



2019 Americas Proxy Voting Guidelines Updates

Benchmark Policy Changes for U.S., Canada, and Latin America

Effective for Meetings on or after February 1, 2019

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UNITED STATES

Board of Directors – Voting on Director Nominees in Uncontested Elections

Board Composition – Diversity

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation:</p> <p>Diversity: Highlight boards with no gender diversity. However, For 2019 meetings, no adverse vote recommendations will be made due to any lack of gender diversity.</p> <p>For companies in the Russell 3000 or S&P 1500 indices, effective for meetings on or after Feb. 1, 2020, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies when there are no women on the company's board. Mitigating factors include:</p> <ul style="list-style-type: none"> › A firm commitment, as stated in the proxy statement, to appoint at least one female to the board in the near term; › The presence of a female on the board at the preceding annual meeting; or › Other relevant factors as applicable. 	<p>General Recommendation:</p> <p>Diversity: Highlight boards with no gender diversity. For 2019 meetings, no adverse vote recommendations will be made due to a lack of gender diversity.</p> <p>For companies in the Russell 3000 or S&P 1500 indices, effective for meetings on or after Feb. 1, 2020, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies when there are no women on the company's board. Mitigating factors include:</p> <ul style="list-style-type: none"> › A firm commitment, as stated in the proxy statement, to appoint at least one female to the board in the near term; › The presence of a female on the board at the preceding annual meeting; or › Other relevant factors as applicable.

Rationale for Change:

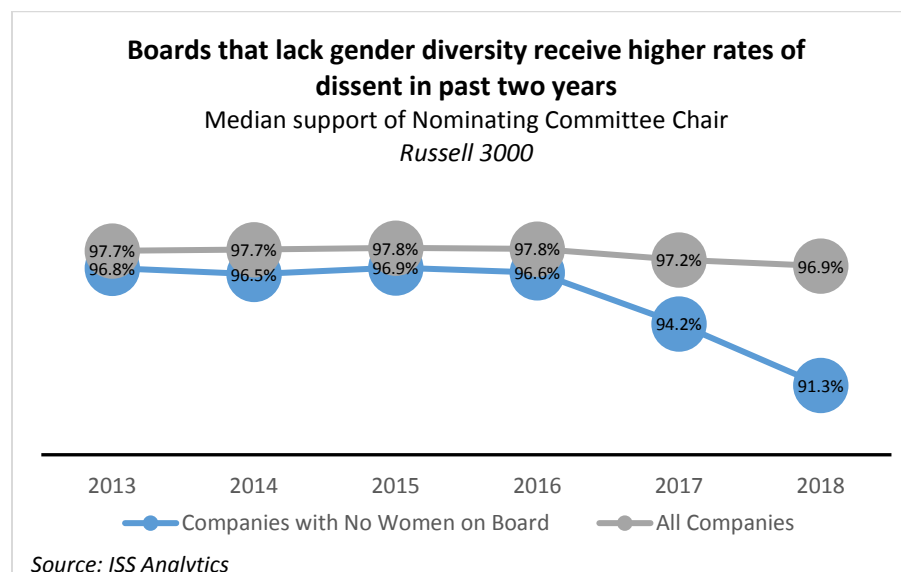
1) Investors favor gender diverse boards.

During the 2017 and 2018 proxy seasons, investors increasingly targeted companies with little or no female representation on their boards, citing reasons of equality, good corporate governance, and enhanced long-term company performance.¹ Increased investor engagement on the topic appears to have prompted many boards to add one or more women directors to their ranks over the past two years. When boards fail to respond to such engagement, a number of large investors have cast votes against directors.

As noted in ISS' 2018 U.S. Proxy Season Review and as shown in the following figure, companies that lacked a gender diverse board were correlated with lower support levels for nominating committee chairs.²

¹ See Kosmas Papadopoulos, Robert Kalb, Angelica Valderrama and Thomas Balog, *U.S. Board Study: Board Diversity Review*, p. 11-12, Apr. 11, 2018.

² United States: Uncontested Director Elections & Governance Proposals: 2018 Proxy Season Review.

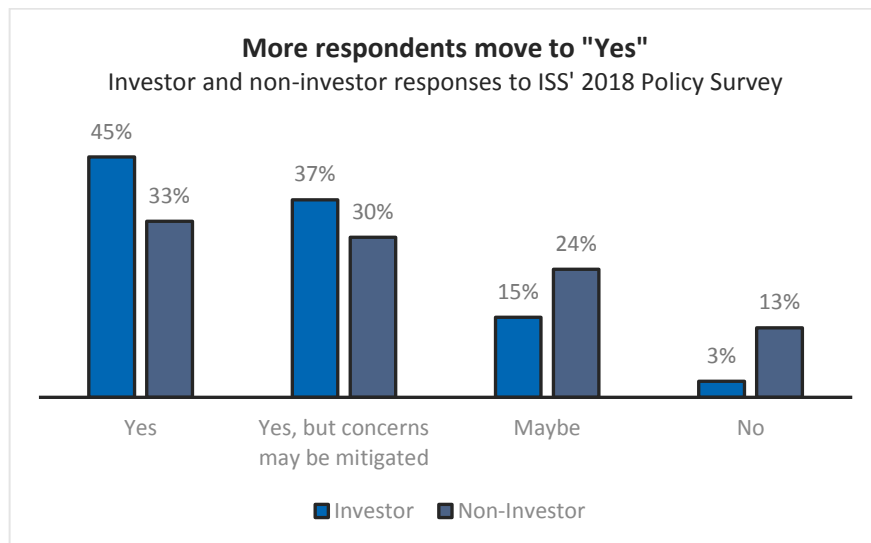


ISS' 2018 policy survey results show a growing investor preference for boosting levels of boardroom gender diversity. According to the survey results, only three percent of investor respondents stated that they did not consider a lack of board gender diversity to be problematic, and over 80 percent of the investor respondents indicated an absence of gender diversity at the board level to be problematic.³ Forty-five percent of investor respondents stated that the absence of at least one female director may indicate problems in the board recruitment process. Another 37 percent responded that the recruitment process may be problematic, but such concerns may be mitigated if there is a disclosed policy or approach that describes the steps taken by the board or the nominating committee to boost gender diversity on the board. Fifteen percent of investor respondents answered that lack of diversity could be problematic on a case-by-case basis.

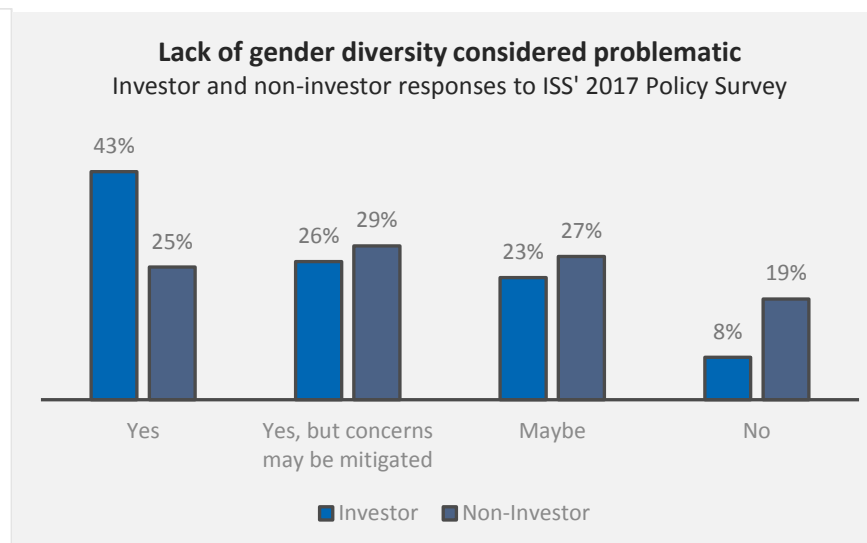
Non-investor respondents generally echoed investors' responses. A low number (13 percent) stated that a lack of gender diversity on the board is not problematic.

