

# Corporate Governance Principles and Proxy Voting Guidelines

**Promoting Sound Governance and  
Corporate Responsibility Practices  
in the Companies Our Clients Own**



Investment  
Management  
Corporation



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## INTRODUCTION

### A. Purpose of the Guidelines

bclMC is a long-term investor in the global equity markets. We believe that sound corporate governance and corporate responsibility practices contribute to the accountability and integrity of the public and private corporations we hold and to improved long-term company value for our clients. Accordingly, through proxy voting and other engagement with portfolio companies, we advocate for better corporate governance and corporate responsibility where necessary to enhance company performance and shareholder value. This is consistent with our fiduciary duty to clients to use all reasonable ways to increase their portfolio return, and with bclMC's vision of being "the responsible fund manager of choice for the British Columbia public sector." Our approach to governance and corporate responsibility also seeks to be supportive in our dealings with companies and reasonable in the standards we apply.

Within this framework, we have developed our 2010 *Corporate Governance Principles and Proxy Voting Guidelines*. These Guidelines set out our main beliefs on governance and corporate responsibility and present our voting guidelines on common proxy issues.

bclMC respects the capabilities and expertise of company directors and management, and does not seek to interfere in specific business decisions. However, we expect that our Guidelines will assist and encourage the boards and executives of the companies our clients own to remain focused on their objective of increasing long-term shareholder value, and will hold them accountable for their actions.

bclMC was deliberate in calling these voting "guidelines" rather than "rules" because we recognize that the issues and our voting decisions will evolve as markets and circumstances change. We commit to being careful and flexible in how we apply these principles and guidelines; for example, we have identified several governance and corporate responsibility issues for which voting decisions will be made on a case-by-case basis.

This is the 6th edition of this document, which was first produced in May 1996 and then revised in 2001, 2003, 2006 and 2008.

bclMC publishes the Guidelines at [www.bcimc.com](http://www.bcimc.com). We are also transparent on our proxy voting and other engagement, disclosing our activities quarterly on our website and in confidential communications with clients.



**B. Corporate Governance of Foreign Companies**

Our clients' portfolios have been diversified internationally for many years, and bclMC has gained considerable experience in the legislative, regulatory and voluntary/customary corporate governance standards in markets outside Canada. We acknowledge that not every country in which we invest will – or should – adopt common, “one size fits all” governance rules. For this reason, bclMC takes a principles-based approach to improving global standards of corporate governance. In this document, we describe our main governance beliefs, including the desirability of equal treatment of shareholders, respect for shareholder rights, accountability of directors and auditors to shareholders, and alignment of the objectives of management with the objectives of shareholders.

bclMC appreciates that efforts to promote our principles of good governance in foreign markets are most effective when we work alongside local institutions in a company's country of incorporation. Accordingly, we are a member of the Asian Corporate Governance Association (ACGA) and the International Corporate Governance Network (ICGN).

Shareholders have the right and responsibility to vote at shareholder meetings. This voting right should include the ability for shareholders to cast their votes in an informed manner, free of impediments or obstacles. Unfortunately, many markets and companies around the world do not provide for such voting. In our view, companies that operate in the international capital markets should ensure that foreign shareholders, like bclMC, can vote their holdings knowledgeably and efficiently. Therefore, we encourage the international companies our clients own to:

- publish full proxy materials in English as well as the local language;
- distribute such materials well ahead of the shareholder meeting so that international investors can make informed voting decisions and have sufficient time for the many extra steps normally required to vote shares from overseas (e.g., pass information through various custodians and sub-custodians);
- participate in electronic voting for a faster flow of information between shareholders and the company;
- eliminate the blocking of shares for a specified period of time before the shareholders' meeting, which serves as a voting deterrent; and
- confirm that a shareholder's vote has been received and counted.



### C. Engagement Between bcIMC and Companies

We believe that boards of directors should establish structures, processes or mechanisms by which shareholders and directors can efficiently communicate, and that directors should seek shareholder views on important corporate governance, management, and performance matters.

Similarly, we feel that shareholders should proactively communicate with boards on their governance expectations and seek their views on emerging corporate governance concerns or expectations. To this end, we commit to take the following actions:

- provide copies of our *Corporate Governance Principles and Proxy Voting Guidelines*, and subsequent editions, to companies in which we invest;
- seek feedback and suggestions from companies for ways to improve our Guidelines; and
- initiate direct communication with directors and management when companies have implemented weak governance and corporate responsibility policies and practices. We will typically engage in private discussions to explain our concerns and better understand the company's view, and then negotiate a resolution to any differences we have. When these direct discussions are not productive in establishing a common understanding over reforms we perceive to be necessary, bcIMC may refer the issue to regulators or policymakers (if warranted by pervasiveness or seriousness), and consult with other shareholders to build broad support for necessary change. bcIMC could also co-file or file a shareholder resolution and pursue legal action.



## FACILITATING SHAREHOLDERS' RIGHTS AND INTERESTS

### Principle

As owners of the company, shareholders have a unique relationship to the board of directors and to company management. Unlike other groups that do business with the company, such as employees, customers and suppliers, shareholders do not have contractual protection of their ownership interests. Instead, shareholders must rely on their right to vote at shareholder meetings to protect their long-term economic interests. In view of the vital importance of the shareholders' right to vote, bcIMC believes that all shareholders should have the ability to cast their votes, free of impediments or obstacles. In addition, all shareholders should be treated equally, with no special ownership rights or privileges available to any one class of shareholder. In keeping with these beliefs, bcIMC will encourage the companies our clients own to create equality among shareholders and to facilitate shareholders' rights to vote in person or by proxy, at annual and special meetings. Conversely, we will not support any measures that limit our rights as shareholders, or support directors who enable such measures.

### Proxy Voting Guidelines

#### A. Shareholder Meetings

1. **Meeting Notice.** Shareholder meetings occur annually and on an *ad hoc* basis (these are known as extraordinary or special meetings). Appropriate notice of shareholder meetings should be given by companies to ensure that shareholders have a reasonable opportunity to exercise their voting rights.

*Voting Guideline:* bcIMC will vote **AGAINST** or **WITHHOLD** from director nominees if shareholders are not provided with a sufficient period of time prior to a shareholders' meeting to review resolutions and cast votes.

2. **Meeting Format and Location.** Companies should make accountability and shareholders' convenience the primary criteria when selecting the format and location of the annual meeting. This means that companies may consider holding shareholder meetings via telephone, internet or other means of communication, and may rotate the location of a company's annual meeting between cities where there is a large concentration of shareholders. Both virtual meetings and rotation of meeting locations may allow more shareholders to have opportunities to participate in the meeting.

*Voting Guideline:* bcIMC will vote **FOR** resolutions to change the format and location of a shareholder meeting where such changes preserve or enhance the ability of shareholders to participate in the meeting.

3. **Proxy Disclosure.** Shareholders vote on resolutions presented by management and shareholders at shareholder meetings. Appropriate quantity and quality of information regarding management and shareholder resolutions should be given by companies to enable shareholders to make informed voting decisions.



*Voting Guideline:* bclMC will vote **AGAINST** or **WITHHOLD** from director nominees if adequate information on meeting resolutions is not provided in the company's information circular, annual report, or other disclosures.

4. **Proxy Solicitation.** Companies should not adjourn or extend a meeting for the purpose of providing management with time to solicit more votes and enable them to generally prevail on all resolutions.

*Voting Guideline:* bclMC will vote **AGAINST** resolutions to provide management with the general authority to adjourn or extend an annual or special meeting to solicit more voting support for all meeting resolutions. bclMC will vote **FOR** resolutions to provide management with the specific authority to adjourn or extend an annual or special meeting to solicit more support for a precise resolution (e.g., a company merger or acquisition) if bclMC supports the resolution in question.

5. **Other Business.** Companies should not include vague resolutions on the meeting agenda that would allow discussion and voting on "other business." This puts non-attending shareholders (i.e., those voting by proxy) at a disadvantage as they cannot know or vote on the content of these issues. bclMC prefers to have all meeting resolutions clearly specified in the proxy circular and agenda so that all shareholders are aware of and can respond to issues equally.

