



INVESTMENTS™



## **Proxy Voting Policy**

Adopted on July 6, 2021

# Table of Contents

<b>INTRODUCTION</b> .....	<b>4</b>
<b>1. FINANCIAL STATEMENTS, DIVIDENDS AND DISCHARGE OF DIRECTORS</b> .....	<b>6</b>
1.1 FINANCIAL STATEMENTS.....	6
1.2 DIVIDENDS .....	6
1.3 DISCHARGE OF DIRECTORS’ LIABILITY .....	6
<b>2. BOARD OF DIRECTORS</b> .....	<b>8</b>
2.1 ELECTION OF DIRECTORS .....	8
2.1.1. <i>Election of Directors</i> .....	8
2.1.2. <i>Definition of Independence</i> .....	8
2.1.3. <i>Election Criteria for Directors</i> .....	10
2.1.4. <i>Proportion of Independent Directors</i> .....	11
2.1.5. <i>Committee Member Independence</i> .....	11
2.2 SEPARATION OF CHIEF EXECUTIVE OFFICER AND CHAIR .....	12
2.3 TERMS FOR BOARD MEMBERS.....	12
2.4 BOARD SIZE .....	13
2.5 COMPOSITION.....	13
2.6 PROXY ACCESS .....	14
2.7 DIRECTOR INDEMNIFICATION.....	14
2.8 CUMULATIVE VOTING .....	14
<b>3. EXECUTIVE COMPENSATION</b> .....	<b>15</b>
3.1 COMPENSATION REPORT .....	15
3.2 COMPENSATION CONSULTANTS .....	16
3.3 COMPENSATION FREEZE DURING MASS LAYOFFS .....	16
3.4 COMPENSATION LINKED TO SOCIAL PERFORMANCE .....	16
3.5 INTERNAL PAY EQUITY .....	17
3.6 EXECUTIVE STOCK OPTION PLAN.....	17
3.7 RESTRICTED STOCK UNITS.....	18
3.8 STOCK APPRECIATION RIGHTS AND PHANTOM STOCK .....	18
3.9 OMNIBUS PLANS .....	18
3.10 EXECUTIVE STOCK PURCHASE PLANS.....	19
3.11 EMPLOYEE STOCK PURCHASE PLANS.....	19
3.12 SEVERANCE ARRANGEMENTS .....	19
3.13 BONUSES AND OTHER BENEFITS .....	20
3.14 EXECUTIVE LOANS.....	20
3.15 DIRECTOR COMPENSATION .....	20
3.15 FREQUENCY OF ADVISORY VOTE ON EXECUTIVE COMPENSATION (SAY ON PAY) .....	21
3.16 REASONABLE COMPENSATION .....	21
<b>4. SHAREHOLDERS’ RIGHTS</b> .....	<b>22</b>
4.1 UNEQUAL (OR MULTIPLE) VOTING RIGHTS .....	22
4.2 RIGHT TO FINANCIAL INFORMATION .....	22
4.3 TAKEOVERS AND THE SHAREHOLDER RIGHTS PLAN .....	22
4.4 QUALIFIED MAJORITY (SUPERMAJORITY) .....	24
4.5 ARTICLES AND BY-LAWS .....	24
4.6 QUORUM .....	25
4.7 OTHER BUSINESS .....	25
4.8 MEETING POSTPONEMENT .....	25
4.9 LINKED PROPOSALS .....	25

4.10 MAJORITY VOTING .....	25
4.11 DISSIDENT SHAREHOLDERS.....	26
4.12 SHAREHOLDER COMMUNICATIONS .....	26
4.13 SHAREHOLDERS’ RIGHT TO CALL A SPECIAL MEETING.....	26
<b>5. CAPITAL STRUCTURE .....</b>	<b>28</b>
5.1 PRIVATE PLACEMENTS .....	28
5.2 NUMBER OF AUTHORIZED SHARES, ISSUANCE AND REDEMPTION .....	28
5.2.1 Increase in Authorized Shares.....	28
5.2.2 Stock Redemption .....	28
5.2.3 Cancellation of Capital Stock .....	29
5.3 MERGERS, ACQUISITIONS AND RESTRUCTURING .....	29
5.4 AMENDMENTS TO THE ARTICLES OF INCORPORATION .....	30
5.5 DEBT RESTRUCTURING .....	30
<b>6. CORPORATE SOCIAL RESPONSIBILITY .....</b>	<b>31</b>
6.1. GENERAL GUIDELINES .....	31
6.1.1. International Laws and Standards .....	31
6.1.2. Financial Accountability and Transparency.....	32
6.1.3. Formation of Board Committees.....	33
6.1.4 Stopping a Practice or Discontinuing a Product or Service .....	33
6.1.5 INVESTING IN A SECTOR.....	33
6.1.6 Political Position .....	33
6.1.7 Anti-Social and Anti-Environmental Proposals.....	33
6.2 ENVIRONMENTAL MANAGEMENT ISSUES.....	34
6.2.1.1. Climate Change .....	34
6.2.1.2 Methane Emissions .....	34
6.2.2 Development Standards.....	35
6.2.2.1. Sustainable Forest Management Standards .....	35
6.2.2.2 Sustainable Development Standards for Palm Oil Plantations .....	35
6.2.3. HAZARDOUS MATERIALS .....	35
6.2.3.1. Genetically Modified Organisms and Nanomaterials .....	36
6.2.3.2 Neonicotinoid Pesticides .....	36
6.2.4 Sustainable Water Resource Management .....	36
6.2.5 Energy Sources .....	37
6.2.5.1 Shale Gas and Oil .....	37
6.2.5.2 Nuclear Power.....	37
6.2.5.3 Renewable Energy.....	38
6.2.6 Recycling .....	38
6.2.7 Transparency.....	38
6.2.8 Animal Rights .....	38
6.3 WORKPLACE DIVERSITY .....	39
6.3.1 Discrimination .....	39
6.3.2 Diversity .....	39
6.4 HUMAN RIGHTS.....	39
6.4.1 Working Conditions.....	39
6.4.2 Complicity in Human Rights Violations .....	40
6.4.3 Community Relations .....	41

## Introduction

The primary mission of RGP Investments Funds (“the Funds”) is to contribute to the financial health of unitholders. As manager of the Funds, R.E.G.A.R. Investment Management (“RGP Investments”) shall, in the best interests of the fund and its beneficiaries or in the interest of the fulfilment of its purpose, exercise prudence, diligence and skill, and discharge its functions loyally, honestly and in good faith<sup>1</sup>. Furthermore, the investment fund must establish policies and procedures that it will follow to determine whether, and how, to vote on any matter for which the investment fund receives, in its capacity as securityholder, proxy materials for a meeting of securityholders of an issuer<sup>2</sup>. The manager who exercises voting rights on behalf of the fund must act in the best interests of the fund and its securityholders.

As the Funds’ manager, RGP Investments believes that the drive for profitability must not compromise respect for communities, especially in the areas of human rights and the environment. Corporate prosperity does not depend solely on financial factors. A company is responsible for its reputation, brand image and management of environmental risks that could entail major financial consequences. At RGP Investments, we consider ESG issues to be important factors in the creation of long-term stock market value and we believe that investment decisions must incorporate these issues due to the significant benefits they can have on the securityholder’s interest.

With this in mind, the Fund has adopted a voting policy to govern the voting rights it exercises. The purpose is to exercise these voting rights, insofar as possible, not by blindly following the recommendations of corporate management, but by taking into consideration the best interests of the Funds’ constituents. The principles set out in this policy are not written in stone, however, and must always be applied with due regard for the Fund’s fiduciary duty. In the event of a conflict of interest, RGP Investments will consult the Independent Review Committee as appropriate. A conflict of interest arises when there are factors that may prompt one to question whether an employee of RGP Investments is acting solely on the best interests of the RGP Funds and their customers.

RGP Investments believes that proxy voting is a useful channel for promoting economic, social and environmental sustainability, as it offers a way of motivating companies to upgrade their codes of conduct with respect to ESG considerations.

For these reasons, RGP Investments has developed this RGP Investments Funds Proxy Voting Policy (the “Policy”) based on the following three principles:

### **First Principle: Long-term Profitability**

The goal of exercising the voting rights associated with the securities held is to help improve company management with a view to promoting long-term profitability. This obviously differs from a short-term profit motive that may lead to management practices aimed at temporarily increasing the value of securities, which can compromise a company’s long-term viability.

### **Second Principle: Accountability**

Members of a company’s board of directors are accountable to the shareholders, and the senior management is accountable to the board. The business rules and practices in effect must therefore uphold these lines of accountability.

---

<sup>1</sup> *Securities Act*, CQLR, Chapter V-1.1, Section 159.3.

<sup>2</sup> *Regulation 81-106 respecting Investment Fund Continuous Disclosure*, CQLR, Chapter V-1.1, r. 42, Section 10.2.

As well, given the negative impact that poor ethical, social and environmental practices can have on a company's costs and reputation, we believe that the principles of good governance must include those relating to corporate social responsibility in the broadest sense.

**Third Principle: Transparency**

Corporate information must be accessible to allow a proper assessment of a company's situation. Moreover, companies must adhere to best auditing practices.

These three principles will help us to better meet the obligations arising from our fiduciary duty.

This Policy covers a number of topics on which the Funds may be called to vote. The seven sections of the Policy cover the main issues that come up during shareholder meetings: financial statements, dividends and discharge of directors, the board of directors, executive compensation, shareholder rights, capital structure and corporate social responsibility. Nonetheless, it cannot be exhaustive or foresee all possible situations. For situations not covered here, the Funds will apply the general principles and values stated above to govern how proxy voting rights are exercised.

The guidelines set out in this Policy shall be applied in light of the specific circumstances of each vote. That said, these guidelines are not written in stone and may be disregarded if they run counter to the best interests of the unitholders. Above all, the Funds will always vote in the fundamental long-term interests of their unitholders.

# 1. Financial Statements, Dividends and Discharge of Directors

Proposals to approve the company's financial statements, dividend payments or the discharge of directors or auditors from liability are prevalent in European and Asian companies.

## 1.1 Financial Statements

Some companies do not present reports for which shareholder approval is required until the actual general meeting, rather than disclosing them in advance, which would allow shareholders to study the reports beforehand.

### Position

RGP Investments will vote for the approval of financial statements and directors' reports only if these are disclosed prior to the meeting. The Policy also requires the disclosure of sufficient information about the competence and independence of directors. The age, gender, nationality, career history, outside positions held and date of joining the board of directors and the company must also be disclosed. As well, corporate governance practices should be appropriate and in line with market standards. Finally, the auditor that signs these documents should be independent based on the criteria set out in this Policy. (*See 4.2 Right to Financial Information.*)

RGP Investments will oppose proposals seeking to reduce the notice required when calling special general meetings to less than 21 days. Reducing the notice requirement shortens the time shareholders have to prepare for the meeting.

