

# WESTEND

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## ADVISORS

### **PROXY VOTING PROCEDURES**

WestEnd Advisors (“WestEnd”) is an investment advisor providing discretionary equity and fixed-income portfolio management services to corporations, retirement plans, endowment funds and foundations, individuals with substantial net worth, and financial institutions such as trust companies and bank trust departments (collectively, “Clients”). Unless a Client specifically directs otherwise in writing, the investment management agreements generally authorize WestEnd to vote proxies on behalf of Clients pursuant to WestEnd’s fiduciary obligations and the policies and procedures described below.

Under the Investment Advisers Act of 1940 (“Advisers Act”), the Employment Retirement Income Security Act of 1974 (“ERISA”), and other relevant laws and regulations, an investment advisor owes its Clients the duty of care and loyalty in providing advisory services, including the voting of proxies. WestEnd takes seriously its legal and fiduciary obligations concerning the voting of proxies and has adopted and implemented policies and procedures to ensure that it votes proxies in a manner consistent with the best interests of its Clients.

In determining the best interests of its Clients, WestEnd may obtain information from third parties concerning their recommendations on particular proxy issues. WestEnd engages the services of Institutional Shareholder Services (ISS) to provide both proxy administration services and voting recommendations. WestEnd neither relies on the advice of ISS nor delegates to them the authority to decide how any proxy will be voted. WestEnd reviews all recommendations prior to voting taking place and may choose to accept or reject any recommendation made by ISS based on the particular facts and circumstances surrounding any proxy issues.

WestEnd has adopted ISS’s U.S. Proxy Voting Guidelines, a summary of which follows these procedures.

#### **CLIENT GUIDELINES**

Clients may have their own set of proxy voting guidelines, which may conflict with the proxy guidelines discussed above or the voting guidelines of another Client. If such a situation arises, it is the policy of WestEnd to comply with Client guidelines by voting the proxies attributable to that Client on a proportionate basis (based on the number of shares held by the Client).

## **PROCEDURES**

WestEnd maintains operational procedures that include, but are not limited to: (1) disclosing proxy voting procedures to clients; (2) notifying custodians of new accounts to ensure proxy materials are forwarded to the appropriate location; (3) notifying Institutional Shareholder Services to ensure proxy materials are properly received; and (4) the handing of proxies in the event that proxy materials are received in paper format by WestEnd.

## **CONFLICTS OF INTEREST**

WestEnd's proxy voting policies and procedures are designed to ensure that proxies are properly voted, material conflicts are avoided, and fiduciary obligations are fulfilled. Neither WestEnd nor any person involved in the proxy voting process is engaged in any material business other than managing assets and providing investment advisory services for clients. Therefore, it is highly unlikely that any proxy considered by WestEnd will result in a material conflict of interest between any client and WestEnd. In the unlikely event that a proxy is not addressed by the guidelines above, and materially conflicts with the interests of WestEnd or any person involved in the proxy voting process, WestEnd will contact the client and follow the client's instruction with respect to the voting of that proxy.

## **FOREIGN INVESTMENTS**

On occasion, WestEnd may invest Client assets in foreign securities. Given the complexity and variety of regulatory schemes and corporate practices in foreign countries, there may be excessive costs associated with voting proxies for foreign securities. Consistent with applicable law and regulations, if the costs of exercising a proxy vote on a proposal exceed the expected benefits to a Client's account, West End may choose not to vote that proxy proposal.

## **RECORDKEEPING**

WestEnd will maintain:

- the Proxy Voting Policies and Procedures;
- all proxy statements received by WestEnd in connection with Client securities, if not readily available through a third-party service provider or through the Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system;
- a record of how WestEnd voted each proxy;
- a record of all written Client requests for proxy voting information and WestEnd's response to those requests; and
- Any other documents prepared by WestEnd that were material to the voting decision.

Clients may download a copy of this Proxy Voting Policies and Procedures document in Adobe Acrobat format by visiting [www.westendadvisors.com](http://www.westendadvisors.com). Clients can obtain information regarding how WestEnd voted each proxy in their portfolio by submitting a written request to WestEnd at the following address:

WestEnd Advisors, LLC  
Two Morrocroft Centre  
4064 Colony Road Suite 130  
Charlotte, NC 28211



# Americas

## U.S., Canada, and Latin America Proxy Voting Guidelines Updates

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2017 Benchmark Policy Recommendations

**Effective for Meetings on or after February 1, 2017**

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## UNITED STATES

### BOARD OF DIRECTORS- VOTING ON DIRECTOR NOMINEES IN UNCONTESTED ELECTIONS

#### Restricting Binding Shareholder Proposals

▶ **Current General Recommendation:** None.

#### Key Changes:

- › Adoption of a new policy under Director Accountability where shareholders do not have the ability to amend the bylaws.

▶ **New General Recommendation:** Generally vote against or withhold from members of the governance committee if:

The company's charter imposes undue restrictions on shareholders' ability to amend the bylaws. Such restrictions include, but are not limited to: outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8. Vote against on an ongoing basis.

#### Rationale for Update:

Shareholders' ability to amend the bylaws is a fundamental right. Under SEC Rule 14a-8, shareholders who have held shares valued at \$2,000 or more for one year are permitted to submit shareholder proposals, both precatory and binding, to amend the bylaws. Some states permit companies to restrict this right in their charters. These prohibitions amount to a material diminution of shareholder rights. Although some companies have offered management proposals as alternatives, these often have greater ownership or holding period requirements and have typically not been well received by the shareholders of non-controlled companies.

Client feedback indicates that these prohibitions flew under the radar until relatively recently. Over the last several years, shareholders have submitted precatory proposals seeking the right to amend the bylaws at a number of companies that do not provide this right to shareholders. A number of these campaigns were contentious and generated interest on the topic among members of the wider investor community.