*Voting Guideline:* bclMC will vote **AGAINST** resolutions seeking approval to conduct unspecified "other business" at the shareholder meeting.

## B. Shareholder Voting Rights

1. **One Share, One Vote.** Shareholders should have the right to vote in proportion to their economic ownership of the company. Each share of company common stock should have one vote (this is commonly known as the "one vote, one share" principle). Companies should not have multiple classes of shares with different/unequal voting rights and privileges. Such shares entrench control and power in the hands of select shareholders.

*Voting Guideline:* bclMC will vote **AGAINST** resolutions to authorize or issue common shares that do not have full and equal voting rights. bclMC will vote **FOR** resolutions to eliminate or unify multiple classes of shares.

2. **Confidential Voting.** All proxy votes should be confidential, with ballots counted by tabulators independent of management. Confidentiality should apply to all meeting resolutions. Confidential voting protects shareholders from coercion or undue influence in making voting decisions.

*Voting Guideline:* bclMC will vote **FOR** resolutions to adopt confidential voting.

3. **Supermajority Approval.** Shareholders should have the right to approve matters submitted for their consideration with a simple majority of the shares voted. Companies should not impose supermajority voting requirements. Supermajority votes are generally favored by dominant shareholders to deter outside challenge and change (for example, a takeover attempt) by imposing high voting barriers.



*Voting Guideline:* bclMC will vote **AGAINST** resolutions to require a supermajority shareholder vote, except if necessary under corporate law. bclMC will vote **FOR** resolutions to lower supermajority vote requirements.

4. **Bundled Resolutions.** Shareholders should be allowed to vote on separate and distinct resolutions. Resolutions nominating directors, amending a company's bylaws or anti-takeover provisions in particular should not be bundled.

*Voting Guideline:* bclMC will vote **AGAINST** linked or bundled resolutions whose objective is to make one element of the resolution more acceptable, or to restrict shareholders' ability to exercise their voting rights on particular issues.

5. **Quorum.** A quorum of shareholders must be present and represented by proxy at the shareholder meeting, or no business can be conducted that is binding on the company. Typically, a majority of outstanding shares will constitute quorum, although, by statute, companies may have flexibility to set a lower quorum in their by-laws. Quorum requirements should be set at a reasonable level so that there is a sufficiently broad indication of shareholders' approval for business conducted at the meeting.

*Voting Guideline:* bclMC will generally vote **AGAINST** resolutions to reduce quorum requirements for shareholder meetings below 2 persons holding 25% of the eligible votes/shares outstanding. In the case of a small cap or venture company, quorum requirements should not be set below 10% of the shares outstanding.

6. **Vote Results.** Shareholders should be informed, not only that a resolution was passed or defeated, but also the number of votes for, against and withheld. Show of hand (SOH) voting on ordinary, non-contentious resolutions is an acceptable format when votes submitted by proxy prior to the meeting indicate that only a small number (e.g., 5%) of the votes cast oppose the resolution. In the interest of full disclosure, companies should provide the preliminary vote tally for confirmation that the SOH voting resolution was indeed non-contentious.

*Voting Guideline:* bclMC will vote **FOR** resolutions to disclose the results of shareholder votes and the vote tallies.

## C. Shareholder Proposals

1. **Resolutions Presented by Shareholders.** Shareholders should have the right to propose resolutions at annual meetings. Shareholder proposals can be beneficial to both companies and their shareholders as shareholders get an opportunity to communicate their views and concerns directly to board members and other shareholders, while corporations receive the benefit of shareholders' insights and the knowledge of the extent of interest or concern over particular issues. However, bclMC will not support shareholder resolutions that:
- seek to place unreasonable constraints on company executives or directors in making business decisions and acting in accordance with their fiduciary obligations to the company's shareholders;
  - are submitted for the purposes of enforcing personal grievances or for securing publicity for a personal matter; or



- ask directors to subordinate consideration of the interests of shareholders to other interests.

*Voting Guideline:* bclMC will review shareholder proposals on a case-by-case basis and we will vote **AGAINST** resolutions that are not in the best long-term interests of shareholders.

2. **Access to the Proxy.** Company proxy materials and related mailings should provide equal space and equal treatment for shareholder resolutions. We believe in facilitating the rights of all shareholders and do not support shareholder proxy access eligibility requirements, such as minimum ownership and length of ownership. We also generally do not support imposing a word limit on the length of shareholder proposals.

*Voting Guideline:* bclMC will vote **AGAINST** resolutions that restrict the ability of shareholder access and communication to the board.

3. **Dissident Shareholders.** The board of directors is responsible for representing shareholders' interests. When the board fails to fulfill its governance responsibilities, dissatisfied or "dissident" shareholders are able to challenge the board via proxy contests. A proxy contest occurs when dissatisfied shareholders try to install their own slate of directors by encouraging the company's other shareholders to vote against the current directors and for the dissident slate.

*Voting Guideline:* bclMC will review dissident shareholder proposals for director nominees on a case-by-case basis, considering factors such as long-term company performance, board performance and responsiveness to shareholder concerns, strategic plan of dissident slate, quality of dissident critique against current board, and qualifications of director nominees (both slates).

## D. Company Operations

1. **By-Law and Article Amendments.** Companies often amend or replace by-laws and articles of incorporation to clarify ambiguity, streamline multiple amendments or reflect changes in corporate law. By-law changes can be of a minor or "housekeeping" nature in that they do not impact shareholder rights and interests (e.g., clarification). However, some by-law amendments, such as the following, are more critical as they may not be beneficial to shareholders:

- Companies can have unlimited authorized share capital: bclMC prefers companies to keep a limited authorized share capital, which can be increased by shareholder approval when needed. This protects shareholders from dilutive acts.
- Directors need not be residents of the company's domicile (country of incorporation): bclMC prefers companies to maintain a board with some representation of local shareholders and with a basic understanding of both the local marketplace and laws.
- Quorum for a shareholder meeting is set at a very low level (e.g., below 10% of the eligible votes). bclMC prefers companies to set quorum requirements at a reasonable level (e.g., 25% or more of the eligible votes) so that there is a sufficiently broad indication of shareholders' approval for business conducted at the meeting.



- The chair of the board has a deciding vote in the event of a deadlock at a meeting, and that chair is not an independent director.

*Voting Guideline: bcIMC will vote **FOR** resolutions that are of a housekeeping nature. bcIMC will vote **AGAINST** resolutions that weaken or negatively impact shareholder rights and interests.*



## THE BOARD OF DIRECTORS

### Principle

The principle responsibility of the board of directors is to foster the long-term success of the company, consistent with its fiduciary duty to shareholders. The board carries out this responsibility by:

- providing input to and approval of corporate strategy;
- evaluating management performance and making executive changes when necessary;
- ensuring there are systems in place to effectively assess and manage risk, including environmental, social and governance risks; and
- supervising the selection and work of the company's external audit firm.

To effectively perform these critical functions, the board of directors must be composed of members who are independent of management and accountable to shareholders and who possess the proper abilities and values. Also, the board itself must be appropriately organized. For example, the board may establish separate committees to deal with the audit, compensation and nominating issues. Even so, the board maintains overall responsibility for the work of the committees and for the performance of the company.

Considering the significant responsibility and role the board of directors plays, bcIMC puts a major focus on board quality. Accordingly, we will vote for director nominees and board structures/ processes that we believe will contribute most to maximizing shareholder value. We will oppose nominees and structures that we believe would not be in the best long-term interests of shareholders.

### Proxy Voting Guidelines

#### A. Board Membership

1. **Director Independence.** The board must be able to exert authority over management's recommendations and to objectively evaluate company and executive performance. This can be best achieved by constituting the board with a majority of unrelated directors.

An unrelated director is defined as an individual who is not a current or former executive of the company or its affiliates (former executives, except CEO and CFO, will be considered unrelated after a three year cooling off period), does not currently, or within the past three years, have a business or personal interest as a significant customer or supplier of goods or services to the company, and has no other direct or indirect material relationship to the company, other than interests and relationships arising from being a shareholder and receiving director's fees.