## 1.2 Dividends

In North America, as elsewhere in the world, many companies must seek shareholder approval for the payment of an ordinary or extraordinary dividend.

### Position

RGP Investments will generally vote for the payment of a dividend, unless the proposed dividend is deemed unreasonable by various stakeholders (such as governments or financial markets), i.e., if the dividend is too high or too low compared to the dividend payout ratio and no explanation is provided to justify this unusual payout. For example, during the financial crisis of 2009, governments – and the government of France in particular – opposed the payment of dividends by companies who had received a bailout.

RGP Investments will generally vote for dividends paid in the form of shares instead of cash, on condition that the company allows its shareholders to choose the form they prefer. This method has advantages for both the shareholder and the company. The shareholder can reinvest directly in the company without additional transaction fees, while the company does not have to make cash payments, thereby preserving its capital. However, RGP Investments will oppose share-based dividend payments if they lead to the creation of a new class of preferred shares.

RGP Investments will oppose the payment of dividends in cases where the company wishes to use the reserve fund for this purpose. The Policy will thus take into account the need for good risk management, especially reputational risk.

## 1.3 Discharge of Directors' Liability

In some European countries, boards ask shareholders to discharge them of liability for decisions made in the previous year. This discharge is a sign that shareholders approve of corporate policies and represents a

vote of confidence in the board. It does not in any way eliminate the possibility for shareholders to file suit at a later date.

**Position**

RGP Investments will oppose all directors' liability discharge proposals since these limit future recourse possibilities for shareholders, should they be needed.

## 2. Board of Directors

The board of directors has six main duties:

- develop the company’s mission and strategic plan;
- exercise control in accordance with its legal responsibilities;
- assess the company’s financial health, the quality of its human resources, and the performance of both management and the company as a whole;
- ensure that risk is measured and managed effectively, including environmental, social and governance-related risk;
- supervise the selection and work of the external auditors; and
- maintain good relations with all stakeholders.

The following are some considerations for a well-functioning corporate board of directors.

### 2.1 Election of Directors

The shareholders are responsible for electing the members of the board of directors. Expertise and independence are the criteria that should guide this Policy in the choice of directors.

#### 2.1.1. Election of Directors

Some companies still advocate single-ballot voting for a slate of directors proposed by the board itself. Allowing shareholders to vote for each individual director is preferable and, ideally, there should be more nominees than positions to be filled.

#### Position

RGP Investments will vote for proposals calling for directors to be elected individually and including more nominees than positions to be filled.

RGP Investments will vote against, or withhold its vote if voting “against” is not an option, the election of directors if the proposal is in the form of a slate ballot.

#### 2.1.2. Definition of Independence

Members of the board of directors should have the independence necessary to fulfill their responsibilities. The definition of independence varies from policy to policy.

Canadian regulatory authority policies<sup>3</sup>, which serve as a benchmark for Canadian companies, consider directors to be “unrelated” (expression used to describe “independent” directors) if they do not have, nor do they appear to have, any interests in the company other than those arising from shareholding. In the information circular sent to shareholders prior to the general meeting, the management of companies listed on the Toronto Stock Exchange, the New York Stock Exchange and NASDAQ must disclose the extent to which each director is independent or not. The New York Stock Exchange adopted a proposal that considers family ties to be ties of dependence. Some investors use a more restrictive definition than the stock exchanges to assess director independence.

---

<sup>3</sup> In 2005, the Canadian Securities Administrators (CSA), the umbrella organization of Canada’s provincial and territorial securities regulators, adopted a number of regulations that include definitions of director independence, specifically National Instruments 58-101, 52-110 and 52-109.



For the Policy, a director who has a direct or indirect material relationship with the company (a relationship is material if the board of directors could reasonably expect it to interfere with the director's exercise of independent judgment<sup>4</sup>) is considered to be "non-independent" or "related", i.e. a director who:

- 1) is or has been an employee or executive officer of the company<sup>5</sup>;
- 2) has an immediate family member who is or has been an executive officer, with no time limit set;
- 3) is or was within the past three years a partner or employee of the company's internal or external auditor and who personally worked on the company's audits during that time;
- 4) has a minor child or spouse, or the spouse has a minor child, who is a partner or employee who participates in the audit, assurance or tax compliance practice, or who was a partner or employee within the past three years and personally worked on the company's audits during that time;
- 5) is or has been, or has an immediate family member who is or has been, within the past three years, employed as an executive officer of another entity if any of the company's present executive officers serves or served, at the same time, on that entity's compensation committee;
- 6) is also an executive officer of another company, which means that the two boards are interlocked<sup>6</sup>;
- 7) was in receipt of, or has an immediate family member who was in receipt of more than \$75,000 a year in direct compensation from the company during any 12-month period in the past three years;
- 8) accepts, or whose spouse or child accepts, directly or indirectly, any substantial (i.e., over \$160,000) consulting fees (as lawyer, banker or securities broker);
- 9) provides professional services (legal, financial, medical, etc.) to an executive officer;
- 10) has significant economic relations with the company, for instance:
  - a. with the company's customers or suppliers;
  - b. with shareholders who have significant commercial relations with the company;
- 11) is a member of an organization, such as a foundation or university, that receives a grant or financial contribution from the company of \$100,000 or equal to 1% of the donations received by the organization;
- 12) is a shareholder who owns more than 20% of a firm that provides consulting services to the company;
- 13) is a shareholder with over 20% of the voting rights;
- 14) owns a quantity of stock options in the company that, when added to his or her shares, would amount to an ownership stake of more than 20%;
- 15) has served on the company's board for more than 10 years;
- 16) owes the company or one of its subsidiaries more than \$100,000;

---

<sup>4</sup> In 2005, the CSA adopted a number of regulations that include definitions of director independence, specifically National Instruments 58-101, 58-201, 52-110.

<sup>5</sup> "The company" includes its subsidiaries and parent company.

<sup>6</sup> Boards where the CEO of each company sits on the board of directors of the other company.

- 17) has received or been promised a bonus (additional compensation) by an investor in the company for any reason.

### **2.1.3. Election Criteria for Directors**

Two criteria would appear to be essential in the selection of directors to ensure that the board acts in the best interests of the company and its shareholders: independence and expertise. Independence minimizes conflicts of interest and is defined more in terms of independence of judgement and interests. Expertise assures the shareholders that the directors will be capable of performing their duties effectively. Other criteria to consider include the nominee's reputation, whether the nominee has offered excessive compensation to the CEO, the nominee's attendance at board and committee meetings, as well as the number of different corporate boards the nominee is serving on simultaneously. In addition, the company's long-term performance can be considered in relation to that of its peers and its sector.

#### **Position**

RGP Investments will vote against, or withhold its vote if voting "against" is not an option, certain nominees or the entire board of directors if it deems that certain criteria are not met, thus calling into question the ability of one or more candidates to represent the shareholders.

Such criteria include, for example:

- 1) attendance at less than 75% of board and key committee meetings without a valid reason;
- 2) a reputation tainted by involvement in a scandal or by unsatisfactory performance on another board;
- 3) if there is no advisory vote on compensation, a level of executive compensation that does not comply with the Policy will result in the withholding of votes from members of the compensation committee to the extent that individual voting is available; if there is an advisory vote on compensation and it clearly demonstrates shareholder disapproval of executive compensation, RGP Investments will withhold votes from compensation committee members the following year if there has been no change to the plan in spite of shareholder opinion;
- 4) approval by the audit committee of excessive non-audit related fees (i.e., in excess of one-quarter of the total fees) or lack of shareholder ratification of the auditor at the annual meeting will result in votes being withheld from members of the audit committee, to the extent that individual voting is available;
- 5) adoption of a restructuring plan or shareholder rights plan that is not in the best interests of shareholders, refusal to provide information to which shareholders are entitled, or other conduct that is contrary to the long-term interests of the company;
- 6) compensation, audit or nominating committees are not entirely composed of independent directors or their performance is unsatisfactory;
- 7) the opinion of stakeholders, such as employees or community members: these may pose significant performance risks to the company;
- 8) the nominee serves on the boards of too many other public companies: the limit is five for an outside director, two for an outside director who is board chair or has a full-time occupation, and one for an executive; in the case of the company's CEO, since he or she is the primary link between

the management and the board, RGP Investments will not withhold its vote but instead will withhold votes with respect to the renewal of the CEO's other directorships;

- 9) a refusal to comply with a shareholder proposal that is in the long-term interests of the company and that has been approved by a majority of shareholders in the past year or two;
- 10) the nominee is the CEO of a publicly listed company and serves on the compensation committee;
- 11) the nominee is over 70 years of age and serves on the boards of more than one company.

#### **2.1.4. Proportion of Independent Directors**

To ensure that the board is able to fulfill its evaluation mandate independently of management, a minimum must be set for independent directors. As well, it is our opinion that directors who have served on the board for more than 10 years, although considered to be related under the Policy, are able to bring significant knowledge of the company, relevant experience and depth to the board of directors. Nonetheless, we believe that a limit should be set on the number of directors who are related due to the length of their time on the board to avoid the development of an "old boys club" dynamic.

It should be noted that in Europe, employees frequently sit on boards of directors as a result of certain laws. The Policy is in favour of this practice since employees are stakeholders when it comes to the company's social performance. The Policy excludes these employees when assessing the board's level of independence.

#### **Position**

The Policy requires at least two-thirds of directors to be independent. If independent directors do not make up at least two-thirds of a board, the Policy will withhold its votes from non-independent directors only, based on the criteria enumerated in Section 2.1.2.

The Policy requires that less than one-third of directors have served on the board for more than 10 years. If more than one-third of the directors are considered non-independent due to their length of tenure, the Policy will withhold its votes only from directors who have served for more than 10 years.

#### **2.1.5. Committee Member Independence**

##### **Audit Committee**

The audit committee is responsible for facilitating the board's decision-making in three main areas:

- accounts and financial reporting;
- risks and internal controls;
- internal and external audits;
- audit and financial succession planning.

##### **Compensation Committee**

The role of the compensation committee is to support the board in its governance responsibilities. This committee provides strategic oversight of the company's executive compensation practices, notably with respect to:

- executive performance, compensation, employment contracts;
- compensation principles and policies, incentive plan and equity-based compensation.

## **Nominating Committee**

The nominating committee assists the board in fulfilling its human resources policy responsibilities, notably with respect to:

- compensation, employment contracts;
- developing and updating profiles of potential board nominees;
- nomination process for board and sub-committee members;
- succession planning for senior management and the CEO.

