



**Alberta Teachers'  
Retirement Fund Board**

# **PROXY VOTING GUIDELINES**

**April 2009**

# ATRF PROXY VOTING GUIDELINES

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## **A. INTRODUCTION**

ATRF has a globally based investment structure with ownership of companies around the world. As a long-term investor, ATRF is fundamentally interested in the generation of shareholder value to meet the requirement to maximize returns from the Fund's assets.

We have developed guidelines to describe how we intend to vote on some commonly raised or potentially contentious issues. The intention is to support companies whose actions are in the long-term best interests of shareholders. We apply these guidelines to help determine whether to support or oppose a proposal by a corporation (or shareholder), such action having been placed before all shareholders for a vote.

The development of comprehensive proxy voting guidelines is an evolutionary process and revisions and updates will be released periodically.

## **GENERAL PRINCIPLES**

ATRF believes that a corporation not responsive to public concerns will suffer in economic performance and impact overall investment results. Therefore, the company needs to carefully assess public attitudes and values and operate accordingly. ATRF subscribes to the following four general principles for corporate governance:

1. Fund assets should be invested for long-term value actualization and to support the financial interests of the beneficial owners.
2. Corporate management is accountable to the board of directors. The board of directors is responsible for maximizing long-term growth of shareholder value. The board reports to the shareholders. The board should reinforce these concepts in making its appointments and by appropriately defining the separate roles of board members and management.
3. Ownership rights should not be subordinated. Minority shareholders should not be treated differently from controlling shareholders. All shareholders have a right to receive proper notice of corporate actions and to vote on issues that have a material financial impact upon their investments.
4. The proxy vote is an important asset of the Fund. Ownership and voting rights should be used to support ethical conduct but not any particular external social or political agenda at the expense of long-term returns. Fiduciaries are obligated to exercise their ownership rights in order to optimize the long-term value of their investments.

## **B. BOARD OF DIRECTORS**

Corporate management is accountable to the board of directors. The board of directors is responsible for maximizing long-term growth of shareholder value. The board reports to the shareholders. The board should reinforce these concepts in making its appointments and by appropriately defining the separate roles of Board members and management.

Directors collectively represent all shareholders, not any special interest group. Generally shareholders should not interfere with management, but should ensure that the board is capable of independent thought and action, so that it can effectively discharge its responsibilities including oversight of management performance.

Majority owners and other shareholders of closely held companies ought to have the same interest in creating shareholder value as shareholders of widely held companies.

### **1. Structure and Roles**

The following points are essential for boards of directors to function effectively:

- a. The majority of the board of directors is independent of management and has no financial interest in the affairs or the property of the company other than by way of sufficient shares, with a significant portion held until retirement, to align its interest with that of shareholders.
- b. The role of chair of the board is different from that of chief executive officer and it follows that one person cannot fulfil both roles without conflict. Therefore, the chief executive officer runs the company with the chair ensuring that the board effectively judges management's performance. In cases where the two offices are combined, one independent board member should be identified as lead director, but separation of the offices is strongly preferred.
- c. Committees have become accepted mechanisms for corporate governance. Corporations of sufficient size include at a minimum:

#### **Audit Committee**

Its role and necessary independence are established in law. This committee should be chaired by an independent director to have effective independence, and to reinforce the principle that auditors are appointed by shareholders, not by management. All audit-related and non-audit fees paid to each audit firm should be disclosed in the company's annual report.

#### **Corporate Governance Committee**

Its responsibilities are to conduct the review of corporate governance practices using the process put in place by the board to rate its effectiveness, its processes and the contribution of individual members and to report annually to shareholders on the company's governance standards and practices and its evaluation of their effectiveness.

### **Compensation Committee**

Its responsibilities are to set the total compensation package for management and to set the specific compensation for senior officers of the company.

### **Nominating Committee**

Its responsibilities are to review the qualifications of all director candidates and assess the performance of existing directors on an annual basis. This committee also formulates policies for choosing candidates for directorship.

These committees are comprised exclusively of directors who are independent of management. Director independence will be reviewed according to the listing standards of the Toronto Stock Exchange.

- d. The Board consists in general, depending on the nature of the company, of fewer than 12 or at most 15 members, which is small enough to be cohesive and effective. The board seeks to draw members from differing backgrounds and expertise. Since directors have to take responsibility and be accountable, they need to be remunerated accordingly and they must limit the number of their other directorships in order to devote adequate time to each board.
- e. Directors should be provided with an indemnification for their actions as directors, but only where such actions were done honestly and in good faith with a view to the best interests of the corporation and its shareholders. In criminal matters, indemnities should also be limited to actions where a director had reasonable grounds to believe that his/her conduct was lawful.
- f. The board has a process in place to rate its effectiveness, its processes and the contribution of individual members and to report annually to shareholders on the company's governance standards and practices and its evaluation of their effectiveness.
- g. It is generally appropriate to permit shareholders to vote for individual members of a board of directors, rather than a slate, to allow shareholders to express their approval of the contribution made by each board member and to provide greater accountability and effectiveness on the part of the board. It is also appropriate to allow shareholders to specifically vote against individual board members as a means of expressing disapproval, rather than simply withholding votes for that member.