A related director would include company founders that are not employees but continue to have a material operating involvement, immediate relatives of current or former executives of the company or its affiliates (relatives of former executives, except CEO and CFO, will be considered unrelated after a three year cooling off period), immediate relatives of current material customers or providers of goods or services to the company, and individuals with interlocking directorships (i.e., executives who sit on each other's boards). In effect, directors



should be free from any connection to the company or its management that may in fact, or appearance, compromise the director's loyalty to shareholders.

In Japan, most boards are dominated by insiders, and the few outside directors are generally related outsiders from a main bank, parent company or business partner. Independent directors are still very rare.

We recognize that in some markets, such as Germany and Sweden, companies are subject to legislation imposing employee or labour representatives on their board of directors. For these companies, bclMC expects the majority of the shareholder elected directors to be unrelated.

In view of the importance of director independence and because it is often difficult for shareholders to readily determine if an individual director is unrelated, companies should disclose whether individual directors are unrelated to the company and management and how this determination has been made (i.e., according to what definition and facts). For example, companies should disclose, for each director, the name of each company where an interlocking relationship exists.

***Voting Guideline:** bclMC will vote **FOR** resolutions to elect directors where the resulting board will be constituted of a majority of unrelated directors. bclMC will vote **AGAINST** or **WITHHOLD** from related director nominees, where the proposed board (or shareholder elected portion of the board) will not be composed of a majority of unrelated directors. bclMC will vote **AGAINST** or **WITHHOLD** from director nominees in cases where a nominee cannot be categorized as related or unrelated due to lack of disclosure.*

2. **Director Effectiveness.** The board should be composed of individuals who can contribute knowledge and experience to the company's strategy and to board decisions. Other qualifications include, but are not limited to, diversity, commitment, and integrity. The board's processes for identifying, recruiting, orienting and assessing directors should be disclosed so that shareholders understand how boards acquire/maintain the strengths necessary for effective governance and management oversight. We support the following processes and criteria (and disclosure of such) for ensuring director effectiveness:

- **Attendance** – Directors should attend all board and committee meetings and prepare in advance of the meetings. A minimum attendance record of 67% of the board and committee meetings in aggregate should be expected.
- **Alignment with shareholders** – Directors should have a direct, personal and material investment in the common shares of the company. We discourage stock options as a form of director compensation as their use is less aligned with the interests of long-term equity owners than other forms of equity.
- **Number of directorships** – Non-management directors should serve on no more than six public company boards and executive directors should be limited to a maximum of two public company boards, including his or her own company.
- **Term limits** – Boards should establish a maximum length of service for directors. A fixed director term will contribute to board vitality.
- **Performance assessments** – Boards should have processes in place to rate the effectiveness of the board as a whole, its committees and individual directors.



- **Responsiveness** – Directors should be responsive to shareholder concerns. For example, boards should review the performance and qualifications of any director from whom a substantial number (10% or more) of the votes cast are withheld. Boards should also take actions recommended in shareholder proposals that receive a simple majority of affirmative votes.

*Voting Guideline:* bclMC will vote **FOR** resolutions to elect directors with the qualifications and capacity to represent the best interests of all shareholders. We will vote **FOR** resolutions to improve gender balance and ethnicity on boards. We will also vote **FOR** resolutions to implement corporate governance policies to improve board and director competence and understanding of their roles and responsibilities.

3. **Director Indemnification.** In order to encourage qualified directors to serve on company boards, we support companies providing directors with limitations on their liability and an indemnification policy. However, to afford recourse to shareholders in the event of misconduct by directors, these policies should be limited to the director acting honestly and in good faith, and putting the interests of the company and its shareholders first. If the director acts dishonestly and intentionally breaches their fiduciary duty, the indemnification should be considered void.

*Voting Guideline:* bclMC will vote **FOR** resolutions to limit directors' liability and to indemnify directors for legal expenses provided they have acted honestly and in good faith.

## B. Board Structures/Processes

1. **Board Tiers.** While most North American companies are governed by a single board of directors, it is common for companies in Europe to have a two-tiered board structure, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. Companies with two-tiered boards allow shareholders to elect members to the supervisory board only; management board members are appointed by the supervisory board.

The French Commercial Code gives companies domiciled in France three options in respect to their board structure. Companies may (1) choose to adopt a unitary board structure with a combined Chair/CEO role; (2) opt for a two-tiered board structure composed of a management board and a supervisory board (the position of the chairman and the chief executive are separated); or (3) decide to keep the unitary structure, but separate the positions of the chairman and the chief executive. bclMC supports each company determining for themselves which board structure is appropriate to meet the business needs of that particular company. However, our voting behavior will remain true to our guiding belief that a shareholder elected board should have a majority of unrelated directors with appropriate oversight qualities.



Since 2003, Japanese companies have been given the option of switching to a North American-style “board-with-committees” structure. Such companies must create audit, compensation and nomination committees of at least three directors each. A majority of committee members must be outside directors. These companies must also create a board of executive officers, whose members are appointed by the supervisory board of directors, in order to separate responsibility for management execution and oversight.

*Voting Guideline: bclMC will consider resolutions to adopt alternative governance structures on a case-by-case basis to ensure that shareholder accountability and oversight functions are not impaired.*

2. **Staggered Boards.** All directors should stand for annual election to the board, as opposed to staggered or classified terms of office. With a “staggered” or “classified” board, directors are elected in two or more classes and serve for terms longer than one year. Staggered boards make it difficult for shareholders to replace individual directors during periods of deteriorating company or board performance.

*Voting Guideline: bclMC will vote **FOR** resolutions to abolish staggered boards and institute annual elections for all directors.*

3. **Slate of Directors.** Shareholders should have the opportunity to consider and vote on the qualifications and performance of each individual director, rather than being presented with a vote on a “slate” of directors.

*Voting Guideline: bclMC will vote **FOR** resolutions to abolish slate proxy structures and institute separate votes for individual director nominees. bclMC will vote **AGAINST** or **WITHHOLD** from a slate of director nominees when we have concerns about company performance, board effectiveness and director quality.*

4. **Cumulative Voting.** Shareholders are entitled to one vote per share per board position. Cumulative voting for directors gives shareholders the flexibility to cast all their votes for a single nominee or to “stack” them in favour of several nominees. There are valid arguments for and against cumulative voting. It can give board representation to shareholders who have minority ownership, ensuring an independent voice on the board, or it can give board representation to shareholders who are preoccupied with their own unique agenda rather than the welfare of all employees. bclMC is sensitive to protecting shareholder rights. However, directors elected under a cumulative voting system must commit to representing the best interests of all shareholders.

*Voting Guideline: bclMC will review cumulative voting resolutions on a case-by-case basis and we will vote **FOR** such resolutions when there is a proven need for them. For example, when the board has not adopted best corporate governance practices, and is unresponsive to shareholders.*

5. **Majority Voting and Director Resignation Policies.** Company by-laws should provide that directors are to be elected by an affirmative majority of the votes cast. If incorporation laws require plurality voting (or prohibit majority voting) for directors, boards should adopt director resignation policies asking that directors tender their resignations if the number of votes withheld from or cast against the nominee exceeds the votes for the nominee.



*Voting Guideline:* bclMC will vote **FOR** resolutions requesting that a majority voting or director resignation policy be established by a company.

6. **Size of Board.** The board should be large enough to ensure diversity of expertise and opinion and to allow key committees to be staffed by unrelated directors, but small enough to allow all views to be heard and to encourage the active participation of all members. bclMC also believes that a board's effectiveness generally declines once a certain threshold size has been reached. In a large board individual directors may lose a sense of responsibility and accountability, opinions and advice may not be voiced as effectively as they otherwise would be, and it may be difficult to establish an effective decision-making process.

*Voting Guideline:* bclMC will review resolutions to increase or decrease board size on a case-by case basis, generally voting **FOR** resolutions where the proposed board size will be between 7 and 16 directors.