### **Position**

The board of directors must establish a nominating committee, an audit committee and a compensation committee. These committees must be composed entirely of independent directors. The Policy will withhold votes from non-independent members serving on the compensation, nominating and audit committees. This criterion may result in withholding votes from the entire board if individual voting is not available.

In the absence of a board structure that includes committees, RGP Investments will withhold votes from non-independent directors.

## **2.2 Separation of Chief Executive Officer and Chair**

To give the board of directors more independence in exercising its oversight role, the separation of the board chair and chief executive officer positions is often proposed. The role of the board chair is to supervise the work of the board and its committees, as well as evaluating the performance of senior management and the chief executive officer. As for the CEO, his or her role is to ensure the smooth running of the company's management and day-to-day operations. Combining these duties thus presents a significant risk for conflict of interest, especially with regard to evaluating the CEO's performance and setting his or her compensation.

### **Position**

RGP Investments will vote for proposals calling for the separation of the board chair and chief executive officer roles. Moreover, it will withhold support from any nominee who is to take on both of these roles at the same time.

The Policy will also abstain from supporting the nomination of a board chair or lead director who would be defined as non-independent under Section 2.1.2.

## **2.3 Terms for Board Members**

On boards with staggered terms, some directors are generally elected for terms of more than one year, with the rest up for election at the annual meeting of shareholders. In the case of a board with staggered two-year terms, for instance, each year shareholders would vote in half of the directors for two-year terms.

Those who support this staggered formula find that it provides continuity and promotes skills transfer. Nonetheless, the annual election of a full slate of board members provides an opportunity to realign the company according to the shareholders' wishes. Investor opposition is mainly related to the fact that this practice constitutes a barrier to hostile takeover bids.

### **Position**

RGP Investments will vote for proposals calling for the annual election of all directors. It will oppose any proposals calling for longer terms for directors.

## **2.4 Board Size**

The size of a board of directors may vary depending on the size of the company and the complexity of its business. Upper and lower limits are set out in the company's articles of incorporation. If a board is too large, it risks diluting the decision-making power of each director, reducing their involvement and thus the board's overall effectiveness in governing the company. Conversely, a board that is too small may not be able to fulfill its mandate or provide the variety of expertise needed by the company. Legally, a board of directors must have at least three members<sup>7</sup>. We also believe that the board should have an odd number of members to avoid tied votes where, in many companies, the chair can cast a second vote to break the tie. The Policy is opposed to such a practice.

Companies often ask their shareholders to set the size of the board at the annual meeting. This measure is recommended, since it assures shareholders that board size will not be subject to manipulation allowing management to retain control of the board. The Policy supports proposals calling on shareholders to set an optimal range within acceptable limits.

### **Position**

RGP Investments will vote for proposals suggesting that the size of the board be set at 5 to 15 members. The Policy supports proposals that call on shareholders to set an optimal range rather than a specific number. This gives boards more flexibility.

The Policy opposes proposals to set the size of a board when this does not meet the criteria for independence listed in section 2.1.4.

The Policy opposes any amendment to a company's articles or by-laws if the amendment includes a provision regarding a second or casting vote for the chair in the event of a tie.

## **2.5 Composition**

To drive long-term success, corporate boards need to include directors from a wide range of backgrounds and knowledge, including women and people from diverse cultural, ethnic and economic backgrounds. Board diversity is not merely symbolic. Women and visible minorities represent more than half of the workforce and own about one-third of all small- and medium-sized businesses in Canada. Women also make the majority of consumer purchasing decisions in North America.

At present, most boards include too few women. Almost 40% of the companies on the S&P/TSX compound index have no female board members. An absence of women directors indicates that the nominating committee has a narrow view of the qualities required to serve on the board of a public company and has failed to develop a well-structured process for identifying and selecting candidates.

### **Positions**

RGP Investments will vote *for* proposals that promote greater diversity on boards of directors.

If fewer than 30% of a board's members are women, RGP Investments will vote *against* the nominating committee members, except for any female members of the committee.

---

<sup>7</sup> Raymonde Crête et Stéphane Rousseau, *Droit des sociétés par actions — principes fondamentaux*, Montréal, Éditions Thémis, 2002, p. 198.

## **2.6 Proxy Access**

Currently, it is very hard for a shareholder to nominate a director in the United States and Canada, although this right is recognized by the world's 40 largest financial markets, and by the U.S. Securities and Exchange Commission (SEC). In addition, this provision was included in the Dodd-Frank Act, which came into force in July 2010.

### **Position**

RGP Investments will vote for a proposal allowing the nomination of directors by shareholders who own at least 1% of common shares and have held these shares continuously for more than one year, and who provide sufficient information to the other shareholders about their nominees' skills, independence and possible conflicts of interest. Moreover, this right should be limited to no more than 25% of board members on a cumulative basis.

RGP Investments will compare the proposal and the shareholder rights in effect at the time of the vote, and will support the one closer to the Policy's position.

As well, RGP Investments will vote for an advance notice requirements policy if the notice period is not less than 30 days and not more than 65 days prior to the date of the company's annual general meeting. However, if the annual general meeting must be held less than 40 days after the date of the first public announcement of the meeting, shareholders will have until the end of the tenth business day after the public announcement, at the latest, to file a notice.

For a special general meeting, notice to the company must usually be provided no later than the close of business on the fifteenth day after the date that the first public notice of the meeting was published.

## **2.7 Director Indemnification**

To encourage competent and qualified directors to stand for election to a board of directors, it seems reasonable to limit directors' liability. Nonetheless, the shareholders also need remedies for dishonest and intentional breaches of fiduciary duties by directors.

### **Position**

RGP Investments will vote for proposals to limit directors' personal liability and to indemnify directors against legal costs providing they acted honestly and in good faith.

## **2.8 Cumulative Voting**

Cumulative voting allows shareholders to exercise as many votes as the number of shares they own multiplied by the number of directors to be elected. These votes may be exercised in favour of a single nominee or divided among all nominees at the shareholder's discretion.

Cumulative voting facilitates minority representation on the board as a way of increasing their independence from management. However, opponents of cumulative voting fear that the directors elected through this process will place the concerns of certain interest groups above those of the shareholders in general.

### **Position**

RGP Investments will vote for proposals in support of cumulative voting unless this is clearly not in the best interests of all shareholders.

### 3. Executive Compensation

An executive compensation plan usually includes components other than the base pay, such as stock option programs and sometimes even personal loans to executives. Generous executive compensation packages often stand in stark contrast to the slow growth in pay for ordinary workers. As well, there is often little correlation between executive compensation and the company's financial performance.

However, certain principles should guide the compensation committee in charge of setting the level and form of compensation offered to the company's executives, in order to avoid abuses that would be costly for both shareholders and employees. Thus, the compensation plan should align the interests of management and directors with the company's long-term profitability while being consistent with its overall social responsibility goals.

#### 3.1 Compensation Report

A company's executive compensation should be reasonable and never higher than necessary to motivate and retain executives, in the interests of long-term performance. There should also be disclosure to allow shareholders to assess the various components, i.e., annual salary, short-term incentives, long-term incentives in the form of stock or options and, lastly, other bonuses and benefits, such as the supplemental retirement plan.

#### Position

The management may withhold votes from members of the board's compensation committee or vote against them if the company adopts poor compensation practices, such as:

- employment contracts providing guaranteed bonuses and other grants over several years;
- bonuses that are excessive and out of line with the compensation plan, including increases for the reimbursement of taxes on personal expenses, or especially large bonuses relative to peers and company performance without justification;
- performance metrics that are cancelled or modified during the year without adequate explanation;
- performance metrics presented only as a list, with no weighting or assurance that they will be used;
- supplemental retirement plans where the calculations include additional years of service or bonuses;
- separation payments made despite poor performance by the executive or that include various benefits, such as allowances for use of a personal vehicle or use of the company plane;
- reimbursement of personal taxes by the company;
- poor disclosure of compensation practices;
- compensation that is not clearly based on performance;
- a compensation plan that gives too much discretionary power to the compensation committee, for example, in selecting metrics and/or adjusting targets for ordinary or extraordinary items.

RGP Investments will vote for executive and director compensation if it is deemed to be reasonable and if clear, specific details are provided.

RGP Investments will also vote for proposals calling for the clawback of bonus pay to executives and directors in the event of a material restatement of the company's financial reports or if they are accused of misconduct.

The Policy favours the disclosure of the ratio of executive pay to mean earnings in Canada. The Policy will evaluate CEO compensation by comparing it with that of peer-group CEOs of same-sector Canadian companies of similar size. The Policy will also evaluate the variance of this compensation versus the variance

of the company's performance and the relative variance of the company's performance versus its industrial sector.

It should be noted that the SEC has required disclosure of the CEO pay ratio since 2017.

If details of CEO compensation are not fully disclosed, the Policy may sanction the company by withholding votes from the members of the board's compensation committee.

### **3.2 Compensation Consultants**

The compensation committee considering these matters may call on external consultants. According to the Canadian Coalition for Good Governance (CCGG)<sup>8</sup>, to ensure the independence of compensation consultants, the compensation committee should consider applying the rules set out in the Sarbanes-Oxley Act:

- the compensation committee chair must supervise the consultant selection process and engage the consultant;
- the majority of the fees paid to a compensation consultant by the company must be for work related to executive compensation;
- any other work performed for the company by a consultant with respect to compensation matters must be approved in advance by the compensation committee chair;
- the name of the consulting firm must be published in the annual proxy circular<sup>9</sup>;
- amounts paid to consultants must be disclosed in the annual proxy circular, along with fees paid for pre-authorized work and a consultant independence assessment.

#### **Position**

RGP Investments will vote for any proposal calling for the disclosure of fees paid to a compensation consultant. If applicable, it will withhold votes from the members of the compensation committee standing for election, for the following reasons:

- if most of the compensation consultant fees are not compensation-related;
- if the fees paid to the compensation consultant represent more than 10% of the consulting firm's annual income; and lastly
- if the duration of the relationship between the consulting firm and the company is judged to be too long and compromises the consultant's independence (10 years).

### **3.3 Compensation Freeze During Mass Layoffs**

It often appears unacceptable for a company to increase executive compensation while at the same time proceeding with a restructuring that involves a series of mass layoffs.

#### **Position**

RGP Investments will oppose any increase in executive compensation in the event of layoffs until the positive financial effects of this measure become clear.

### **3.4 Compensation Linked to Social Performance**

A growing number of companies include environmental, social and governance (ESG) parameters in the criteria used to set senior management compensation levels.

---

<sup>8</sup> CCGG, *Good Governance Guidelines for Principled Executive Compensation*, June 2006.

<sup>9</sup> Mandatory under National Policy 58-201 and National Instrument 58-101 since June 30, 2005.



