Vanguard

Vanguard-advised funds

Proxy voting policy for Canadian portfolio companies

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Introduction

The information below, organized according to Vanguard Investment Stewardship's four pillars of corporate governance, is the voting policy adopted by the boards of the Vanguard-advised funds (the "Funds' Boards") and describes the general positions of the funds on proxy proposals that may be subject to a shareholder vote at Canadian-domiciled companies.[1]

It is important to note that proposals often require a facts-and-circumstances analysis based on an expansive set of factors. Proposals are voted on case by case, under the supervision of the Investment Stewardship Oversight Committee and at the direction of the relevant Fund's Board. In all cases, proposals are voted as determined in the best interests of each fund consistent with its investment objective.

The following policies are applied over an extended period of time; as such, if a company's board is not responsive to voting results on certain matters, a fund may withhold support for those and other matters in the future. Regardless of whether proposals are submitted by company management or by other shareholders, they are voted in accordance with these policies and as determined to be in the best interests of each fund, consistent with its investment objective.

The Vanguard-advised funds look for companies to abide by the relevant governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) of the market(s) in which they are listed. While the Vanguard-advised funds' proxy voting policies are informed by these frameworks, final voting decisions may differ from the application of those frameworks due to Investment Stewardship's independent research, analysis, and engagement. In addition, these policies and their application to specific voting matters are predicated on the Vanguard-advised funds' acquisition and ownership of securities in the ordinary course of business, without the intent of influencing company strategy or changing the control of the issuer. The Vanguard-advised funds will not nominate directors, solicit or participate in the solicitation of proxies, or submit shareholder proposals at portfolio companies. The application of the policies to specific voting matters will also adhere to any passivity requirements to which the Vanguard-advised funds and/or The Vanguard Group, Inc. and any of its subsidiaries (Vanguard) may be subject.

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, the "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout the document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship and Vanguard-advised funds, respectively.

Pillar I: Board composition and effectiveness

In the interest of maximizing the long-term return of their investment in each company, the funds seek to ensure that the individuals who serve as board directors to represent the interests of all shareholders are appropriately independent, experienced, committed, capable, and diverse. Diversity of thought, background, and experience, as well as personal characteristics (such as age, gender, and/or race/ethnicity), meaningfully contribute to the ability of boards to serve as effective, engaged stewards of shareholders' interests. The funds' evaluation of portfolio company boards will be informed by relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.).

Board and key committee independence[2]

In order to appropriately represent shareholder interests in the oversight of company management, a majority of directors of a noncontrolled company should be independent, as should all of the members of the board's key committees (audit, compensation, and nominating/governance or their equivalents).[2]

In determining a director's independence, the funds will generally rely on a company's disclosure in the context of relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) supplemented by our own independent research and/or engagement.

In cases where a noncontrolled company does not maintain a majority independent board, a fund may vote against members of the nominating committee and all nonindependent members of that board. In cases where a noncontrolled company board is not majority independent over multiple years, the fund may vote against the entire board. In cases where any of the key committees of a noncontrolled company are not entirely independent, a fund will typically vote against (a) the nonindependent members of that committee, and (b) all of the members of the board's nominating committee. (In the absence of an explicit nominating committee, a fund will generally vote against those directors responsible for nominating and/or appointing directors; this may include the entire board.)

At controlled companies, a fund will generally support a nonindependent director on a compensation committee or a nominating and governance committee, so long as the relevant committee is majority independent.

In both instances, if the nominating committee members are not up for election in a given year, a fund may vote against any other relevant board member(s).

Independent board leadership

The funds believe that shareholders' interests are best served by board leadership that is independent of company management. While this may take the form of an independent chair of the board or a lead independent director (with sufficiently robust authority and responsibilities), the funds generally believe that determining the appropriate independent board leadership structure should be within the purview of the board. Certain shareholder proposals seek to require that companies not permit the same person to serve as both CEO and chair of the board of directors. Proponents believe that separation of these duties will create a more independent board at the company in question.

2 Certain exchange-listing standards and regulatory provisions may apply more limited (or no) independence requirements to the boards of controlled companies (i.e., those in which a majority voting interest is held by company insiders or affiliates). While the funds will relax their views on majority independence with respect to the entire board in these cases, we still look for the majority of key committee members to be independent.