Based on these survey results, most investors and other corporate constituencies consider that the absence of gender diversity may be problematic and should (at a minimum) trigger a deeper examination of a board's nomination practices and policies. Although both investors and non-investors continue to list engaging with the board or management as their most favored response to a board's lack of female representation, a growing number of shareholders think that adverse recommendations could be warranted for one or more directors. Non-investors overwhelmingly prefer engagement, but also appear to be growingly recognizing escalation at the ballot box may be an appropriate action by shareholders in some circumstances.

³ ISS, [2018 Governance Principles Survey: Summary of Results](#), p. 7, 12-14, Sept. 18, 2018.



ISS 2018 Governance Principles Survey: Summary of Results



ISS 2018 Governance Principles Survey: Summary of Results

2) Board gender diversity has been positively correlated to better company performance in some studies.

Many investors view the existence of board gender diversity as good corporate governance in light of a series of studies that have found that board gender diversity is positively correlated to better company performance.⁴

Looking beyond returns, recent ISS and other studies have identified additional benefits to companies and their shareholders from boosting gender diversity in the boardroom. A recent ISS report⁵ found that women directors are more likely to possess skillsets that are most sought after by boards. That study found that female nominees surpassed their male peers in the prevalence of skills related to audit, strategic planning, technology, sales, risk management, legal, government, CSR, and human resources.

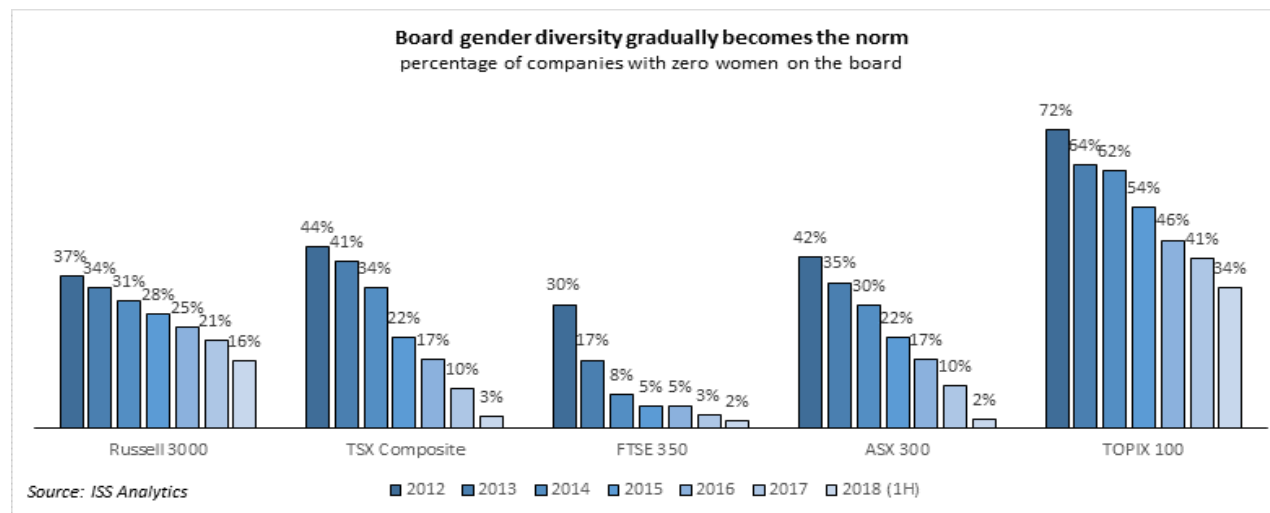
3) Gender diverse boards are the market norm.

According to the 2017 U.S. Board Study: Board Diversity Review, in 2017 and at the time of their annual meetings, 99 percent of the firms in the S&P 500, 90 percent of the S&P 400, and 77 percent of the S&P 600, and 87 percent of the companies in the S&P 1500 had at least one woman on the board. As of Sept. 25, 2018, and

⁴ Conyon, Martin J. and He, Lerong, *Firm Performance and Boardroom Gender Diversity: A Quantile Regression Approach*, March 16, 2017; Deloitte, Global Center for Corporate Governance, *Women in the boardroom: A global perspective*, P. 3-4, Fifth Ed. (2017); PwC, Governance Insights Center, *PwC's 2017 Annual Corporate Directors Survey*, p. 11-12; Vivian Hunt, Dennis Layton and Sara Prince, McKinsey & Co., *Diversity Matters*, Feb. 2, 2015; Marcus Noland, Tyler Moran and Barbara Kotschwar, Peterson Institute for International Economics, *Is Gender Diversity Profitable?*, February 2016.

⁵ Anthony Garcia, ISS Custom Research, *Director Skills: Diversity of Thought and Experience in the Boardroom*, Governance Insights, Sept. 14, 2018.

according to DataDesk data, only three companies in the S&P 500 had no female directors. Boards with female representation far outnumber all-male boards in the Russell 3000 Index too where, according to Data Desk data, 84 percent of the companies have at least one female on the board. Female representation at the board level has thus become the norm at companies traditionally associated with having better governance practices in the U.S., as well as in other markets, as shown in the figure below.



Board Composition – Attendance

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation:</p> <p>Attendance at Board and Committee Meetings: Generally, vote against or withhold from directors (except new nominees, who should be considered case-by-case⁶) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:</p> <ul style="list-style-type: none"> › Medical issues/illness; › Family emergencies; and › Missing only one meeting (when the total of all meetings is three or fewer). <p>In cases of chronic poor attendance without reasonable justification, in addition to voting against the director(s) with poor attendance, generally vote against or withhold from appropriate members of the nominating/governance committees or the full board.</p> <p>If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.</p>	<p>General Recommendation:</p> <p>Attendance at Board and Committee Meetings: Generally, vote against or withhold from directors (except new nominees, who should be considered case-by-case⁷) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:</p> <ul style="list-style-type: none"> › Medical issues/illness; › Family emergencies; and › Missing only one meeting (when the total of all meetings is three or fewer). <p>In cases of chronic poor attendance without reasonable justification, in addition to voting against the director(s) with poor attendance, generally vote against or withhold from appropriate members of the nominating/governance committees or the full board.</p> <p>If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote against or withhold from the director(s) in question.</p>

Rationale for Change:

ISS is codifying the case-by-case approach taken when faced with situations of possible chronic poor attendance by directors. ISS defines “chronic poor attendance” as three or more consecutive years of poor attendance without reasonable explanation. The policy approach may also be applied in cases where there is a long-term pattern of absenteeism, such as poor attendance the previous year and three out of the four prior years.

Currently, the policy is generally applied as follows:

- › After three years of poor attendance by a director, recommend withhold from the chair of the nominating or governance committee;
- › After four years, recommend withhold from the full nominating or governance committee; and
- › After five years, recommend withhold from all nominees.

