are dedicated to the mission of promoting good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders.

Our expectations

1. We strive to foster a collaborative and constructive dialogue with companies' management and boards and expect this intention to be reciprocated.
2. If necessary, we request change that we believe would be helpful. We expect companies to consider our suggestions seriously and explain clearly the company's reasons if it disagrees with us.
3. All substantive correspondence from institutional investors should be shared with all board members in a timely fashion.

Stewardship and Engagement

Principle

We believe that strong rights for shareholders help to keep companies and their boards accountable to long-term shareholders. Investors must also act as responsible stewards and promote long-term value through constructive engagement with companies and their directors.

[1] https://www.hermes-investment.com/uki/eos-insight/eos/eos-engagement-plan-2020-2022/

Our expectations

1. We expect companies to embrace shareholder rights positively and to use constructive shareholder engagement rather than procedural methods to stifle legitimate debate around governance, strategy and sustainability matters.
2. We expect companies to develop and maintain positive relationships with their long-term shareholders, as this is the best way in which to mitigate shorter-term investors agitating for measures that may damage the company's longer-term strategy and undermine corporate purpose.
3. We expect companies to also engage with long-term holders of corporate debt, in addition to their shareholders. Debt investor expectations are rapidly evolving in relation to governance, long-term strategy, capital allocation, environmental and social matters. Debt investors now expect accountability and constructive dialogue on opportunities and risks which might enhance or impair long-term balance sheet strength, earnings or cashflow. As critical financial stakeholders, we assert that debt investors have a legitimate need to engage with companies on ESG issues as well as on strategy and operational performance. In the long term, the interests of bondholders and equity holders converge for going concern companies.

Engagement with investors should be led by the board

Principle

An essential element of the board's fiduciary duty is to encourage consistent and robust dialogue between itself and management and to demonstrate commitment to long-term shareholders on governance, long-term strategy, including capital allocation, and material environmental and social matters. In our experience, this should lead to improved long-term performance.

We believe best practice entails the board detailing its efforts to reach out to and offer to engage with the company's shareholders and adoption of a written policy on how the board intends to engage with its shareholders and disclose the policy to its shareholders.

Our expectations

1. We expect independent chairs, lead independent directors, other non-executive directors, and board committee chairs, to welcome more and better-quality engagement with major long-term investors.
2. In return, as investors' representatives, we commit to being transparent about our views, as outlined below, and to be open and available to engage with individual companies on the specific impact of these principles and our voting policies.
3. A written engagement policy should describe the ESG topics for discussion between the board and shareholders, information sought by the board from the shareholder for the purpose of arranging a meeting, guidelines regarding

meeting attendance, and a means for shareholders to contact the board to request a meeting[2].

Company purpose and leadership

Principle

Companies can only create and preserve long-term returns if they profitably provide goods and services that address societal needs positively. Companies should not only be run for the shareholders; they should be guided by a purpose that also serves other stakeholders, society and the environment. This approach supports the needs of savers and pensioners – current and future – who rely on sustainable returns from their investments, to provide a secure future for themselves and their families.

A clear and meaningful business purpose should enable business leaders to identify the right things to do in the short term, within the latitude afforded by their business judgement, in order to fulfil the company's purpose over the long term. This is critical in a time of crisis – such as that caused by the coronavirus pandemic in 2020 – when difficult trade-offs may be required, particularly between shorter-term financial returns and maintaining strong relationships with key long-term value critical stakeholders, including governments, the workforce, customers and supply chains.

In 2019, Canada enacted changes to the Canada Business Corporations Act (CBCA) which codified the existing common law fiduciary duty by specifying that when acting in the best interests of the corporation, directors and officers may consider, but are not limited to the interests of shareholders and certain other stakeholders.

While the interpretation and integration of these amendments is still evolving, we appreciate that the Canadian government took action to codify the common law's recognition of stakeholder interests into the statutory articulation of director duties. We encourage all our companies in Canada to adopt a stakeholder-inclusive statement of business purpose at the board level.

Our expectations

1. We hold company boards, in particular, the independent directors, led by the independent chair or lead independent director, responsible for ensuring that management fulfils the company's long-term purpose.
2. The board should own, and publish, the company's stakeholder-inclusive purpose given that this will affect plans beyond the tenure of the management team[3].
3. Companies need to be able to rationalize and explain their decisions affecting key stakeholders. This includes not only the most difficult decisions, such as layoffs, but also their capital allocation policy, including long term policies on reinvestment, dividend payments and share buybacks. We expect boards to

[2] https://ccgg.ca/wp-content/uploads/2019/12/2019-Best-Practices-March-2020-update.pdf

[3] https://www.hermes-investment.com/us/eos-insight/eos/whats-the-purpose-of-business-purpose/

consider capital allocation policy decisions in the context of a company's purpose and long-term strategy. We are concerned that, far too often, buybacks may be chosen to improve the share price or other related metrics over the short-term, but are not always the best use of capital to support the creation of long-term, sustainable returns and the vitality of the company.

4. As a representative of long-term shareholders and bondholders, and their ultimate beneficiaries, we expect companies to consider the wishes of its most important stakeholders in all corporate activity, including public policy activity.

BOARD EFFECTIVENESS AND COMPOSITION

Ethical leadership

Principle

The board sets the tone from the top, demands the highest ethical standards and drives the expectations, values and behavior of the organization. The board must ensure that the culture is one in which good behavior is encouraged and thrives; bad behavior is identified and addressed and that ethics, not just legal and regulatory compliance, are a cornerstone of decision making. This means that the company, every employee and any other individual associated with it seek always to do the right thing and are supported to do so. The board must, in addition to setting the tone from the top, satisfy itself that all parts of the company are striving for, and will uphold, the highest ethical standards. The board's leadership must create and maintain the best possible environment for this ethical culture to flourish.

Our expectations

1. The board must explain and disclose its ethical leadership standards and process to investors, including how ethics and behavior are factored into decision making, performance assessment, recruitment, promotion and pay.
2. Through engagement with long term investors and disclosure, the board should explain its role, capabilities and effectiveness in ensuring its duty of care is informed by the highest ethical standards, and how internal management on ethics, culture and compliance is overseen by the board.
3. The board should require ongoing director education related to relevant ethical issues[4].

Board and director independence

Principle

Boards should be comprised of a substantial majority of independent directors with a balance of relevant experience, expertise and personal characteristics. The independent directors should act in the interests of the company with a focus on the long term and considering the most important shareholder and stakeholder concerns.

[4] See Building High Performance Boards at https://ccgg.ca/policies/

Boards should provide support and, where necessary, robust and objective challenge to management.

Ensuring sufficient levels of director independence is particularly important for founder-led companies, and those with executive chairs (including combined chair-CEOs) or specific shareholder constituency representatives on the board. In the largest Canadian companies, we observe there is a tendency for significant interlocking and overlapping directorships which can reduce the pool of directors and can dampen the positive effects of greater board diversity of thought, which complements independence. We hope that this trend can be reversed through the appointment of first-time directors.

Our expectations

1. We generally expect more than half of the board directors to be independent in companies with a dispersed ownership structure, and at least one third to be independent in controlled companies. We do not expect executives, other than the CEO, to serve on the board, as we view the role of the board as providing independent challenge to and oversight of management.
2. In their disclosures, companies should clearly state which directors they consider to be independent and the criteria for determining this.
3. Among the several aspects of director independence, the most important is independence from management.
4. When considering the independence of individual directors, companies should seek to exceed the standards of independence set by the Canadian Securities Administrators, the Bank Act (Canada), the Toronto Stock Exchange, and other securities laws in jurisdictions where the company operates[5]. Beyond these standards, an independent director should not:
    a. Have any direct material relationship with the company, other directors or its executives, which includes interlocking board memberships, including those of not-for-profits.
    b. Favor any single or group of shareholders. We do not consider such "constituency directors", whose nominations are controlled by a certain group of shareholders, to be independent, and note that the fiduciary duty of these directors requires them not to favor one shareholder over others if seated on the board.
    c. Have sat on the board for such a long time, particularly with other directors, as to compromise his or her independence of mind and ability to hold management to account. In particular when two or more directors have served on the board together for more than 10 years, or have other long-term connections, we expect a board to thoroughly explain the

[5] https://www.cibc.com/en/about-cibc/corporate-governance/practices/director-standards.html

https://www.bce.ca/governance/corporate-governance-practices/2020-director-independence-standards.pdf benefit to long-term shareholders for these continuing appointments and how a possible weakening of independence is being managed and mitigated.