**Position**

RGP Investments will vote for proposals to base executive compensation partly on the company's ESG performance.

**3.5 Internal Pay Equity**

According to a study by the Canadian Centre for Policy Alternatives, in 2016 corporate CEOs were paid an average of 209 times more than the average wage. This ratio was 193 in 2015 and 104 in 1998. The ever-widening pay gap between executives and employees is concerning, especially since compensation is a major issue at the moment and the decline in the performance of financial institutions was significant in 2008. Furthermore, the pay equity ratio can offer a measure of the company's relative performance, which should also be measured by the wages offered to employees. The pay equity ratio indicates the spread between executive and employee compensation. By using a "reasonable" ratio, companies that wish to enhance their executive compensation plans will have incentive to raise the wages of their employees, thus ensuring a more equitable redistribution of profits.

Another important metric to know is the pay equity ratio between the total compensation of the five most senior members of management and that of the CEO. This ratio would allow the shareholders to assess the quality of the executive compensation budget allocation and, consequently, to avoid unfairness in salary distribution based on individual responsibilities. Moody's Investors Service currently recommends a ratio of no more than three times the average total salary of the other executives. For Russell 3000 companies, the median of this ratio is currently 2.45, with close to 75% reporting a ratio of less than 3.00.

**Position**

RGP Investments will vote for any proposal calling for a report that gives the pay gap between the CEO and the median employee, and that sets a range for the acceptable ratio. Ideally, disclosure should make a distinction between the national internal equity ratio, which compares only employees within the company's home country, and the global internal equity ratio, which takes both domestic and international employees into account. The record of changes in the internal equity ratio is also important to disclose, since this makes it possible to analyze how the company's profits are distributed, and thus to assess the fairness and equity of this.

The Policy will oppose the CEO's compensation if the internal equity ratio is above 150.

**3.6 Executive Stock Option Plan**

When a stock option is granted, the purchase (or sale) is made at a set price (exercise price), during a specific period. Options give executives the opportunity to award themselves additional compensation when they sell their shares, to the extent that the stock price is higher than the exercise price.

The use of stock options is very controversial because it can lead management to sacrifice long-term goals in favour of a short-term increase in the stock price. As well, since the share value is also linked to economic factors beyond the company's control (economic growth, for example), this type of compensation can result in a bonus that is linked neither to the company's performance nor to the executive compensation paid by other, same-sector companies. As a result, some option programs are now based on the value of the company's industry index or on clear short- and long-term performance targets.

Changes in stock option plans are always submitted to shareholders for approval at the annual meeting if the dilution effect<sup>10</sup> is greater than 10%. However, amendments proposed by the New York Stock Exchange and accepted by the SEC require all changes in stock option plans to be approved by shareholders. As well, Canadian companies must already allow shareholders to vote on certain stock option plan changes even if the dilution effect is below this threshold. There are two approaches for establishing guidelines for approval of a stock option plan. Note also that it is now mandatory in both Canada and the United States for financial statements to disclose the estimated cost of employee stock option grants to improve the information available in such as way as to offer a more complete picture of the company's financial position.

#### **Position**

The Policy will oppose all stock option plans and will favour compensation in the form of share allotments that cannot be sold as long as the executive remains in his or her position.

### **3.7 Restricted Stock Units**

One feature of restricted stock units is that they are not totally transferable until certain conditions have been met. As a rule, these conditions include a period of time in the form of a holding period or vesting period. Restrictions can also be based on performance metrics, such as earnings per share or other financial targets. Some companies have begun to include social performance criteria. One advantage of restricted stock units, which are becoming increasingly popular with companies, is that they can be expensed as soon as they are granted. Most institutional investors support this type of plan, providing it is well managed.

#### **Position**

The Policy will oppose plans containing restricted stock units in the following cases:

- No vesting period is set, or the vesting period is less than three years.
- The performance-based criteria for receiving restricted stock units are not disclosed.
- The performance criteria are not strict enough. For example, length of employment is not a valid criterion.
- Even if performance targets are not met, the reward system still pays out or excessively rewards a performance that is consistently below industry or benchmark index averages.
- Total dilution exceeds 5% of outstanding shares. For an equity-based plan that includes restricted stock units, total potential dilution should not exceed 10%.

### **3.8 Stock Appreciation Rights and Phantom Stock**

Stock appreciation rights entitle the holder to receive compensation equal to the difference between the market price of the share and the share price at the time the rights were granted. Phantom stock allows the holder to receive income associated with the appreciation of shares that were never actually granted; it is also known as "shadow stock." With this type of compensation, there is no downside risk since the beneficiary does not actually own any shares of the company. Contrary to the idea that it strengthens the linkage between company performance and executive compensation, phantom stock tends to encourage excessive risk-taking in the short term, to the detriment of long-term performance.

#### **Position**

RGP Investments will vote against plans that allow phantom stock to be granted.

### **3.9 Omnibus Plans**

These are stock-based compensation plans that include a minimum of three types of grants, which makes them difficult to evaluate.

---

<sup>10</sup> The dilution effect is calculated as follows: number of potential shares associated with new options divided by the number of shares outstanding at the time the options are surrendered.

**Position**

RGP Investments will vote against omnibus plans.

**3.10 Executive Stock Purchase Plans**

Executive stock purchase plans consist of share allocation programs aimed at stimulating long-term performance and aligning the interests of executives with those of shareholders.

**Position**

RGP Investments will vote for equity compensation plans only when share allocation is based on management performance and aligns management interests with those of shareholders. However, the Policy may oppose plans if:

- they give rise to total dilution in excess of 10%;
- they have no expiry date or the expiry date exceeds a period of 5 years;
- the allocation is 2% or more;
- the holding period before shares are granted is less than 3 years;
- the plan allocates 20% of the shares available in a given year to one individual;
- the plan includes consultants, suppliers or other temporary employees;
- executives can buy and sell their shares in the event of a change of control, except in the case of a loss of employment following a change of control;
- performance criteria are not clearly defined or are so vague as to make it impossible for shareholders to properly evaluate the link between compensation and company performance.

**3.11 Employee Stock Purchase Plans**

Employee stock purchase plans consist of programs for employees whereby they may purchase a limited number of shares at a discount from the market price. Such plans align employee interests with those of shareholders.

**Position**

RGP Investments will vote for employee stock purchase plans provided that the discount is no more than 15%, that a minimum holding period is established, that there is a defined maximum number of shares that may be acquired and that the potential dilution effect is less than 10%.

**3.12 Severance Arrangements**

This is an arrangement for granting a substantial severance payment to a director, executive or employee in the event of a corporate merger or acquisition that results in a change of control. These “golden parachutes” are often excessive and reduce company assets by an unjustified amount. Many institutional investors ask that such payments be subject to a shareholder vote if they exceed twice the annual salary plus performance-based bonuses. Severance packages are determined during employment contract negotiations, not annually or when a contract is ending.

**Position**

The Policy will examine severance arrangements on a case-by-case basis and will not support golden parachutes deemed to be excessive.

Under the Policy, a golden parachute or severance package is deemed to be excessive when it is more than twice the annual salary plus bonuses of a director, executive or employee. Similarly, the Policy will oppose severance payouts in the event of a corporate merger or acquisition if the director, executive or employee does not lose his or her position.

RGP Investments will also vote for proposals calling for the company to adopt a policy stipulating that in the event of a change of control, executives will not be able to exercise the securities they hold.

### **3.13 Bonuses and Other Benefits**

Bonuses should be awarded for above-average performance based either on targets or on performance standards. Bonuses should not be paid on a one-time basis.

#### **Position**

The Policy will oppose incentive plans that are not performance-based or that reward executives for average or below-average performance. The Policy will oppose incentive plans if the performance criteria are such that the bonuses paid to executives are based only on an increase or decrease in the market price of the company's stock.

The Policy will also oppose the payment of bonuses when the company's disclosure of performance criteria is so vague that the shareholders are unable to determine the criteria used to award these bonuses.

The Policy will also oppose the payment of tax-sheltered cash or equity bonuses amounting to more than US\$1 million.

When establishing performance-based incentive plans, the ceiling for the variable portion paid in cash may not exceed twice the fixed salary.

### **3.14 Executive Loans**

Companies offer loan programs for senior management, in many cases with low or no interest, to allow executives to buy company stock. Such loans make compensation programs less transparent. U.S. legislation prohibits loans to executives and directors, but Canadian law still allows this practice.

#### **Position**

RGP Investments will generally vote against programs granting loans to executives and directors unless interest is charged at the market rate.

### **3.15 Director Compensation**

Directors find themselves in a tricky situation, since they set their own compensation. Preferably, the financial interests of management, directors and shareholders should be aligned. To achieve this, directors are expected to own shares in the company they direct.

#### **Position**

RGP Investments will vote for proposals calling for the application of compensation-related principles. The Policy will oppose plans that grant stock options to directors. RGP Investments will vote for minimum shareholding requirements for directors if the shares are held for the entire duration of their term on the board.

The Policy will oppose director compensation that is not justified by the company's performance. The Policy will also oppose retirement bonuses for directors. The Policy will oppose change-of-control or breach-of-contract benefit provisions for directors.

Failure to meet the above conditions will not automatically result in a vote against the directors standing for election.

### **3.15 Frequency of Advisory Vote on Executive Compensation (Say on Pay)**

Some jurisdictions, including the United Kingdom, Australia and a number of European countries, already require listed companies to allow shareholders to express their views through an advisory vote on executive compensation. In the United States, the Dodd-Frank Act requires each company to include in its proxy statement, as of January 21, 2011, a proposal to solicit shareholder feedback on its compensation policy, as well as a proposal on the frequency of this vote (every year, every other year or once every three years). The Dodd-Frank Act also requires companies to provide their shareholders with an advisory vote on compensation arrangements and understandings in connection with a corporate merger or acquisition. In light of past abuses in this area, it is relevant to present shareholders with an annual compensation report to facilitate better analysis and communications around this issue. As well, mainly due to its advisory nature, part of the motivation for supporting a "say on pay" is to provide an additional channel for communication between shareholders and the board. Thus, holding the advisory vote every year should help to clarify the message that shareholders are sending.

#### **Position**

RGP Investments will vote for an advisory vote on executive compensation to be held annually. For non-U.S. companies, RGP Investments will vote for proposals calling for an advisory vote on executive compensation and, if applicable, will vote for the highest frequency offered.

### **3.16 Reasonable Compensation**

Even if a compensation plan meets all of the above criteria, the Policy reserves the right to vote against any compensation deemed unreasonable.

## 4. Shareholders' Rights

The shareholders elect the members of the board of directors. This body exercises control over the company on their behalf; shareholders are therefore entitled to accountability from directors and to be treated like other shareholders.