⁶ New nominees who served for only part of the fiscal year are generally exempted from the attendance policy.

When the director with chronic poor attendance is on the ballot, the recommendations at the chair or committee level will be directed towards the nominating committee for the continued nomination of the director, in spite of the poor attendance. When the director is not on the ballot, as in the case of a classified board, the recommendations will be directed towards the governance committee for maintaining a governance structure where the director is not directly accountable to shareholders on an annual basis.

Board Accountability – Management Proposals to Ratify Existing Charter or Bylaw Provisions

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: [no current policy] Vote against/withhold from individual directors, members of the governance committee, or the full board, where boards ask shareholders to ratify existing charter or bylaw provisions considering the following factors:</p> <ul style="list-style-type: none"> › The presence of a shareholder proposal addressing the same issue on the same ballot; › The board's rationale for seeking ratification; › Disclosure of actions to be taken by the board should the ratification proposal fail; › Disclosure of shareholder engagement regarding the board's ratification request; › The level of impairment to shareholders' rights caused by the existing provision; › The history of management and shareholder proposals on the provision at the company's past meetings; › Whether the current provision was adopted in response to the shareholder proposal; › The company's ownership structure; and › Previous use of ratification proposals to exclude shareholder proposals. 	<p>General Recommendation: Vote against/withhold from individual directors, members of the governance committee, or the full board, where boards ask shareholders to ratify existing charter or bylaw provisions considering the following factors:</p> <ul style="list-style-type: none"> › The presence of a shareholder proposal addressing the same issue on the same ballot; › The board's rationale for seeking ratification; › Disclosure of actions to be taken by the board should the ratification proposal fail; › Disclosure of shareholder engagement regarding the board's ratification request; › The level of impairment to shareholders' rights caused by the existing provision; › The history of management and shareholder proposals on the provision at the company's past meetings; › Whether the current provision was adopted in response to the shareholder proposal; › The company's ownership structure; and › Previous use of ratification proposals to exclude shareholder proposals.

Rationale for Change:

The use of board sponsored proposals to ratify existing charter or bylaw provisions increased significantly during the 2018 proxy season in response to guidance from the SEC staff that granted some companies' requests to grant no-action relief if companies sought to exclude shareholder proposals from their ballots by including a "conflicting" management-sponsored proposal to ratify one or more of their existing governance provision citing 14a-8(i)(9). Seven companies in 2018, for example, obtained no-action relief to exclude shareholder proposals to adopt or amend the right of shareholders to call a special meeting by seeking ratification of their current provision. Notably, none of these ratification proposals made material changes to the provisions that enhanced shareholders' rights to call special meetings.

These "ratification" proposals appear to have been offered by boards to block shareholder proposals that requested more shareholder-friendly governance provisions from appearing on ballots. Notably, shareholders on numerous occasions on a wide range of issues have demonstrated their ability to thoughtfully vote when both management and shareholder proposals on the same issue appear on the ballot.

Please see the related policy updates regarding [Board Responsiveness- Ratification Proposals](#) and [Shareholder Rights – Management Proposals to Ratify Existing Charter or Bylaw Provisions](#).

Board Accountability – Director Performance Evaluation

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation:</p> <p>Director Performance Evaluation: The board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one-, three-, and five-year and three-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company's five-year total shareholder return and operational metrics and other factors as warranted. Problematic provisions include but are not limited to:</p> <ul style="list-style-type: none"> › A classified board structure; › A supermajority vote requirement; › Either a plurality vote standard in uncontested director elections, or a majority vote standard in contested elections; › The inability of shareholders to call special meetings; › The inability of shareholders to act by written consent; › A multi-class capital structure; and/or › A non-shareholder approved poison pill. 	<p>General Recommendation:</p> <p>Director Performance Evaluation: The board lacks mechanisms to promote accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one-, three-, and five-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company's operational metrics and other factors as warranted. Problematic provisions include but are not limited to:</p> <ul style="list-style-type: none"> › A classified board structure; › A supermajority vote requirement; › Either a plurality vote standard in uncontested director elections, or a majority vote standard in contested elections; › The inability of shareholders to call special meetings; › The inability of shareholders to act by written consent; › A multi-class capital structure; and/or › A non-shareholder approved poison pill.

Rationale for Change:

The Director Performance Evaluation policy is intended to identify companies that have a long-term underperformance and a significant number of board entrenchment features. Moving the five-year underperformance test to the initial screen, as opposed to as part of a secondary step in the evaluation, will reduce the number of companies that undergo scrutiny under this policy.

Board Responsiveness – Ratification proposals

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:</p> <ul style="list-style-type: none"> › The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year or failed to act on a management proposal seeking to ratify an existing charter/bylaw provision that received opposition of a majority of the shares cast in the previous year. Factors that will be considered are: <ul style="list-style-type: none"> › Disclosed outreach efforts by the board to shareholders in the wake of the vote; › Rationale provided in the proxy statement for the level of implementation; › The subject matter of the proposal; › The level of support for and opposition to the resolution in past meetings; › Actions taken by the board in response to the majority vote and its engagement with shareholders; › The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and › Other factors as appropriate. › The board failed to act on takeover offers where the majority of shares are tendered; › At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote. 	<p>General Recommendation: Vote case-by-case on individual directors, committee members, or the entire board of directors as appropriate if:</p> <ul style="list-style-type: none"> › The board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year or failed to act on a management proposal seeking to ratify an existing charter/bylaw provision that received opposition of a majority of the shares cast in the previous year. Factors that will be considered are: <ul style="list-style-type: none"> › Disclosed outreach efforts by the board to shareholders in the wake of the vote; › Rationale provided in the proxy statement for the level of implementation; › The subject matter of the proposal; › The level of support for and opposition to the resolution in past meetings; › Actions taken by the board in response to the majority vote and its engagement with shareholders; › The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and › Other factors as appropriate. › The board failed to act on takeover offers where the majority of shares are tendered; › At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote.

Rationale for Change:

This policy update is being made in conjunction with the new policy (see above) that codifies ISS’ approach for analyzing management-submitted ratification proposals of existing charter/bylaw provisions. The existing responsiveness policy is updated to reflect that the failure of a management proposal to ratify existing charter/bylaw provisions to receive majority support will trigger a board responsiveness analysis at the following annual meeting.

Shareholder Rights & Defenses

Management Proposals to Ratify Existing Charter or Bylaw Provisions

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: [no current policy] Generally vote against management proposals to ratify provisions of the company’s existing charter or bylaws, unless these governance provisions align with best practice.</p> <p>In addition, voting against/withhold from individual directors, members of the governance committee, or the full board may be warranted, considering:</p> <ul style="list-style-type: none"> › The presence of a shareholder proposal addressing the same issue on the same ballot; › The board's rationale for seeking ratification; › Disclosure of actions to be taken by the board should the ratification proposal fail; › Disclosure of shareholder engagement regarding the board’s ratification request; › The level of impairment to shareholders' rights caused by the existing provision; › The history of management and shareholder proposals on the provision at the company’s past meetings; › Whether the current provision was adopted in response to the shareholder proposal; › The company's ownership structure; and › Previous use of ratification proposals to exclude shareholder proposals. 	<p>General Recommendation: Generally vote against management proposals to ratify provisions of the company’s existing charter or bylaws, unless these governance provisions align with best practice.</p> <p>In addition, voting against/withhold from individual directors, members of the governance committee, or the full board may be warranted, considering:</p> <ul style="list-style-type: none"> › The presence of a shareholder proposal addressing the same issue on the same ballot; › The board's rationale for seeking ratification; › Disclosure of actions to be taken by the board should the ratification proposal fail; › Disclosure of shareholder engagement regarding the board’s ratification request; › The level of impairment to shareholders' rights caused by the existing provision; › The history of management and shareholder proposals on the provision at the company’s past meetings; › Whether the current provision was adopted in response to the shareholder proposal; › The company's ownership structure; and › Previous use of ratification proposals to exclude shareholder proposals.