7. **Board Committees.** The board should delegate certain functions to committees, although the board maintains overall responsibility for the work of the committees. Each board should have three key committees composed wholly of unrelated directors: the nominating committee, the compensation committee, and the audit committee. Committees should have the right to retain outside consultants (at company expense) and to communicate directly with company management and staff. Any consultants retained by the committees should only be responsible to the members of the respective committee, and the identity and nature of all consulting services should be disclosed to shareholders. Regularly scheduled committee meetings should be held with only the committee members present (and, if appropriate, company employees and/or the committee's independent consultants). Each committee should create and disclose to shareholders a charter specifying its role and responsibilities, which typically include the following:

- **Nominating committee** – identifies the board's need for new directors and skill sets, then recruits, nominates, orients and evaluates directors. The nominating committee also populates the board's other key committees.
- **Compensation committee** – sets the philosophy and approves the components of the company's executive and director compensation programs. The compensation committee is responsible for ensuring that executive and director compensation packages are properly structured to motivate, recruit and retain officers and directors capable of enhancing shareholder value, and to be fair, forward-looking and commensurate with performance.
- **Audit committee** – responsible for ensuring the accurate accounting and reporting of the company's financial performance, for ensuring that adequate financial management control and information systems exist, and for overseeing the annual external audit of the company. Audit committee members should have financial expertise and literacy.

*Voting Guideline:* bclMC will vote **FOR** resolutions to establish nominating, compensation and audit committees of the board composed entirely of unrelated directors. bclMC will vote **AGAINST** or **WITHHOLD** from related director nominees who serve on the nominating, compensation or audit committees. In the case of slate ballots, bclMC will generally vote **AGAINST** or **WITHHOLD** from the entire slate of nominees if related directors serve on any or all of the key committees.



8. **Separation of Chair and CEO Roles.** A board's ability to exercise independent judgment of company management is weakened if one person fills both the positions of Chief Executive Officer and Chair of the board of directors. The board will be more effective in carrying out its critical roles in appointing, monitoring and, if necessary, replacing the CEO, if different individuals hold the positions of CEO and Chair. Separating the roles assists in establishing an appropriate balance of power between management and directors, increases accountability and helps ensure that the board serves to represent the interests of shareholders, not management. Consequently, we believe that the board Chair should be an independent, non-executive director.

*Voting Guideline: bclMC will vote **FOR** resolutions to separate the board and management roles and to appoint an independent, non-executive director to the position of Chair. If such separation does not exist or is not proposed, we will support efforts to establish a lead independent director who would preside over meetings of non-management directors (i.e., in-camera meetings).*

9. **Board Discharge.** In several European markets, boards request formal shareholder approval to "discharge" the directors from further responsibility for the actions they have taken during the past year. The formal discharge of the board represents shareholder approval of board policies and is an express vote of confidence in the company's oversight. It does not eliminate the possibility of future shareholder action.

*Voting Guideline: bclMC will vote **FOR** resolutions to discharge the board and management, unless we have serious concerns about past conduct that has been detrimental to shareholder interests. bclMC will vote **FOR** resolutions requesting that companies adopt a discharge policy and will vote **AGAINST** resolutions that propose to abolish the discharge authority.*



## AUDIT PROCESS

### Principle

The audit process is critical to verifying the financial performance of the company, and to ensuring that management has adequate internal control and financial reporting systems. While companies may have internal auditors to help them comply with legal and regulatory requirements and with professional accounting standards, independent, external auditors are a necessary condition of good corporate governance. They can also leave an indelible mark on a company's public reputation and on investor confidence. Accordingly, bcIMC puts a strong emphasis on external auditor quality, and through our votes and other engagement with directors and management, we will encourage companies to appoint and retain independent, reputable and capable auditors.

### Proxy Voting Guidelines

1. **Auditor Independence.** bcIMC supports the engagement of external auditors that provide qualified, competent advice and support in the best interests of the company and its shareholders, and avoid any actual or appearance of conflict of interest or undue influence of management. Auditor independence may be perceived to be impaired when the:
  - audit firm earns more fees from non-audit services than audit services;
  - same audit firm and/or partner in the firm has audited a company for excessively long periods (i.e., more than 20 years); or
  - recommended auditor is replacing a previous auditor because of a disagreement between the previous auditor and management, or the board.

*Voting Guideline: bcIMC will vote **FOR** resolutions to enhance the disclosure of all audit and non-audit services and fees paid by the company to each external audit firm. bcIMC will vote **AGAINST** resolutions to appoint and/or remunerate the recommended auditors if the audit firm, in our opinion, has been derelict in its duties in the past and/or we are concerned that the independence of the auditor has been compromised and/or the company fails to disclose the service and financial details of relationships with the audit firm.*

2. **Audit Committee Authority.** While management's input into the company's audit process is necessary, only the audit committee should be permitted to recommend the appointment and dismissal of an external auditor. The auditor should report directly to the audit committee, and not to management.

*Voting Guideline: bcIMC will vote **FOR** resolutions providing for audit committee authority over the external auditor engagement.*



3. **Auditor Indemnification.** Companies may seek shareholder approval to provide indemnity insurance to their external auditors. This practice is common in Japan, which refers to external auditors as “non-executive statutory auditors”. bclMC opposes providing limits on the liability of external auditors in company service contracts with these firms. In bclMC’s opinion, providing indemnity insurance reduces the incentive for those responsible for the preparation of financial information to be attentive to their duties, calls into question the objectivity of the auditor in carrying out the audit, and does not serve to improve the quality of the audit.

*Voting Guideline:* bclMC will vote **AGAINST** resolutions to indemnify external auditors.

4. **Internal Auditor.** The appointment of internal statutory auditors is a routine request for companies in markets such as Italy, Spain, Portugal and Japan. The internal auditors are usually composed of three to five members, including alternate members. bclMC’s voting decisions on internal auditor appointments will remain true to our principle that companies should retain independent, competent, and reputable auditors.

*Voting Guideline:* bclMC will vote **FOR** resolutions to appoint internal auditors unless we have concerns about the quality of the financial reports or audit procedures used, or the auditors cannot be considered independent from management (for example, the have previously served the company or affiliate in an executive capacity).

5. **Financial Statements.** The financial statements and auditor reports are valuable documents when evaluating company performance. bclMC will ratify the statements and reports unless we have concerns about their quality, the performance and independence of the auditors who prepared them, or the documents have not been made available to shareholders prior to the annual meeting.

*Voting Guideline:* bclMC will generally vote **FOR** resolutions to approve a company’s financial statements and auditor reports except if we have questions about their reliability, or the auditors who prepared them, or the company has not made them publicly available.



## MANAGEMENT AND DIRECTOR COMPENSATION

### Principle

bclMC believes that management and director compensation is a critical aspect of a company's governance. Pay decisions are one of the most direct and visible ways for shareholders to assess the performance of the board of directors. Boards must strike a balance between compensation packages that are required to attract, retain and motivate qualified executives, on the one hand, and showing moderation and restraint on the other. Excessive compensation reduces shareholder value. Boards should also seek to align the interests of management and directors with the interests of shareholders through compensation arrangements that are linked to the achievement of long-term company success.

To best meet these objectives, while recognizing that compensation programs must be designed on a company-by-company basis according to unique company needs and structures, we encourage boards to develop plans based on the following principles:

- **Oversight** – The board's compensation committee should be responsible for developing and maintaining the management and director compensation plans.
- **Philosophy** – The compensation committee should have a well-articulated philosophy for the compensation plans and a statement of how this philosophy relates to the company's strategic goals, which should be disclosed to shareholders.
- **Disclosure** – Disclosure to shareholders about the compensation plans should be complete and detailed to enable investors to understand and evaluate the total package paid to management and directors, respectively, as well as particular elements.
- **Market rate** – Compensation plans should be reasonable and fair by prevailing industry and peer group standards. Market and peer group surveys should be used cautiously, comparing companies of similar size, complexity and performance. The compensation committee should disclose the companies in peer groups used for benchmarking or other comparisons.
- **Build value** – Compensation plans should encourage employees and directors to achieve performance objectives and in doing so, create long-term shareholder value subject to appropriate consideration of ethical standards and the company's reputation.
- **Reward success** – Compensation should be linked to the achievement of meaningful financial, operational and strategic objectives that are within the control of the executive who will receive the pay; be agreed to ahead of time, and publicly disclosed.

bclMC will endorse transparent, reasonable, appropriately structured pay-for-performance compensation plans that reward management and directors for superior performance over the long-term. We will support compensation arrangements that provide the right incentives to managers and directors, and can withstand critical cost-benefit scrutiny.



