International

Public Fund Proxy Voting Guidelines Updates

2016 Policy Recommendations

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BOARD OF DIRECTORS- DIRECTOR AND SUPERVISORY BOARD MEMBER ELECTIONS

Overboarded Directors

Current General Recommendation: Generally vote withhold for individual director nominees who are:

Directors serving on an excessive number of other boards which could compromise their primary duties. In markets where the number of board appointments is routinely available, an excessive number of boards is defined as:

- For non-executive directors, more than five total non-executive directorships.
- For executive directors, i) more than three total non-executive directorships; or ii) other executive or board chair positions.
- For board chairs, i) more than four total non-executive directorships; or ii) more than two board chair positions; or iii) other executive positions.

Key Changes:

- Include the definition of overboarding for the Canadian market which will be effective commencing on February 2017 meeting dates.

New General Recommendation: Added the following under Director and Supervisory Board Member Elections

- Starting February 1, 2017, "overboarded" for TSX issuers within the Canadian market will be defined as: a CEO of a public company who sits on more than 1 outside public company board in addition to the company of which he/she is CEO (withholds would only apply on outside boards these directors sit on), OR the director is not a CEO of a public company and sits on more than 4 public company boards in total.

Rationale for Update:

Directors need sufficient time and energy in order to be effective representatives of shareholders' interests. Directors' responsibilities are increasingly complex as board and key committee memberships demand greater time commitments.

In a 2014 study, 120 board chairs, directors and CEOs across Canada were surveyed regarding their annual time commitment per board on which they served. The survey found that the average annual time commitment per board for a Canadian director was 304 hours. This number was higher for directors of companies with a market cap over $5 billion (388 hours) and also higher for those with a market cap between $1 billion and $5 billion (335 hours). There was also a correlation between the role of a director and average annual time commitment. As expected, being a board chair is the most time consuming role; however, being a committee chair can be almost as time consuming.

Based on the results of the 2015-16 ISS Global Policy Survey, a plurality of investor responses indicated that four total board seats is an appropriate limit for directors who are not active CEOs, and that a total of two board seats (a CEO's "home board" plus one outside board) is an appropriate limit for directors who are active CEOs.

Election of board and fiscal council nominees (Brazil)

Current General Recommendation: The policy is silent regarding the election of fiscal council members (statutory auditors) nominated by non-controlling shareholders, presented as separate voting items, as allowed by the Brazilian Corporate Law.

Key Changes:

- For Brazil, add the provision of an abstain vote recommendation in the absence of timely disclosure regarding the names of minority shareholders' fiscal council nominees and alternates (both ordinary and preferred minority nominees, as applicable), when presented under a separate election.

New General Recommendation: In Brazil, vote abstain on the election of directors and fiscal council members nominated by non-controlling shareholders presented as a separate voting item if the nominee names are not disclosed in a timely manner prior to the meeting.

Rationale for Update:

The current recommendation is to vote against the election of directors if adequate disclosure has not been provided in a timely manner prior to the meeting. Minority nominees in Brazil are generally considered independent and, as they can legally be presented up to the time of the meeting, a vote against would disenfranchise minority shareholders who could benefit from greater independent representation. Nonetheless, a vote for minority nominees in the absence of the disclosure of such names is inconsistent with Public Fund Advisory Services' transparency principles. As such, an abstain vote is the most effective (and neutral) way to address minority shareholder election items in Brazil when adequate disclosure is not provided in a timely manner.

CAPITAL STRUCTURE

General Issuances

Key Changes: Included the following under the discussion on General Issuances

As of Feb. 1, 2016, for French companies listed on a regulated market, generally vote against any general authorities impacting the share capital (i.e. authorities for share repurchase plans and any general share issuances with or without preemptive rights, including by capitalization of reserves) if they can be used for antitakeover purposes without shareholders' prior explicit approval.

In UK and Ireland, Public Fund Advisory Services will support general issuance authority without preemptive rights of up to 10 percent of the issued share capital, provided that any amount in excess of the standard 5 percent is to be used only for purposes of an acquisition or a specified capital investment. A company which receives approval for an authority of this nature but is then subsequently viewed to abuse the authority during the year (for example, by issuing shares up to 10 percent for purposes other than set out in the revised guidelines) is likely to receive a negative recommendation on the authority at the following AGM.

Rationale for Update:

Following the Florange Act which took effect in 2015, French boards are now permitted by law to utilize any type of shareholder-approved capital issuance authority for the purpose of issuing shares as a takeover defense, unless either (i) the company's articles contain an opt-out provision stipulating that capital issuance authorities cannot be utilized for antitakeover purposes unless shareholders specifically approve the use of share authorities for such purpose, or (ii) the terms of the specific share authority preclude its use for antitakeover purposes.

In the UK, the Pre-Emption Group issued revised guidelines regarding routine authority to disapply pre-emption rights. The revised guidelines now permit companies to seek shareholder approval for an extra 5 percent disapplication in addition to the standard 5 percent, provided that the additional 5 percent is used only in connection with an acquisition or a specified capital investment. Following the issue of the revised guidelines, a significant number of UK companies (as many as 45 percent of FTSE All Share companies holding AGMs between July and September 2015) have sought general authorities to disapply pre-emption rights up to 10 percent of the issued share capital, with the commitment that the additional 5 percent above the usual 5 percent will only be used as set out in the guidelines. These authorities have received widespread support, with no evidence of any specific concerns raised by investors in terms of the voting outcomes for these resolutions. As a result, the Public Fund Advisory Services policy has been updated to reflect what has become routine market practice.

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