Rationale for Change:

See [Board Accountability – Management Proposals to Ratify Existing Charter or Bylaw Provisions](#)

Capital/Restructuring

Reverse Stock Splits

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote for management proposals to implement a reverse stock split if:</p> <ul style="list-style-type: none"> > whenThe number of authorized shares will be proportionately reduced; or > The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy. <p>Vote against case-by-case on proposals when there is not a proportionate reduction of authorized shares, unless that do not meet either of the above conditions, taking into consideration the following factors:</p> <ul style="list-style-type: none"> > AStock exchange has provided notice notification to the company of a potential delisting; or The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy. > Disclosure of substantial doubt about the company's ability to continue as a going concern without additional financing; > The company's rationale; or > Other factors as applicable. 	<p>General Recommendation: Vote for management proposals to implement a reverse stock split if:</p> <ul style="list-style-type: none"> > The number of authorized shares will be proportionately reduced; or > The effective increase in authorized shares is equal to or less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy. <p>Vote case-by-case on proposals that do not meet either of the above conditions, taking into consideration the following factors:</p> <ul style="list-style-type: none"> > Stock exchange notification to the company of a potential delisting; > Disclosure of substantial doubt about the company's ability to continue as a going concern without additional financing; > The company's rationale; or > Other factors as applicable.

Rationale for Change:

The policy on reverse stock splits is being updated to codify the approach currently taken for companies that are not listed on major stock markets/exchanges and are not proportionately reducing their authorized shares. Delisting notices are not applicable to companies that do not trade on a major market/exchange. The policy is being broadened to include consideration of other critical factors for all companies, exchange listed and non-exchange listed, where substantial risks exist - in particular, whether they will continue as going concerns.

U.S. AND CANADA

Social and Environmental Issues

Global Approach

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote case-by-case, taking into consideration examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition. The following factors will also be considered:</p> <ul style="list-style-type: none"> › If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; › If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; › Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive; › The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; › Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; › If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and › If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage. 	<p>General Recommendation: Generally vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered:</p> <ul style="list-style-type: none"> › If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; › If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; › Whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive; › The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; › Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; › If the proposal requests increased disclosure or greater transparency, whether reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and › If the proposal requests increased disclosure or greater transparency, whether implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

Rationale for Change:

The update is being made to codify the factors that are already taken into consideration in ISS' case-by-case analyses of environmental and social (E&S) shareholder proposals. The update makes it more explicit that significant controversies, fines, penalties, or litigation are considered when evaluating E&S shareholder proposals.

CANADA

Board of Directors – Voting on Director Nominees in Uncontested Elections

Gender Diversity Policy (TSX only)

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: For S&P/TSX Composite Index widely-held⁷ companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:</p> <ul style="list-style-type: none"> › The company has not disclosed a formal written gender diversity policy^{*8}; and › There are zero female directors on the board of directors. <p>This policy will be applied to all TSX Companies starting in Feb 2019.</p> <p><i>*Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.</i></p> <p>The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors.</p>	<p>General Recommendation: For widely-held companies⁸, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:</p> <ul style="list-style-type: none"> › The company has not disclosed a formal written gender diversity policy⁹; and › There are zero female directors on the board of directors. <p>The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors.</p> <p>The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity within a reasonable period of time.</p> <p>When determining a company's commitment to board gender diversity, consideration will also be given to the board's disclosed approach to considering gender diversity in executive officer positions and stated goals or targets or</p>

⁷ "Widely-held" refers to S&P/TSX Composite Index companies as well as other companies that ISS designates as such based on the number of ISS clients holding securities of the company.

⁸ Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.

<p>The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity within a reasonable period of time.</p> <p>When determining a company's commitment to board gender diversity, consideration will also be given to the board's disclosed approach to considering gender diversity in executive officer positions and stated goals or targets or programs and processes for advancing women in executive officer roles, and how the success of such programs and processes is monitored.</p> <p>Exemptions:</p> <p>This policy will not apply to:</p> <ul style="list-style-type: none"> › Newly publicly listed companies within the current or prior fiscal year; › Companies that have transitioned from the TSXV within the current or prior fiscal year; or › Companies with four or fewer directors. <p>Rationale: Gender diversity has become a high profile corporate governance issue in the Canadian market. Effective Dec. 31, 2014, as per National Instrument 58-101 Disclosure of Corporate Governance Practices, TSX-listed issuers are required to provide proxy disclosures regarding whether, and if so how, the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. Also required is disclosure of policies or targets, if any, regarding the representation of women on the board. The disclosure requirement has been a catalyst for the addition of women on the boards of many larger widely-held TSX-listed reporting issuers, including Composite Index companies. Composite Index Widely-held TSX-listed company boards lacking a policy commitment and having zero female directors are now deemed to be outliers lagging market expectations in this regard. On Nov. 16, 2017 ISS announced an update to the Proxy Voting Guidelines for TSX-Listed Companies to establish a board gender diversity policy applicable to S&P/TSX Composite Index companies. The ISS gender diversity policy came into effect for meetings that were held on or after Feb. 1, 2018.</p> <p>Among non-Composite Index TSX-listed issuers, many have disclosed that they have not adopted a gender diversity policy, or goals or targets. Further,</p>	<p>programs and processes for advancing women in executive officer roles, and how the success of such programs and processes is monitored.</p> <p>Exemptions:</p> <p>This policy will not apply to:</p> <ul style="list-style-type: none"> › Newly publicly listed companies within the current or prior fiscal year; › Companies that have transitioned from the TSXV within the current or prior fiscal year; or › Companies with four or fewer directors. <p>Rationale: Gender diversity has become a high profile corporate governance issue in the Canadian market. Effective Dec. 31, 2014, as per National Instrument 58-101 Disclosure of Corporate Governance Practices, TSX-listed issuers are required to provide proxy disclosures regarding whether, and if so how, the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. Also required is disclosure of policies or targets, if any, regarding the representation of women on the board. The disclosure requirement has been a catalyst for the addition of women on the boards of many widely-held TSX-listed reporting issuers. Widely-held TSX-listed company boards lacking a policy commitment and having zero female directors are now deemed to be outliers lagging market expectations in this regard. On Nov. 16, 2017 ISS announced an update to the Proxy Voting Guidelines for TSX-Listed Companies to establish a board gender diversity policy applicable to S&P/TSX Composite Index companies. The ISS gender diversity policy came into effect for meetings that were held on or after Feb. 1, 2018.</p> <p>Among non-Composite Index TSX-listed issuers, many have disclosed that they have not adopted a gender diversity policy, or goals or targets. Further, approximately 45 percent in the ISS coverage universe do not have any women on the board of directors. Therefore, the policy has been revised to expand its scope beyond Composite Index companies to a broader universe of widely-held TSX reporting issuers (other than those exceptions indicated above) commencing 2019. Given that such a large number of smaller, more narrowly-held TSX-listed issuers do not have any female directors and given the potentially</p>
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<p>approximately 50 45 percent in the ISS coverage universe do not have any women on the board of directors. Therefore, the policy will apply to Composite Index companies initially and is intended to apply to all has been revised to expand its scope beyond Composite Index companies to a broader universe of widely-held TSX reporting issuers (other than those exceptions indicated above) commencing 2019. Given that such a large number of smaller, more narrowly-held TSX-listed issuers do not have any female directors and given the potentially disproportionate impact on voting recommendations upon policy implementation for such issuers, an expansion to the entire TSX universe is at this stage not contemplated.</p>	<p>disproportionate impact on voting recommendations upon policy implementation for such issuers, an expansion to the entire TSX universe is at this stage not contemplated.</p>
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Rationale for Change:

In 2017, ISS introduced the board gender diversity policy for the Canadian market. That policy was applicable to TSX Composite Index companies only (approximately 244 companies), and was implemented for meetings held by Composite Index companies on or after Feb. 1, 2018.

At the time ISS introduced the gender diversity policy, ISS also announced that the policy would be expanded to a broader universe of TSX-listed issuers for 2019.

The universe of widely-held TSX-listed companies was selected as the appropriate segment of companies listed on the Toronto Stock Exchange for the expanded application of ISS' Canadian Board Gender Diversity Policy because these companies are widely institutionally-held, and their corporate governance practices are the subject of heightened scrutiny by institutional investors. These companies are more likely to have a formal gender diversity policy disclosed and/or at least one female director. According to ISS Analytics data, approximately 12 percent of widely-held TSX-listed companies do not have either a policy or woman on the board.

Overboarding (TSX only)

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: (in effect until January 31, 2019): Generally vote withhold for individual director nominees if:</p> <ul style="list-style-type: none"> → Irrespective of whether the company has adopted a majority voting director resignation policy, the director is overboarded⁹ AND the individual director has attended less than 75 percent of his/her respective board and committee meetings held within the past year without a valid reason for these absences. <p>Cautionary language will be included in ISS reports where directors are overboarded regardless of attendance.</p> <p>For meetings on or after February 1, 2019, gGenerally vote withhold for individual director nominees who:</p> <ul style="list-style-type: none"> › Are non-CEO directors and serve on more than five public company boards; or › Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards¹¹. 	<p>General Recommendation: Generally vote withhold for individual director nominees who:</p> <ul style="list-style-type: none"> › Are non-CEO directors and serve on more than five public company boards; or › Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards¹⁰.

Rationale for Change:

The removal of the attendance factor from the overboarding policy combined with the revised overboarding thresholds will further align Canadian ISS policy with recent and continuous feedback received from Canadian institutional investors during roundtable discussions and one-on-one policy outreach meetings. Additionally, the approach is intended to align with the policy approach of global institutional investors. Given the large number of Canadian issuers that are dual-listed in both Canada and the US, institutional investors have also supported the harmonization of ISS' Canadian and US overboarding thresholds. The updated thresholds are also aligned with those [recommended](#) by the Canadian Coalition for Good Governance (CCGG). Given the significant change in policy and the potential impact on companies, a one-year grace period was provided to allow TSX reporting issuers additional time to remediate overboarding instances. As such, the new policy will be in effect commencing February 2019.

⁹ "Overboarded" is defined by ISS 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, OR the director is not a CEO of a public company and sits on more than 4 public company boards in total.

¹⁰ Although a CEO's subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

BRAZIL AND AMERICAS REGIONAL

Voting on Director Nominees under Uncontested Election- Brazil

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>In Brazil, the revised version of the code of best practice of corporate governance, from the Brazilian Institute of Corporate Governance (IBGC), as well as the country's newly-created Brazilian Code of Corporate Governance (2016) recommend that boards should have a "relevant number of independent directors" or be, at a minimum, one-third independent, respectively. These recommendations have become increasingly pertinent as the free float of Brazilian companies continues to grow. Majority-independent boards remain rare in Brazil.</p> <p>The revised version of the Sao Paulo Stock Exchange's (B3) Novo Mercado listing segment regulations, effective as of Jan. 2, 2018, states that member companies that are part of the Novo Mercado and Nivel 2 listing segments of the Sao Paulo Stock Exchange (BM&FBovespa) are required to maintain a minimum of 20-percent board independence, or two independent members, whichever results in a higher independence level. The previous rule established only a minimum of 20-percent board independence, which could technically be met with one independent director. Companies listed under the Nivel 2 listing segment are required to maintain a minimum of 20-percent independent board, and BM&FBovespa B3 regulations also allow these companies (Nivel 2) to round down the required number of independent directors.</p> <p>Companies that are part of the Nivel 1 listing segment and the non-differentiated ("TTraditional") listing segments companies are not subject to a minimum requirement. Institutional investors largely believe that the aforementioned board independence requirements are presently inadequate, in light of the current free float and average board independence of companies in the differentiated listing segments. Moreover, the BM&FBovespa itself has sought to raise its minimum independence requirements, though issuers belonging to the voluntary listing segments voted down a proposal to do so in 2010.</p> <p>ISS' benchmark board independence policy specifies that the boards of issuers belonging to the Novo Mercado and Nivel 2, the country's highest levels of corporate governance, must be at least 30-percent independent, consistent with</p>	<p>In Brazil, the revised version of the code of best practice of corporate governance, from the Brazilian Institute of Corporate Governance (IBGC), as well as the country's newly-created Brazilian Code of Corporate Governance (2016) recommend that boards should have a "relevant number of independent directors" or be, at a minimum, one-third independent, respectively. These recommendations have become increasingly pertinent as the free float of Brazilian companies continues to grow. Majority independent boards remain rare in Brazil.</p> <p>The revised version of the Sao Paulo Stock Exchange's (B3) Novo Mercado listing segment regulations, effective as of Jan. 2, 2018, states that member companies are required to maintain a minimum of 20-percent board independence or two independent members, whichever results in a higher independence level. The previous rule established only a minimum of 20-percent board independence, which could technically be met with one independent director. Companies listed under the Nivel 2 listing segment are required to maintain a minimum of 20-percent independent board, and B3 regulations also allow these companies (Nivel 2) to round down the required number of independent directors.</p> <p>Companies that are part of the Nivel 1 and the non-differentiated ("Traditional") listing segments are not subject to a minimum requirement. Institutional investors largely believe that the aforementioned board independence requirements are presently inadequate, in light of the current free float and average board independence of companies in the differentiated listing segments.</p> <p>ISS' benchmark board independence policy specifies that the boards of issuers belonging to the Novo Mercado and Nivel 2, the country's highest levels of corporate governance, must be at least 30-percent independent, consistent with proportional board representation best practices and the growing expectations of institutional investors.</p>

proportional board representation best practices and the growing expectations of institutional investors.