## Proxy Voting Guidelines

1. **Mix of Pay Components.** Management compensation plans typically have a mix of pay components, including base salary and cash and equity incentives. Base salary is one of the few components of executive compensation that is not variable or “at risk.” Cash and equity incentive compensation should be earned through the achievement of personal and company goals, both annual and long term. bclMC supports structuring management compensation plans so that a significant portion of total executive compensation is performance-based.

*Voting Guideline:* bclMC will vote **FOR** resolutions that put at least 50% of management's overall compensation “at risk”. We will vote **AGAINST** resolutions seeking to put absolute restraints on compensation, or to arbitrarily restrict the compensation committee's ability to design an appropriate management compensation plan, except in cases where executive compensation is excessive.

2. **Management Stock-Based Awards.** Management incentive compensation generally takes the form of equity-based awards. bclMC is not opposed to the use of equity incentives, including stock options, restricted stock and deferred share units, to motivate managers and further the interests of shareholders. But poorly designed stock-based awards can permit excessive or abusive pay that is detrimental to the company and to shareholders. We encourage compensation committees to establish equity-based compensation plans consistent with the following features (some features are noted as “mandatory” and bclMC will not support plans that fail to incorporate or address these issues):
  - **Price** – The underlying securities should be issued at fair market value or higher. “Underwater” options, when the stock market price is lower than the price offered in the stock option, must not be re-priced lower or replaced (either with new options or other equity awards) in the event of a reduction of share price or market under-performance. **MANDATORY**
  - **Expiry** – All forms of share-based incentives should expire within five years of the date they are awarded. We do not support plans with an “evergreen” percentage of the issuer's outstanding shares. Under this option, companies are allowed to automatically replenish the shares held in reserve for stock incentives once the currently issued options have been exercised. **MANDATORY**
  - **Dilution** – The potential dilution represented by equity-based compensation plans is a direct cost to shareholders as the increase in outstanding shares reduces earnings per share and voting power. The total potential dilution under all forms of a company's share-based incentives must be less than 5% of the shares outstanding. **MANDATORY**
  - **Vesting** – Stock-based compensation awards are not effective tools for encouraging executives to manage for the long-term when the awards vest and can be exercised immediately. Therefore, we do not support equity-based awards that are 100% vested when granted. Rather, they must vest over the life of the plan, or after a minimum period (e.g., 3 year vesting period), or as specific performance goals are met (e.g., specific qualitative and quantitative performance-based operational measures set by the board). Alternatively, for a similar effect, post-exercise hold periods of three to five years must be established. **MANDATORY**



- **Grant or “burn” rates** – The number of equity incentives granted in a given year expressed as a percentage of shares outstanding should be 1% or less (or 20% of the stock awards available under the plan).
- **Concentration in a single recipient** – To encourage broad retention and commitment across all plan participants, compensation committees should set appropriate limits on the number of equity-based awards reserved for issuance to any one executive. An appropriate per participant limit is 20% of the stock available for compensation.
- **Performance targets** – bclMC believes that equity-based compensation should be conditioned upon the achievement of predefined performance goals that are consistent with the interests of long-term shareholders and are logically related to the strategy and financial circumstances of the particular company. Examples of quantitative performance goals are revenue and profit growth, net income, free cash flow, return on equity, economic value added, return on invested operating capital, margins, cost containment, and market share. Qualitative performance goals may include leadership, succession planning, customer satisfaction, product quality, legal compliance, ethics and the promotion of a culture of integrity at all levels of the company, workforce diversity and turnover, employee development, community relations and environmental stewardship. For each performance goal, specific achievement targets should be set, below which no stock awards would be paid and above which stock awards would be capped. Achievement targets should be designed to filter out most, if not all of the gains resulting from market-wide and/or industry-wide movements. For example, performance relative to peer groups will filter out market and industry effects. Achievement targets should track the company’s strategic plan. For example, if a CEO has developed a five year strategy, their stock-based compensation should be paid out as targets are achieved rather than front-loaded pay that may not correspond to actual milestones achieved in the future. Targets should not be adjusted, except in extraordinary circumstances. The board should not lower the ‘goal posts’ to help a CEO or other top executives collect a bonus. **MANDATORY**
- **Reload** – bclMC does not support option reloading, which automatically gives the option holder additional stock options when the original options are exercised. **MANDATORY**
- **Eligible participants** – Companies should not extend their stock-based compensation plans to their consultants or contractors. Equity incentives are intended to motivate employees to improve shareholder value over the long term. However, people whose work for the company is short-term or temporary have no reason to be motivated to improve long-term shareholder value.
- **Assignability** – Stock-based awards should not be exercised by anyone other than the eligible and intended participant, or, in the case of death, their estate executor. Our principal reason for third party non-assignability is that issuers must maintain the retention and incentive effect of the equity grants, which would be lost if an executive could sell their grants.
- **Method of payment** – Corporate loans, even at market rates, should not be made to allow employees to acquire stock or stock-based incentives. Loans expose the company to unnecessary risk as a result of potentially uncollectible debts and may inhibit the termination of employees who are in debt to the company. Additionally, employee loans from U.S. corporations have been specifically banned under the 2002 *Sarbanes-Oxley* legislation.



- **Change-in-control** – Stock-based compensation plans must not include change-in-control provisions that allow option holders to receive more for their options than shareholders receive for their shares, or provisions that allow for accelerated vesting of equity compensation. Also, companies must not develop change-in-control compensation arrangements in the midst of a take-over fight or grant equity incentives to outside directors “in the event” of a change of control as the independence of outside directors will be compromised if they are eligible for additional severance benefits upon a change of control. Finally, any change-in-control provisions of equity compensation plans must not come into effect before the change-in-control transaction is complete (to manage the risk that executives will receive substantial amounts in stock awards for a company change in control that was initiated but never completed). **MANDATORY**
- **Types of equity-based awards** – Stock-based awards that do not effectively align the interests of management and shareholders will not be supported. This includes stock appreciation rights (SARs) which give recipients the difference between the exercise price and the market price of stock on the date of exercise. SARs do not involve the actual purchase or sale of stock. Phantom stock is similar in that it gives recipients bonuses for increases in the value of stock without requiring them to own any stock. There is no downside risk reflected in these two types of awards. bclMC supports the measured use of options, restricted shares and deferred share units (DSUs) as their value varies directly with the price of the underlying stock.
- **Omnibus plans** – Omnibus equity plans (i.e., where there are three or more types of equity awards in one plan) will not be supported. Shareholders must be able to vote on each component of such a plan.
- **Grant timing** – Equity incentive awards should be granted at the same time each year, except in extraordinary circumstances, such as a permanent change in a company’s performance cycle. Plans should expressly prohibit the issuance of options or equity-based grants that are timed to take advantage of non-public information with significant short-term implications for the stock price.
- **Amending procedures** – Plans must not contain amending procedures that give the board (or its compensation committee) broad discretion/authority in setting or modifying the terms and conditions of equity-based compensation plans without shareholder approval. At a minimum, shareholder approval must be required when equity-based plans are instituted and when companies seek to amend an existing plan’s eligible participants, dilution, price, or expiry terms. **MANDATORY**

*Voting Guideline: bclMC will consider resolutions to adopt or revise incentive compensation plans on a case-by-case basis. We will vote **FOR** plans with provisions that are consistent with the above features. We will vote **AGAINST** plans that fail to meet the mandatory features.*

3. **Pay-for-Performance.** bclMC will review total annual CEO compensation (including salary, cash bonus, present value of stock options, face value of restricted stock, and all other direct compensation) relative to company performance to determine if the compensation committee has made an appropriate pay-for-performance link at the firm.