5. Companies should consider the degree of interlocking board relationships as a factor impeding board independence.
    a. We expect companies to disclose interlocking board relationships in a way that clearly explains how individual directors maintain an independent mindset when directors serve jointly on two or more of the same boards[6].
    b. The corporate governance and nominating committee should consider interlocks as a factor in director nomination and retention and acknowledge that the committee is approving of such a relationship
    c. In considering whether or not to permit more than two directors to serve on the same board, that committee should take into account all relevant considerations including, in particular, the total number of board interlocks at that time.[7]
6. We do not have rules for retirement or tenure and believe that experience and a detailed knowledge of a company can be helpful. However, boards with long-serving directors, including those with service at related companies or other links to other directors or management, can indicate over-familiarity and insufficient challenge to management and other board members. This is particularly the case when there is little evidence of recent board refreshment. Such longstanding directors also impede the welcome move to more diverse boards.
    a. Where there is long tenure and no recent refreshment with suitably qualified directors, we may recommend voting against some directors, including the chair of the nomination and governance committee.
    b. Where the board has an established retirement age policy for directors, but then refuses beyond-age director resignations, or otherwise waives this policy, we expect robust disclosure of the board's reasoning for such waivers.

Combined chair and CEO roles

Principle

We support the position of most Canadian companies to have separate chair and CEO appointees on the board. We believe the chair should manage the board and the CEO should manage the business. If combined, we are concerned by the role of the combined chair and CEO, which by its very nature is not independent. Combining

[6] https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2018/10/corporate-governance-guidelines-cgg.pdf

[7] https://ccgg.ca/wp-content/uploads/2019/12/2019-Best-Practices-March-2020-update.pdf

these functions can confuse these very different roles and responsibilities, which require different attributes, and can overly concentrate power in one person, creating possible problems with oversight, information flows, accountability and succession.

We are also concerned by the role of executive chairs for similar reason; running the board should not be a full-time responsibility and so an executive chair will likely interfere with management responsibilities. We fear the blurring of the lines of responsibility between the role of chair and the CEO can decrease accountability and unnecessarily increase governance risk.

Our expectations

1. Companies that have a combined chair/CEO should appoint an independent chair, to improve the effectiveness of board debates and accountability to shareholders. We recognize that it may be difficult to make changes to a combined role in the short term but expect that, no later than upon succession of the CEO, the board should split the roles and appoint an independent chair. We expect boards to plan future succession to enshrine less power in one individual to reduce risk. We are concerned about incoming CEOs who wish to be appointed chair.
2. The board must explain how it has decided on the governance structure of the company, when it was last reviewed, when the structure will next be reconsidered and the factors this review will consider.
3. We generally support shareholder proposals advocating for independent chairs and expect these to be carefully evaluated by the board. If such a proposal is supported by a majority of shareholders voting, even if precatory, the board should move swiftly to appoint an independent chair. If the proposal does not receive majority support, we still expect the board to respond in all material respects to the points raised in the shareholder proposal.
4. Where chair and CEO roles are combined, we may, on a case-by-case basis, support boards where one individual holds both roles, providing a permanent lead independent director is appointed and that person has not only the right character and skills, in our judgment, for the role, but has strong and well-defined powers which we describe in the next section.
5. We oppose companies appointing former executives as chair, even if non-executive.

The independent chair, lead independent director and the role of independent directors as a group

Principle

On all boards, we expect a strong majority of independent directors, including an appointed lead independent director, particularly if there is no independent chair, to ensure that important stakeholder interests are considered, to exercise judgement independent of management and, if necessary, to act as agents for change. This group of independent directors should play an important role in guiding the board's decision-making and in the recruitment of directors. It should be empowered by robust processes and procedures to meet separately, including before and after board meetings, and should do so in practice. It should be granted unfettered access to members of management, information and resources as required to make meaningful decisions in an independent manner[8].

Our expectations

1. The independent chair or lead independent director must have formal powers and the necessary character to:
   a. Call a special meeting of the board of directors or the independent directors in camera at any time, at any place and for any purpose, including to consider the removal of the chair or CEO from one or both positions. Leading practice is to set separate in camera sessions only for independent directors at all board meetings[9].
   b. Consult individually with the chair (if applicable), CEO and committee chairs on topics and schedules of meetings of the board and committees and to approve such schedules and board agendas.
   c. Ensure that the board has the information it needs with sufficient time in advance of board and committee meetings to fulfil its duties and has the ability to obtain from management or independent, outside board advisors any information that the directors deem needed to reasonably inform director decision making.
   d. Ensure that the whole board is aware of investor sentiment by requiring that all substantive correspondence and notes of meetings or contact by management or directors with investors is provided in the board materials before the next board meeting.
   e. Require that any director has access to any employee or officer of the company, without other management present, if a director so requests.
   f. Engage independent legal or other advice at the company's expense if judged necessary.
   g. Preside over meetings when the chair is conflicted or absent.
   h. Guide full board consideration of appointments, evaluations and succession of the CEO, the board and its committees.
   i. Meet one-to-one with the CEO after every regularly scheduled board meeting.

[8] See guidance on Building High Performance Boards at https://ccgg.ca/policies/

[9] See guidance on Building High Performance Boards at https://ccgg.ca/policies/

j. Guide annual self-assessment of the board and the performance assessment of the CEO.

k. Issue a letter or statement in the proxy describing how the board operated during the year.

l. Engage with representatives of significant long-term shareholders at their reasonable request. Where this is unreasonably denied, we find it difficult to support some annual meeting agenda items, including re-election of relevant board members.

m. Develop and/or maintain a program to proactively meet representatives of long-term shareholders on ESG, long term strategy and capital allocation matters, to exchange views.

2. The independent directors as a group should play a vital role in adding different perspectives that improve decision making by the board. Their role as a group is not only to support and mentor but also to challenge management, and the board should demonstrate that it is doing so through disclosure to and dialogue with long-term shareholders. Such disclosure and dialog should overtly signal that the independent directors assert the board's decision control role, separate from management's decision roles.

Board evaluation, succession, diversity and inclusion

Principle

Boards should ensure they are comprised of members with diverse skills, experience, perspectives and psychological attributes, as well as sufficient independence and strength of character to challenge, as well as advise and support executive management teams. Ultimately, all boards have to select and replace the CEO. As part of this process, and to oversee the company effectively, the board must have relationships with members of the senior management team and advise the CEO on its perception of named executive officers' performance.

Boards should regularly evaluate its own performance and make-up, that of its committees and of each director. Most boards lack sufficient diversity to reflect the markets and communities in which the company operates and should address this by acknowledging this deficiency and taking positive action to improve board diversity and diversity disclosure.

Our view is that adopting a board gender and racial diversity policy should be considered corporate governance best practice and that the Canadian Securities Administrators (CSA) should require companies to adopt and disclose such a policy. Evidence supports the efficacy of written policies in enhancing gender and racial balance[10].

[10] https://ccgg.ca/wp-content/uploads/2019/03/2018-Gender-Diversity-Policy-CCGG-new-branding.pdf

Our expectations

1. Companies should have a board gender and racial diversity policy. Policies adopted by companies should incorporate targets for increased diversity on the board. In setting an appropriate target, boards should give due consideration to adoption of at least a 'critical mass' whereby the views of the diverse members of a group are viewed, not through a prism of tokenism, but carry the same weight as the opinions of other group members[11].
2. Biographies and pictures for all directors should be provided to stakeholders, indicating which directors are considered independent and the value that each brings to the board, accompanied by an analysis of how the board as a whole displays the necessary skills, independence and other attributes to meet the company's evolving needs. While more difficult to disclose, boards should also take account of directors' psychological characteristics and personal leadership styles.
3. We recognize that the Ontario Capital Markets Modernization Taskforce has recommended an amendment to Ontario securities legislation to require publicly listed issuers in Canada to establish board and executive management level diversity targets and implementation timelines[12]. However, we expect to see urgent progress towards gender equality and greater representation of ethnic minorities, particularly those facing particular discrimination such as those who are Black, Indigenous, or of a visible minority, on boards and elsewhere in organizations, particularly in senior management roles. Where we perceive insufficient gender or ethnic diversity of gender or ethnicity on a board we may oppose the election of the chair of the governance or nomination committee or the lead director and will normally do so if minimal requirements of 40% diversity (including gender and ethnicity) for TSX-listed companies and 30% diversity for all other companies, are not met.
4. Boards should consider director candidates who have not previously been directors. Boards should make senior management or professionals available to serve as independent directors at other companies.
5. We expect board directors to be able to devote sufficient time to fulfil their duties, which include building and maintaining a good understanding of the company as well as absorbing fully and being able to challenge the information presented to them by management. Whether a director may be over-committed depends on a range of factors beyond the number of other roles she or he holds, including the size and complexity of the company, type of role, and additional responsibilities, such as chairing a committee.