#### Unilateral Bylaw/Charter Amendments - IPO Companies

▶ **Current General Recommendation:** For newly public companies, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions materially adverse to shareholder rights, considering the following factors:

- › The level of impairment of shareholders' rights caused by the provision;
- › The disclosed rationale for adopting the provision;
- › The ability to change the governance structure in the future (e.g., limitations on shareholders' right to amend the bylaws or charter, or supermajority vote requirements to amend the bylaws or charter);

- › The ability of shareholders to hold directors accountable through annual director elections, or whether the company has a classified board structure; and,
- › A public commitment to put the provision to a shareholder vote within three years of the date of the initial public offering.

Unless the adverse provision is reversed or submitted to a vote of public shareholders, vote case-by-case on director nominees in subsequent years.

#### Key Changes:

- › The heading will be amended to read: Unilateral Bylaw/Charter Amendments and Problematic Capital Structures;
- › Adverse vote recommendations for director nominees will generally be warranted if a company completes its public offering with a multi-class capital structure in which the classes do not have identical voting rights;
- › A vote by shareholders within 3 years will be insufficient; a sunset provision will be necessary.

 **New General Recommendation:** For newly public companies, generally vote against or withhold from directors individually, committee members, or the entire board (except new nominees, who should be considered case-by-case) if, prior to or in connection with the company's public offering, the company or its board adopted bylaw or charter provisions materially adverse to shareholder rights, or implemented a multi-class capital structure in which the classes have unequal voting rights considering the following factors:

- › The level of impairment of shareholders' rights;
- › The disclosed rationale;
- › The ability to change the governance structure (e.g., limitations on shareholders' right to amend the bylaws or charter, or supermajority vote requirements to amend the bylaws or charter);
- › The ability of shareholders to hold directors accountable through annual director elections, or whether the company has a classified board structure;
- › Any reasonable sunset provision; and
- › Other relevant factors.

Unless the adverse provision and/or problematic capital structure is reversed or removed, vote case-by-case on director nominees in subsequent years.

#### Rationale for Update:

There has been an increase in the number of companies completing initial public offerings with multi-class capital structures:

Year	# of IPO companies with multi-class structures
2006	8
2007	6
2008	9
2009	2
2010	4
2011	6
2012	11
2013	12
2014	21
2015	18
2016 (as of Aug. 30)	17

The 2016 – 2017 policy survey results indicate that a majority of investor respondents are in favor of issuing adverse vote recommendations for director nominees when a company completes its initial public offering with a multi-class structure or a multi-class structure with no sunset provision for unequal voting rights.

## Overboarded Directors

▶ **Current General Recommendation:** Vote against or withhold from individual directors who:

- › Sit on more than six public company boards; with respect to annual meetings on or after Feb. 1, 2017<sup>1</sup>, sit on more than five public company boards; or
- › Are CEOs of public companies who sit on the boards of more than two public companies besides their own— withhold only at their outside boards<sup>2</sup>.

### Key Changes:

- › The one-year transition period from six to five public company boards is ending.

▶ **New General Recommendation:** Generally vote against or withhold from individual directors who:

- › Sit on more than five public company boards; or
- › Are CEOs of public companies who sit on the boards of more than two public companies besides their own— withhold only at their outside boards<sup>2</sup>.

### Rationale for Update:

The transition period for the implementation of the new overboarding vote recommendations is coming to an end.

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<sup>1</sup> This policy change includes a 1-year transition period to allow time for affected directors to address necessary changes if they wish.

<sup>2</sup> Although all of a CEO's subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.

## CAPITAL

### Stock Distributions: Splits and Dividends

- ▶ **Current General Recommendation:** Vote for management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares is equal to or less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy.

#### Key Change:

- › Increase is being modified to the effective increase.

- ▶ **New General Recommendation:** Generally vote for management proposals to increase the common share authorization for stock split or stock dividend, provided that the effective increase in authorized shares is equal to or is less than the allowable increase calculated in accordance with ISS' Common Stock Authorization policy.

#### Rationale for Update:

A clarification of the policy as it pertains to forward stock splits and stock dividends is relevant because proposals to increase authorized common shares may be tied to the implementation of a planned stock split or stock dividend.

## COMPENSATION

### Equity-Based and Other Incentive Plans

- ▶ **Current General Recommendation:** Vote case-by-case on certain equity-based compensation plans<sup>3</sup> depending on a combination of certain plan features and equity grant practices, where positive factors may counterbalance negative factors, and vice versa, as evaluated using an "equity plan scorecard" (EPSC) approach with three pillars:
- › **Plan Cost:** The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated Shareholder Value Transfer (SVT) in relation to peers and considering both:
    - › SVT based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants; and
    - › SVT based only on new shares requested plus shares remaining for future grants.
  - › **Plan Features:**
    - › Automatic single-triggered award vesting upon a change in control (CIC);
    - › Discretionary vesting authority;
    - › Liberal share recycling on various award types;
    - › Lack of minimum vesting period for grants made under the plan.
  - › **Grant Practices:**
    - › The company's three year burn rate relative to its industry/market cap peers;
    - › Vesting requirements in most recent CEO equity grants (3-year look-back);
    - › The estimated duration of the plan (based on the sum of shares remaining available and the new shares requested, divided by the average annual shares granted in the prior three years);
    - › The proportion of the CEO's most recent equity grants/awards subject to performance conditions;
    - › Whether the company maintains a claw-back policy;
    - › Whether the company has established post exercise/vesting share-holding requirements.

Generally vote against the plan proposal if the combination of above factors indicates that the plan is not, overall, in shareholders' interests, or if any of the following egregious factors apply:

- › Awards may vest in connection with a liberal change-of-control definition;
- › The plan would permit repricing or cash buyout of underwater options without shareholder approval (either by expressly permitting it – for NYSE and Nasdaq listed companies -- or by not prohibiting it when the company has a history of repricing – for non-listed companies);
- › The plan is a vehicle for problematic pay practices or a significant pay-for-performance disconnect under certain circumstances; or
- › Any other plan features are determined to have a significant negative impact on shareholder interests.