In addition, as of Feb. 1, 2017~~8~~, ISS benchmark policy ~~was updated to~~ **will** also require a minimum of at least one ~~board~~ **independent** ~~director~~ **director** for companies listed under the Nivel 1 differentiated corporate governance segment **and the Traditional segment**. ~~Brazilian issuers trading under the Traditional listing segment of the Sao Paulo Stock Exchange will be granted an additional year to comply with the minimum independence benchmark policy, which will be effective for these issuers as of Feb. 1, 2018.~~

~~Very few companies present unbundled director election proposals. The most common market practice in Brazil remains slate elections. Nonetheless, in recent years, the market has experienced an increase in the number of individual board elections.~~

While directors nominated by a controlling shareholder must be disclosed 15 days prior to the meeting date, minority shareholders may present the names of their nominees up to the time of the meeting. These rules were designed to minimize restrictions on minority shareholders, but ~~end up having a~~ **may** negatively impact ~~on~~ international investors, who must often submit voting instructions in the absence of complete nominee information.

General Recommendation: Vote for the bundled election of management nominees, unless:

- › Adequate disclosure of management nominees has not been provided in a timely manner;
- › There are clear concerns over questionable finances or restatements;
- › There have been questionable transactions with conflicts of interest;
- › There are any records of abuses against minority shareholder interests;
- › The board fails to meet minimum corporate governance standards; or
- › Minority shareholders have presented timely disclosure of minority board nominees to be elected under separate elections, as allowed under Brazilian law (see [Election of Minority Nominees – Separate Election](#) below).

Minimum Independence Levels

In addition, as of Feb. 1, 2018, ISS benchmark policy was updated to also require a minimum of at least one independent director for companies listed under the Nivel 1 differentiated corporate governance segment and the Traditional segment.

The most common market practice in Brazil remains slate elections. Nonetheless, in recent years, the market has experienced an increase in the number of individual board elections.

While directors nominated by a controlling shareholder must be disclosed 15 days prior to the meeting date, minority shareholders may present the names of their nominees up to the time of the meeting. These rules were designed to minimize restrictions on minority shareholders, but may negatively impact international investors, who must often submit voting instructions in the absence of complete nominee information.

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- › There are any records of abuses against minority shareholder interests;
- › The board fails to meet minimum corporate governance standards; or
- › Minority shareholders have presented timely disclosure of minority board nominees to be elected under separate elections, as allowed under Brazilian law (see [Election of Minority Nominees – Separate Election](#) below).

Minimum Independence Levels

Vote against the bundled election of directors if the post-election board at Novo Mercado and Nivel 2 companies ~~would~~ **is not be** at least 30-percent independent.

Vote against the bundled election of directors if the post-election board ~~at~~ **of** Nivel 1 and Traditional companies ~~would~~ **do** not have at least one independent member. ~~While the companies listed under the Nivel 1 differentiated segment will be affected by this change in ISS policy as of Feb. 1, 2017, companies in the Traditional group will have until Feb. 1, 2018, to adjust to this new policy.~~

~~Vote for individual management nominees unless there are specific concerns about the individual, such as criminal wrongdoing, breach of fiduciary responsibilities, or lack of sufficient board independence.~~

Unbundled Elections

General Recommendation: In an unbundled election, for boards that meet the minimum independence level recommended by ISS, support all director nominees if:

- › Minority shareholders have not timely disclosed board nominees to be elected under minority separate elections, as allowed by the Brazilian Corporate Law (see Election of Minority Nominees – Separate Election below); and
- › There are no concerns regarding the candidate(s) and/or the company.

However, if the proposed board falls below the minimum independence level recommended under ISS policy:

- › Support the independent nominees presented individually under the majority election; and
- › Vote against the non-independent candidates in the majority election.

In making the above vote recommendations, ISS generally will not recommend against the election of the chairman, due to the relevance of the board leadership position in the absence of other governance concerns.

Vote against the bundled election of directors if the post-election board at Novo Mercado and Nivel 2 companies would not be at least 30-percent independent.

Vote against the bundled election of directors if the post-election board of Nivel 1 and Traditional companies would not have at least one independent member.

Unbundled Elections

General Recommendation: In an unbundled election, for boards that meet the minimum independence level recommended by ISS, support all director nominees if:

- › Minority shareholders have not timely disclosed board nominees to be elected under minority separate elections, as allowed by the Brazilian Corporate Law (see Election of Minority Nominees – Separate Election below); and
- › There are no concerns regarding the candidate(s) and/or the company.

However, if the proposed board falls below the minimum independence level recommended under ISS policy:

- › Support the independent nominees presented individually under the majority election; and
- › Vote against the non-independent candidates in the majority election.

In making the above vote recommendations, ISS generally will not recommend against the election of the chairman, due to the relevance of the board leadership position in the absence of other governance concerns.

Rationale for Change:

The number of companies that presented individual board elections increased significantly over the last three proxy seasons in Brazil, as illustrated below:

Bundled vs. unbundled full board elections

	Bundled	Unbundled	Total	Percentage unbundled elections
FY 2016	94	8	102	7.8%
FY 2017	95	22	117	18.8%
FY 2018	77	41	119	34.4%

The current ISS Brazil policy focuses mostly on bundled elections and the separate election of minority shareholder nominees. The updated policy provides a framework to analyze unbundled elections proposed by the company's management, when shareholders have a say on each nominee.

In unbundled elections that would result in a board independence level which falls below the minimum recommended by ISS policy, ISS generally recommends in favor of independent nominees, in the absence of other concerns, and against all non-independent candidates. The only exception is the chairman of the board, when clearly identified by the company, who receives a favorable vote recommendation regardless of his/her independence classification due to the relevance of the board leadership position in the absence of other governance concerns.

ISS Classification of Directors- Brazil and Americas Regional

Current Definition of Independence (incorporating changes):	New Definition of Independence:
<p>Executive Director</p> <ul style="list-style-type: none"> › Employee or executive of the company; › Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company. <p>Non-Independent Non-Executive Director (NED)</p> <ul style="list-style-type: none"> › Any director who is attested by the board to be a non-independent NED; › Any director specifically designated as a representative of a significant shareholder of the company; › Any director who is also an employee or executive of a significant shareholder of the company; › Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[54] connection with the dissident, either currently or historically; › Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances); › Government representative; › Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year; › Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]); › Any director who has conflicting or cross-directorships with executive directors or the chairman of the company; › Relative^[1] of a current employee of the company or its affiliates; › Relative^[1] of a former executive of the company or its affiliates; › A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder); 	<p>Executive Director</p> <ul style="list-style-type: none"> › Employee or executive of the company; › Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company. <p>Non-Independent Non-Executive Director (NED)</p> <ul style="list-style-type: none"> › Any director who is attested by the board to be a non-independent NED; › Any director specifically designated as a representative of a significant shareholder of the company; › Any director who is also an employee or executive of a significant shareholder of the company; › Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[4] connection with the dissident, either currently or historically; › Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances); › Government representative; › Currently provides (or a relative^[1] provides) professional services^[2] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year; › Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3]); › Any director who has conflicting or cross-directorships with executive directors or the chairman of the company; › Relative^[1] of a current employee of the company or its affiliates; › Relative^[1] of a former executive of the company or its affiliates; › A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder);

- › Founder/co-founder/member of founding family but not currently an employee;
- › Former executive (five-year cooling off period);
- › Any director who has served for 12 or more years on the board will be deemed non-independent, unless local best practices recommend a lower tenure limit which will then be applied;
- › ~~Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.¹⁴⁴~~
- › Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

Independent NED

- › No material^[54] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.

Employee Representative

- › Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).

Footnotes:

[1] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[3] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.

- › Founder/co-founder/member of founding family but not currently an employee;
- › Former executive (five-year cooling off period);
- › Any director who has served for 12 or more years on the board will be deemed non-independent, unless local best practices recommend a lower tenure limit which will then be applied;
- › Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

Independent NED

- › No material^[4] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.