### **Voting Recommendation:**

Vote against or withhold votes from directors with consistently poor attendance records evidenced by failure to attend at least 75% of board and committee meetings.

Vote against or withhold votes from directors who serve on more than six public company boards and executive directors who serve on more than three public company boards.

Do not withhold votes from or vote against the suggested slate of directors solely because of its composition unless: i) corporate performance, over a reasonable period, is unsatisfactory or ii) the majority of directors are not independent of management.

Vote for proposals to grant or extend indemnification to directors as long as the indemnification does not include for knowingly criminal or fraudulent acts.

Vote for proposals to separate the roles of chair and CEO.

Vote for proposals to nominate an independent director as chair of the board's key committees: Audit, Compensation, Nominating and Governance. Similarly, vote for proposals to require that only independent directors serve on such key committees.

Vote against the nominating committee chair when the CEO and Board Chair roles are combined and there is no lead independent director.

Vote against a non-executive director nominee when ATRF's proxy voting advisor has identified that the nominee is involved in a board interlock. A board interlock exists when the non-executive director nominee for Company A is also an executive director at Company B and a non-executive director of Company B also serves as an executive director of Company A.

## **2. Voting Structure**

- a. Staggering limits the shareholders' opportunity to affect the make-up of the board and does not permit an annual review of each board member.
- b. Confidential voting eliminates the possibility of coercion or re-solicitation of shareholders or fiduciaries.
- c. Cumulative voting entitles stockholders to as many votes as the number of shares they own multiplied by the number of directors to be elected. These votes may then be used as the stockholder wishes to vote for a single candidate, or any or all candidates.

Cumulative voting allows for the possibility that a minority block of shares can be represented on a board, ensuring an independent voice at the boardroom table, but also allows for the possibility that a minority of shareholders could unduly influence the company.

There is a concern, however, that directors elected through cumulative voting could be preoccupied with their own or a special interest group's agenda, not the welfare of all securities owners. Such partisanship may lead to discord, impairing board members' ability to work together to conduct the company's affairs.

- d. Since the election of directors is the fundamental method for communicating concern about a director's or board's performance, directors should be elected by a majority vote of shareholders, not a plurality except in the case of a control contest.

**Voting Recommendation:**

We prefer the annual election of all directors. We will generally not support proposals that provide for staggered terms for board members.

We will review cumulative voting on a case by case basis, voting for such proposals only when necessary to ensure an independent voice on an otherwise unresponsive board of directors.

We will vote for proposals to require a majority vote of shareholders to elect directors in place of a plurality standard.

### C. AUDITOR RATIFICATION

The role of the auditor is crucial in ensuring the integrity and transparency of financial information necessary for ensuring the market is equipped with accurate information about the fiscal health of the company. Shareholders rely on the auditor to do a thorough analysis of the company's books to ensure that the information ultimately provided to shareholders is complete, accurate, fair and a reasonable representation of the company's financial position. When the auditor is also providing services unrelated to the review of the company's financial information, this raises concerns about the objectivity of the accountants in conducting the audit. It is crucial that auditors are not beholden to management due to compensation they receive for non-audit work. When management and the auditor enter into significant financial relationships unrelated to the audit, the independence of the auditor and the integrity of the company's financial statements are compromised.

**Voting Recommendation:**

Vote against an auditor where the non-audit fees exceed fees paid for audit services.

## **D. EXECUTIVE COMPENSATION**

### **1. Introduction**

Executive compensation is a cost that shareholders are willing to pay for having agents (corporate management) run the company for them. That is the essence of the corporate contract. One party puts up the capital and another puts in the labour.

As long as corporate ownership is separated from corporate control, managers will be presented with conflicts of interest. Shareholders want compensation designed to encourage dedication by management towards the goal of a profitable operation. Management wants compensation to be largely guaranteed, whereas shareholders want it to be tied to company performance and market return. Maintaining a healthy relationship between compensation and performance promotes the common goal of increasing long-term shareholder value.

Our principal interest as institutional investors is to ensure long-term growth of shareholder value and a properly rewarded management team. We expect that a totally independent committee will evaluate whether the compensation package is properly structured. All companies are expected to exercise moderation and restraint in compensation practices while maintaining the company's competitive position.