#### Key Changes:

- › Add dividends payable prior to vesting as a plan feature.

- ▶ **New General Recommendation:** Vote case-by-case on certain equity-based compensation plans<sup>3</sup> depending on a combination of certain plan features and equity grant practices, where positive factors may counterbalance negative factors, and vice versa, as evaluated using an "equity plan scorecard" (EPSC) approach with three pillars:

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<sup>3</sup> Proposals evaluated under the EPSC policy generally include those to approve or amend (1) stock option plans for employees and/or employees and directors, (2) restricted stock plans for employees and/or employees and directors, and (3) omnibus stock incentive plans for employees and/or employees and directors.

- › **Plan Cost:** The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated Shareholder Value Transfer (SVT) in relation to peers and considering both:
  - › SVT based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants; and
  - › SVT based only on new shares requested plus shares remaining for future grants.
- › **Plan Features:**
  - › Automatic single-triggered award vesting upon a change in control (CIC);
  - › Discretionary vesting authority;
  - › Liberal share recycling on various award types;
  - › Lack of minimum vesting period for grants made under the plan;
  - › Dividends payable prior to award vesting.
- › **Grant Practices:**
  - › The company's three-year burn rate relative to its industry/market cap peers;
  - › Vesting requirements in most recent CEO equity grants (3-year look-back);
  - › The estimated duration of the plan (based on the sum of shares remaining available and the new shares requested, divided by the average annual shares granted in the prior three years);
  - › The proportion of the CEO's most recent equity grants/awards subject to performance conditions;
  - › Whether the company maintains a claw-back policy;
  - › Whether the company has established post-exercise/vesting share-holding requirements.

Generally vote against the plan proposal if the combination of above factors indicates that the plan is not, overall, in shareholders' interests, or if any of the following egregious factors apply:

- › Awards may vest in connection with a liberal change-of-control definition;
- › The plan would permit repricing or cash buyout of underwater options without shareholder approval (either by expressly permitting it – for NYSE and Nasdaq listed companies -- or by not prohibiting it when the company has a history of repricing – for non-listed companies);
- › The plan is a vehicle for problematic pay practices or a significant pay-for-performance disconnect under certain circumstances; or
- › Any other plan features are determined to have a significant negative impact on shareholder interests.

#### Rationale for Update:

In addition to minor changes to various factor weightings, the updated policy includes an additional factor: an evaluation of the payment of dividends on unvested awards. From an incentive and retention perspective, dividends on unvested awards should be paid only after the underlying awards have been earned and not during the performance/service vesting period. Under this new factor, full points will be earned if the equity plan expressly prohibits, for all award types, the payment of dividends before the vesting of the underlying award (however, accrual of dividends payable upon vesting is acceptable). No points will be earned if this prohibition is absent or incomplete (i.e. not applicable to all award types). A company's general practice (not enumerated in the plan document) of not paying dividends until vesting will not suffice.

Modifications were also made to the minimum vesting factor. First, an equity plan must specify a minimum vesting period of one year for all award types under the plan in order to receive full points for this factor. Second, no points will be earned if the plan allows for individual award agreements that reduce or eliminate the one-year vesting requirement.

Additional information about updates to the EPSC policy will be included in ISS' Equity Compensation Plans FAQ document to be updated and published in December 2016.

## Amending Cash and Equity Plans (including Approval for Tax Deductibility (162(m)) (formerly “Incentive Bonus Plans and Tax Deductibility Proposals (OBRA-Related Compensation Proposals)”)

 **Current General Recommendation:** Generally vote for proposals to approve or amend executive incentive plans if the proposal:

- › Is only to address administrative features;
- › Places a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m);
- › Adds performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate; or
- › Covers cash or cash and stock plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

Vote against such proposals if:

- › The compensation committee does not fully consist of independent outsiders, per ISS' Categorization of Directors; or
- › The plan or proposal contains excessive problematic provisions.

Vote case-by-case on such proposals if:

- › In addition to seeking 162(m) tax treatment, the amendment may cause the transfer of additional shareholder value to employees (*e.g.*, by requesting additional shares, extending the option term, or expanding the pool of plan participants). Evaluate the Shareholder Value Transfer in comparison with the company's allowable cap; or
- › A company is presenting the plan to shareholders for Section 162(m) favorable tax treatment for the first time after the company's initial public offering (IPO). Perform a full standard as applicable.

### Key Changes:

- › The policy has been renamed and reorganized to more clearly differentiate the evaluation framework applicable to the various types of amendment proposals.

 **New General Recommendation:** Vote case-by-case on amendments to cash and equity incentive plans.

Generally vote for proposals to amend executive cash, stock, or cash and stock incentive plans if the proposal:

- › Addresses administrative features only; or
- › Seeks approval for Section 162(m) purposes only, and the plan administering committee consists entirely of independent outsiders, per ISS' Categorization of Directors. Note that if the company is presenting the plan to shareholders for the first time after the company's initial public offering (IPO), or if the proposal is bundled with other material plan amendments, then the recommendation will be case-by-case (see below).

Vote against proposals to amend executive cash, stock, or cash and stock incentive plans if the proposal:

- › Seeks approval for Section 162(m) purposes only, and the plan administering committee does not consist entirely of independent outsiders, per ISS' Categorization of Directors.

Vote case-by-case on all other proposals to amend cash incentive plans. This includes plans presented to shareholders for the first time after the company's IPO and/or proposals that bundle material amendment(s) other than those for Section 162(m) purposes.