### 4.1 Unequal (or Multiple) Voting Rights

When shares with fewer voting rights are issued, management or specific directors can retain control of the company by keeping shares with more voting rights for themselves. This kind of structure leads to situations where the management, often members of a single family, is not accountable to the shareholders.

#### Position

RGP Investments will vote against unequal voting structures.

### 4.2 Right to Financial Information

The external auditor is appointed at the annual meeting of shareholders with a mandate to validate the quality of the company's financial statements. An accounting firm may not be independent from management if this same management is a source of consulting contracts. Criteria that may compromise the independence of the auditors include:

- more than one-quarter of the fees paid are for consulting;
- a relationship with the company that is too lengthy.

#### Position

If there is no "against" voting option, the Policy will withhold its vote from the proposed auditor for the following reasons:

- if there is no disclosure of a breakdown of the fees paid during the past year;
- if more than one-quarter (25%) of the accounting firm's fees are not audit-related;
- if the fees paid to the accounting firm represent more than 10% of its annual income;
- if there was a change in auditor in the past year due to a disagreement between the auditor and the company;
- if the firm's reputation casts doubt on its ability to audit the company's financial statements;
- if the audit partner is not rotated periodically (the Sarbanes-Oxley Act requires rotation of the lead audit partner every 5 years); and
- if the duration of the relationship between the auditor and the company is judged to be too long, thus compromising the accounting firm's independence.

### 4.3 Takeovers and the Shareholder Rights Plan

If a takeover attempt is deemed hostile by the management of the target company, the main question from the shareholders' point of view is: When management opposes a takeover bid, are they working in their own interests or the best interests of the company and its shareholders?

When a takeover bid is supported by company management, the same question arises regarding management's ability to act in the best interests of the shareholders. Would it be possible to get a better offer than the one management would like to accept? That is what shareholders are asking themselves.

The by-laws of some companies contain measures that can be used to dissuade a potential buyer from announcing a hostile takeover bid to shareholders. The best-known of these defensive mechanisms is the

“shareholder rights plan,” commonly known as a “poison pill,” that gives existing shareholders the right to purchase additional shares or to sell shares at very attractive prices in the event of a hostile takeover bid. These rights, when triggered, can impose significant economic penalties on a hostile acquirer. In the United States, a shareholder rights plan can be adopted without shareholder approval. In Canada, on the other hand, companies must submit shareholder rights plans to shareholders no later than the first annual meeting following the announcement of a hostile takeover bid.

A “suicide pill” occurs when the company engages in self-destructive measures that may prevent the takeover but will likely ruin the company.

Alternatively, the target company may issue and sell a large amount of stock to a third party at a discount and thereby defeat the purchase attempt by making the acquisition expensive, diluting the potential buyer’s equity stake, and increasing the target company’s total ownership.

Another similar strategy against a hostile bid is the “crown jewel defence,” which consists of selling the company’s most attractive assets in an effort to defeat the takeover attempt. This defence strategy is doubly harmful to shareholders, since it can thwart a takeover bid and sometimes result in the sale of assets below market value. In Canada, this kind of sale must be approved by the shareholders.

In “going private” transactions, a group of buyers, often consisting of company executives, borrows money to obtain control of the company and delist it from the stock exchange.

“Greenmail,” which is illegal in Canada but permitted in the U.S., is a practice where a company purchases stock from a potential acquirer at a premium in exchange for the buyer’s promise to discontinue the takeover transaction. Greenmail is not in the best interests of shareholders insofar as they do not get market value for their shares, they see their share price fall, and they are deprived of the opportunity to assess the merits of the takeover bid.

The Pac-Man defence is when the targeted company tries to purchase the hostile buyer by any means possible, selling off assets and depleting its “war chest” for cash.

The “blank cheque” method for preferred shares allows the company to more easily create new classes of preferred shares to raise money from “sophisticated” investors without having to obtain shareholder approval. This type of transaction requires a company to amend its articles and by-laws to permit the board of directors to decide on the rights and attributes of these asset classes.

In the “macaroni” defence, the company issues a large number of bonds that will have to be redeemed at a high cost if the company is taken over.

In some cases, the members of management might also threaten to resign as a group in the event of a takeover attempt, something known as a “people pill.”

The acquirer might also seek an agreement with a bank so that the bank will not finance another potential buyer.

Finally, a third company might become a “white knight” by proposing a friendly takeover in order to thwart the hostile takeover bid of the potential acquirer.

#### **Position**

RGP Investments will vote against defensive mechanisms such as shareholder rights plans (poison pills) and the sale of valuable assets (crown jewel defence), unless these are clearly in the best interests of shareholders. The Policy will study on a case-by-case basis each situation that arises during a takeover bid, whether hostile or not, and assess its impact on the company.

Shareholder rights plans will thus be evaluated on a case-by-case basis. Ideally, the following criteria should be met:

- the trigger point should not be any lower than 20%;
- the plan should be voted on by shareholders every two or three years;
- if the board refuses to withdraw the poison pill 60 days after an offer has been announced, shareholders representing 10% of the shares can call a special general meeting to vote on repealing the pill;
- amendments to the plan must be submitted to the shareholders for approval;
- the shareholder rights plan can only be cancelled with the agreement of the shareholders; for example, the board can cancel a shareholder rights plan in order to allow an unauthorized bid to be presented to shareholders, but it must ensure that all bids are presented to shareholders;
- the notion of “acquiring person” must exclude anyone who is aiming to reach the threshold with no intention of buying the company, such as a passive institutional investor;
- the plan provides that a “permitted bid” can be submitted directly to shareholders for a vote; “partial bids” are allowed subject to a minimum deposit;
- private placements are not excluded from the plan;
- the company’s corporate governance practices do not run counter to the interests of shareholders (for example, board independence and the presence of defense mechanisms).

#### **4.4 Qualified Majority (Supermajority)**

Some clauses require that major transactions (takeover bid or corporate reorganization) need more than a simple majority of votes for approval. Some of these clauses even require more than 75% of votes, which of course serves as a deterrent to hostile takeovers.

##### **Position**

The Policy will not support a requirement for a qualified majority of more than two-thirds (66.7%) for the ratification of certain decisions, such as those associated with a takeover bid or a corporate reorganization. In other cases, a majority of 50% + 1 should be sufficient.

#### **4.5 Articles and By-laws**

Companies must at times amend their articles and by-laws – for example, following changes in legislation and stock exchange listing rules. Many such changes are administrative in nature. Some, however, such as the quorum for meetings, may have a major impact on shareholder decisions.

Note that articles are amended or repealed by means of a special resolution. This usually requires the support of a special or qualified majority of shareholders (often two-thirds). Amending or repealing by-laws, on the other hand, only requires the support of a simple majority. As stated by Stéphane Rousseau, “one of the advantages of including such clauses in the articles rather than the by-laws resides in the greater degree of control placed in the hands of the shareholders.”<sup>11</sup>

##### **Position**

The Policy will assess proposals to amend the articles and by-laws on a case-by-case basis, with its principal concern being the long-term impact of such amendments on shareholder interests. RGP Investments will vote against proposals that meet any of the following criteria:

---

<sup>11</sup> Raymonde Crête et Stéphane Rousseau, *Droit des sociétés par actions—principes fondamentaux*, Montréal, Éditions Thémis, 2002, p. 200. “L’avantage de prévoir de telles clauses dans les statuts plutôt que dans les règlements réside, entre autres, dans le pouvoir de contrôle accru qui est accordé aux actionnaires.”



- the company does not provide enough information for shareholders to assess the impact of the proposed amendments to the articles and by-laws;
- the proposed articles and by-laws have a negative impact on shareholders' rights;
- the proposed articles and by-laws have a negative impact on the long-term interests of the majority of the company's stakeholders;
- the proposed articles and by-laws put the company's long-term sustainability at risk.

#### **4.6 Quorum**

This involves determining what proportion of shareholders need to be present at a general meeting for the consideration of a resolution to be valid.

The Canada Business Corporations Act (CBCA) states in Section 139 (1): "Unless the by-laws otherwise provide, a quorum of shareholders is present at a meeting of shareholders, irrespective of the number of persons actually present at the meeting, if the holders of a majority of the shares entitled to vote at the meeting are present in person or represented by proxy." Nonetheless, companies can set a quorum as low as two people with the right to vote. So it is not uncommon in Canada to see quorums of two people with at least one vote each.

##### **Position**

RGP Investments will vote against quorums below 25% of shares with voting rights.

#### **4.7 Other Business**

##### **Position**

The Policy will not support vague proposals to place an item such as "all other business" on the meeting agenda and will vote against such proposals.

#### **4.8 Meeting Postponement**

Sometimes proposals are submitted in advance, especially in takeover situations: these request a postponement of the meeting if additional time is needed to solicit the deposit of more shares to defeat the takeover.

##### **Position**

The Policy is against this type of proposal, which does not comply with the bid's deadlines and transparency requirements.

#### **4.9 Linked Proposals**

These are proposals that call on shareholders to decide on two issues presented in a single proposal that is intended to make one of the components more attractive than it would be alone.

##### **Position**

The Policy will not support linked proposals unless it is in agreement with all of the statements.

#### **4.10 Majority Voting**

In most cases, shareholders are not given an opportunity to vote against nominated candidates. The only options on the ballot are "for" and "withhold." Any inconvenience caused by majority voting is largely offset by the fact that it gives shareholders the means to make board members more accountable.

**Position**

RGP Investments will vote for proposals requiring that nominees to the board of directors receive a majority of votes “for” in order to be elected.

**4.11 Dissident Shareholders**

The board of directors has a fiduciary duty to represent the interests of the shareholders. When it does not fulfill this duty, the shareholders have the right to challenge board members through proxy contests. This process involves encouraging all shareholders to vote against incumbent board members and in favour of nominees proposed by the dissident shareholders.

**Position**

The Policy will study each shareholder proposal on a case-by-case basis keeping the following factors in mind: the company’s long-term financial performance, the performance of the board members, shareholder concerns, the slate of shareholder nominees, the quality of dissident shareholder critiques of board members, and the qualifications of the directors proposed by both sides.

**4.12 Shareholder Communications**

Ideally, the annual proxy circular should contain enough information for the shareholders make decisions about the directors standing for election. The Canadian Coalition for Good Governance recommends that the following items be included in the annual circular:

- the director selection and orientation process;
- details of the directors’ experience and skills;
- share ownership by directors;
- directors’ compensation;
- methods used to evaluate director performance<sup>12</sup>.

**Position**

RGP Investments will withhold or vote against directors when insufficient information is disclosed in the proxy circular.