Given that the funds believe this matter should be within the purview of a company's board, a fund will generally vote against shareholder proposals to separate the CEO and chair roles, absent significant concerns regarding independence or effectiveness of the board at the company in question.

When independence or effectiveness concerns suggest that support for an independent chair may be appropriate, the following factors, among others, are considered:

- *Lack of a robust lead independent director role.* A strong lead independent director generally provides sufficient independent perspective to balance the perspective of a nonindependent chair. Structures that do not provide a strong counterweight to insider leadership warrant requiring independent oversight.
- *Lack of board accessibility.* Communicating directly with independent board members, including a lead independent director or committee chairs, is an important way for shareholders to provide their perspectives. Restricting access to independent board members through policy or practice may prevent the board from receiving comprehensive feedback from shareholders to consider incorporating into corporate practices. It may also contribute to a culture of management entrenchment.
- *Low overall board independence.* High affiliated representation on the board may outweigh independent voices and serve to entrench insider leadership. Enhancing the role of independent directors may offer a counterweight to the nonindependent voices on the board.
- *Governance structural flaws.* Certain governance practices and corporate structures may create an environment more favorable to potential entrenchment of management and other insider board members. For example, multiple share classes with different voting rights limit shareholders' voices, and key committees that are not fully independent may limit a board's ability to oversee management.
- *Consideration of shareholder concerns.* A pattern of failing to consider shareholder concerns regarding significant matters (e.g., a failure to act on shareholder votes or unilateral decisions to impair shareholder rights) may indicate that a board is entrenched.
- *Oversight failings.* Governance crises may indicate entrenchment or that the board is not receiving sufficient information from management to appropriately fulfill its oversight role. Evidence of failure to provide appropriate governance oversight and/or evidence of failure to oversee material or manifested risks, including those that may be considered "social" or "environmental," will be taken into account.

Board composition

The funds look for boards to be fit for purpose by reflecting sufficient breadth of skills, experience, perspective, and personal characteristics (such as age, gender, and/or race/ethnicity) resulting in cognitive diversity that enables effective, independent oversight on behalf of all shareholders. The funds believe that the appropriate mix of skills, experience, perspectives, and personal characteristics is unique to each board and should reflect expertise related to the company's strategy and material risks from a variety of vantage points.

To this end, the funds seek fulsome disclosure of a board's process for building, assessing, and maintaining an effective board well-suited to supporting the company's strategy, long-term performance, and shareholder returns. This disclosure should include the range of skills, background, and experience that each board member provides and their alignment with the company's strategy (typically presented as a skills matrix); additionally, the funds look for such disclosure to provide an understanding of the directors' personal characteristics to enable shareholders to understand the breadth of a board's composition. The funds also look for disclosure regarding the board's process for evaluating the composition and effectiveness of their board on a regular basis, the identification of gaps and opportunities to be addressed through board refreshment and evolution, and a robust nomination (and renomination) process to ensure the right mix of skills, experience, perspective, and personal characteristics in the future.

The funds look for a board's composition to comply with requirements set by relevant market-specific governance frameworks (e.g., listing standards, governance codes, laws, regulations, etc.) and be consistent with market norms in the markets in which the company is listed. To the extent that a board's composition is inconsistent with such requirements or differs from prevailing market norms, the funds look for the board's rationale for such differences (and any anticipated actions) to be addressed in the company's public disclosures.

A fund may vote against the nomination/governance committee chair if, based on research and/or engagement, a company's board composition and/or related disclosure is inconsistent with relevant market-specific governance frameworks and/or market norms.

Director capacity and commitments

Directors' responsibilities are complex and time-consuming. Therefore, the funds seek to understand whether the number of directorship positions held by a director makes it challenging for that director to dedicate the requisite time and attention to effectively fulfill their responsibilities at each company (sometimes referred to as being "overboarded"). While no two boards are identical and time commitments for directorships may vary, the funds believe that limitations on the number of board positions held by individual directors are appropriate, absent compelling evidence to the contrary.

A fund will generally vote against any director who is a public company executive and sits on more than two public company boards. In this instance, a fund will typically vote against the nominee at each company where they serve as a nonexecutive director, but not at the company where they serve as an executive.