Vote case-by-case on all other proposals to amend equity incentive plans, considering the following:

- › If the proposal requests additional shares and/or the amendments may potentially increase the transfer of shareholder value to employees, the recommendation will be based on the Equity Plan Scorecard evaluation as well as an analysis of the overall impact of the amendments.
- › If the plan is being presented to shareholders for the first time after the company's IPO, whether or not additional shares are being requested, the recommendation will be based on the Equity Plan Scorecard evaluation as well as an analysis of the overall impact of any amendments.
- › If there is no request for additional shares and the amendments are not deemed to potentially increase the transfer of shareholder value to employees, then the recommendation will be based entirely on an analysis of the overall impact of the amendments, and the EPSC evaluation will be shown for informational purposes.

**Rationale for Update:**

This update is intended to clarify ISS' approach for evaluating the different types of proposals involving amendments to cash and equity incentive plans. Specifically, this update more clearly differentiates the evaluation framework applicable to amendment proposals presented for Section 162(m) purposes only, or those involving multiple bundled amendments, amendments with or without new share requests, amendments potentially increasing cost, etc.

## DIRECTOR COMPENSATION

### Shareholder Ratification of Director Pay Programs

▶ **Current General Recommendation:** None.

#### Key Changes:

- › Codify the evaluation framework applied to newly-seen U.S. ratification of non-employee director pay programs.

▶ **New General Recommendation:** Vote case-by-case on management proposals seeking ratification of non-employee director compensation, based on the following factors:

- › If the equity plan under which non-employee director grants are made is on the ballot, whether or not it warrants support; and
- › An assessment of the following qualitative factors:
  - › The relative magnitude of director compensation as compared to companies of a similar profile;
  - › The presence of problematic pay practices relating to director compensation;
  - › Director stock ownership guidelines and holding requirements;
  - › Equity award vesting schedules;
  - › The mix of cash and equity-based compensation;
  - › Meaningful limits on director compensation;
  - › The availability of retirement benefits or perquisites; and
  - › The quality of disclosure surrounding director compensation.

#### Rationale for Update:

There have been a number of recent high profile lawsuits regarding excessive non-employee director ("NED") compensation that reflect increasing shareholder scrutiny on the topic. In response, some companies have put forth advisory proposals seeking shareholder ratification of their NED pay programs. ISS evaluated several director pay proposals during the 2016 proxy season, and we expect to see more submitted to a shareholder vote. Accordingly, a policy framework to evaluate such proposals is necessary. The new policy incorporates the same qualitative factors that ISS will use under its updated policy to evaluate NED equity plans.

### Equity Plans for Non-Employee Directors

▶ **Current General Recommendation:** Vote case-by-case on compensation plans for non-employee directors, based on:

- › The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated Shareholder Value Transfer (SVT) based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants;
- › The company's three year burn rate relative to its industry/market cap peers; and
- › Certain plan features.

On occasion, director stock plans that set aside a relatively small number of shares will exceed the plan cost or burn rate benchmark when combined with employee or executive stock compensation plans. In such cases, vote for the

plan if all of the following qualitative factors in the board's compensation are met and disclosed in the proxy statement:

- › Director stock ownership guidelines with a minimum of three times the annual cash retainer;
- › Vesting schedule or mandatory holding/deferral period:
  - › A minimum vesting of three years for stock options or restricted stock; or
  - › Deferred stock payable at the end of a three-year deferral period.
- › Mix between cash and equity:
  - › A balanced mix of cash and equity, for example 40% cash/60% equity or 50% cash/50% equity; or
  - › If the mix is heavier on the equity component, the vesting schedule or deferral period should be more stringent, with the lesser of five years or the term of directorship.
- › No retirement benefits, or perquisites provided to non-employee directors; and
- › Detailed disclosure provided on cash and equity compensation delivered to each non-employee director for the most recent fiscal year in a table. The column headers for the table may include the following: name of each non-employee director, annual retainer, board meeting fees, committee retainer, committee-meeting fees, and equity grants.

#### Key Changes:

- › Clarify and broaden the various factors considered when assessing the reasonableness of non-employee director ("NED") equity plans.
- › Update the list of factors by including new factors (including relative pay magnitude and meaningful pay limits) and simplifies the language for the factors already considered.



**New General Recommendation:** Vote case-by-case on compensation plans for non-employee directors, based on:

- › The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated Shareholder Value Transfer (SVT) based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants;
- › The company's three-year burn rate relative to its industry/market cap peers; and
- › The presence of any egregious plan features (such as an option repricing provision or liberal CIC vesting risk).

On occasion, director stock plans will exceed the plan cost or burn rate benchmarks when combined with employee or executive stock plans. In such cases, vote case-by-case on the plan taking into consideration the following qualitative factors:

- › The relative magnitude of director compensation as compared to companies of a similar profile;
- › The presence of problematic pay practices relating to director compensation;
- › Director stock ownership guidelines and holding requirements;
- › Equity award vesting schedules;
- › The mix of cash and equity-based compensation;
- › Meaningful limits on director compensation;
- › The availability of retirement benefits or perquisites; and
- › The quality of disclosure surrounding director compensation.

#### Rationale for Update:

In addition to broadening the factors considered, the updated policy clarifies that when a NED equity plan is determined to be relatively costly, ISS' vote recommendation will be case-by-case, looking holistically at all of the factors, rather than requiring that all enumerated factors meet certain minimum criteria. This updated policy aligns the considered factors with the same ones provided under ISS' new policy on proposals seeking ratification of non-employee director pay programs.

## CANADA

### AUDIT-RELATED

#### Ratification of Auditors and Votes on Audit Committee Members (TSX and TSXV)

▶ **Current General Recommendation:** Vote for proposals to ratify auditors unless the following applies:

- › Non-audit related fees paid to the auditor exceed audit-related fees.