**4.13 Shareholders’ Right to Call a Special Meeting**

The right of shareholders to call a special meeting is fundamental. This right should never be rescinded or revoked without shareholder approval. If shareholders are required to hold a minimum percentage of company stock in order to call a special meeting, that percentage should be reasonable in relation to the size of the corporation.

**Position**

RGP Investments will vote against proposals that limit or abolish the shareholders’ right to call a special meeting.

RGP Investments will vote for proposals to allow shareholders representing a reasonable stake in the company (with respect to its size) to call a special meeting.

**4.14 Shareholders’ Written Consent**

Written consent allows shareholders to express their opinions to the board outside of the context of an annual meeting. If written consent of the majority of shareholders is prohibited, shareholders would be

---

<sup>12</sup> CCGG, *Best practices in shareholder communication 2007*, 2007.

obliged to attend the annual meeting in person to express their views on such matters as removing a director or terminating a shareholder rights plan. This requirement by the board of directors significantly restricts shareholders who are in favour of a change, especially when this practice is combined with a high threshold of ownership for convening a special annual meeting.

Acting by written consent instead of holding a meeting is an efficient way for shareholders to raise important issues outside of the usual meeting cycle.

**Position**

RGP Investments will vote in favour of proposals allowing shareholders to act by written consent.

**4.15 Virtual Meetings**

The elimination of in-person meetings seems problematic for dialogue between a company's management and directors and its shareholders, since face-to-face interaction is an important democratic tool. The shareholders' meeting offers a prime opportunity to ask the management direct questions and hold them accountable for their actions. Online participation in meetings is definitely progress and this technology ought to continue its development, but it must not come at the expense of a shareholder's fundamental right to communicate in person with corporate directors and executives.

**Position**

RGP Investments will vote for proposals calling for the return of in-person general meetings of shareholders.

RGP Investments will vote against the corporate governance committee if it decides to eliminate in-person general meetings of shareholders.

RGP Investments will vote against proposals to hold a virtual general meeting if this format does not afford shareholders the same opportunities to participate and ask questions.

RGP Investments will vote against the entire board if it adopts this format without shareholder approval.

## 5. Capital Structure

### 5.1 Private Placements

The Toronto Stock Exchange requires shareholder approval of authorization for an issuance that represents more than 25% of a company's shares during any six-month period. Many of Canada's institutional investors have proxy voting policies that allow for private placements of up to 50%, but will vote against them if the dilution exceeds this level.

#### Position

RGP Investments will vote for reasonable private placements not exceeding 50% of the shares, negotiated at arm's length and based on the share market value.

### 5.2 Number of Authorized Shares, Issuance and Redemption

European companies frequently ask for shareholder approval of transactions that lead to a large variation in the number of authorized shares, such as issuances or redemptions. In the United States, contrary to the norm in many European countries, pre-emptive rights are not protected by legislation. The Toronto Stock Exchange allows companies to issue up to 20% of their total shares without shareholder approval.

A company may need to buy back shares in the context of external growth transactions, in order to allocate free shares to employees and managers, to ensure the liquidity of the stock, or even to cover stock option plans. In some cases, share buybacks may also benefit shareholders through their anti-dilutive effect. When examining each proposal for the issuance and redemption of shares, the Policy will assess the potential cumulative impact on dilution of all authorizations to issue shares and the cumulative impact of share redemptions on the interests of shareholders.

#### 5.2.1 Increase in Authorized Shares

#### Position

In general, RGP Investments will vote for the issue, as well as for increasing the number of authorized shares and share issuances as long as the potential for dilution is not too great.

In cases where shares are issued without pre-emptive rights, the Policy will oppose the proposal if the potential dilution is greater than 20% of shares outstanding, especially if no valid rationale has been provided.

In cases where shares are issued with pre-emptive rights, the Policy will oppose the proposal if the potential dilution is greater than 50% of shares outstanding, especially if no valid rationale has been provided.

In all cases, the Policy will oppose any increase in capital stock that is not adequately justified or where the share attributes are not defined or that is unlimited. RGP Investments will vote against the issuance of "blank cheque" preferred shares as these give too much discretionary power to the board of directors.

As well, the Policy will oppose any increase in capital stock at a discount to the market price at the time of issue.

#### 5.2.2 Stock Redemption

#### Position

RGP Investments will generally vote for stock redemptions except in cases where:

- the number of shares redeemed exceeds 10% without a valid reason;

- the maximum share redemption price is higher or lower than 10%;
- earnings per share is used as a metric of executive performance and plays a major role in determining executive compensation plans;
- no dividends are paid, without a valid reason;
- no adequate rationale is given for the redemption, its terms are not defined or it is unlimited.

### **5.2.3 Cancellation of Capital Stock**

#### **Position**

RGP Investments will generally vote for the cancellation of capital stock, as long as a good rationale is provided.

### **5.3 Mergers, Acquisitions and Restructuring**

A merger or acquisition occurs when one company is absorbed by another and ceases to exist in its original form. The resulting entity assumes all of the rights, powers, duties, assets and liabilities of the acquired company. The shareholders of the acquired company receive shares, cash or other securities of the new entity as set out in procedures included in the terms of the transaction.

The Policy will assess each situation on an individual basis to choose the best possible option for protecting the interests of shareholders, looking carefully at how the transaction affects shareholders' rights, corporate governance, capital structure and the payment of potentially excessive bonuses to executives. The Policy will also dwell on the transaction's long-term strategic interest with respect to corporate objectives, its financial terms, including the valuation of acquired assets in relation to the market price, as well as the price of the new shares in relation to the company's current share price.

The following questions should be raised during the decision-making process for any merger or acquisition:

- Is the value reasonable in the opinion of the portfolio manager contacted?
- Is the market reaction positive or negative?
- What are the transaction's long-term prospects and impacts in terms of governance?
- Have the negotiations and the process gone ahead with the best interests of shareholders in mind? Was there an opportunity to obtain and evaluate several bids?
- In terms of potential conflicts of interest, are there internal executives or majority shareholders who will gain a disproportionate benefit from the transaction at shareholders' expense?
- Are the transaction costs, including break fees and executive severance payments, reasonable and appropriate? Break fees should not exceed 2.5% of the purchase price.
- Is there a fairness opinion (or does no such opinion exist)?
- Will the transaction have any potential impact that increases legal or environmental risks?
- How will the transaction affect the various stakeholders within the expanded company and the employees of both entities?
- Will the new entity's corporate governance practices be better than those of the two parties to the transaction? For example, will the independence level be improved, will compensation be more reasonable, or will there be an unequal voting structure?

#### **Position**

RGP Investments will vote on a case-by-case basis, taking into consideration the governance criteria mentioned above. The recommendation of the portfolio manager, or of the client if so agreed, will be sought with respect to a financial assessment. The portfolio manager's recommendation will be accepted. In the absence of any such recommendation, RGP Investments will vote based solely on governance criteria.

#### **5.4 Amendments to the Articles of Incorporation**

It is a good idea to look at regulatory differences, including shareholder rights regulations, as well as governance practices when reviewing proposals affecting articles of incorporation. It is also important to consider management's rationale, which must make good financial or economic sense.

##### **Position**

RGP Investments will vote in favour of amendments to the articles when these are motivated by strong financial considerations.

#### **5.5 Debt Restructuring**

The Policy will assess on a case-by-case basis proposals to increase the number of common or preferred shares outstanding, as well as proposals to issue shares as part of a debt restructuring plan. The following criteria will be considered:

- Dilution rate: Shareholder ownership will be reduced to what percentage of shares outstanding?
- Change of control: Will the transaction effectively lead to a change of control?
- Bankruptcy: Is there a real risk of bankruptcy? Is avoiding bankruptcy the main goal of the restructuring?
- Insider trading: Is there any evidence that illegal insider trading or other abuses took place during the restructuring?

## 6. Corporate Social Responsibility

In addition to its shareholders, a company interacts with numerous stakeholders: employees, suppliers, customers, people living in the communities near company facilities, and society as a whole. The concept of corporate social responsibility connotes that companies should seek to minimize the negative impact of their operations, products and services on stakeholders and the environment. This has several advantages. First, many studies show a positive correlation between a company's commitment to social responsibility and its financial performance. Furthermore, a company whose actions are deemed to be irresponsible is vulnerable to operational dangers, legal and political risks, as well as possible damage to its reputation.

All these risks can be detrimental to shareholder value. The best way to minimize them is to adopt social responsibility best practices, which includes implementing appropriate management systems and long-term strategies aimed at complying with laws, regulations, and international standards.

Proxy votes on social responsibility issues differ in several ways from those associated with corporate governance issues. First, the proposals are usually submitted by shareholders instead of management. Second, the range of possible corporate social responsibility issues is vast – definitely much broader than the range of corporate governance issues.

This makes it practically impossible to provide comprehensive guidelines for every socio-environmental responsibility proposal presented during any given annual meeting season. However, a Proxy Voting Policy can rely on two general principles: vote for proposals to bring companies into compliance with international standards and laws, and vote for proposals calling for transparency in the areas of social and environmental performance.

### 6.1. General Guidelines

#### *6.1.1. International Laws and Standards*

Determining what a company should do to be socially responsible lies primarily in the hands of management. There is a consensus, however, that a company's actions should not violate international conventions, along with various internationally recognized standards that dictate socially responsible practices.

International legislation includes conventions, protocols and declarations signed and ratified by States under the sponsorship of the United Nations or other international bodies formed by governments. These international agreements include:

- the Universal Declaration of Human Rights;
- the International Labour Organization conventions;
- the United Nations Declaration on the Rights of Indigenous Peoples;
- the Rio Declaration;
- the Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights;
- the United Nations Sustainable Development Goals program.

As well, there are any number of ESG-related standards that can provide guidance for companies. Unlike international law, these are specifically intended for the private sector. Such standards are created by a multipartite entity including enough members from business and civil society (NGOs, unions, etc.) to be representative. As well, these standards need to have been created and regularly updated in a transparent and inclusive way. Note that some of these initiatives are focused on a single industry, type of activity or region. They include:

- the United Nations Global Compact;
- the CERES Principles;
- the International Finance Corporation (IFC) Policy on Environmental and Social Sustainability;
- the Extractive Industries Transparency Initiative (EITI);
- the Voluntary Principles on Security and Human Rights;
- codes of conduct on labour rights: Fair Labor Association, Worker Rights Consortium, Ethical Trading Initiative, China Business Principles;
- the Equator Principles;
- the Forest Stewardship Council's Forest Management Standards;
- international standards developed by certification bodies such as ISO 26000, ISO 14001, SA 8000, etc.

**Position**

Vote for shareholder proposals calling for companies to comply with the principles set out in the international standards and agreements listed above, unless this would weaken the social responsibility standards that a company may already have in place. Voting on best practices will be decided on a case-by-case basis.