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[11] Ibid

[12] https://files.ontario.ca/books/mof-capital-markets-modernization-taskforce-final-report-en-2021-01-22-v2.pdf

6. Nomination committees should explore carefully each director's and possible candidates' commitments and capacity before appointment, before approving other roles and at least annually as part of the board evaluation process.
7. Boards should periodically use independent outside board evaluation consultants. They should disclose to investors how the board conducts these self-evaluations on how the board, its committees and individual directors can improve performance, composition, structure and processes.
8. Boards of directors should have robust succession plans that provide for orderly and systematic refreshment of members accompanied by thorough disclosures articulating how skills, experience and other attributes contribute to the board's strategic needs and are matched to the specific roles or evolving needs of the board and nature of the company's activities, considering the long term value role of employees, customers, communities or other board-identified key stakeholders.

The board role in risk management

Principle

As part of a boards' decision-control function, we expect directors to become highly knowledgeable about the company's strategy and material risks. Each director must satisfy themself, within their independent business judgment, that the executive team is managing these risks prudently and with great expertise, before ratifying management decisions and when making board-reserved decisions. We believe board oversight is crucial in defining a company's risk policy and appetite, encouraging the right level and type of risk and in discouraging undue or imprudent risk-taking.

Our expectations

1. Boards should provide meaningful disclosure about how it fulfils its risk oversight role. This disclosure should include the decision processes and factors the board and its relevant committees use to ensure an ethical approach to business and how boards identify and manage risk. This is particularly important when considering factors such as reputation and license to operate that affect a company's long-term value prospects. We encourage a brief overview of key risks affecting the business and how they are closely monitored by the board in disclosures; including efforts to integrate material environmental and social matters within the company's risk management framework.
2. Risk oversight disclosure should include explanation of high quality internal and external audit programs. These can provide reassurance to investors about financial statements and internal controls.
3. As part of their oversight function, boards should ensure that management has learnt from the coronavirus pandemic to improve their management of high impact risks and disclose how it has applied these lessons.

Audit and the role of the audit committee

Principle

The lack of competition and choice in the large auditor market, has led to a trend toward lower audit quality. It is important that the board fulfills its mandated role to ensure audit quality through rigorous auditor selection, rotation and especially vigilant auditor oversight. As such, we will hold the audit committee responsible for the quality of a company's audit. These are audit committee functions that cannot be delegated to management, and the board needs to ensure that the audit committee is performing its duty. However, we will hold the whole board accountable for the financial statements because of the board's oversight role of the audit committee and managements personal performance responsibility to ensure the quality of financial statements and of internal financial controls.

Understanding that the Accounting Standards Board of the Canadian Institute of Chartered Accountants is responsible for the accounting standards in Canada, for those companies dual-listed on a Canadian and American stock exchange, we expect adherence to the requirements of Sarbanes-Oxley. For those companies listed only in Canada we similarly expect compliance with Bill 198, often referred to as the Canadian Sarbanes-Oxley or C-SOX.

Our expectations

1. The audit process should objectively examine a company's financial position and ensure the integrity of company reporting on essential matters, such as the solvency of the company and its long-term financial prospects.
2. We expect the audit committee to demonstrate that it both independently selects and engages the auditor separately from management and that the audit committee itself directly oversees the auditor, with assistance directly provided to the committee by the company's internal audit team, which itself should report, as a practical if not administrative matter, to the audit committee rather than management.
3. The audit committee's role in overseeing financial reporting risk is a significant one. The requirements imposed and related obligations mean that the audit committee will sometimes barely have enough time to carry out its regulatory obligations. Increasingly audit committees say they are overloaded but at the same time reluctant to relinquish responsibility for non-financial reporting oversight duties with boards also resistant for them to do so. We have seen this with cyber security, data privacy, compliance, social and environmental risks and other non-audit oversight matters tasked to the audit committee. We do not expect audit committees to oversee risks beyond those related to financial reporting. These non-financial reporting risks may be better served by separate board committee oversight or oversight by the full board. We may question the corporate governance guidelines in place and may ask the board to think about how best to perform its essential risk and strategy oversight function, as well as question the audit committee's practice of managing scope creep in their

charter, and reflect this concern in our voting recommendations for relevant audit committee members.

AUDIT AND REPORTING

Transparency and reporting

Principle

We believe that the quality of narrative reporting reflects the board's strategic thinking, its line of sight into operations and how well it oversees the company.

Our expectations

1. Boards must report openly and transparently on the performance of the company and its stewardship of it over the year, acknowledging the challenges, as well as the achievements, the state of the market and the competitive landscape.
2. Each company ought to report in a way that allows investors to understand the main risks that the board has identified for the business, along with how the company manages and mitigates them. This includes environmental, social and governance, as well as financial and strategic, risks.

Audit

Principle

Shareholders in publicly listed companies rely on the quality and robustness of the audited information those companies report to the market when making investment decisions, and when holding company management and boards to account. High quality, independent and effective audits are vital to ensure the markets trust the information companies report. In recent years, a global spate of high-profile business failures partly linked to poor quality audits have raised questions about the quality, relevance and independence of audits, and strengthened calls for greater scrutiny of the audit role.

Our expectations

1. Audits should provide assurance to shareholders that the financial statements present a prudent, true and fair view of the results, cash flow and financial position of a company. The audit process should objectively examine a company's financial position and ensure the integrity of company reporting on essential matters such as the solvency of the company and its long-term financial prospects.
2. Shareholders, regulators and other stakeholders have increasingly focused on the role and performance of audit committees and how they discharge their duties. Audit committees have important risk and compliance oversight responsibilities, as delegated by boards or as specified by laws or regulations. The audit committee must ensure it has capacity and time to meet its regulatory obligations.

a) We do not expect the audit committee to have any strategic oversight responsibilities beyond those closely related to audit.

b) Audit committee chairs and members should ensure they have sufficient time to fulfil their duties, which we expect to be significant, particularly for large complex organizations.

c) Audit chairs should seek to avoid sitting on an excessive number of boards, particularly in the role as audit chair

3. We expect the audit committee to demonstrate that it both independently selects and engages the auditor separately from management and that the audit committee itself directly oversees the auditor. The company's internal audit team should report, as a practical if not administrative matter, to the audit committee rather than management.

Auditor rotation

Principle

We believe that a company's external auditor plays a critical role in the independent review of financial disclosures presented to shareholders. Maintaining independent external assurance is a fundamental pillar of good stewardship and the fiduciary duty of a board of directors. Independence, conflict of interest and audit quality is at risk when the same assurance provider is maintained for long periods.

Our expectations

1. We encourage companies, when seeking the ratification of the independent auditor, to disclose the lead independent auditor partner, together with a statement that the external audit firm is independent as defined by the Canada Business Corporations Act (CBCA), and thus is not a business partner, director, officer, employee or shareholder of the corporation or any of its affiliates. In addition, if listed on a US marketplace, we encourage disclosure that the external audit firm has complied with the requirements of Bill 198, often referred to as Canadian Sarbanes-Oxley (C_SOX).
2. Our experience is that simply rotating the audit partner may not be sufficient and full audit firm rotation can bring a fresh perspective to the audit engagement. Long tenure of the independent audit firm is a factor that may impair independence. We encourage audit committees to enact, and review regularly, a policy on audit firm rotation to protect audit quality and independence.