#### Excessive Non-Audit Fees (TSX and TSXV)

▶ **Current General Recommendation:** Vote withhold for individual directors who are members of the audit committee as constituted in the most recently completed fiscal year if:

- › Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees.

#### Key Changes:

The nature of tax fees paid to the external audit firm will be scrutinized to ensure that tax fees not directly related to tax compliance services will be reallocated to "Other" fees when determining excessive non-audit fees. In the absence of sufficient breakdown of amounts involved for various tax related services, all tax fees paid to the external audit firm will be deemed as including tax advice and consulting services including where boiler plate language indicates that "Tax fees were paid for tax compliance, tax advice and tax planning services", resulting in some or all of the fees being reallocated to "Other" fees.

▶ **New General Recommendation:** Vote for proposals to ratify auditors unless the following applies:

- › Non-audit ("other") fees > audit fees + audit-related fees + tax compliance/preparation fees.

▶ **New General Recommendation:** Vote withhold for individual directors who are members of the audit committee as constituted in the most recently completed fiscal year if:

- › Non-audit ("other") fees > audit fees + audit-related fees + tax compliance/preparation fees.

#### Rationale for Update:

In the aftermath of past audit related scandals involving certain public companies, most notably Enron, shareholders have scrutinized non-audit related fees paid to external audit firms to flag potential conflicts of interest and possible compromise of auditor independence. ISS recognizes that certain tax-related services, e.g. tax compliance and preparation, are most economically provided by the audit firm. Tax compliance and preparation include the preparation of original and amended tax returns, refund claims, and tax payment planning. However, other services in the tax category, e.g. tax advice, planning, or consulting fall more into a consulting category. Therefore, these fees are separated from the tax compliance/preparation category and are added to the Non-audit (Other) fees for the purpose

of determining whether excessive non-audit related fees have been paid to the external audit firm in the most recent year.

Pursuant to Canadian regulation, companies must break down the fees charged by auditors into four categories: Audit, Audit-Related, Tax Fees and Other Fees. Issuers must "disclose, under the caption 'Tax Fees', the aggregate fees billed in each of the last two fiscal years for professional services rendered by the issuer's external auditor for tax compliance, tax advice, and tax planning. Include a description of the nature of the services comprising the fees disclosed under this category."

This update aligns the treatment of tax fees under Canadian policy with that of other ISS global market policies.

## BOARD OF DIRECTORS- VOTING ON DIRECTOR NOMINEES IN UNCONTESTED ELECTIONS

### Definition of Independence- Related Party Transactions (TSX and TSXV)

#### ▶ Current Definition:

##### Transactional, Professional, Financial, and Charitable Relationships

- › Currently provides (or a relative<sup>vi</sup> provides) professional services to the company, its affiliates<sup>i</sup> or to its officers.
- › Is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that provides professional services to the company, to an affiliate of the company, or to an individual officer of the company or one of its affiliates<sup>i</sup>.
- › Currently employed by (or a relative<sup>vi</sup> is employed by) a significant customer or supplier<sup>viii</sup> of the company or its affiliates<sup>i</sup>.
- › Is (or a relative<sup>vi</sup> is) a trustee, director or employee of a charitable or non-profit organization that receives material<sup>ix</sup> grants or endowments from the company or its affiliates<sup>i</sup>.
- › Has, or is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that has a transactional relationship with the company or its affiliates<sup>i</sup>, excluding investments in the company through a private placement.

#### Key Change:

- › Add a footnote viii to clarify that "The terms "Currently", "Is" or "Has" in the context of Transactional, Professional, Financial, and Charitable Relationships will be defined as having been provided at any time within the most recently completed fiscal year and/or having been identified at any time up to and including the annual shareholders' meeting. "

#### ▶ New Definition of Independence:

See new table for the Canadian Definition of Independence below.

## 2017 ISS Canadian Definition of Independence (TSX and TSXV)

### 1. Inside Director (I)

- 1.1. Employees of the company or its affiliates<sup>i</sup>.
- 1.2. Non-employee officer of the company or its affiliates<sup>i</sup> if he/she is among the five most highly compensated.
- 1.3. Current interim CEO or any other current interim executive of the company or its affiliates<sup>i</sup>.
- 1.4. Beneficial owner of company shares with more than 50 percent of the outstanding voting rights (this may be aggregated if voting power is distributed among more than one member of a group)<sup>ii</sup>.

### 2. Affiliated Outside Director (AO)

#### Former/Interim CEO<sup>iii</sup>

- 2.1. Former CEO of the company or its affiliates<sup>i</sup> within the past five years<sup>iv</sup> or of an acquired company within the past five years.
- 2.2. Former interim CEO of the company or its affiliates<sup>i</sup> within the past five years<sup>iv</sup> if the service was longer than 18 months or if the service was between 12 and 18 months and the compensation was high relative to that of the other directors or in line with a CEO's compensation<sup>v</sup> at that time.
- 2.3. CEO of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years<sup>iv</sup>.

#### Non-CEO Executives<sup>iii</sup>

- 2.4. Former executive of the company, an affiliate, or a firm acquired within the past three years.
- 2.5. Former interim executive of the company or its affiliates<sup>i</sup> within the past three years if the service was longer than 18 months or if the service was between 12 and 18 months, an assessment of the interim executive's terms of employment including compensation relative to other directors or in line with the top five NEOs at that time.
- 2.6. Executive of a former parent or predecessor firm at the time the company was sold or split off from parent/predecessor within the past three years.
- 2.7. Executive, former executive of the company or its affiliates<sup>i</sup> within the last three years, general or limited partner of a joint venture or partnership with the company.

#### Relatives

- 2.8. Relative<sup>vi</sup> of current executive officer<sup>vii</sup> of the company or its affiliates<sup>i</sup>.
- 2.9. Relative<sup>vi</sup> of a person who has served as an executive officer of the company or its affiliates<sup>i</sup> within the last three years.