Similarly, a fund will also generally vote against any director who serves on more than four public company boards. In such cases, a fund will typically vote against the director at each company except the one (if any) where they serve as board chair or lead independent director.

In certain instances, a fund will consider voting for a director who would otherwise be considered overboarded under the standards above, taking into account relevant market-specific governance frameworks or because of company-specific facts and circumstances. This may include, but is not limited to, indications that the director will indeed have sufficient capacity to fulfill their responsibilities on the board of that company and/or a review of the full board's composition and capacity. In addition, a fund may vote for a director if the director has publicly committed to stepping down from the directorship(s) necessary to fall within these thresholds.

The funds look for portfolio companies to adopt good governance practices regarding director commitments, including a policy regarding director capacity and commitments and disclosure of the board's oversight of the implementation of that policy. Helpful disclosure includes a discussion of the company's policy (e.g., what limits are in place) and, if a nominee for director exceeds the policy, any considerations and rationale for the director's nomination. Additionally, it is good practice to include disclosure of how the board developed its policy and how frequently it is reviewed to ensure it remains appropriate.

Director attendance

A fund will generally vote against directors who attended less than 75% of board or committee meetings (in the aggregate) in the previous year unless an extenuating circumstance is disclosed, or they have served on the board for less than one year.

Director accountability

Directors are generally nominated by boards and elected by shareholders to represent their interests. If there are instances in which the board has failed to adequately consider actions approved by a majority of shareholders, unilaterally taken action against shareholder interests, or, in the fund's view, failed in its oversight role, the fund may withhold support from those directors deemed responsible (generally based on their functional or committee-level responsibilities). A fund will generally not apply such a vote against a director who has served less than one year on the board and/or applicable committee but in such instances may apply it to another relevant director in their place. Issues that spur such votes may include:

- *"Zombie" directors.* A fund will typically vote against members of the nominating committee if management proposes the reappointment of a director or directors who failed to receive majority shareholder support and the board has not resolved the underlying issue driving the lack of shareholder support. This vote should apply only when a fund withheld initial support for a director.
- *Limiting shareholder rights.* A fund will generally vote against members of a governance committee in response to unilateral board actions that meaningfully limit shareholder rights (including, but not limited to, the unilateral adoption of exclusive forum provisions that do not align with the fund's policy or changing bylaws to include overly onerous advance notice provisions). This vote is based on a holistic review of the company's governance structures and is applied only when there is concern that shareholders are unable to exercise their rights.
- *Compensation-related situations.*
  - A fund will generally vote against compensation committee members when it votes against the company's Say on Pay proposal in consecutive years unless meaningful improvements have been made to executive compensation practices since the prior year.
  - If egregious pay practices are identified, a fund will generally vote against compensation committee members if Say on Pay is not on the ballot.
  - A fund will generally also vote against compensation committee members when the fund votes against an equity compensation plan.
- *Nonresponsiveness to proposals.* A fund may vote against members of the relevant committee for failure to adequately respond to proposals (management or shareholder) that received sufficient support based on the applicable vote standard, including the support of the fund, based on votes cast at a prior year's shareholder meeting.

- *Oversight failure*. If a situation arises in which the board has failed to effectively identify, monitor, and/or ensure management of material risks under its purview based on committee responsibilities, a fund will generally vote against the relevant committee members, and/or other relevant directors. This may include a board's failure to effectively oversee a company's material social and environmental risks, inclusive of material climate risks.
  - For example, to assess a climate risk oversight failure, factors for the fund to consider include the materiality of the risk as identified by the company; the effectiveness of disclosures to enable the market to understand and price the risk; whether the company has disclosed plans to mitigate material risks in the context of regulatory requirements; and consideration for company-specific context, market regulations, and market practices. The funds will also consider the board's overall governance of and effective independent oversight of climate risk.
  - When a specific risk does not fall under the purview of a board committee, a fund will generally vote against the lead independent director and/or chair, and/or any other relevant director(s).
- *Audit failures*.
  - A fund will generally vote against audit committee members when nonaudit fees paid to the auditor exceed audit-related fees without sufficient disclosure or when the fund votes against an audit-related management proposal.
  - A fund will generally vote against audit committee members in instances of a material misstatement of the company's financial statements or material weakness in multiple years without sufficient remedy.