Non-audit services and fees

Principle

As part of overseeing the external auditor, the audit committee must establish and enforce a policy on what non-audit services the company can procure from the external auditor. We pay close attention to these services and related fees to ensure that they do not compromise auditor independence, which could compromise the integrity of the audit. The non-audit fees should normally be substantially lower than the audit fee.

Our expectations

1. We expect non-audit fee expenses to be aligned with the Ontario Securities Commission (OSC), wherein the aggregate amount of all non-audit services that were not pre-approved by the audit committee is reasonably expected to constitute no more than 5% of the total fees paid to the auditor during the fiscal year.
2. In the event non-audit fees exceed 50% of total fees, there should be a clear explanation as to why it was necessary for the auditor to provide these services (for example, for certain services such as reviewing interim reporting or performing due diligence on transactions) and how the independence and objectivity of the audit was assured (for example the audit committee considered and approved the non-audit services prior to the services being provided).
3. In cases where non-audit fees exceed 50%, we expect the committee to take action to prevent reoccurrence either by reallocating non-audit work to a different firm or tendering for a new audit firm.
4. We recognize that audit quality cannot be ensured solely through regular rotation of external auditors or reducing conflicts caused by the payment of fees for non-audit work. We expect audit committee chairs and committee members to understand the organization, challenge management and external and internal audit teams, and to follow best practice guidance when appointing and overseeing audit firms.

Accounting practices

Principle

We are concerned that accounting standards, as applied, do not always reflect underlying company performance. We encourage companies to apply accounting standards in a manner which is prudent and provides a true and fair view. Where application of the standards does not provide such a view, we expect companies and their auditors to make this clear to investors.

Our expectations

1. We expect companies to avoid aggressive accounting practices that represent the company's financial results and position in a flattering light. This can create a reliance on the most optimistic of outcomes transpiring in subsequent years, which can easily compound up to the point that a preventable collapse finally occurs.
2. We expect companies to recognize liabilities in a timely fashion, and to only realize profits where there is a very high degree of confidence in their quality.

3. We also expect a clear indication of the quality of any unrealized profits found in the company's income statement.
4. We expect the whole board to assure itself of the quality of the company's earnings, cashflows and balance sheet.

EXECUTIVE COMPENSATION

Culture and philosophy

Principle

We are increasingly concerned that many corporate cultures, driven largely by misaligned executive compensation philosophies, structures and practices, around the world are not fit for purpose, neither serving long-term investors' interests nor, in many cases, aligning properly with the core long-term objectives of companies. We believe that most current executive compensation practices play little positive role in embedding desirable corporate cultures, fairness or the best ways of working for the long-term sustainability of the business. The prevailing practice of gearing the majority of pay towards performance-based pay, may have been well-intentioned but has produced culturally damaging, unintended consequences such as escalating a sense of pay unfairness and encouraging short-termism or financial engineering which in many cases is significantly misaligned with long term returns. When performance measures are used for pay, performance should be based on key business metrics that are aligned with corporate strategy and the period during which risks are being assumed should be clearly specified in short, medium and long-term goals[13].

As a means for more enhanced accountability to shareholders on the part of the compensation committee, we agree with the future direction of the Ontario Capital Markets Modernization Taskforce that securities legislation should be amended to mandate annual advisory votes on compensation.

Our expectations

1. Boards need to ensure that management is instilling and embedding the desired culture across the whole organization and into its value chain.
2. We expect clear disclosure on how a company's compensation policy and practice meet the compensation principles we outline below and promotes a cohesive productive culture where a diverse employee cohort thrives, driven by culture-based performance evaluation and where discretion is exercised by the board.
3. Beyond such board discretion, when metrics and data are used, we expect these metrics to also emphasize long-term value creation through key stakeholder metrics, including environmental and social metrics.
4. The compensation committee should be directly accountable to shareholders through an annual advisory vote on compensation, that includes disclosures

[13] See guidance on Executive Compensation at https://ccgg.ca/policies/

about the culture-driving features we describe under this principle. This advisory vote should lead to improved dialogue between compensation committees and investors about the link between executive compensation and company culture, as well as long-term corporate strategy.

Simplicity and structure

Principle

We believe that current pay schemes are almost always too complex with too much variable compensation. Moreover, executive compensation is not only higher but is usually structured with incentives generally misaligned with how pay is structured elsewhere in the workforce, without any disclosures justifying this disparity. Pay disproportionality and incentive misalignment without justifying disclosure is damaging to companies' license to operate, culture and their long- term performance. We therefore believe that companies should develop coherent top-to-bottom philosophies for how it: treats its workforce with dignity, ensures employment rights and pays its workforce fairly while eliminating any gender or ethnicity pay gaps, and how it provides decent rights and conditions to its workers (both employees and contractors). Executive compensation should reflect performance against these workforce pay fairness principles.

Our expectations

1. Pay schemes should be clear and understandable for investors as well as executives. They should also be communicable to employees and other stakeholders. Boards should then write to all employees each year explaining the outcomes of executive pay and the alignment to and accountability for long-term value, and the company's strategy and purpose.
2. The compensation committee should describe in the proxy statement how the approach to executive pay helps to inculcate the desired culture in the organization.
3. Pay structures should be much simpler, comprising less variable pay than at present, for example taking the form of a single incentive scheme and lower variable and total possible pay. We may be less supportive of pay schemes where the proportion of variable to base pay appears excessive.
4. Executives should be encouraged to achieve long-term strategic goals, rather than focus attention on annual total shareholder return or short-term stock price appreciation. These strategic goals should take account of the company's effect on key stakeholders. Boards should take ESG performance into account, using their judgement of overall performance, and explain through disclosures how they have done so.
5. The company should explain how its policies and practices on pay discourage risk-taking beyond the company's acceptable risk appetite.

6. We encourage the award of restricted shares instead of the use of options. The pandemic in 2020 has served as a reminder of the limitations of pay schemes reliant on stock options or performance-based incentives schemes as share price volatility and limited visibility of the future meant boards in most industries have struggled to set meaningful targets. Meanwhile the ensuing rally in markets may lead to undeserved windfall gains for executives from re-priced option-based incentive schemes. We believe compensation in long-dated restricted shares better aligns management interests with those of shareholders and that options with short vesting periods incentivize the wrong executive behavior as these awards are linked so closely to short-term changes in the share price, especially around the exercise date.
7. Companies should disclose the three-year realized pay of all non-executive officers who served during the year.

Alignment and quantum

Principle

We believe that the alignment of pay to the long-term success of the company and the desired corporate culture is best achieved through long-term share ownership by executives. Executive pay is often far too high and pay schemes often seem to pay out significant sums that appear to conflict with many shareholders' and other stakeholders' views of performance. We believe that the best alignment to our clients is via long-term ownership of shares with minimal ability to use stock as collateral. As soon as senior management can diversify out of the company's equity, they are able to enjoy entrepreneurial type awards without the downside risks that owning one's own business entails.

Executive compensation is tightly linked to executive selection and succession. If an already highly paid executive needs to be "motivated" by above-CEO-labour-market compensation, we would question whether the board has selected the right executive with the right character and motivational make-up to lead. Similarly, CEOs should be invested in financially incentivized and intrinsically motivated in their own successor's success, principally through the requirement of significant shareholding well into retirement.

Our expectations

1. The executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success.
2. Significant shareholding requirements, ideally at least eight times base salary for executives and directors, should remain in place for a specific period of time following departure from the company, with no material share sales allowed before shareholding requirements are met (net of any tax obligations from the award or vesting of shares or options) or for at least one year after leaving employment. Ideally a large proportion of shares should be owned for

considerably longer, preferably for at least two years into retirement. Unvested shares or options should not count towards minimum shareholding requirements.