#### Transactional, Professional, Financial, and Charitable Relationships<sup>viii</sup>

- 2.10. Currently provides (or a relative<sup>vi</sup> provides) professional services to the company, its affiliates<sup>i</sup> or to its officers.
- 2.11. Is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that provides professional services to the company, to an affiliate of the company, or to an individual officer of the company or one of its affiliates<sup>i</sup>.
- 2.12. Currently employed by (or a relative<sup>vi</sup> is employed by) a significant customer or supplier<sup>ix</sup> of the company or its affiliates<sup>i</sup>.
- 2.13. Is (or a relative<sup>vi</sup> is) a trustee, director or employee of a charitable or non-profit organization that receives material<sup>x</sup> grants or endowments from the company or its affiliates<sup>i</sup>.
- 2.14. Has, or is (or a relative<sup>vi</sup> is) a partner, controlling shareholder or an employee of, an organization that has a transactional relationship with the company or its affiliates<sup>i</sup>, excluding investments in the company through a private placement.

#### Other Relationships

- 2.15. Has a contractual/guaranteed board seat and is party to a voting agreement to vote in line with management on proposals being brought to shareholders.
- 2.16. Founder<sup>xi</sup> of the company but not currently an employee.
- 2.17. Has any material relationship with the company or with any one or more members of management of the company.

#### Board Attestation

- 2.18. Board attestation that an outside director is not independent.

### 3. Independent Outside Director (IO)

- 3.1. No material ties to the company other than board seat.

**Footnotes:**

- i "Affiliate" includes a subsidiary, sibling company, or parent company. ISS uses 50 percent control ownership by the parent company as the standard for applying its affiliate designation.
- ii Under this definition, officers of an entity and/or its affiliates holding more than 50 percent of the outstanding voting rights will be considered insiders.
- iii When there is a former CEO or other officer of a capital pool company (CPC) or special purpose acquisition company (SPAC) serving on the board of an acquired company, ISS will generally classify such directors as independent unless determined otherwise taking into account the following factors: the applicable listing standards determination of such director's independence; any operating ties to the firm; and the existence of any other conflicting relationships or related party transactions.
- iv The determination of a former CEO's classification following the five year cooling-off period will be considered on a case-by-case basis. Factors taken into consideration may include but are not limited to: management/board turnover, current or recent involvement in the company, whether the former CEO is or has been Executive Chairman of the board or a company founder, length of service with the company, any related party transactions, consulting arrangements, and any other factors that may reasonably be deemed to affect the independence of the former CEO.
- v ISS will look at the terms of the interim CEO's compensation or employment contract to determine if it contains severance pay, long-term health and pension benefits or other such standard provisions typically contained in contracts of permanent, non-temporary CEOs. ISS will also consider if a formal search process was underway for a full-time CEO.
- vi Relative refers to immediate family members including spouse, parents, children, siblings, in-laws and anyone sharing the director's home.
- vii Executive Officer will include: the CEO or CFO of the entity; the president of the entity; a vice-president of the entity in charge of a principal business unit, division or function; an officer of the entity or any of its subsidiary entities who performs a policy making function in respect of the entity; any other individual who performs a policy-making function in respect of the entity; or any executive named in the Summary Compensation Table.
- viii The terms "Currently", "Is" or "Has" in the context of Transactional, Professional, Financial, and Charitable Relationships will be defined as having been provided at any time within the most recently completed fiscal year and/or having been identified at any time up to and including the annual shareholders' meeting.
- ix If the company makes or receives annual payments exceeding the greater of \$200,000 or 5 percent of recipient's gross revenues (the recipient is the party receiving proceeds from the transaction).
- x "Material" is defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.
- xi The operating involvement of the Founder with the company will be considered. Little or no operating involvement may cause ISS to deem the Founder as an independent outsider.

**Rationale for Update:**

To provide clarification and enhance transparency with respect to the current implementation of this guideline within the policy document.

## SHAREHOLDER RIGHTS & DEFENSES

### Poison Pills (Shareholder Rights Plans) (TSX and TSXV)

As required by the TSX, the adoption of a shareholder rights plan must be ratified by shareholders within six months of adoption.

**Current General Recommendation:** Vote case-by-case on management proposals to ratify a shareholder rights plan (poison pill) taking into account whether it conforms to ‘new generation’ rights plan best practice guidelines and its scope is limited to the following two specific purposes:

- › To give the board more time to find an alternative value enhancing transaction; and
- › To ensure the equal treatment of all shareholders.

Vote against plans that go beyond these purposes if:

- › **The plan gives discretion to the board to either:**
  - › Determine whether actions by shareholders constitute a change in control;
  - › Amend material provisions without shareholder approval;
  - › Interpret other provisions;
  - › Redeem the rights or waive the plan’s application without a shareholder vote; or
  - › Prevent a bid from going to shareholders.
- › **The plan has any of the following characteristics:**
  - › Unacceptable key definitions;
  - › Reference to Derivatives Contracts within the definition of Beneficial Owner;
  - › Flip over provision;
  - › Permitted bid minimum period greater than 60 days;
  - › Maximum triggering threshold set at less than 20 percent of outstanding shares;
  - › Does not permit partial bids;
  - › Includes a Shareholder Endorsed Insider Bid (SEIB) provision;
  - › Bidder must frequently update holdings;
  - › Requirement for a shareholder meeting to approve a bid; and
  - › Requirement that the bidder provide evidence of financing.
- › **The plan does not:**
  - › Include an exemption for a “permitted lock up agreement”;
  - › Include clear exemptions for money managers, pension funds, mutual funds, trustees, and custodians who are not making a takeover bid; and
  - › Exclude reference to voting agreements among shareholders.