*Voting Guideline: bclMC will vote **AGAINST** or **WITHHOLD** from returning compensation committee nominees when compensation is not linked to long-term company performance.*



4. **Disgorgement.** Management should be required to repay incentive compensation in the event of fraud or inappropriate actions involving the executive that resulted in/contributed to overstated individual and/or company performance.

*Voting Guideline:* bclMC will vote **FOR** resolutions that require management to disgorge improperly received incentive compensation.

5. **Management Share Ownership.** Compensation committees should establish requirements that executive management acquire and hold a meaningful amount of the company's stock (stock options excluded). Such a policy provides investors with a level of comfort that when the CEO or CFO is at work, they are making decisions from the same perspective as company shareholders. bclMC supports minimum share ownership for key executives, expressed as a multiple of their annual base salary, and that this target amount be accumulated within two years of service in the role.

*Voting Guideline:* bclMC will vote **FOR** resolutions that set a minimum share ownership level for company executives.

6. **Director Share Ownership.** Share ownership by directors can serve to motivate and align directors' interests with the long-term interests of shareholders. The degree of ownership should be expressed as a multiple of the annual compensation as a board member, and this target amount should be accumulated within two years of board service. To meet this share ownership requirement, we support directors taking their annual board retainer in the form of company stock or restricted shares or deferred share units. We generally do not support outside directors participating in the company's stock option plan, unless there are clear limits and an objective formula for award grants, and a minimum vesting schedule or mandatory hold periods.

*Voting Guideline:* bclMC will vote **FOR** resolutions that set a minimum share ownership level for company directors. bclMC will vote **AGAINST** resolutions that provide for discretionary director participation in company stock option plans.

7. **Director Retirement Benefits.** An outside director's independence could be compromised if they receive retirement benefits from the company (this is a common practice in Japan). For this reason, we support the payment of retirement benefits to company employees, including executive directors, only.

*Voting Guideline:* bclMC will vote **AGAINST** resolutions that seek approval of retirement benefits for outside directors.

8. **Employee Share Ownership.** We support stock ownership plans that give company employees the opportunity to become shareholders, which gives them a stake in the company growth. Employee stock purchase plans must be well balanced and in the best interests of all shareholders. We favour employee stock ownership/purchase plans with the following features:

- Maximum 5% of outstanding shares are reserved for the plan.



- Maximum 10% purchase price discount from fair market value (plans with more of a discount remove too much of the market risk and give participants an unfair advantage over other shareholders).
- Hold periods on purchased shares.

*Voting Guideline:* bclMC will vote **FOR** resolutions to adopt or revise employee stock purchase plans consistent with the above terms.

**9. Supplemental Contract Benefits.** Supplemental contract benefits are an important component of the overall management compensation plan and can have a significant impact on shareholders. Benefits, such as supplemental executive retirement plans (SERPs) and change-in-control payments (also known as “golden parachutes”), can be extremely complex with a high potential for unearned value transfer to management and unanticipated costs to the company at shareholder expense. When developing supplemental benefit plans, bclMC encourages compensation committees to be guided by our same principles of disclosure, reasonableness and value enhancement that we recommend to guide development of other compensation plan components. More specifically, we advocate the following:

- **SERPs** – Shareholders should be fully informed of key aspects of a company’s SERP, including participants and the details of pensions currently accrued to executives. SERPs should be an extension of the retirement program covering other employees and any extraordinary benefits in SERP agreements should be put to a shareholder vote before implementation, such as credit for years of service not actually worked, preferential benefit formulas, and accelerated vesting of pension benefits. Payments such as extraordinary cash bonuses and variable incentives not awarded to other employees and/or not considered in the determination of retirement benefits payable to other employees should not be considered in calculating benefits payable under SERPs. Lucrative pension enhancements can represent a sizable liability to shareholders. Moreover, generous pension benefits without regard to company performance during the executive’s tenure, undermine the goal of linking pay to performance.
- **Golden parachutes** – Golden parachutes are severance payments to top executives who are involuntarily terminated or experience a substantial change in job duties in the event of a company merger or acquisition that results in a change-in-control over the company. Proponents of golden parachutes argue that they are justified on the grounds that they provide executives with financial security in the case of an unexpected change-in-control, provide a disincentive to “jumping ship” during takeover negotiations, and allow executives to make decisions in the best interests of the company and its shareholders, regardless of their own welfare, in the event of a takeover. bclMC believes that golden parachutes add little/questionable value and severance amounts paid to executives, if any, should follow labour laws. We particularly do not support the payment of golden parachutes to executives who continue their employment with the company or voluntarily leave after a change-in-control, or endorse payments that are excessive or poorly designed (e.g., allow accelerated vesting of equity-based awards).

*Voting Guideline:* bclMC will review executive contracts, such as retirement and severance arrangements, on a case-by-case basis. We will vote **FOR** resolutions requiring shareholder ratification of all executive contracts. We will vote **AGAINST** resolutions to adopt golden parachutes.



**10. Shareholder ‘Say on Pay’.** Providing shareholders with the ability to vote on company pay policies/decisions should encourage executive and director compensation that is clearly disclosed, reasonable, has a strong link to long-term shareholder value, and minimizes non-performance or potential “pay for failure” components. In addition, ‘say on pay’ offers a more targeted way for shareholders to signal discontent than voting against board members and also, Compensation Committees are better able to exercise independent judgment and restraint (i.e., to act courageously in their oversight role vis-à-vis management) when they have shareholder support for their recommendations.

*Voting Guideline: **New** bcIMC will vote **FOR** resolutions requesting an advisory (non-binding) vote on compensation packages as a means of reinforcing director accountability to shareholders. When casting an advisory vote, bcIMC will consider whether boards have demonstrated good stewardship of investors’ interests. In assessing “good stewardship”, we will look for the following compensation plan features and corporate governance policies:*

- Pay-for-performance emphasis, with linkage to protecting and building long-term shareholder value.
- Avoid arrangements that risk “pay for failure”, such as long or indefinite employment contracts, excessive severance packages, and guaranteed compensation.
- Independent and effective Compensation Committee (i.e., members with appropriate skills, knowledge, experience, and a sound process for compensation decision-making, including access to independent expertise and advice when needed).
- Clear, comprehensive disclosure that enables shareholders to evaluate executive and director pay packages fully and fairly.
- Avoid inappropriate types and levels of pay to non-executive directors to ensure that their independence and ability to make appropriate judgments in overseeing managers’ pay and performance are not compromised.
- The company has a bylaw or a policy requiring a majority vote standard for director elections.



## CAPITAL ISSUES

### Principle

bclMC believes that shareholders should have the ability to participate in the fundamental decisions that affect long-term corporate viability. For this reason, bclMC takes seriously all share issuance and use of capital requests, and we will support such requests that have a valid corporate purpose – that is, will help management pursue long-term value maximization. Alternatively, we will not support any sustained erosion of the value of outstanding shares, or approve of issuances that will be used in a manner inconsistent with adding long-term shareholder value.

### Proxy Voting Guidelines

1. **Authorized Shares.** When companies request that shareholders approve an increase in the number of common shares available or “authorized” for issuance, the increase should serve a legitimate business purpose, such as to:
  - implement a stock split;
  - finance growth through mergers and acquisitions; or
  - service reasonably structured equity incentive programs, such as stock option plans.

bclMC supports company requests for limited increases in authorized shares if they are necessary for clearly disclosed, sound business reasons. Limited capital structures protect against excessive dilution and can be increased when needed with shareholder approval.