Employee Representative

- › Represents employees or employee shareholders of the company (classified as “employee representative” but considered a non-independent NED).

Footnotes:

[1] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[2] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[3] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. Or, a business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.

~~[4] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland, Hong Kong and Singapore, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.~~

[54] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

[4] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

Rationale for Change:

The boards of many Latin American companies suffer from a lack of regular board refreshment among both independent and non-independent directors. Close to 25 percent of independent directors on boards in countries covered under the Americas Regional Policy (Argentina, Chile, Colombia, Mexico, Peru, and Venezuela) have tenures of at least 12 years. Such excessive tenure raises concerns regarding their board independence and is inconsistent with a growing number of global markets that have established excessive tenure as a factor in deeming a director to be non-independent.

In the absence of hard or soft laws in a number of Latin American markets, companies are often in compliance with best practices regarding board independence despite often having independent directors with tenures well in excess of 12 years. The addition of a tenure limit for directors to be deemed independent would bring the Brazil and the Americas Regional policies in line with a number of international ISS policies and provide incentives for companies in the region to consider tenure and board refreshment when evaluating boardroom composition.

While the majority of the countries covered in the region lack a legal framework regarding independent director tenure limits, Argentina, Brazil, and Peru have recently adopted hard and/or soft laws with references to tenure. Argentina has recently implemented a hard law, capping independent directors' tenures at 10 years; any director with a tenure greater than 10 years must be deemed non-independent¹¹. Furthermore, the recently-established Brazilian corporate governance code (soft law) recommends that independent directors should not have completed an excessive number of terms as a member of a company's board of directors. Additionally, the tenures of all directors (Independent and non-independent) at state-owned enterprises (SOEs) in Brazil are now capped at a maximum of eight years¹². Lastly, in 2017, the Peruvian regulator for Banks, Insurers, and Pension Fund Administrators (SBS) adopted a new regulation on corporate governance and risk management, which caps all independent directors at a 10-year continuous tenure from their initial appointments.¹³

¹¹ Under CNV resolution 730, directors will be deemed non-independent if they have served as a director of the issuer or another company belonging to the same economic group for more than 10 years. The regulation also establishes a three-year cooling off period for directors to be deemed independent again. <http://www.cnv.gov.ar/LeyesReg/CNV/esp/RGCRGN730-18.htm>

¹² The Responsibility Law of State-Controlled Companies mandates that directors be elected for a term of up to two years, and may be re-elected for maximum of three consecutive terms (Law 13,303 from June 30, 2016). https://www.planalto.gov.br/ccivil_03/_ato2015-2018/2016/lei/l13303.htm

¹³ Under SBS resolution 272-2017, beginning on April 1, 2018, directors of companies regulated by the SBS (*Superintendencia de Bancos, Seguros y AFP*) will be deemed non-independent if they have served more than 10 consecutive years on the board. <https://www2.deloitte.com/content/dam/Deloitte/pe/Documents/risk/272-2017%20R.pdf>

Compensation – Brazil

Management Compensation

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).</p> <p>Vote against management compensation proposals when:</p> <ul style="list-style-type: none"> › The company fails to present a detailed remuneration proposal or the proposal lacks clarity; › The company does not disclose the total remuneration of its highest-paid executive; or › The figure provided by the company for the total compensation of its highest-paid administrator is not inclusive of all elements of the executive's pay. <p>Vote case-by-case on global remuneration cap (or company's total remuneration estimate, as applicable) proposals that represent a significant increase of the amount approved at the previous AGM (year-over-year increase). When further scrutinizing year-over-year significant remuneration increases, jointly consider some or all of the following factors, as relevant:</p> <ul style="list-style-type: none"> › Whether there is a clearly stated and compelling rationale for the proposed increase; › Whether the remuneration increase is aligned with the company's long-term performance and/or operational performance targets disclosed by the company; › Whether the company has had positive TSR for the most recent one- and/or three-year periods; › Whether the relation between fixed and variable executive pay adequately aligns compensation with the company's future performance. <p>Vote on a case-by-case basis when the company proposes to amend previously-approved compensation caps, paying particular attention as to whether the company has presented a compelling rationale for the request.</p>	<p>General Recommendation: Generally vote for management compensation proposals that are presented in a timely manner and include all disclosure elements required by the Brazilian Securities Regulator (CVM).</p> <p>Vote against management compensation proposals when:</p> <ul style="list-style-type: none"> › The company fails to present a detailed remuneration proposal or the proposal lacks clarity; › The company does not disclose the total remuneration of its highest-paid executive; or › The figure provided by the company for the total compensation of its highest-paid administrator is not inclusive of all elements of the executive's pay. <p>Vote case-by-case on global remuneration cap (or company's total remuneration estimate, as applicable) proposals that represent a significant increase of the amount approved at the previous AGM (year-over-year increase). When further scrutinizing year-over-year significant remuneration increases, jointly consider some or all of the following factors, as relevant:</p> <ul style="list-style-type: none"> › Whether there is a clearly stated and compelling rationale for the proposed increase; › Whether the remuneration increase is aligned with the company's long-term performance and/or operational performance targets disclosed by the company; › Whether the company has had positive TSR for the most recent one- and/or three-year periods; › Whether the relation between fixed and variable executive pay adequately aligns compensation with the company's future performance. <p>Vote on a case-by-case basis when the company proposes to amend previously-approved compensation caps, paying particular attention as to whether the company has presented a compelling rationale for the request.</p>

Rationale for Change:

According to the Brazilian Corporate Law (Law 6,404/76), companies must seek shareholder approval of an annual global remuneration cap for their administrators to be presented at the annual shareholder meeting, to be held up to four months after the end of the fiscal year (in most cases, no later than April). The approved remuneration cap is a forward-looking binding resolution. Nonetheless, companies may call a special shareholder meeting to amend the original compensation cap later in the year.

Amend remuneration proposals are becoming fairly common in Brazil. During the 2018 proxy season, ISS analyzed 20 of such requests, representing 11 percent of the companies with say-on-pay proposals on ballots during the proxy season. The number of remuneration amendment proposals analyzed during the 2018 proxy season was almost the same as the total number of requests presented for the entire years of 2016 and of 2017, when ISS analyzed 21 and 20 of such proposals, respectively.

The current policy guidelines for Brazil, however, do not discuss remuneration amendment proposals, which have been analyzed on a case-by-cases basis. This policy update provides greater transparency on the analysis of such proposals, and reflect the policy framework already adopted by the research team in the market.