#### Key Changes:

- › ISS Canadian Voting Guidelines applicable to shareholder rights plans are being updated to reflect the new regulatory requirement for a minimum deposit period for all non-exempt take-over bids as set out in National Instrument 62-104 Take-Over Bids and Issuer Bids.

**New General Recommendation:** Vote case-by-case on management proposals to ratify a shareholder rights plan (poison pill) taking into account whether it conforms to ‘new generation’ rights plan best practice guidelines and its scope is limited to the following two specific purposes:

- › To give the board more time to find an alternative value enhancing transaction; and
- › To ensure the equal treatment of all shareholders.

Vote against plans that go beyond these purposes if:

- › **The plan gives discretion to the board to either:**
  - › Determine whether actions by shareholders constitute a change in control;
  - › Amend material provisions without shareholder approval;
  - › Interpret other provisions;
  - › Redeem the rights or waive the plan's application without a shareholder vote; or
  - › Prevent a bid from going to shareholders.
- › **The plan has any of the following characteristics:**
  - › Unacceptable key definitions;
  - › Reference to Derivatives Contracts within the definition of Beneficial Owner;
  - › Flip over provision;
- › Permitted bid minimum period greater than 105 days;
- › Maximum triggering threshold set at less than 20 percent of outstanding shares;
  - › Does not permit partial bids;
  - › Includes a Shareholder Endorsed Insider Bid (SEIB) provision;
  - › Bidder must frequently update holdings;
  - › Requirement for a shareholder meeting to approve a bid; and
  - › Requirement that the bidder provide evidence of financing.
- › **The plan does not:**
  - › Include an exemption for a "permitted lock up agreement";
  - › Include clear exemptions for money managers, pension funds, mutual funds, trustees, and custodians who are not making a takeover bid; and
  - › Exclude reference to voting agreements among shareholders.

#### Rationale for Update:

The Canadian Securities Administrators adopted amendments to Canada's take-over bid regime that came into effect May 2016. National Instrument 62-104 Take-Over Bids and Issuer Bids now sets out specific bid requirements in regulation, most of which had long been incorporated into ISS Canadian policy guidelines for shareholder rights plans in Canada. One significant change was made, however, to the permitted minimum deposit period for all non-exempt take-over bids. The final regulation has established that such bids are subject to a minimum deposit period of 105 days, with board discretion to reduce that period under certain circumstances, but in no event to less than 35 days.

The proposed policy update will align ISS guidelines with the new minimum deposit period required by regulation.

## COMPENSATION

### Director Compensation- TSX

▶ **Current General Recommendation:** None.

#### Key Changes:

- › Introduce a policy for TSX-listed companies to identify significant problematic non-employee director compensation practices that would result in a negative vote recommendation at the board level in addition to, or in the absence of, the ability to register a negative vote for the problematic award or payment or plan under which it is made.

▶ **New General Recommendation:** On a case-by-case basis, generally vote withhold for members of the committee responsible for director compensation (or, where no such committee has been identified, the board chair or full board) where director compensation practices which pose a risk of compromising a non-employee director's independence or which otherwise appear problematic from the perspective of shareholders have been identified, including:

- › Excessive (relative to standard market practice) inducement grants issued upon the appointment or election of a new director to the board (consideration will be given to the form in which the compensation has been issued and the board's rationale for the inducement grant);
- › Performance-based equity grants to non-employee directors which could pose a risk of aligning directors' interests away from those of shareholders and toward those of management; and
- › Other significant problematic practices relating to director compensation.

#### Rationale for Update:

As non-employee director compensation schemes increase in quantum and complexity, this policy is intended to identify highly problematic practices relating to director compensation which would result in a negative vote recommendation. The issuance of excessive inducement grants to non-employee directors can create problematic incentives which may compromise an otherwise independent director's judgement or foster divergent incentives between those directors who have recently received such awards and those who have not. Similarly, the issuance of performance-based equity awards (e.g. performance share units or PSUs) to non-employee directors may increase the risk of misaligning directors' interests away from the interests of shareholders.

Based on discussions with institutional investors, this policy is intended to highlight and oppose these and other highly problematic non-employee director compensation practices and to reflect best practices within the Canadian market as outlined by the Canadian Coalition for Good Governance's 2011 [Director Compensation Principles](#).

## BRAZIL

### BOARD OF DIRECTORS - DIRECTOR ELECTIONS



**Current General Recommendation:** Vote for the bundled election of directors, unless:

- › Adequate disclosure of management nominees has not been provided in a timely manner;
- › There are clear concerns over questionable finances or restatements;
- › There have been questionable transactions with conflicts of interest;
- › There are any records of abuses against minority shareholder interests; or
- › The board fails to meet minimum corporate governance standards.

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

Vote against the bundled election of directors if the names of the management nominees are not disclosed in a timely manner prior to the meeting.

Vote abstain on the election of directors and fiscal council members nominated by non-controlling shareholders presented as a separate voting item if the nominee names are not disclosed in a timely manner prior to the meeting.

Vote for individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote on a case-by-case basis for contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, determining which directors are best suited to add value for shareholders.

Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- › Failure to replace management as appropriate; or
- › Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Vote against individual directors, members of a committee, or the entire board due to a conflict of interest that raises significant potential risk, in the absence of mitigating measures and/or procedures.

#### Key Changes:

- › Establish a minimum board independence threshold for companies listed under the Nivel 1 and Traditional segments of the Sao Paulo Stock Exchange (BM&FBovespa). Currently, only companies listed under the highest corporate governance segments (Novo Mercado and Nivel 2) were subjected to a minimum board-independence level under ISS policy.
- › Improve the policy framework for the analysis of the election of minority nominees presented under separate election proposals, in accordance with the Brazilian Law. The policy update clarifies that ISS will prioritize the vote recommendation for the election of minority nominees, when timely disclosure is provided, consistent with:
  - › the increased shareholder activism in the market;

- › the upcoming regulatory changes, specifically Instruction 561, issued by the Brazilian Securities Exchange (CVM), establishing the remote voting card mandatory for Brazilian issuers (main index companies) as of January 2017, and for the entire market as of January 2018; and
- › the voting execution requirements in the market.