3. Compensation disclosure must explain how alignment with long-term shareholders is achieved.
4. CEO pay should not be significantly more than the average named executive officer pay. We believe that having a large disparity here can lead to problems with succession planning and damage corporate culture as one executive is valued far more than the rest of his or her team. Similar principles apply between different levels and areas of the company.
5. CEO pay should also not be significantly more than the peer group average and companies should not target compensation above the 50th percentile.
6. We do not think that there is a functioning market for CEOs as long as a monopsony exists. We therefore question the use of company-selected peer groups to help set CEO pay as its use has resulted in ratcheting up pay across each industry. We caution that the practice of benchmarking against peers should not be overly relied upon at the expense of a robust, independent analysis. Robust succession planning by the board can be an effective counter to monopsony power in the CEO labour market.
7. There should be a robust policy to prohibit the hedging of equity-based awards by executives. We also expect strict controls over pledging of shares. We may accept immaterial pledging of shares, once minimum share ownership guidelines are met within very narrow limits, pre-approved by the board. We may consider supporting legacy pledged exceptions if they are not identified as a material risk, with a supporting auditor opinion, and expect boards to require that such legacy pledged positions are to be gradually reduced over time.
8. Boards should, in simple terms and plain language, justify to investors, the workforce and the public the rationale for the CEO's and the most senior management's pay, in the context of the organization, taking into account the pay, benefits and other employment conditions of the wider workforce, including those who do not have employment contracts.
9. Boards should be empowered with and use discretion to adjust potential or realized pay downwards where they judge that there is misalignment with the interests of long-term shareholders. Pay scheme rules should support this robust exercise of board discretion.

Accountability

Principle

Pay should reflect outcomes for long-term investors and take account of any durable drop in the value of, or decrease in, the reputation of the company. We believe that compensation committees should take a more robust view on pay, using its business judgement and be accountable to shareholders for these pay decisions. The company should avoid paying executives more than is necessary and not place too much reliance on existing practices and benchmarking, as both help to perpetuate excessive ratcheting up of executive compensation that we seek to address.

Our expectations

1. Compensation committees should use discretion to ensure that pay properly reflects business performance. They should proactively engage investors and other stakeholders on pay and intervene by exercising board discretion when formulaic compensation outcomes do not match the experience of long-term shareholders, in the judgement of the board.
2. The potential outcomes of a pay policy should be rigorously scenario tested with a cap on the total possible realisable pay published in advance, to help reduce the risk of unintended windfalls.
3. There should be a robust clawback provision in place for executive compensation in the event of fraud, material financial misstatement, conduct or reputational issues, meaning that executives can be held accountable in the case of such events through the clawback of their previous compensation. We also believe the clawback policy should require disclosure to shareholders in the proxy statement about such recoveries.
4. Boards should also adopt a policy on bonus deferral which allows late-arriving information about risk-taking and outcomes to alter payouts and reduces the need to claw back compensation already paid out in the event of misconduct.
5. We are troubled by the widespread use of adjusted GAAP (Generally Accepted Accounting Principles) or IFRS (The International Financial Reporting Standards Foundation) metrics for incentive pay, as this can tilt the scales to unfairly help executives achieve their performance benchmarks. Companies should provide clear disclosure in its annual management discussion and analysis reporting of any adjustments to GAAP or IFRS performance metrics and reconcile these back to GAAP or IFRS metrics, particularly when compliance costs related to illegal activity or settlement costs related to allegations thereof are excluded from financial performance metrics in the compensation framework.
6. We do not expect to see boards making special retention awards to CEOs. In our view these signal a material weakness in boards’ succession planning role. Such awards may likely lead us not to support the re-election of certain directors, such as the chairs of the nominating and governance committees, the compensation committee or the independent chair or lead independent director.
7. We oppose repricing of shares or options within executive compensation plans, as this goes against the principle of accountability, can reward executives for poor performance, and is misaligned with the experience of long-term shareholders.

8. If executive renumeration plans include executive severance pay arrangements, the arrangements should be fair and provide sufficient protections for shareholders. Cash awards should be reasonable and in line with best practices. Unvested long-term performance incentives should be reduced to a prorated amount, and vesting should not be accelerated in the event of executive termination. Additionally, the arrangements should specify circumstances in which executive severance pay must be withheld or renegotiated, such as executives engaging in criminal behavior, gross negligence, harassment, and other behavior or conduct issues contrary to the companies stated employment policies, or that could otherwise bring reputational damage to the company. Compensation committees should be empowered to use discretion and business judgement to limit departure payments to executives for such failures, even if the departure is determined to be without cause.
9. Boards should engage with dissenting shareholders following a failed say on pay vote and disclose how shareholder feedback is taken into consideration in executive compensation changes.

Capital allocation, share buybacks and compensation

Principle

We believe that a board policy of regular, reasonable dividend payments is normally a better way to return cash to shareholders than a share buyback policy. We are also concerned about the hidden cost of equity compensation through the dilution of outside shareholders and managing this dilution by share buybacks, often at too high share repurchase prices. Moreover, executive compensation metrics such as return on equity and earnings per share can be flattered or even managed by share buybacks.

Our expectations

1. Companies need to clearly disclose the effect of share buybacks on its compensation plans, how the result of its plans would differ without taking buybacks into account and the adjustments made by the compensation committee as a result of the buybacks or other changes to the capital structure. Lack of such disclosure may cause us to oppose say on pay votes.
2. Given the potential effects of buybacks on longer-term investors, companies should also disclose how the board decides on buybacks in addition to other long-term capital allocation choices, whether such buybacks are directly or indirectly financed by debt and how this affects the future risk profile of the company, as well as the company's ability to invest in growth and employees. Lack of such disclosure may signal to us that executive compensation is too high or executive succession may be needed.
3. Companies should discourage executive stock sales in general, and, in particular, sales should be prohibited soon after buyback announcements to discourage executives from favoring stock buybacks at the expense of long-term investment.

PROTECTION OF SHAREHOLDER RIGHTS

Shareholder meetings

Principle

We view the annual meeting process as a valuable discipline. Its notice provisions, relative infrequency, voice given to minority and individual shareholders all help to protect important shareholder rights while also reinforcing the separation of the governance roles of management, the board, and shareholders. We rigorously defend shareholder rights on behalf of institutional investors, including the right to receive timely good quality corporate reporting on material information, to propose shareholder resolutions and to vote at shareholder meetings.

We note that the Canadian Business Corporations Act, as well as some provincial statutes, impose conditions that companies must fulfil in order to hold a virtual annual meeting. We expect companies to comply with these conditions to ensure that they can hold virtual annual meetings during the pandemic.

Our expectations

1. We welcome how new technology can assist in the administration of shareholder meetings and enhance shareholder rights through increased opportunities for participation. However, we do not believe that shareholder meetings should be held virtually at the expense of a physical meeting, unless these are a temporary solution in response to restrictions on in-person gatherings. In those cases, we expect all shareholder rights to be protected and the meeting to be run as it would be in person. We support meetings being convened in a hybrid format – where shareholders have the option to join the meeting via an online platform or to join in person, provided all shareholder rights are protected or enhanced. We will oppose any changes to annual meetings that in our opinion suppress dialogue or diminish shareholder rights.
2. For shareholder meetings held in any format, we expect the process of curation and selection of shareholder questions chosen to be voiced, in any manner, and answered by the board at the meeting, to be disclosed in the proxy.
3. We expect all directors to attend and preside over shareholder meetings and to answer questions asked of them by shareholders. We therefore expect a reasonable amount of time to be set aside at shareholder meetings for shareholder questions and for this to be included in the board’s corporate governance guidelines and explained in the proxy statement. When there is insufficient time for all questions to be answered, the company should provide full written responses to all questions on its website.
4. We expect independent directors to play a significant role, and even lead, the annual meeting. The annual meet is a board-centric, not management-centric, event.

Majority voting

Principle

It is our belief that electing directors by a simple majority vote is a fundamental shareholder right. The Canadian Business Corporation Act requires majority voting for the election of directors, but only during uncontested elections. We believe that all directors should have majority support, and encourage Canadian companies to adopt majority voting policies during all elections.

Our expectations

1. Companies should provide the opportunity for shareholders to vote for or against directors through a majority voting standard, instead of going through the more cumbersome process whereby the shareholder right to determine who is elected to the board is passed to the other directors under director resignation policies. In place of resignation policies, directors not supported by a simple majority of shareholders should be removed through board action within a reasonable time after the vote result is verified.
2. Companies should adopt a full majority vote standard, with exceptions limited to narrowly defined legal and regulatory requirements, such as the need for financial expertise on certain board committees. Issuers without majority voting provisions should adopt sunset provisions that put in place this structure.
3. Where a director does not receive majority support and is asked to remain on the board in a temporary-only capacity, the company should publicly commit to expediting a search for a replacement director and for the director to resign shortly following the new appointment.