*Voting Guideline: bclMC will vote **AGAINST** unlimited share authorization. bclMC will vote **FOR** limited increases in authorized share capital if the proposed increases are intended for legitimate, clearly stated business purposes.*

2. **New Share Issues.** From their authorized pool of share capital, companies may seek shareholder permission to issue a specific amount of stock for an explicit business purpose or to provide them with general flexibility to meet changing competitive and economic conditions. In either case, the proposed issuances may have attached provisions, such as preemptive rights, to prevent dilution to the value of outstanding shares. Preemptive rights permit existing shareholders to share proportionately in any new issues of stock of the same class. The opportunity usually comes through a rights offering. In North America, shares with preemptive rights are rarely issued due to its higher cost to the companies. In other parts of the world, however, shares with preemptive rights are often issued. There may also be cases where proposed share issuances have unspecified rights, restrictions and terms (often called “blank cheque shares”), and could be used in ways that dilute the value of outstanding shares and are not in the best interests of existing shareholders. bclMC will not support such requests.

*Voting Guideline: bclMC will vote **AGAINST** general purpose share issues without preemptive rights. bclMC will vote **FOR** share issues up to 50% dilution without preemptive rights if the issues meet a legitimate, clearly stated business purpose. bclMC will vote **FOR** share issues with preemptive rights for general or explicit business purposes.*



- 3. Dividend Policy and Share Repurchases.** Returns to shareholders can be in the form of either dividend payments or capital gain through share appreciation. Share repurchases can add to capital gain by reducing the number of shares outstanding or by providing a support to share prices.

bclMC believes that it is important for the board to have the discretion on appropriate dividend payments as well as share repurchases. However, we do not support the implementation of share repurchase programs that do not have sufficient disclosure (for example, the number of shares which may be repurchased) or reasonable purchase price limits (for example, within 10% of the 20-day moving average prior to purchase) or that may be used to prevent a company takeover. We also encourage dividend payouts of at least 30% of net income for mature companies with a steady, reliable profit stream. In our view, a 30% dividend payout ratio is a reasonable return that shareholders should expect from their mature investments, particularly if there is no better return that the company can generate from its available cash, and at the same time it allows companies to carry over sufficient funds to retained earnings, for example, to meet working capital requirements. In the case of growth companies or companies that require heavy capital outlay (such as for research and development), we accept that there may be good value to be had from retaining cash to invest in the business or in acquisitions.

*Voting Guideline: bclMC will consider dividend and share buyback resolutions on a case-by-case basis.*

- 4. Reissue Repurchased Shares.** Repurchased shares may be cancelled by the company, added back to and retained in treasury, or re-issued. Share re-issuance requests typically have no defined business rationale and pre-emptive rights are not attached (such requests are common in the Hong Kong marketplace). When there is a strong potential for company abuse of this authority, for example when the company has requested shareholder approval to issue new shares non-preemptively or the company has an excessively dilutive or opaque equity incentive program, bclMC will not support reissuance of repurchased share requests.

*Voting Guideline: bclMC will generally vote **FOR** resolutions to reissue any repurchased shares unless there is evidence of/potential for abuse of this authority.*

- 5. New Debt Issues.** Debt issuance is a popular financing strategy and bclMC respects the rights and abilities of management to determine the appropriate debt arrangements for their company. However, when evaluating a debt issuance request, we prefer to see a moderate impact on the company's current debt-to-equity ratio. A high ratio may incline market participants to downgrade the company's credit rating, increasing investment risk in the process. In terms of convertible bond issuances, we prefer to see reasonable limits on the maximum number of common shares that could be issued upon conversion, preemptive rights attached and clearly defined business reasons for the proposed instruments.

*Voting Guideline: bclMC will consider debt issuance resolutions on a case-by-case basis.*



## MERGERS, ACQUISITIONS AND CORPORATE RESTRUCTURINGS

### Principle

Companies typically create most of their value through day-to-day operations, but mergers, acquisitions and restructurings (often collectively called “corporate actions”) can create value faster than any other corporate activity. Poorly evaluated, planned and executed corporate actions can also quickly destroy value. Consequently, decisions to prevent or to enter into M&As or restructurings have important implications for shareholders, and we must evaluate each circumstance carefully from a financial point of view in addition to considering other factors. For example, because of the diversification of bclMC’s equity portfolio, we may be on both sides of an acquisition (i.e., hold shares in both the acquiring company and the target company). It is important that we assess the offer in terms of its net impact – we may perceive the transaction to be in the best short-term interests of shareholders of the target company because of a premium offer price, but not in the best long-term interests of shareholders of the acquiring company because the transaction will be financed by a substantial share issuance which will cause massive dilution.

In all cases, bclMC believes it is necessary to examine proposed corporate actions, and measures that may prevent such actions, in terms of what is in the best long-term interests of shareholders, rather than what will benefit directors, management or other interested parties. We will support corporate actions and takeover protection measures that preserve or enhance shareholder rights and maximize expected company value over the longer-term.

### Proxy Voting Guidelines

- 1. Mergers and Acquisitions.** A merger or acquisition occurs when one corporation is absorbed into another and ceases to exist in its current form. The combined or surviving company gains all of the rights, powers, duties, assets and liabilities of the partner or target company. The shareholders of the absorbed company receive stock, cash or other securities of the newly formed company as provided by the plan of arrangement. When voting on mergers and acquisitions, bclMC will take into account the following factors:
  - **Valuation** – Is the value to be received by the target company, or paid by the acquirer, reasonable?
  - **Market reaction** – How has the market responded to the proposed deal?
  - **Strategic rationale** – What are the long-term prospects of the combined company? Are the cost and revenue synergies reasonably achievable, or overly aggressive or optimistic?
  - **Negotiations and process** – Were the terms of the transaction negotiated at arm’s length so that insider and controlling shareholders’ interests are not put ahead of outside or minority shareholders? Was there a fair auction process to obtain the best terms? Where laws and regulations permit, will shareholders of both companies be given the opportunity to vote on the transaction, for example, when the acquiring company will be substantially diluted, or there will be a significant change in management and/or strategy in the combined company?



- **Conflicts of interest** – Are insiders or controlling shareholders benefiting from the transaction disproportionately and inappropriately as compared to outside or minority shareholders?
- **Deal protection costs** – Are break fees and other deal protection costs, including change of control payments to target management and success fees, reasonable and appropriate?
- **Governance** – Will the combined company have a better or worse governance profile than the parties to the transaction?

*Voting Guideline: bclMC will review and vote on merger and acquisition resolutions on a case-by-case basis.*

2. **Corporate Restructurings.** Corporate restructurings are more commonly seen on meeting agendas of companies located outside North America, particularly in European countries that have historically had complex holding structures. Restructurings include leveraged buyouts, asset spin-offs and liquidations, and going private transactions. A leveraged buyout is a proposal to buy a company by a group of financial buyers that includes and is supported by the management of the company. Leveraged buyout transactions may provide opportunities for shareholders to maximize investment returns. However, such transactions also have the potential to primarily serve the interests of existing management. Going private transactions involve the conversion of a public company into a private company. When voting on corporate restructurings, we give primary consideration to fair valuation for shareholders with long-term investment horizons, strategic rationale, planned use of sale proceeds, sales process, and managerial incentives (i.e., conflicts of interest).

*Voting Guideline: bclMC will review and vote on corporate restructuring resolutions on a case-by-case basis.*

3. **Reincorporation.** Corporate governance standards and shareholder rights under company law can vary significantly from country to country, or in the case of Canada, from province to province. Therefore, when a company requests approval for reincorporation into a new jurisdiction, bclMC makes a careful comparison of the differences between corporate governance and corporate responsibility rules and shareholder rights under the new laws. Also considered is management's rationale for the change. Re-incorporation requests may be justified on financial or commercial reasons.

*Voting Guideline: bclMC will vote **FOR** reincorporation resolutions that have a strong financial or commercial case. bclMC will vote **AGAINST** reincorporation resolutions that aim to take advantage of more relaxed local corporate governance and environmental and social standards or would weaken shareholder rights and interests.*

4. **Business Expansion.** It is common for Japanese companies to request shareholder approval to expand their business activities. For example, companies may wish to enter new markets or to manufacture or distribute new products.