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

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

### Minimum Independence Levels

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

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

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

### Election of Minority Nominees (Separate Election)

Article 141 of the Brazilian Corporate Law grants the rights to minority common and preferred shareholders to appoint one member each to the board of directors in a separate election in which the controlling shareholder is not allowed to vote.

Brazilian Corporate Law only requires controlling shareholders to disclose their nominee slate 15 days prior to the shareholder meeting. Minority stockholders can present the names of their nominees up to the time of the meeting.

When a separate election for a minority nominee is on ballot, minority ordinary shareholders can vote on a single election item, either on the separate election proposal to elect a minority board representative or the management nominees/slate.



**General Recommendation:** Vote for the election of minority board nominees (ordinary and preferred holders), as well as minority fiscal council nominees, presented under a separate election when timely disclosure is provided of their names and biographical information, in the absence of other concerns regarding the proposed nominees. If competing minority nominees are disclosed by different minority shareholders, the [contested election policy](#) will be applied.

When a separate election is presented for minority board and/or fiscal council nominees, ISS will prioritize the support for the election of minority representatives, if timely disclosure is provided, and a "Do Not Vote" recommendation may be issued for the management nominees.

On the other hand, in the absence of timely disclosure regarding minority nominees, a "Do Not Vote" or an "ABSTAIN" recommendations may be issued for the separate minority election proposal, and a vote recommendation would be presented for the management slate in accordance with the aforementioned policy.

ISS will update its report and vote recommendations, as applicable, on a best effort basis, whenever the names and biographical information of minority nominees are disclosed following the publication of the original report, up to a **minimum of eight days** prior to the shareholder meeting, in which case priority will be given to allow minority shareholders to elect a representative to the board of directors and/or fiscal council.

Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- › Failure to replace management as appropriate; or
- › Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Vote against individual directors, members of a committee, or the entire board due to a conflict of interest that raises significant potential risk, in the absence of mitigating measures and/or procedures.

#### Rationale for Update:

Brazil is one of the most challenging countries for proxy voting execution. The country has witnessed a significant increase in shareholder activism translated in the effort to increase minority board and fiscal council representations in light of unprecedented corruption investigations, melting stock prices, a push for greater board accountability, and changing regulations. The policy update seeks to provide greater transparency in the event of the election of minority nominees presented under separate election proposals, as allowed under Brazilian law, and clarifies that ISS will prioritize the recommendation for the election of minority nominees when timely disclosure is provided.

### Contested Director Elections and Competing Minority Nominees

- ▶ **Current General Recommendation:** For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, ISS will make its recommendation on a case-by-case basis, determining which directors are best suited to add value for shareholders.

#### Key Changes:

- › Add fiscal council members to the policy.

- ▶ **New General Recommendation:** For contested elections of directors (and/or fiscal council members), e.g. the election of shareholder nominees or the dismissal of incumbent directors, ISS will make its recommendation on a

case-by-case basis, determining which directors (and/or fiscal council members) are best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- › Company performance relative to its peers;
- › Strategy of the incumbents versus the dissidents;
- › Independence of directors/nominees;
- › Experience and skills of board candidates;
- › Governance profile of the company;
- › Evidence of management entrenchment;
- › Responsiveness to shareholders;
- › Whether a takeover offer has been rebuffed;
- › Whether minority or majority representation is being sought.

When analyzing a contested election of directors, ISS will generally focus on two central questions: (1) Have the dissidents proved that board change is warranted? And (2) if so, are the dissident board nominees likely to effect positive change (i.e., maximize long-term shareholder value).

#### **Rationale for Update:**

Establishes the use of the same policy framework for the analysis of competing minority fiscal council nominees, consistent with the policy approach for the analysis of the election of competing minority board nominees.

## AMERICAS REGIONAL

### BOARD OF DIRECTORS

#### Director Elections- Independence

▶ **Current General Recommendation:** Vote for management nominees in the election of directors, unless:

- › Adequate disclosure has not been provided in a timely manner;
- › There are clear concerns over questionable finances or restatements;
- › There have been questionable transactions with conflicts of interest;
- › There are any records of abuses against minority shareholder interests; or
- › The board fails to meet minimum corporate governance standards;
- › There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote against the election of directors at all companies if the name(s) of the nominee(s) is not disclosed in a timely manner prior to the meeting.

#### Key Changes:

- › Require a minimum board independence for Latin American companies: Argentina, Colombia, Chile, Mexico and Peru.

▶ **New General Recommendation:** Vote for management nominees in the election of directors, unless:

- › Adequate disclosure has not been provided in a timely manner;
- › There are clear concerns over questionable finances or restatements;
- › There have been questionable transactions with conflicts of interest;
- › There are any records of abuses against minority shareholder interests;
- › The board fails to meet minimum corporate governance standards;
- › There are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities; or
- › The company does not comply with market legal requirements for minimum board independence, or does not have at least one independent board member, whichever is higher.

Vote against the election of directors at all companies if the name(s) of the nominee(s) is not disclosed in a timely manner prior to the meeting, and if the company does not comply with market legal requirements for minimum board independence or does not have at least one independent board member.

#### Rationale for Update:

The current policy for director elections is based solely on the timely disclosure of the names of board nominees and does not reference a minimum independence requirement. However, the majority of the markets covered in the Latin America region already have in place some minimum independence requirements or recommendations, either through hard or soft laws. Therefore, the policy is being updated to include the reference to a minimum independence market requirement or at least one independent board member, whichever is higher, to improve the current policy framework, consistent with current market practices.

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