Multiple class share structures

Principle

Multiple class share structures disenfranchise minority shareholders and often increase the power of one shareholder disproportionate to financial stake. We advocate for initial public offerings of companies with single class structures that provide a level playing field for all investors that equates voting power with financial stake. We normally recommend voting against the chair of the governance committee where multiple class share structures are in place without a disclosed plan to sunset this arrangement.

Our expectations

1. Issuers with multiple class share structures should adopt sunset provisions that put in place a one-share one-vote share structure.
2. Independent directors, convened in executive session should annually meet with or write the super-voting rights-holders and directly ask them to agree to sunset these super voting multiple class share structures in favor of a one share, one vote single class structure.

Shareholders' right to call special meetings

Principle

We appreciate that one of the more powerful tools available to shareholders of Canadian companies is the power to requisition a special meeting. Under the Ontario Business Corporations Act (OBCA) and similar federal and provincial legislation, shareholders holding 5% of the company's shares have the power to requisition a meeting to consider shareholder proposals, including potentially replacing the board[14].

Enabling the right for shareholders to call special meetings at such a reasonably low level of aggregate ownership demonstrates that the board is committed to open and trusting shareholder relations and increases director accountability to shareholders.

Our expectations

1. We expect companies to comply with the legislation allowing shareholders holding 5% of the company's shares to call a special meeting and to not hinder or create hurdles to this right.
2. We highlight that shareholders who successfully compel convening a special meeting still need to obtain a majority of all shareholders vote result at the special meeting itself to effect change.

Shareholder proposals

Principle

We support the selective use of shareholder resolutions as a useful tool for communicating investor concerns and priorities or the assertion of shareholder rights, and as a supplement to or escalation of direct shareholder engagement with companies.

Acknowledging that shareholder rights are generally uniform throughout Canada, there are some key differences between federal corporation laws and provincial corporation laws, particularly in the case of thresholds for shareholder proposals. In Alberta, The Alberta Business Corporations Act (ABCA) and its associated Regulations impose a 5% threshold or more of voting shares in order to file a resolution.

We support the shareholder right to file a proposal within a reasonable limit of ownership, more in line with other Canadian provinces as well as the federal Canadian Business Corporations Act (CBCA), where a shareholder needs only to hold shares worth $2,000 in order to file a proposal.

Our expectations

1. When considering whether or not to support resolutions, we consider factors including: whether the proposal promotes long-term shareholders' interests; what the company is already doing or has committed to do; the nature and motivations of the filers, if known; and the efforts the board has made to

[14] https://www.dlapiper.com/en/canada/insights/publications/2017/05/shareholder-right-to-call-a-meeting/

engage with the proponents and what potential impacts – positive and negative – the proposal could have on the company if implemented.

2. We consider proposals on a pragmatic basis, reviewing each proposal in its company-specific context and consider the extent to which the issue in question has been managed, usually in the case of larger businesses, following dialogue with the company on the issues arising from the proposal. In our experience, shareholder proposals can be a catalyst for related dialogue with issuers and we thus avail ourselves of these engagement opportunities, where appropriate, whether or not we support the resolution.
3. Boards should engage with serious, committed long-term shareholders, or their representatives, including ourselves. Where boards interact in a constructive manner with shareholders on issues that affect the long-term value of companies, we see less need to file or support shareholder resolutions.
4. We expect boards to take and disclose action addressing the issues raised by shareholder proposals that receive significant shareholder support or are otherwise potentially material to the long-term returns of the company.
5. In addition, we view any failure to implement a shareholder proposal that has received majority support as a clear indication of a board of directors that neither fulfils nor understands its obligations to shareholders and we will likely recommend not supporting the re-election of all such directors.

Proxy access and the universal proxy

Principle

Canadian legislation does not explicitly allow proxy access, but it is a developing best practice. This developing standard in Canada is still weaker than the proxy access rights shareholders enjoy in nearly all developed markets. While boards should protect companies from the use of proxy access to gain creeping control, different groups of shareholders should have the right to nominate director candidates without restrictions beyond reasonable thresholds. We are therefore likely to support enhanced proxy access shareholder proposals that are substantially in line with our principles even if proposals do not yet have the support of a majority of institutional investors. We are also likely to oppose the election of the governance committee chair or the lead director if boards propose proxy access that make the use of proxy access more difficult than we believe is reasonable.

As experience has shown, we do not expect proxy access to be used often. However, we believe that its existence will help make boards more accountable and more responsive to dialogue with its long-term shareholders.

Our expectations

1. We encourage all companies to voluntarily implement the necessary by-laws and governance changes to enact the right of shareholder access to the director

nomination portion of the proxy statement so that any candidate duly put forward for election by a group of shareholders is voted on by all shareholders.

2. Shareholders owning 3% of the outstanding shares for at least three years, with no aggregation limit, should be able to nominate up to 25% of the board seats, as originally proposed by the SEC. This high threshold presents a significant hurdle to short-term shareholders attempting to nominate candidates to the board on their own. Even if such short-term holders are successful in gaining proxy access, directors so nominated can only be seated after receiving a majority vote of all shareholders. Hence, we see proxy access as a low risk of exposing the board to membership by short-term investors.
3. We do not expect boards to implement by-law provisions that make the use of the right of proxy access more difficult or cumbersome.
4. Furthermore, we do not want to see companies restricting shareholders from aggregating holdings for proxy access, nor from restricting participation in proxy access due to share lending when there is reasonable right of recall or on restricting the compensation of shareholder-nominated director nominees (provided it is fully disclosed) beyond the compensation policies that apply to all directors.
5. We also do not expect to see onerous restrictions on previously nominated candidates that fail to win a majority of votes cast to prevent them from being nominated again.

SOCIAL, ETHICAL AND ENVIRONMENTAL RESPONSIBILITY

UN Sustainable Development Goals

Principle

We consider the UN Sustainable Development Goals to be a unifying framework for considering the societal, political and environmental challenges that we face as a global community. Companies have a significant role to play in fulfilling these goals and should consider how it can orient its business towards contributing positively to achieving these goals.

Our expectations

1. We expect companies to assess the relevance of each UN Sustainable Development Goal (SDG) to its businesses and to consider how to best incorporate those that may be material into its business models and strategies.
2. Companies should go beyond mapping existing operations to the SDGs, to consider how they are responding to the SDGs and are intentionally working with society towards the achievement of these goals.
3. Companies should assess their full impact on society and the environment and pursue opportunities to create positive impacts through addressing the SDGs whilst reducing negative impacts.

4. We urge companies to report on its approach to the SDGs and to engage with its shareholders and civil society on how best to contribute to the SDGs.

Climate emergency

Principle

The breakdown of the climate is a systemic risk to the value of individual companies and the portfolios of our clients because of its physical, economic and political consequences. We support the goal of the 2015 Paris Agreement to limit global warming to well below 2°C and pursue efforts to reach 1.5°C of warming.

Canada's annual average temperature over land has warmed by 1.7°C since 1948. The rate of warming is even higher in Canada's North, in the Prairies and northern British Columbia[15]. As such, climate action is urgent due to environmental vulnerability combined with the transition risks to the energy reliant Canadian economy.

Our expectations

1. Companies should publicly support the goals of the Paris Agreement and encourage third-party organizations, such as trade associations, to work towards achieving its success. Where companies disagree with a third-party organization, the company should explain publicly the action being taken to argue for effective advocacy or action on climate change by that third party. The company should also explain its reasons for continued participation in, funding or membership of the organization despite the disagreement.
2. Science-based targets should be set by all companies to reduce emissions in line with the goals of the Paris Agreement. These should encompass all material greenhouse gas emissions, including scope 3. Targets and data should be verified by a third party.
3. We expect companies to adopt the full framework set out by the Task Force on Climate-related Financial Disclosures (TCFD) for the management of climate-related risks and opportunities. This includes conducting scenario analysis under a range of scenarios, including an orderly transition, a disorderly transition and a high physical risk scenario. Companies should also address how scenarios affect its reputational, legal, political and other emerging climate related risks. Companies should seek to quantify the possible financial impacts under each of the scenarios and how these are being mitigated.
4. Climate change should be integrated into the investor-disclosed forward-looking strategy of companies, particularly by those companies which are materially impacted by physical and transitional risks throughout their value chains. Those companies which are more exposed to the energy transition and climate change should explicitly articulate their transition plan. We expect the energy transition

[15] https://changingclimate.ca/site/assets/uploads/sites/2/2019/04/CCCR_FULLREPORT-EN-FINAL.pdf

to be clearly articulated in governance documents, including board committee charters and the articles of association.