Contested director elections

A fund will vote on shareholder nominees case by case in contested director elections. The analysis of proxy contests focuses on three key areas:

- *The case for change at the target company.*
  - How has the company performed relative to its peers?
  - Has the current board's oversight of company strategy or execution been deficient?
  - Is the dissident focused on strengthening the target company's long-term strategy and shareholder returns?
- *The quality of company governance.*
  - Did the board engage in productive dialogue with the dissident?
  - Is there evidence of effective, shareholder-friendly governance practices at the company?
  - Has the board actively engaged with shareholders in the past?
- *The quality of the company's and dissident's board nominees.*
  - Is there reason to question the independence, engagement, or effectiveness of the incumbent board?
  - Has the board delivered strong oversight processes with long-term shareholders' interests in focus?
  - Are the directors proposed by the dissident (whether the full slate or a subset) well-suited to address the company's needs, and is this a stronger alternative to the current board?

Pillar II: Board oversight of strategy and risk

Boards are responsible for effective oversight and governance of their companies' most relevant and material risks and for governance of their companies' long-term strategy. Boards should take a thorough, integrated, thoughtful approach to identifying, quantifying, mitigating, and disclosing risks that have the potential to affect shareholder returns over the long term. Boards should communicate their approach to risk oversight to shareholders through their normal course of business.

Capitalization

- *Increase in authorized common stock.* A fund will generally vote for a proposal to increase authorized common stock if the proposed increase represents potential dilution less than or equal to 100%. It may vote for an increase resulting in more than 100% dilution if the increase is to be used for a stock split.
- *Reverse stock split.* A fund will typically vote for a reverse split of outstanding shares if the number of shares authorized is proportionately reduced and the difference in reduction results in dilution equal to or less than 100%. Regardless of the level of dilution, it will generally vote for a reverse split if it is necessary for the company to remain listed on its current exchange.
- *Decrease in outstanding shares to reduce costs.* A fund will generally vote for a proposal to reduce outstanding shares to reduce costs if the level at which affected investors are cashed out is not material.
- *Amendment of authorized common stock/preferred stock.* A fund will generally vote for proposals to create, amend, or issue common or preferred stock unless the rights of the issuance are materially different from the rights of current shareholders (i.e., differential voting rights) or include a blank-check provision. It will generally vote against proposals to create such stock if the accompanying disclosure does not include a statement affirming that the new issuance will not be used for anti-takeover purposes.
- *Tracking stock.* A fund will generally vote for the issuance of tracking stock as a dividend to current shareholders. It will vote case by case on proposals to offer tracking stock through an initial public offering based on the proposed use of the proceeds, as well as on proposals calling for the elimination of tracking stock.

Mergers, acquisitions, and financial transactions

The funds seek to assess the likelihood that a transaction preserves or will create long-term returns for shareholders. A fund will vote case by case on all mergers, acquisitions, and financial transactions based on a governance-centric evaluation focused on four key areas:

- *Valuation*
  - — Does the consideration provided in the transaction appear consistent with other similar transactions (adjusting for size, sector, scope, etc.)?
- *Rationale*
  - — Has the board sufficiently articulated how this transaction is aligned with the company's long-term shareholder returns?

- *Board oversight of the deal process*
  - Has the board provided sufficient evidence of the rigor of the evaluation process? This could include disclosures such as an independent valuation report or fairness opinion, a discussion of the board's process for evaluating alternative opportunities, or other relevant disclosures.
  - How did the board manage any potential conflicts of interest among the parties to the transaction?
- *The surviving entity's governance profile*
  - If the funds will be holders of any entities resulting from the transaction, do they retain rights that sufficiently protect shareholder interests?

In evaluating board oversight, the funds will consider independence, potential conflicts of interest, and management incentives.

Bankruptcy proceedings

A fund will vote case by case on all proposals related to bankruptcy proceedings. When evaluating proposals to restructure or liquidate a firm, a fund will consider factors such as the financial prospects of the firm, alternative options, and management incentives.

Environmental/social proposals

Each proposal will be evaluated on its merits and in the context that a company's board has responsibility for providing effective oversight of strategy and risk management. This oversight includes material sector- and company-specific sustainability risks and opportunities that have the potential to affect long-term shareholder returns.