**6.1.2. Financial Accountability and Transparency**

Companies should inform their shareholders about the social and environmental risks they incur, i.e., their decisions should not expose shareholders to increased financial risk or a heavy responsibility without properly communicating the relevant information or implementing reasonable mitigation measures.

This information should be disclosed in the usual way through shareholder reports in a format that makes it possible to assess performance. This format may conform to the standards of the Global Reporting Initiative (GRI), an international non-governmental organization (NGO) that includes businesses, NGOs, labour organizations, accountants and investors. It was formed to develop standards for reporting on corporate economic, environmental, social and governance-related performance so that this data could be presented in a consistent and comparable way.

Some proposals call for the disclosure of risks and strategies (current or projected) associated with an issue, product, service or facility. If these involve significant ESG risks, it can be useful for shareholders to receive a specific report (for example, a report on climate change).

In addition, as with financial reports, it is increasingly common for the data included in sustainability reporting to be cross-checked. In the best interests of shareholders, this should be done by a third party.

**Position**

RGP Investments will vote for proposals requesting that shareholders receive information about the social and environmental impact of a company's operations, management systems or strategies, as long as this information is not already easily available to shareholders, the related costs are reasonable and the information disclosed is not confidential for competitive reasons.

RGP Investments will vote for proposals calling on companies to produce shareholder reports that meet the GRI Standards.

RGP Investments will vote for proposals calling for better disclosure of a company's charitable donations and political contributions.



RGP Investments will vote against any request for authorization to make financial contributions if the exact amounts and recipients involved are not disclosed.

A case-by-case evaluation will be done for proposals to do with political contributions based on the amounts involved and the legitimacy of the recipients.

### **6.1.3. Formation of Board Committees**

Some proposals call for the formation of a board committee with a mandate to study the company's environmental and social performance and to advise the board of directors. This measure would allow the board to be better-informed about important issues, especially when a thorough understanding requires special expertise.

#### **Position**

RGP Investments will vote for proposals calling on the board to form a special committee to study an environmental or social issue if this issue represents a significant risk for the company and the board does not already have a sub-committee with a similar mandate.

### **6.1.4 Stopping a Practice or Discontinuing a Product or Service**

Some proposals call on a company to put an end to a practice (animal testing, for example) or to withdraw from a sector (arms or tobacco sales, for example). The use of certain practices or involvement in certain sectors can tarnish a company's reputation with consumers, investors and employees, and involve significant financial risk.

#### **Position**

RGP Investments will vote on a case-by-case basis when it comes to proposals calling for an end to a practice or the sale of a product or service. The level of risk associated with the practice, product or service and its importance to the company will be taken into account.

### **6.1.5 Investing in a Sector**

Some proposals call for a company to invest in a certain sector (for example, renewable energy). Others require a feasibility study for such an investment.

#### **Position**

RGP Investments will vote on a case by case basis when it comes to proposals calling for the development of an activity. The plan will vote for proposals to produce a feasibility study on investing in a given industrial sector if it is reasonable to think that this activity would enhance the company's financial performance.

### **6.1.6 Political Position**

Some proposals call on a company to take a position on an environmental or social risk (for example, climate change or the creation of a public health system in the United States) or to advocate for government action.

#### **Position**

RGP Investments will vote on a case-by-case basis when it comes to proposals that involve taking a position on an issue or lobbying a government, based on the extent to which government intervention in the issue would benefit the company.

### **6.1.7 Anti-Social and Anti-Environmental Proposals**

Some of the proposals calling for greater corporate transparency on social and environmental issues reflect a desire on the part of the proponents to denounce corporate actions. These right-wing proponents are using the language of proposals from the responsible investment community to promote their platform, which includes a laissez-faire approach to business. For example, groups are asking companies to disclose

their charitable donations in an effort to expose donations to groups that support issues such as abortion or Black rights.

**Position**

RGP Investments will vote for proposals calling for greater disclosure (charitable donations, climate change, etc.), while specifying that it does not endorse the ideological aims of these proponents.

RGP Investments will vote against any proposal that could impede a company's initiatives to improve its corporate social responsibility.

**6.2 Environmental Management Issues**

**6.2.1.1. Climate Change**

The fight against climate change is entering a new era. While this issue is proving to be a major source of risk for many companies, the international community is rallying to prevent and mitigate its effects. As a result, the United Nations Framework Convention on Climate Change (UNFCCC) had been ratified by 195 countries by December 2015. This convention is the source of two key points: the threshold for global warming and aid for developing countries. Thus, the UNFCCC aims to limit the increase in the Earth's temperature to 2°C by 2100. As well, it encourages efforts to keep global warming to within 1.5°C to further limit the impact of climate change, especially in the most vulnerable countries. Companies should take into account the increasingly stringent new regulations stemming from this agreement. They should also be prepared to meet new requirements, such as the obligation to pay greenhouse gas (GHG) emission rights. Finally, they should take advantage of business opportunities involving GHG emission reductions, renewable energy and energy efficiency. At the end of 2020, the Children's Investment Fund Foundation (United Kingdom) launched its "Say on Climate" campaign, which aims to give shareholders a vote on climate transition plans.

**Position**

RGP Investments will vote for proposals to produce a report on climate change risk, adopt GHG emission reduction targets and energy efficiency programs, and invest in renewable energy.

Proposals calling for a company to implement these measures will be assessed on a case-by-case basis, taking into account the company's current emission levels and the effectiveness of their emission-reduction programs, as well as the climate change information disclosed.

RGP Investments will vote for shareholder proposals calling for the implementation of climate reporting including climate targets, as well as an annual vote on these climate transition plans in line with the Say on Climate program.

The Policy will oppose climate transition plans (Say on Climate) provided by the company if:

- the plan is not aligned with a recognized reporting framework (TCFD);
- the plan does not give the company's direct emissions (Scope 1) and indirect emissions associated with energy use (Scope 2);
- the reduction targets are not in line with those of the Paris Accord.

**6.2.1.2 Methane Emissions**

Methane, emitted during the production of oil and natural gas, is a greenhouse gas 25 times more powerful than carbon dioxide (CO<sub>2</sub>). Companies thus have good reason to be proactive in reducing their emissions, especially since this will provide economic, environmental and operational benefits. In fact, by taking advantage of new technologies, companies can significantly reduce their methane emissions while at the same time gain a positive return on investment.

Shareholders are calling for the adoption of quantitative targets for reducing greenhouse gas (GHG) emissions from their companies' operations and products. These targets should take into account the commitment under the Copenhagen Accord to keep global warming under 2°C. Shareholders also expect companies to disclose how they plan to meet these targets.

**Position**

RGP Investments will vote on a case-by-case basis when it comes to proposals calling for policies, practices and targets to improve the development of measures, disclosure, mitigation activities and reduction targets associated with methane emissions from operations.

**6.2.2 Development Standards**

Sustainable development standards aim to combine economic, social and environmental development in the course of urban planning or the exploitation of various resources. Investors are increasingly aware of the issues associated with land-use planning and management, and thus expect companies to have sustainability certification for their operations and/or supply chain.

**Position**

RGP Investments will vote on a case-by-case basis when it comes to proposals calling for a company to deal with certified sustainable suppliers or to certify its own operations.

**6.2.2.1. Sustainable Forest Management Standards**

Forest certifications have been developed in recent years so that forest development can be sustainably managed. The most demanding, inclusive, transparent and globally recognized program is the Forest Stewardship Council (FSC) standard.

**Position**

RGP Investments will vote for proposals that call on a company to certify its forestry operations under the FSC standard, or on a case-by-case basis for other standards.

**6.2.2.2 Sustainable Development Standards for Palm Oil Plantations**

Oversight of palm oil production and plantations is increasingly perceived as a necessity, given that palm oil is the most consumed oil in the world, largely because of its use in foods and cosmetics. Since 2004, many businesses, investors and other stakeholders have been relying on the sustainable development standards set by the Roundtable on Sustainable Palm Oil (RSPO). However, flaws have been found in these standards to the point that the effectiveness and credibility of this certification has been questioned by non-governmental organizations such as Greenpeace and the Rainforest Action Network (RAN). Institutional investors representing close to \$5,000 billion in assets and 16 companies including Procter & Gamble and Starbucks urged the RSPO to quickly close these loopholes. In an open letter to RSPO General Secretary, Darrel Webber, dated June 1, 2015, these investors and companies called on the RSPO to amend its principles and criteria to include measures to protect forests and human rights.

That said, companies still benefit from sourcing palm oil from plantations that meet the RSPO sustainable management standards. Sourcing from palm oil plantations that meet higher standards is even better.

**Position**

RGP Investments will vote on a case-by-case basis when it comes to proposals calling on a company to use palm oil certified by the RSPO or going beyond this certification.

**6.2.3. Hazardous Materials**

Some products, services or processes are hazardous to consumers, workers and the environment. In these circumstances, they become a burden to their producers and distributors, and to the shareholders of the

companies concerned. Companies should act cautiously when it comes to potentially hazardous materials by participating in research.

**Position**

RGP Investments will vote for proposals to produce a shareholder report on the potential hazards and liabilities associated with a company's products, services or processes, as well as a report on the steps taken to manage, eliminate or find alternative solutions for the inherent risks.

The Policy will assess proposals calling for an end to any use, production or sale on a case-by-case basis.

**6.2.3.1. Genetically Modified Organisms and Nanomaterials**

Proposals regarding genetically modified organisms (GMOs) and nanomaterials may call for companies to report on their use of GMOs or nanomaterials and the associated risks, to label products containing GMOs or nanomaterials, or to completely stop their production or use.

It is in the shareholders' interests to understand the risks associated with a company's use of GMOs and nanomaterials. Companies should indicate what products contain them, considering consumer demand along with requirements in a number of countries.

**Position**

RGP Investments will vote for proposals to produce a report on the use of GMOs or nanomaterials and the associated risks.

RGP Investments will vote for proposals calling on companies to label their products containing GMOs or nanomaterials.

The Policy will assess on a case-by-case basis proposals for discontinuing the production or use of GMOs or nanomaterials, based on business risks and opportunities.

**6.2.3.2 Neonicotinoid Pesticides**

A growing number of shareholders are submitting AGM proposals calling on companies to disclose the measures planned in response to concerns, regulations and action by other companies with respect to neonicotinoids, the pesticides blamed for the decline of the bee population.

**Position**

RGP Investments will vote for proposals to produce a report on the use of neonicotinoid pesticides in the company supply chain, the associated risks and the mitigation measures to be taken.

The Policy will assess any proposals to discontinue the production or use of neonicotinoid pesticides on a case-by-case basis.