*Voting Guideline: bclMC will vote **FOR** resolutions to expand business activities unless we perceive that the new business will diminish long-term shareholder value.*



5. **Shareholder Rights Plans.** The purpose of shareholder rights plans (also known as “poison pills”) and other takeover protection measures is to ensure that boards of directors of a company subject to a takeover bid have additional time to maximize shareholder value by developing an alternative transaction or soliciting a competing takeover bid. Beyond this purpose, bclMC will not support shareholder rights plans or other measures that serve insiders by making takeover bids more difficult, or that prevent shareholders from considering potentially attractive offers to buy their shares.

Other takeover protection measures include:

- **Lock-up arrangements** – These are agreements by some shareholders to sell their shares to a potential acquiring company or shareholder before a formal offer is made to the other shareholders. Potential acquirers seek lock-up arrangements to ensure that a minimum number of shares will be tendered under an offer, which gives the acquirer more deal certainty and discourages other potential bidders.
- **Crown jewel defenses** – “Crown jewels” are a company’s most valuable assets and by selling, or proposing to sell, these assets, a company can reduce its attractiveness to an acquirer and frustrate takeover bids.
- **Greenmail payments** – “Greenmail” involves a company buying its shares back from an unwanted shareholder (such as a shareholder with potential to launch a hostile bid) at a price above the current market value of the company’s stock.
- **Break-up fees** – A bidding company may require the target company to pay a “break-up fee” or termination fee in the event that its acquisition offer fails because of a competing bid. Such fees are intended to compensate a company for reasonable expenses incurred to launch a bid but excessive break-up fees impede a competitive auction process (by deterring other potential bidders by making any acquisition more expensive) and reduce the value received by shareholders. bclMC defines an “excessive” break-up fee as higher than 2% of the price payable under the bid, unless it is determined that the specific proposal is in the best interests of shareholders.

bclMC believes that is important for shareholders to have the terms and conditions of all takeover protection measures clearly disclosed (for example, disclosure of the specific costs that a break-up fee will potentially reimburse) in order to make informed decisions on the acceptability of these provisions.

*Voting Guideline: bclMC will vote **FOR** resolutions to adopt measures that are appropriately structured to not put excessive control in the hands of directors at the expense of shareholders (for example, in Canada, a new generation of rights plans has developed with many favorable features, such as specific definitions of “acquiring person” and “permitted bid”, a 20% ownership trigger, and clear limits on the board’s ability to arbitrarily waive or redeem the plan), and are intended to promote the realization of long-term shareholder value. We will vote **AGAINST** resolutions to implement lock-up arrangements, crown jewel defenses, and to pay greenmail and excessive break-up fees or other measures that frustrate a competitive auction process and reduce shareholder value. We will vote **AGAINST** or **WITHHOLD** from director nominees seeking re-election if they have implemented anti-takeover measures that are not in the best interests of shareholders.*



6. **Duration of Rights Plan.** bcIMC believes that shareholders should have the right to vote on shareholder rights plans.

Voting Guideline: bcIMC will vote **FOR** resolutions requesting that a company submit its shareholder rights plan to a shareholder vote or redeem it. bcIMC will vote **FOR** resolutions requiring a company to seek prior shareholder approval of substantive amendments and, if there are no substantive changes, to a re-confirming vote at least every three years.



## CORPORATE RESPONSIBILITY

### Principle

bclMC believes that companies that do not give careful consideration to issues of environmental and social responsibility risk failing to maximize shareholder value. We recognize that good business conduct can enhance a company's reputation and long-term economic performance, and we encourage boards and management of the companies our clients own to adopt policies and practices that appropriately address corporate responsibility matters that are relevant to their businesses. In particular, we believe that companies should focus on the:

- environmental impact of their operations and products;
- community health and safety impact of their operations and products; and
- human rights and work standards in their operations.

In voting proxies and engaging portfolio companies on environmental and social responsibility issues, bclMC seeks to encourage actions by company boards of directors and management that we believe will add long-term value to shareholders, including bclMC clients. More specifically, bclMC will support resolutions and communicate with companies on issues that are likely to improve the firm's public image and reputation, and reduce its exposure to risks. For example, requests for company compliance with human rights laws are unequivocally supported, and we will typically support resolutions that seek additional company reporting when companies lag their peers in disclosing environmental or workplace initiatives/policies. Also, we will closely consider requests of the company to cease certain actions that are believed to be harmful to society or some segment of society with focus given to the company's ability to remain profitable, and potential negative publicity if the company fails to honour the request. Finally, we may be sympathetic to the concerns raised about a firm's corporate citizenship but may not believe that the reforms or actions requested of the company provide an effective solution for those issues. In such cases, bclMC will defend the company board of directors and management.

We believe that it is prudent to apply a principles-based approach to corporate responsibility given the extensive list of social and environmental challenges that companies may face, including animal rights, drug pricing, genetically modified foods, HIV/AIDS, tobacco, toxic chemicals, global warming, nuclear safety, renewable energy, charitable and political contributions, sustainability, military sales, and workforce diversity.

Our approach to corporate responsibility set out in these Guidelines also seeks to be consistent with the commitments bclMC has made to responsible investor organizations and initiatives including the Principles for Responsible Investment (PRI), Carbon Disclosure Project (CDP), Investor Network on Climate Change (INCR), and United Nations Finance Initiative Environment Program (UNFI EP).



## **Proxy Voting Guidelines**

### **A. Environmental Issues**

bcIMC will generally support requests for increased disclosure about the environmental impacts of a company's operations and products, unless sufficient information is already disclosed/available to shareholders. We will also support efforts to require companies to take specific environmental risk management actions or to adopt specific policies aimed at protecting the environment if:

- the company does not have well-documented environmental management systems and/or does not monitor impacts;
- the company's actions and policies lag its peers;
- there has been controversy, litigation or fines stemming from its treatment of the environment; or
- the proposed actions and policies are likely to enhance its reputation and long term ability to operate.

Directors are responsible for ensuring the company has systems in place to effectively assess and manage risk, including environmental risks. bcIMC will withhold votes from, or vote against, directors who have not effectively performed this critical function and corporate performance has been unsatisfactory.

### **B. Community Health and Safety Issues**

bcIMC will generally support requests for increased disclosure about the community health and safety risks of a company's operations and products, and about initiatives to mitigate these risks, unless sufficient information is already disclosed/available to shareholders. We will also support efforts to require companies to take specific health and safety risk management actions or to adopt specific policies aimed at protecting consumers, communities and broad society if:

- the company's actions and policies lag its peers;
- there has been controversy, litigation or fines stemming from the company's health and safety standards;
- there is growing consumer concern and increasing regulation around product use; or
- the proposed actions and policies will enhance its reputation as a market leader and a responsible corporation.

Directors are responsible for ensuring the company has systems in place to effectively assess and manage risk, including consumer, community and society health and safety risks. bcIMC will withhold votes from, or vote against, directors who have not effectively performed this critical function and corporate performance has been unsatisfactory.



### C. Human Rights and Labour Issues

bclMC believes that, where applicable, companies should operate in accordance with the OECD Guidelines for Multinational Enterprises<sup>1</sup>. In addition, bclMC will support requests for companies to adopt policies that reflect the International Labour Organization (ILO) conventions<sup>2</sup> and requests for companies to:

- disclose information on the safety of its workforce;
- disclose information on its political contribution oversight and management policies, and expenditures;
- implement and disclose non-discrimination, forced labour, child labour and anti-corruption policies;
- establish and report on HIV/AIDS and other pandemic management policies in Africa and other developing countries, when the company has significant operations in these markets;
- commit to outside, independent monitoring of the company's workplace code of conduct, including conduct in overseas facilities; or
- disclose human rights policies and procedures in countries of operation with known human rights abuses.

Directors are responsible for ensuring the company has systems in place to effectively assess and manage risk, including human and employee rights and risks. bclMC will withhold votes from, or vote against, directors who have not effectively performed this critical function and corporate performance has been unsatisfactory.

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<sup>1</sup> The text of the OECD Guidelines for Multinational Enterprises is available at <http://www.oecd.org/dataoecd/56/36/1922428.pdf>

<sup>2</sup> The conventions of the International Labour Organization are available at <http://www.ilo.org/ilolex/english/convdisp1.htm>