While each proposal will be assessed on its merits and in the context of a company's current practices and public disclosures, vote analysis will also consider these proposals relative to market norms or widely accepted frameworks endorsed or already referenced by Vanguard's Investment Stewardship program. Input from the board, management, and proponents may also be taken into consideration.

It is not the funds' role as passive investors to dictate company strategy or interfere with a company's day-to-day management. That said, we believe that a company's fulsome disclosure of material risks to its long-term shareholder returns is beneficial to the public markets to inform the company's valuation. Clear, comparable, consistent, and accurate disclosure enables shareholders to understand the strength of a board's risk oversight. Because sustainability disclosure is an evolving and complex topic, a fund's analysis of related proposals aims to strike a balance in avoiding prescriptiveness and providing a long-term perspective. As such, the funds are more likely to support proposals seeking disclosure of such risks and/or the company's policies and practices to manage them over time. Finally, shareholders typically do not have sufficient information about specific business strategies to propose specific targets or environmental or social policies for a company, which is a responsibility that resides with management and the board.

As a result, a fund may support a shareholder proposal that:

- Addresses a shortcoming in the company's current disclosure relative to market norms or to widely accepted investor-oriented frameworks endorsed or referenced by Vanguard's Investment Stewardship program (e.g., the International Sustainability Standards Board (ISSB));
- Reflects an industry-specific, materiality-driven approach; and
- Is not overly prescriptive, such as by dictating company strategy or day-to-day operations, time frame, cost, or other matters.

Independent auditors

Ratification of management's proposed independent auditor. The funds are generally supportive of the annual submission of auditor appointment for shareholder approval. A fund is likely to support an independent audit committee's auditor selection absent material misstatement of financials (or other significant concerns about the integrity of the company's financial statements) or the payment of excessive fees to the independent auditor beyond audit and audit-related services in prior years. A fund will vote case by case on the ratification of independent auditors when there is a material misstatement of financials or other significant concern about the integrity of the company's financial statements. The fund may vote against ratification when taxes and all other fees exceed the audit and audit-related fees, unless the company's disclosure makes clear that the non-audit fees are for services that do not impair auditor independence.

Rotations of auditing firms. A fund will vote case by case on proposals mandating independent auditor rotation.

Requirement for a shareholder vote. A fund will generally vote for shareholder proposals that require companies to submit ratification of independent auditors to a shareholder vote.

Pillar III: Executive pay

Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term returns for a company's investors. Providing effective disclosure of compensation policies, their alignment with company performance, and their outcomes is crucial to giving shareholders confidence in the link between executives' incentives and rewards and the creation of long-term returns for shareholders.

Advisory votes on executive compensation (Say on Pay)

Because norms and practices vary by industry type, company size, company age, and geographic location, the following guidelines illustrate elements of effective executive compensation plans and are not a one-size-fits-all tool.

A fund's considerations when evaluating executive pay fall into three broad categories:

- *Alignment of pay and performance.* The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with strategy set by the company and analysis of three-year total shareholder return and realized pay over the same period versus a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.
- *Compensation plan structure.* Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where a plan includes structural issues which the funds determine have led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For compensation structures which are not typical of a market, the Vanguard-advised funds look for specific disclosure demonstrating how the structure supports long-term returns for shareholders.
- *Governance of compensation plans.* The funds look for boards to have a clear philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, the funds look for boards to demonstrate consideration of shareholder concerns.

A fund will vote case by case on executive compensation proposals (including Say on Pay, compensation reports, and compensation policies) and in general will support those that enhance long-term shareholder returns. It may also vote for compensation proposals that reflect improvements in compensation practices in the interests of long-term shareholder returns, even if the proposals are not perfectly aligned with all these guidelines.

While a fund will not be prescriptive as to the exact structure of a compensation plan, it will seek structures and processes that can reasonably be expected to align pay and performance over time. Such structures may include a meaningful portion of equity vesting on performance criteria, strategically aligned performance metrics set to rigorous goals, and clear disclosure of the program and outcomes enabling shareholders to understand the connection to long-term shareholder returns, among other factors. A fund does not look for nonfinancial metrics (such as environmental, social, and governance [ESG] metrics) to be a standard component of all compensation plans. When compensation committees choose to include nonfinancial metrics, the funds look for the same qualities the funds do with more traditional metrics, such as rigor, disclosure, and alignment with key strategic goals and/or material risks.