**6.2.4 Sustainable Water Resource Management**

Water is a dwindling resource. Companies that use water as a raw material are accused of depleting reserves while also compromising the sustainability of their operations. Other companies are required to restore waterways or risk lawsuits, because they emit pollutants that degrade water quality and harm the organisms that live in it.

Shareholder proposals may call on companies to reduce their water pollutant emissions to acceptable levels, to recycle water and to respect the human right to water in the areas where they operate.

**Position**

RGP Investments will vote for proposals to reduce the impact of company operations on water resources and to respect the human right to water. Proposals will be assessed on a case-by-case basis, taking into account the quantity and quality of water available, as well as the management measures implemented by the company.

### **6.2.5 Energy Sources**

With a growing awareness of the issues, risks and opportunities associated with energy from various sources that companies produce and/or use, an increasing number of shareholders are taking a position on the topic and submitting shareholder proposals. While many of these demand greater disclosure of corporate initiatives to limit the negative impact of operations in a given energy sector, some go so far as to require a company to completely withdraw from an industry deemed to be high-risk, such as nuclear energy. Furthermore, there is observable growth in investor interest in renewable energy, indicating a paradigm shift in the sector.

#### **Position**

RGP Investments will vote for proposals to produce a report to shareholders on the risks associated with the production or procurement of energy from a specific source, and to disclose the results of corporate policies and practices to minimize the negative impact of its operations in a given energy sector.

The Policy will assess proposals calling for an end to the use or production of a specific source of energy on a case-by-case basis. As well, it will support proposals requesting quantitative targets for increased renewable energy production or supply as long as these requests are not unduly burdensome for the company.

#### **6.2.5.1 Shale Gas and Oil**

The production of energy from shale gas and oil is a source of much controversy. Shale gas in particular is a target for shareholder action, with interest in shale oil being mostly limited to the United States. The social and environmental repercussions caused by shale-based operations are the main obstacles for companies. Accordingly, shareholders call on companies to disclose the results of corporate policies and practices to minimize the negative impact of hydraulic fracturing operations on the environment and the community. These results should be provided in the form of quantitative indicators.

#### **Position**

RGP Investments will vote on a case-by-case basis for proposals calling for the disclosure of company policies and practices to minimize negative environmental and community impacts of fracking operations.

#### **6.2.5.2 Nuclear Power**

The global trend is away from nuclear power generation, as is notably shown by the many nuclear power plants being shut down and replaced by renewable energy and natural gas. Furthermore, many companies have announced the premature decommissioning of nuclear reactors, while others have abandoned or postponed plans for new power plants. Economic constraints, popular opposition to the construction of new plants and the problem of radioactive waste storage reduce nuclear power's ability to compete against renewable sources such as wind and solar. This is especially true considering that rising production costs will make energy from new nuclear plants less competitive than energy from other sources. In this context, it is highly likely that the nuclear power sector will continue to decline in coming years, leaving the way clear for renewable energy sources.

Shareholders are asking companies to disclose the costs and risks of building new nuclear generating plants. In Japan, some shareholders are calling for companies to work harder on implementing technologies for processing materials contaminated with radioactivity as well as for dismantling nuclear power plants.

Others are calling for support for victims of the accident at Fukushima and the people living in the regions affected by this disaster. Other matters of interest to shareholders include compensation for accident victims, decommissioning of nuclear reactors, use of renewable energy sources instead of nuclear power, management of nuclear waste, and damage insurance.

**Position**

RGP Investments will vote on a case-by-case basis for proposals asking for information about nuclear-related risks and opportunities.

**6.2.5.3 Renewable Energy**

Renewable energy is becoming increasingly affordable, thus attracting a growing number of investors. Companies should disclose metrics such as their renewable energy procurement and energy efficiency targets to make it easier for investors to assess these criteria. The use of renewable energy has many advantages, including allowing companies to better adapt to the impact of climate change and to achieve their greenhouse gas (GHG) emission reduction goals. Shareholders are therefore asking for the disclosure of quantitative targets for increased production or procurement of renewable energy.

**Position**

RGP Investments will vote for proposals calling for quantitative targets for increased production or procurement of renewable energy as long as these demands are not unduly burdensome for the company.

**6.2.6 Recycling**

Shareholder proposals with respect to recycling focus on paper, beverage containers, electronic waste and other recyclable materials. Recycling prevents this waste from polluting the environment and causing health problems, while conserving resources such as forests. It also provides savings in the areas of waste collection and transportation, maintenance of landfill sites and the purchase of raw materials.

**Position**

RGP Investments will vote for proposals calling on companies to implement recycling programs or to promote the purchase of recycled products. Proposals will be studied on a case-by-case basis, taking into account the cost-effectiveness of recycling and the existence of local channels.

**6.2.7 Transparency**

Shareholder proposals on transparency focus on producing sustainability reports, preferably using Global Reporting Initiative guidelines, together with responding to the Carbon Disclosure Project (CDP) and disclosing information about specific projects. Company transparency allows shareholders to better assess the business risks and opportunities associated with their investments.

**Position**

RGP Investments will vote for proposals calling on companies to produce a sustainability report, a project-related environmental impact report or a report on a specific issue. RGP Investments will also vote for proposals that require companies to respond to the CDP. Proposals will be studied on a case-by-case basis, taking into account the information requested along with that already made available by the company and its competitors.

**6.2.8 Animal Rights**

Animal welfare has been a topic for proposals for a number of years. Animal rights groups campaign against companies accused of mistreating animals. These companies risk reputational harm and product boycotts at a time when a growing number of consumers are concerned about the treatment of animals. Shareholders call on companies to eliminate or limit animal testing if it is not necessary or required by law

or if viable alternatives exist. Moreover, some proposals call for the adoption of animal welfare standards and the elimination of certain livestock production and slaughter practices deemed cruel.

**Position**

RGP Investments will vote for proposals calling on companies to adopt animal welfare standards, to deal with suppliers who have adopted best practices for raising and slaughtering livestock, and to provide progress reports on the implementation of such standards. Proposals calling for the elimination or limitation of animal testing will be assessed on a case by case basis, taking into account the industry, the end purpose of the testing, the legal framework and any viable alternatives that exist.

**6.3 Workplace Diversity**

**6.3.1 Discrimination**

Canada and the United States have laws against employment discrimination on the basis of race, religion, nationality, ethnic origin, sex, age and disability. Some governments have also passed laws prohibiting employment discrimination based on sexual orientation and gender identity.

**Position**

RGP Investments will vote for proposals calling for the introduction of policies or targets aimed at eliminating workplace discrimination or complying with the International Labour Organization (ILO) discrimination convention. In particular, RGP Investments will vote for proposals to establish that there is no wage disparity between the women and men working for the company.

RGP Investments will vote for proposals to adopt principles to prevent employment discrimination such as the MacBride Principles and the eight Holy Land Principles.

RGP Investments will vote for proposals to adopt a non-discrimination policy with respect to sexual orientation or gender identity.

**6.3.2 Diversity**

Companies that introduce policies to promote equity in the workplace reap clear benefits. This allows them to recruit and retain qualified employees, as well as avoiding costly legal proceedings. Although many companies have chosen to follow this path, women and ethnic minorities remain underrepresented in management positions and on corporate boards.

**Position**

RGP Investments will vote for proposals to produce a report on employment equity.

RGP Investments will vote for proposals calling on companies to commit to including more women and nominees from ethnic minorities on their boards of directors.

**6.4 Human Rights**

**6.4.1 Working Conditions**

A significant proportion of the production of goods and services takes place in developing countries where workers' rights are regularly flouted. Violations of ILO conventions, including child labour, forced labour, excessively long workdays, less-than-subsistence wages and unsafe working conditions, have been found in the factories producing goods for multinationals.

To ensure that minimum standards are being met, we encourage companies to adopt the ILO conventions, especially those regarding the four fundamental rights. These rights are also recognized by the United Nations Global Pact and the OECD Guidelines:

- elimination of forced labour;
- abolition of child labour;
- elimination of discrimination in respect of hiring and working conditions;
- freedom of association and the right to collective bargaining.

**Position**

The manager will generally support proposals calling for the adoption of codes of conduct based on ILO conventions.

The manager will support proposals calling on companies to stop all use of child labour, including sex work.

RGP Investments will vote for proposals calling on companies to provide shareholders with an independently verified progress report on the implementation of ILO standards.

RGP Investments will vote for proposals calling on companies to make use of qualified independent auditors to assess how well their subcontractors are complying with labour and environmental standards.

**6.4.2 Complicity in Human Rights Violations**

A company that does business in a country accused of serious human rights violations may find itself facing accusations of complicity with a repressive government. This can harm its reputation and lead to lawsuits (notably in the U.S. under the Alien Tort Claims Act).

Furthermore, companies that source from or operate in conflict zones put their employees, their assets and their reputations at risk. In this case, companies that take security measures should pay special attention to how these measures affect the local communities, to ensure their safety. Companies should also monitor how their operations affect the conflict itself. The Voluntary Principles on Security and Human Rights are standards aimed at ensuring that corporate security measures do not violate the rights of local communities and that businesses do not aggravate conflicts.

Companies with operations in Myanmar (Burma) and Sudan are subject to increased vigilance from investors, notably due to the international sanctions on commercial activities in these States governed by repressive regimes.

**Position**

RGP Investments will vote for the adoption of a human rights policy.

RGP Investments will vote for proposals to prepare a report on the risks associated with being present in or sourcing from one or more countries with a high risk of human rights violations.

If mandatory legal sanctions have not been imposed on a country, the Policy will assess on a case-by-case basis any proposals asking a company to end its operations or sourcing in that country. Factors considered in such an assessment include the policy of the Government of Canada, the position of international organizations, the nature of the company's operations, its relations with the government or entity in question, and reports from independent observers.

RGP Investments will vote for proposals calling on companies operating in conflict zones to introduce policies to respect the rights of local communities and avoid aggravating the conflict.



### **6.4.3 Community Relations**

We encourage companies to consult with local communities and other stakeholders during the development, implementation and closure of industrial projects. This is especially important when it comes to natural resource extraction in developing countries. As well, we endorse the concept of “free, prior and informed consent,” which affirms a community’s right to negotiate the terms of a project or to refuse the project altogether. While there are no standards defining such consent, this strategy provides a way of avoiding expensive conflicts.

#### **Position**

RGP Investments will vote for proposals to prepare a report on the company’s relations with communities and stakeholders in the context of industrial projects.

RGP Investments will vote for proposals calling on companies to consult with stakeholders in the context of industrial projects.

RGP Investments will vote for proposals asking companies to join the Extractive Industries Transparency Initiative (EITI), which requires governments and companies to disclose their capital transactions so that revenue from extractive industries in emerging countries contributes to sustainable development.