Compensation Plans

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: ISS will generally support reasonable equity pay plans that encourage long-term commitment and ownership by its recipients without posing significant risks to shareholder value.</p> <p>Practically all of the plans presented since the implementation of the 2009 CVM guidelines have included reasonable dilution limits and adequate vesting conditions. Performance criteria, meanwhile, are rarely disclosed. ISS' assessments of these plans have generally hinged on the presence of discounted exercise prices (which are common in Brazil), particularly in the absence of specific performance criteria.</p> <p>Vote against a stock option plan and/or restricted share plan, or an amendment to the plan, if:</p> <ul style="list-style-type: none"> › The plan lacks a minimum vesting cycle of three years; › The plan permits options to be issued with an exercise price at a discount to the current market price, or permits restricted shares to be awarded (essentially shares with a 100 percent discount to market price), in the 	<p>General Recommendation: ISS will generally support reasonable equity pay plans that encourage long-term commitment and ownership by its recipients without posing significant risks to shareholder value.</p> <p>Practically all of the plans presented since the implementation of the 2009 CVM guidelines have included reasonable dilution limits and adequate vesting conditions. Performance criteria, meanwhile, are rarely disclosed. ISS' assessments of these plans have generally hinged on the presence of discounted exercise prices (which are common in Brazil), particularly in the absence of specific performance criteria.</p> <p>Vote against a stock option plan and/or restricted share plan, or an amendment to the plan, if:</p> <ul style="list-style-type: none"> › The plan lacks a minimum vesting cycle of three years; › The plan permits options to be issued with an exercise price at a discount to the current market price, or permits restricted shares to be awarded (essentially shares with a 100 percent discount to market price), in the

<p>absence of explicitly stated, challenging performance hurdles related to the company's historical financial performance or the industry benchmarks;</p> <ul style="list-style-type: none"> › The maximum dilution exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; or › Directors eligible to receive options or shares under the scheme are involved in the administration of the plan. <p>Vote on a case-by-case basis if non-executive directors are among the plan's potential beneficiaries, paying special attention to:</p> <ul style="list-style-type: none"> › Whether there are sufficient safeguards to ensure that beneficiaries do not participate in the plan's administration; and › The type of grant (if time-based, performance-based, or in lieu of cash), considering the long-term strategic role of boards of directors. 	<p>absence of explicitly stated, challenging performance hurdles related to the company's historical financial performance or the industry benchmarks;</p> <ul style="list-style-type: none"> › The maximum dilution exceeds ISS guidelines of 5 percent of issued capital for a mature company and 10 percent for a growth company. However, ISS will support plans at mature companies with dilution levels up to 10 percent if the plan includes other positive features such as challenging performance criteria and meaningful vesting periods, as these features partially offset dilution concerns by reducing the likelihood that options will become exercisable unless there is a clear improvement in shareholder value; or › Directors eligible to receive options or shares under the scheme are involved in the administration of the plan. <p>Vote on a case-by-case basis if non-executive directors are among the plan's potential beneficiaries, paying special attention to:</p> <ul style="list-style-type: none"> › Whether there are sufficient safeguards to ensure that beneficiaries do not participate in the plan's administration; and › The type of grant (if time-based, performance-based, or in lieu of cash), considering the long-term strategic role of boards of directors.
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Rationale for Change:

A variety of equity compensation proposals has been seen in Brazil in recent years. In 2018, there was an increase in the number of plans that include non-executive directors (NED) among their beneficiaries. This scenario raises specific concerns regarding potential conflicts of interest as boards are usually responsible for the plan's administration, as well as for setting performance metrics and company's goals. Nevertheless, current ISS policy guidelines for Brazil do not make any reference to non-executive directors as beneficiaries of equity compensation plans. The current policy call for recommendations against plans when directors are eligible to receive grants and they are involved in the scheme's administration. This update adds flexibility allowing the analyst to consider the overall terms of the plan to determine whether the inclusion of NEDs among the participants is appropriate.

Between January and July 2018, ISS analyzed 33 equity compensation proposals for the Brazilian market. In 21.2 percent of them (seven in total), NEDs were among the potential beneficiaries, while during the entire year of 2017, 31 equity compensation plans were analyzed, with NEDs among the potential participants in six cases (or 19.3 percent of the proposals). In light of the potential increase in the number of equity compensation plans for non-executives directors, and the lack of a clear policy framework, an update is required to provide the analyst with appropriate tools for the analysis of such proposals, and to grant greater transparency to the market on how these requests will be analyzed by ISS.

Capital Structure – Americas Regional Policy

Share Issuance Requests

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Issuances</p> <p>General Recommendation: Vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.</p> <p>Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.</p> <p>Specific Issuances</p> <p>General Recommendation: Vote on a case-by-case basis on all requests, with or without preemptive rights.</p> <p>Shelf Registration Program</p> <p>General Recommendation: Vote on a case-by-case basis on all requests, with or without preemptive rights.</p> <p>Approval of a multi-year authority for the issuance of securities under Shelf Registration Programs will be considered on a case-by-case basis, taking into consideration, but not limited to, the following:</p> <ul style="list-style-type: none"> › Whether the company has provided adequate and timely disclosure including detailed information regarding the rationale for the proposed program; › Whether the proposed amount to be approved under such authority, the use of the resources, the length of the authorization, the nature of the securities to be issued under such authority, including any potential risk of dilution to shareholders is disclosed; and › Whether there are concerns regarding questionable finances, the use of the proceeds, or other governance concerns. 	<p>General Issuances</p> <p>General Recommendation: Vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.</p> <p>Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.</p> <p>Specific Issuances</p> <p>General Recommendation: Vote on a case-by-case basis on all requests, with or without preemptive rights.</p> <p>Shelf Registration Program</p> <p>General Recommendation: Vote on a case-by-case basis on all requests, with or without preemptive rights.</p> <p>Approval of a multi-year authority for the issuance of securities under Shelf Registration Programs will be considered on a case-by-case basis, taking into consideration, but not limited to, the following:</p> <ul style="list-style-type: none"> › Whether the company has provided adequate and timely disclosure including detailed information regarding the rationale for the proposed program; › Whether the proposed amount to be approved under such authority, the use of the resources, the length of the authorization, the nature of the securities to be issued under such authority, including any potential risk of dilution to shareholders is disclosed; and › Whether there are concerns regarding questionable finances, the use of the proceeds, or other governance concerns.

Rationale for Change:

This policy update establishes a case-by-case analytical framework to address shelf registration programs at Latin American companies (Argentina, Colombia, Chile, Mexico and Peru) under the Americas Regional policy document, as applicable.

Shelf registration programs are seen exclusively in the Mexican market so far resulting from recent regulatory changes. Under such programs, companies can request shareholder approval of an umbrella authorization for the issuance of debt or equity for a period of time, usually five years. Upon the shareholder approval of the umbrella authorization, the board will be able to approve the issuance of securities (debt or equity) at its own discretion for the duration of the authority.

The Americas Regional policy currently does not have an analytical framework to address such capitalization proposals, and this update addresses this policy vacuum.

Other Items – Americas Regional Policy

Charitable Donations

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation:</p> <p>Vote proposals seeking the approval of donations on a case-by-case basis, considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> › Size of the proposed donation request; › The destination of the proposed allocation of funds; and › The company's historical donations practices, including allocations approved at prior shareholder meetings. 	<p>General Recommendation:</p> <p>Vote proposals seeking the approval of donations on a case-by-case basis, considering factors including, but not limited to, the following:</p> <ul style="list-style-type: none"> › Size of the proposed donation request; › The destination of the proposed allocation of funds; and › The company's historical donations practices, including allocations approved at prior shareholder meetings.

Rationale for Change:

The approval of corporate donations is seen annually on the agenda of some Colombian companies. Currently, the Americas Regional policy does not provide a framework for the analysis and vote recommendation on such proposals. The inclusion of the proposed language would make the current regional policy approach more transparent. While the policy will largely affect Colombia, this update will apply to the Americas Regional policy, which covers all markets in the Latin American region, with exception of Brazil. The inclusion of such framework under a Regional policy will provide greater alignment in the event such proposals are seen in other countries as well.

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