The following situations are among those that raise a higher level of concern related to a compensation plan:

- Pay outcomes are significantly higher than those of peers but total shareholder return is well below that of peers.
- The long-term plan makes up less than 50% of total pay.
- The long-term plan has a performance period of less than three years.
- Plan targets are reset or retested, or are not rigorous.
- The target for total pay is set above the peer-group median.

The following situations are among those that raise warning signs, or a moderate level of concern:

- The company's disclosed peer group used to benchmark pay is not comparably aligned with the company in size or sector.
- The plan uses absolute metrics only.
- The plan allows for positive discretion only.
- The company uses one-time (e.g., retention) awards.
- The disclosure related to plan structure or payout is limited.

Where these warning signs exist, elements of strong compensation governance, such as board responsiveness and disclosure that includes data, rationale, and alternatives considered, can sometimes act to mitigate these concerns.

Say on Pay frequency

A fund will typically support management proposals to put Say on Pay to an annual vote as opposed to a vote every two years or three years.

Additional executive pay matters

Severance packages/golden parachutes. A fund will typically vote for proposals to approve severance packages (or "golden parachutes") unless they are excessive or unreasonable (i.e., cash severance payments that total more than 2.99 times salary plus targeted bonus, and/or have single-trigger cash or equity payments). The funds believe any new or renewed severance agreements that provide excessive or unreasonable severance should be submitted to shareholders for approval. If a company's current severance arrangements are deemed excessive or unreasonable, a fund may support shareholder proposals requiring that future golden parachutes be put to a vote, provided that ratification after the fact is permitted. A fund may also vote for proposals to approve Say on Severance unless they are excessive or unreasonable.

Shareholder proposals on pay for superior performance. A fund will generally vote against shareholder proposals that call for companies to set standards that require pay for superior performance, particularly when the proposal calls for specific performance standards.

Adopting, amending, and/or adding shares to equity compensation plans

Appropriately designed stock-based compensation plans, administered by an independent board committee and approved by shareholders, can be an effective way to align the interests of management, employees, and directors with long-term shareholder returns.

A fund will vote case by case on compensation plan proposals. A plan or proposal will be evaluated in the context of several factors to determine whether it balances the interests of employees and the company's other shareholders.

These factors include the industry in which a company operates, market capitalization, and competitors for talent. A fund is likely to vote for a proposal in circumstances that include the following:

- Senior executives must hold a minimum amount of company stock (frequently expressed as a multiple of salary).
- Stock acquired through equity awards must be held for a certain period.
- The program includes performance-vesting awards, indexed options, or other performance-linked grants.
- Concentration of equity grants to senior executives is limited.
- Stock-based compensation is clearly used as a substitute for cash in delivering market-competitive total pay.

A fund is likely to vote against a proposal in circumstances that include the following:

- Total potential dilution (including all stock-based plans) exceeds 20% of shares outstanding.
- Annual equity grants have exceeded 4% of shares outstanding.
- The plan permits repricing or replacement of options without shareholder approval.
- The plan provides for the issuance of reload options.
- The plan contains an automatic share replenishment ("evergreen") feature.

Additional employee compensation matters

Repricing or replacing underwater options. A fund will generally vote for proposals to reprice or exchange stock options that meet the following three considerations:

- *Value-neutrality.* An exchange/repricing proposal should be value-neutral.
- *Exclusion of executive and director participation.* Executives and directors should not participate in an exchange or repricing. If they do, the board should clearly state why the program is necessary to retain and provide incentives to executives and directors for the benefit of long-term shareholder returns.
- *Additional vesting requirements.* New shares granted in an exchange should vest no earlier than the vesting date of the shares for which they were exchanged, and preferably later.

Granting stock options. A fund will generally vote against management proposals to grant one-time stock options if dilution limits are exceeded. It will vote on a case-by-case basis on other proposals.

Adopting deferred compensation plan. A fund will generally vote for proposals to adopt a deferred compensation plan unless the plan includes discounts.

Adopting or adding shares to an employee stock purchase plan. A fund will typically vote against proposals to adopt or add shares to employee stock purchase plans if they allow employees to purchase shares at a price less than 85% of fair market value.

Amending a 401(k) or registered retirement savings plan (RRSP) to allow excess benefits. A fund will generally vote for a proposal to amend a 401(k) plan or RRSP to allow for excess benefits.