5. Companies should ensure that climate-related risks are integrated into financial reports and accounts. The auditors should consider company relevant climate and energy related financial risks and assumptions, future plans (e.g. capital allocation, M&A, capital projects), and compliance with laws and regulations, and determine whether those risks are adequately disclosed in the financial statements.
6. Every board should ensure that it has climate-related matters on its board agenda at least annually, and that it and senior management engage with outside experts who can advise them on strategic risks and opportunities that climate change represents and challenge the company's approach.
7. Boards should consider removing any directors who deny the reality and/or urgency of the climate emergency. All new directors should understand the need for urgent action on climate change.
8. Boards should ensure disclosure on if and how the company will be viable if the Paris Agreement's target is not achieved, taking account of strategic, physical, economic, political, legal, reputational and license to operate factors.

Biodiversity

Principle

Companies in many sectors are dependent on biodiversity and ecosystem services, including the supply of clean water, the availability of raw materials, and the existence of healthy soils. Company operations and supply chains also have extensive impacts on terrestrial, marine and freshwater biodiversity. There is also an important connection between biodiversity and human health, with the Coronavirus pandemic highlighting the increased risk of transmission of viruses from animals to humans resulting from exploitation of wildlife and habitat destruction[16].

Companies must acknowledge the centrality of nature to their continued success and take responsibility for ensuring that their activities do not directly or indirectly negatively impact biodiversity.

Our expectations

1. To better understand biodiversity-related risks, companies should disclose the impacts and dependencies on nature, as well as how these may be financially material over time.
2. Companies should eliminate deforestation from their value chains and help farmers transition to more regenerative forms of agriculture.
3. Companies should set a target to have a net positive impact on biodiversity.

[16] https://www.hermes-investment.com/eos-insight/coronavirus/the-coronavirus-and-our-relationship-with-nature/

Resource efficiency and the circular economy

Principle

As the global population and consumption levels continue to rise, it is vital to find ways to use resources and materials more efficiently, to tackle environmental challenges such as climate change; pollution to air, water and land; soil erosion and loss of biodiversity.

Our expectations

1. Companies should strive for the most efficient use of resources possible, and to consider how it can improve resource efficiency, including the consideration of circular economy approaches, in business models, operations and supply chains.
2. We expect companies to demonstrate an understanding of its environmental footprint linked to operations, value chains, and the lifecycles of products and services. Companies should seek to reduce or eliminate material negative environmental consequences of its activities, while also taking action to mitigate any unintended consequences.
3. In sectors that rely on significant volumes of materials, including plastics, companies should develop strategies and set targets for the reduction, and optimal and balanced use, of materials in products and its packaging; to decrease reliance on 'single-use' materials where practicable; and to consider strategies for circular supply chains that drive more sustainable use of relevant materials throughout product lifecycles.

Diversity and inclusion

Principle

It is important for companies to establish a culture which promotes inclusion in all forms and ensures that no forms of prejudice are allowed. Equal opportunities ought to exist for all employees as a basic human right to ensure that the company helps establish diversity of thought.

Advancing gender equality in company leadership and throughout organizations also remains critically important, with many companies around the world still falling far short of equal representation. We continue our global support for initiatives like The 30% Club, which advocate for companies to achieve a minimum of 30% female representation on boards and in leadership populations.

Particular attention will be paid to those companies governed by the Canada Business Corporations Act (CBCA) required to provide shareholders with information on the corporation's policies and practices related to diversity on the board of directors and within senior management. This includes the number and percentage of members of the board and of senior management who are women, Aboriginal persons, members of visible minorities and persons with disabilities[17]. We encourage all Canadian companies to provide similar disclosures.

Our expectations

1. Boards should ensure that practices that promote diversity and inclusion are effective across the company.
2. We request that for companies with operations in the US or as US securities registrants, companies annually disclose their EEO-1 report with the gender and ethnic composition of the workforce at different levels. Boards should encourage similar disclosures where not required by regulation.
3. Where there is an under-representation of women or ethnic minorities, in particular on executive committees or in other senior positions or in specific business units, we expect companies to develop diversity and inclusion targets and set timelines to achieve them.
4. Where there is insufficient gender or ethnic diversity progress in the executive team, we may consider recommending a vote against relevant directors.
5. Boards should monitor the success of diversity and inclusion plans by tracking targets and key indicators such as employee surveys, staff turnover, recruitment and promotion and pay ratios by category of employee.
6. Management should be held to account by the board for insufficient progress towards or ambition with diversity and inclusion targets for the wider workforce.

Racial inequity

Principle

The death of George Floyd has re-energized the anti-racist movement in the US and around the world, renewing concerns about poor representation of ethnic minorities, particularly black people, in business, particularly in senior positions, and the role that companies may play in perpetuating racial inequity in their workforces and in society, through their products, services and customer practices and their public policy and other societal actions.

We welcome the steps taken by companies around the world and particularly in the US to acknowledge and commit to addressing racial inequity, in the workforce and beyond, but we expect this to be followed up with concrete action. These efforts to make society, through company actions, more just, will have a positive long-term impact for all stakeholders. In Canada this should include special attention and efforts for indigenous peoples' inclusion and representation.

We believe many companies, including our own, have much more to do to address this urgent problem. We seek to learn from those companies that are taking a lead.

[17] https://www.osler.com/en/resources/regulations/2019/canada-is-first-jurisdiction-worldwide-to-require-diversity-disclosure-beyond-gender-diversity-disc

But even those leading companies are only beginning to address the problem. Those which, like us, are only beginning or accelerating the journey must do so without further delay.

Our expectations

1. Publish a statement internally and to external stakeholders that acknowledges and condemns racism and racial inequity in society, and which acknowledges any inequity within the company, such as under-representation of minorities in leadership.
2. Commit to a thorough review of the company's actions to date to identify where it may be perpetuating racial inequity and where there are opportunities to make a positive contribution to racial equity. This should include the company's culture and workforce; products, services and customer practices; actions with suppliers; and contributions to public policy and other societal actions. To inform this assessment, seek and act on feedback from employees, customers, suppliers and other stakeholders, including independent external experts.
3. Make public commitments to address urgently racial inequities within the workforce and related challenges and opportunities identified, including setting time-bound targets. These should be set in the context of actions taken on other underrepresented groups, acknowledging the important combined challenges faced, for example, by women of color.
4. Start collecting, as a minimum, data on the ethnic composition of the workforce by seniority. At least annually, publish these and other relevant data, including pay gaps/ratios, with a narrative explanation of what the figures mean and a brief, timebound, action plan to address shortfalls. Data should be used internally to prompt further investigations so that underlying drivers can be understood and acted on. Many companies will have a global footprint with a workforce spread over different geographies. In markets where data collection is restricted by law, companies should find alternative ways of monitoring and reporting their diversity and inclusion efforts. Alternatives could, for example, include anonymous staff satisfaction and engagement surveys in these jurisdictions.

Human capital management

Principle

Employees are a company's most valuable asset. We therefore expect companies to demonstrate that this is the case as it is often unclear, from disclosures or engagement with boards, how companies invest in or manage its people effectively for long term benefit of the company and employees.

Our expectations

1. Companies should set strategies and supporting objectives for the management of its human capital which reflect the importance of employees to long-term

value creation. These strategies and objectives should be overseen by the board.

2. We encourage companies to provide qualitative contextual information describing its approach, as well as annual disclosure of key performance indicators and targets used to manage human capital with supporting narrative to explain why those KPIs were chosen and how management is responding to those indicators.
3. As a member of the Human Capital Management Coalition ("HCMC"), a group of 30 institutional investors with $5.9 trillion in assets, as of September 2020, we believe there is merit in establishing a basic standard for human capital disclosure in listed companies. We expect all companies to disclose the following as a minimum for human capital management:
    a. The number of people employed by the issuer, broken down by full-time and part-time employees along with contingent workers who produce its products or provide its services
    b. The total cost of the issuer's workforce, including wages, benefits and other transfer payments, and other employee expenses
    c. Turnover or similar workforce stability metric
    d. Workforce diversity data, concentrating on gender and ethnic/racial diversity across different employment bands/employee levels

Human rights

Principle

We endorse the UN Guiding Principles (UNGPs) on Business and Human Rights and the UN Global Compact and expect companies to do the same. We expect companies to use the reporting framework of the UNGPs to disclose how they assess and manage human rights issues that are salient to their operations and supply chain.