Nonemployee director compensation

A fund will vote case by case on proposals to adopt or amend nonexecutive director equity compensation plans, including stock award plans. Considerations include potential dilution, size of the plan relative to employee equity compensation plans, annual grants made to nonemployee directors, and total director compensation relative to market.

A fund will generally vote against nonemployee director equity compensation plans that allow for repricing, as well as those that contain an evergreen feature. It may also vote against nonemployee director pensions.

A fund will vote case by case on all other proposals for nonemployee director compensation.

Pillar IV: Shareholder rights

The funds look for companies to adopt governance practices to ensure that boards and management serve as designed in the best interests of the shareholders they represent. Such governance practices safeguard and support foundational rights for shareholders. Proposals on many of the following matters may be submitted by either company management or shareholders; a fund may generally support proposals—irrespective of the proponent—that seek approval for governance structures that safeguard shareholder rights (and oppose those that do not) as described below.

Board structure and director elections

The funds believe that a given company's board is generally best-positioned to fill director vacancies (subject to shareholder ratification at the next annual meeting) and to set the board's size, tenure, and other structural provisions, so long as any such provision does not serve as an anti-takeover measure.

Classified ("staggered") boards. A fund will generally vote for proposals to declassify a current board and vote against management or shareholder proposals to create a classified board.

Cumulative voting. A fund will generally vote for management proposals to eliminate cumulative voting and vote against management or shareholder proposals to adopt cumulative voting.

Majority voting. If the company has plurality voting, a fund will typically vote for shareholder proposals that require a majority vote for election of directors. A fund may also vote for management proposals to implement majority voting for election of directors. A fund will generally vote against shareholder proposals that require a majority vote for election of directors (where such majority vote is not prescribed by law) if the company has a director resignation policy under which a nominee who fails to get a majority of votes is required to resign.

Approval to fill board vacancies without shareholder approval. A fund will generally vote for management proposals to allow the directors to fill vacancies on the board if the company requires a majority vote for the election of directors and the board is not classified. It will generally vote against management proposals to allow directors to fill vacancies on a classified board.

Board authority to set board size. Generally, a fund will support management proposals to set the board at a specific size or designate a reasonable range to provide flexibility. However, it will consider the anti-takeover effects of the proposal, particularly in the context of a hostile takeover offer or board contest. It will generally vote against management proposals to give the board the authority to set the size of the board without shareholder approval at a future time.

Term limits for outside directors. A fund will generally vote for management proposals to limit terms of outside directors and will generally vote against shareholder proposals to limit such terms.

Shareholder access

A fund will vote case by case on management and shareholder proposals to adopt proxy access. Generally, it will vote for proposals permitting a shareholder or a group of shareholders (which should not be limited to fewer than 20) representing ownership and holdings thresholds of at least 3% of a company's outstanding shares for three years to nominate up to 20% of the seats on the board. Any cap on the number of shareholders that can aggregate to satisfy the 3% outstanding share threshold should not be lower than 20.

A fund will consider supporting shareholder proposals that have differing thresholds if the company has not adopted any proxy access provision and does not intend to do so.

Additional share classes

The funds' approach to companies issuing, or proposing to issue, more than one class of stock with different classes carrying different voting rights is principled yet practical. Alignment of voting and economic interests is a foundation of good governance. As such, the funds remain philosophically aligned to a "one-share, one-vote" approach, but are also mindful of the need not to hinder public capital formation in the equity markets. The funds support the idea of a newly public, dual-class company adopting a sunset provision that would move the company toward a one-share, one-vote structure over time.

A fund will vote case by case both on proposals relating to the introduction of additional share classes with differential voting rights and proposals relating to the elimination of dual-class share structures with differential voting rights.

Defensive structures

All situations involving defensive structures are reviewed holistically and on a case-by-case basis as facts and circumstances vary widely across issuers and over time.

Shareholder rights plans/poison pills. A fund will generally vote against adoption of poison pill proposals and for shareholder proposals to rescind poison pills, unless company-specific circumstances require that the board and management be provided reasonable time and protection in order to guide the company's strategy without excessive short-term distractions. This analysis would typically require engagements with both the company and the acquirer/activist to understand the proposal.

- A fund will generally vote for net operating loss (NOL) poison pills and for proposals to amend securities transfer restrictions that are intended to preserve net operating losses that would be lost as a result of a change in control, as long as the NOLs exist and the provision sets forth a five-year sunset provision.
- A fund may also vote for shareholder proposals to subject a shareholder rights plan to a shareholder vote within a year of being adopted by the board of directors.

Consideration of other stakeholder interests. A fund will vote case by case on management proposals to expand or clarify the authority of the board of directors to consider factors outside the interests of shareholders.

Other anti-takeover provisions. In general, a fund will vote for proposals to create anti-greenmail provisions and against fair price provisions. It will generally vote for shareholder proposals to opt out of anti-takeover provisions in provinces/jurisdictions where that is allowed.

Voting requirements

The funds generally prefer, absent regulatory requirements, that material matters subject to shareholder approval require support from no more than a majority of the company's shares outstanding. As such, a fund will generally vote against proposals to adopt supermajority vote requirements and may support proposals to reduce or eliminate such requirements.

Special meetings

If a company does not provide shareholders the right to call a special meeting, a fund will generally vote for management proposals to establish that right. It may also vote for shareholder proposals to establish this right, as long as the ownership threshold for shareholders to have the right to call a special meeting is not below 10% of current shares outstanding.

If a company already provides a shareholder right to call a special meeting at a threshold of 25% or lower, a fund will generally vote:

- Against management proposals to increase the ownership threshold above 25%.
- Against shareholder proposals to lower the ownership threshold below the current threshold.

Advance notice of shareholder proposals

A fund will generally vote for management proposals to adopt advance notice requirements if the provision provides for notice of a minimum of 30 days before the meeting date and a submission window of at least 30 days prior to the deadline, and reasonable disclosure and ownership requirements that are not overly restrictive or burdensome for shareholders.

Bylaws amendment procedures

A fund will generally vote against management proposals that give the board the exclusive authority to amend the bylaws.

Change of company name

A fund will generally vote for proposals to change the corporate name unless evidence shows that the change would hurt shareholder returns.

Reincorporation

A fund will vote case by case on management proposals to reincorporate to another domicile. Considerations include the reasons for the relocation and the differences in regulation, governance, shareholder rights, and potential benefits.

Potential benefits (e.g., decreased tax liability, reduced administrative fees, or higher earnings/stock price) will be weighed against reduced shareholder rights, potential for increased shareholder tax liability, and potential for other material, long-term risks to the company.

A fund will generally vote against shareholder proposals to reincorporate from one domicile to another.

Exclusive forum/exclusive jurisdiction

A fund will vote case by case on management proposals to adopt an exclusive forum provision. Considerations include the reasons for the proposal, regulations, governance, and shareholder rights available in the applicable jurisdiction, and the breadth of the application of the bylaw.

Shareholder meeting rules and procedures

Quorum requirements. A fund will generally vote against proposals that would decrease quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling arguments to support such a decrease.

Other such matters that may come before the meeting. A fund will vote against proposals to approve other such matters that may come before the meeting.

Adjournment of meeting to solicit more votes. In general, a fund will vote for the adjournment if the fund supports the proposal in question and against the adjournment if the fund does not support the proposal.

Bundled proposals. A fund will vote case by case on all bundled management proposals.

Change in date, time, or location of annual general meeting. A fund will typically vote for management proposals to change the date, time, or location of the annual meeting if the proposed changes are reasonable.

Hybrid/virtual meetings. A fund will generally support proposals seeking to conduct "hybrid" meetings (in which shareholders can attend a physical meeting of the company in person or elect to participate online). A fund may vote for proposals to conduct "virtual-only" meetings (held entirely through online participation with no corresponding in-person meeting). Virtual meetings should be designed by a company so as not to curtail shareholder rights—e.g., by limiting the ability for shareholders to ask questions. A fund will consider supporting virtual-only meetings if:

- Meeting procedures and requirements are disclosed ahead of the meeting;
- A formal process is in place to allow shareholders to submit questions to the board;
- Real-time video footage is available, and attendees can call into the meeting or send a prerecorded message;
- Shareholder rights are not unreasonably curtailed; and
- Applicable laws and regulations provide relevant protections to shareholder rights, and the company complies with these provisions.

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