A company's license to operate is increasingly affected by factors, such as its approach to human rights. As a minimum, we expect companies to comply with all legal requirements, including, for example, the obligations of the Canadian Human Rights Act, equivalent provincial human rights codes or legislation, employment legislation; and to respect all internationally recognised human rights conventions.

Our expectations

1. Under the UNGPs, we expect companies to respect human rights regardless of financial materiality. We note that corporate respect for human rights is expected under the UNGPs even if the company is only indirectly connected to these issues.
2. We expect companies to use the reporting guidance of the Guiding Principles to disclose how it manages human rights issues that are salient to its business.

3. A company should employ a robust due diligence process throughout its value chain, including ongoing reviews and audits, to identify, prevent, mitigate and account for how it addresses its impacts on human rights.
4. We expect companies to demonstrate how they are implementing Canada's Truth and Reconciliation Commission's recommendations to the corporate sector to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework. This framework includes: meaningful consultation and obtaining the free, prior, and informed consent of Indigenous Peoples before proceeding with economic development projects; ensuring that Indigenous Peoples have equitable access to jobs, training, education opportunities, and long-term sustainable benefits from economic development projects; and provision of education for management and staff on the history of Indigenous Peoples[18].

Tax

Principle

Companies should pay their fair tax contribution, recognizing the importance of taxation to the funding of public services on which it and its stakeholders rely. This has been particularly emphasized during the pandemic, in which all businesses have directly or indirectly benefitted from government action to support the economy.

Fair payment of tax, based on the intention of tax law and in proportion to the location of economic value generated, is important to the social license to operate. We believe that companies that seek to aggressively minimize their tax payments will face increasing reputational risks.

Our expectations

1. Companies ought to comply with all tax laws and regulations, and the intentions behind them, in all countries of operation.
2. Companies should pay taxes in-line with where economic value is generated.
3. Companies should publish a global tax policy describing its approach to tax risk, controls and oversight, including any material variations across the entity. This should include policy on corporate structuring in low tax jurisdictions, transfer pricing and the use of tax incentives from public authorities.
4. Companies should ensure that its tax policies and practices do not damage its social license to operate in all jurisdictions in which it has a presence.
5. Companies should disclose the full extent of taxes paid or collected by them in each country, including in each country the purpose of any corporate entity and comparable corporate data such as revenue, profit before tax and number of employees. Companies can use the Global Reporting Initiative (GRI) Tax Standard as a framework for this disclosure.

[18] https://www.rcaanc-cirnac.gc.ca/eng/1524506030545/1557513309443

6. Boards should ensure that it has sufficient oversight of tax policy, risk and controls in its and its committee work.

Ethical leadership, whistle blowing and anti-bribery and corruption

Principle

From the opening sentence of these principles, we expect the board to set the tone from the top, demand the highest ethical standards and drive the expectations, values and behavior of the organization. We consider boards to have ultimate responsibility for ensuring that the company has the highest ethical standards and that the culture is one in which corruption or other unethical behavior cannot thrive. The board and executives are responsible for setting a tone which recognizes potential ethical challenges and seeks to cultivate a culture that prioritizes the eradication or minimization of any such concerns.

Our expectations

1. Boards should set clear standards of unimpeachable integrity and ethics for themselves, all employees and anyone representing the company.
2. Companies should have best practice anti-bribery and anti-corruption policies and processes in place, with these ethical standards as its bedrock.
3. Companies should have robust compliance mechanisms to enforce these ethical standards and anti-bribery and corruption policies and processes.
4. The board should oversee anti-bribery and anti-corruption controls to ensure that the necessary organizational measures exist to provide the best possible defense against corruption.
5. Within these controls should be open communication channels to report possible ethical concerns supported by a culture of exploring difficult issues within the organization without fear of retribution.
6. These channels of communication should be supplemented by a whistleblower system that can preserve anonymity and protect any whistleblower acting in good faith from retaliation.
7. The board should ensure that all reports of possible wrongdoing are thoroughly and independently investigated by suitably qualified and supported individuals, with the assumption that the whistleblower is acting in good faith.
8. The board should describe publicly how it oversees its ethical expectations.

Lobbying and political or charitable contributions

Principle

The election of public officials, the enactment of laws and the establishment or changing of regulations affect all stakeholders. Corporations, as legal persons, are free to contribute to political efforts, to support charitable causes, and to lobby regulators and legislators within the bounds of directors’ business judgement. The broad stakeholder effect of these efforts and expenditures demand good quality disclosure. While some corporations argue that such activity is a source of competitive advantage, we argue that this should be explained as should the possible reputational risk associated with this activity. Companies should assure investors that all such expenditures and activities, both directly and indirectly, are aligned with the long-term interests of shareholders as well as with the core purpose of the company.

In addition to complying with regulations like the Lobbying Act, we expect companies to disclose all lobbying activities at the federal, provincial and territorial level across the country with an assessment of how these activities and expenditures align with the long-term interests of shareholders.

Our expectations

1. Companies should provide reasonable disclosures in their mainstream reporting on their approach to major public policy issues affecting them. This should include details of the company's direct political and lobbying contributions and activities.
2. Disclosure ought to be web-based, and easy to find and navigate. Companies should include aggregated totals of political and lobbying donations, with click-through access to more granular reporting, including the amount of each expenditure and the identity of the payee for that expenditure.
3. Reports should provide details on the expenses designed to influence legislation, elections and campaigns supporting (or opposing) candidates for public office.
4. We expect companies to describe why these activities are in the best interest of shareholders and its most important stakeholders and how it is an appropriate use of corporate funds and other resources.
5. Disclosure should cover the governance structure for this activity, including responsibility for such expenditures. It should describe various levels of responsibility for oversight from board level downwards, how the authorization process for donations and other activity works, taking account of the benefits and costs, including reputational risk, as well as monetary thresholds and other considerations for approval at each level. The disclosure should outline what factors are considered and how the factors are assessed in making the decision. If there is a tiered approval process, this should be explained in full. It should also demonstrate how decisions are monitored by management, and ultimately the board, and what happens if the board disagrees with the decisions made under the policy.
6. Disclosure should also include how companies manage relationships with trade associations and other third party lobbying organizations. While we understand that companies and membership organizations do not always agree on policy or other matters, companies need to ensure that they have robust methods in

place for assessing the cost and benefit of memberships and processes to influence the policy decision making of such organizations.

7. Companies should be transparent about their internal escalation process to influence a trade association to change its position or to determine whether to continue a membership.

CORPORATE ACTIONS

Mergers and acquisitions

Principle

Most merger and acquisition transactions are not as successful as the acquiring party expects. When considering our voting recommendation on a commercial transaction, we will consider a range of factors, in the context of seeking to protect and promote long-term, sustainable value. The underlying expectation is that due process is followed, with information made available to shareholders.

Our considerations include:

- Consistency with strategy: whether the transaction is consistent with the prior stated strategic aims of the company or whether any change in strategy appears coherent and sensible.
- Risks and opportunities: the key risks and opportunities to the business from the transaction and the extent to which these appear to have been considered and managed. This includes factors such as cultural fit, human capital management implications and the post-transaction integration plan.
- Conflicts of interest: any conflicts of interest which may affect the alignment of the interests of directors or particular shareholders with those of long-term outside or minority shareholders. This includes considering whether the proposal is a related party transaction and, if so, whether appropriate disclosures and safeguards are in place; whether the transaction erodes any shareholder rights; and any potential conflict of interest concerning the directors' duty to act in the interests of shareholders, in particular, as these may arise from either existing or newly revised remuneration arrangements.

Our expectations

1. We believe that all material M&A transactions should be voted on by both parties' shareholders.
2. The board should form an independent committee to oversee any mergers or acquisitions, particularly when there are potential conflicts of interest for executives who stand to benefit financially from the transaction. Any director with a possible conflict of interest, including with possible change of control payments, must recuse themselves from all discussions or voting on corporate actions.

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