### **2. Standards**

The design of a compensation plan is more important than the size of the total remuneration. In this connection, shareholders have six main objectives:

- a. Shareholders' principal interest is in building long-term shareholder values. Compensation packages should induce management to become owners of enough stock that their interests are aligned with the shareholders. There should be positive and significant correlation over a reasonable period between compensation and the enhancement of shareholder value.
- b. Compensation must be high enough to attract qualified management and be competitive within its industry, but not to reward failure or mediocrity.
- c. In general, corporate loans to employees for the purpose of purchasing stock or options are not acceptable.
- d. Unrestricted stock options, and options priced below current market value, are not acceptable. Reducing the exercise price of options when the stock has underperformed the relative market is not acceptable. Shareholders do not want to design compensation packages, but they want directors serving on the compensation committee to be independent from management and capable of overseeing the remuneration system and the provision of thorough, simple disclosure of all significant sources of executive compensation.

- e. Shareholders should be informed annually about the principles and structure of the company's executive compensation system.
- f. Directors should ensure that a meaningful portion of an executive's stock-based compensation be linked to performance criteria.
- g. Where Directors, in particular compensation committee members, have failed to align pay with performance as identified by ATRF's proxy advisor, ATRF will consider withholding votes for or voting against those compensation committee members.

**Voting Recommendation:**

Vote against any compensation measures which can be construed as excessive or likely to diminish the value of the corporation.

Vote for proposals seeking to link a significant portion of executive stock-based compensation to performance.

Vote case by case on compensation committee members where ATRF's proxy advisor has identified a compensation committee that has failed to align pay with performance.

Vote against or withhold votes from Directors who served the compensation committee during a time when the executive or director options were backdated.

Vote for proposals to grant shareholders an advisory, non-binding vote on compensation.

**3. Stock Option Plans**

Stock option plans are intended to tie compensation to performance. The following are standard provisions for stock option plans.

**Price**

Options must be priced at a level that conforms to the pay-for-performance principle ATRF believes in pricing options at 100 percent of fair market value or whatever normal market convention dictates, unless in the opinion of ATRF, that is unreasonable. The repricing of options to reflect lower share prices should not be supported unless there are extraordinary circumstances.

**Dilution**

Calculated the simplest way possible, any plan that authorizes shares representing 10 percent or more of the existing outstanding shares should not be supported. Dilution in excess of 5 percent should be given close scrutiny.

**Burn Rate**

Burn rate refers to the number of options awarded in any given year, expressed as a percentage of the total shares outstanding. Burn rates in excess of 2% per year should not be supported. Burn rates in excess of 1% per year should be given close scrutiny.

**Eligibility**

Reasonable awards to employees should be allowed. Non-employee directors should generally not be eligible for stock option plans. If they are eligible, grants to directors should only be supported if they are non-discretionary, within clearly defined parameters and not excessively dilutive.

**Performance Objectives**

Option grants should not be discretionary in nature, but be specifically linked to the achievement of a set of pre-determined performance objectives.

**Vesting Schedule**

Restricted stock should not be 100 percent vested when granted, but must vest over a specified period of time; the usual time period is five to ten years.

**Change in Control**

Stock option plans with change-in-control provisions should be supported if the provisions do not allow option holders to receive more for their outstanding options than shareholders would receive for their shares.

Change-in-control arrangements developed in the midst of a takeover fight specifically to entrench management should be opposed.

**Board Discretion**

Plans that give the board of directors broad discretion in setting the terms of the grant, including the price, form of vehicle, replacement of options, etc., should not be supported.

**Method of Payment**

Plans that allow employees to acquire stock or options with a company loan should generally not be supported.

**Shareholder Confirmation**

Plans should be structured in such a way that their continuation requires periodic shareholder approval. This should be accomplished by specifying the number of shares that can be issued under the option plan. Evergreen or reload option plans which authorize a fixed percentage of shares outstanding should not be supported.

### **Proxy Advisor Analysis**

The stock plan analysis of ATRF's proxy advisor provides a quantitative focus on the cost of a plan as compared to the operating metrics of the business. It compares the program with both absolute limits that are key to equity value creation and with the practices of a specific peer group for each company. In general, the analysis seeks to determine whether the proposed plan is either absolutely excessive or is more than one standard deviation away from the average plan for the peer group on a range of criteria, including dilution to shareholders and the projected annual cost relative to the company's financial performance.

#### **Voting Recommendation:**

Vote in favour of employee share ownership plans, provided that such plans are not excessively generous.

Vote against stock option plans that do not meet the above guidelines.

Vote against stock plans deemed by ATRF's proxy advisor to be excessively costly in comparison to company peers.

### **4. Golden Parachutes**

Golden parachutes are severance payments to top executives who are terminated or demoted after a takeover. They are meant to keep executives from leaving during takeover speculation and enable them to continue making decisions in the best interest of the company and its shareholders, even if those decisions might cost them their jobs if the acquirer succeeds in taking over the company.

Some would argue that these are severance agreements and a part of normal compensation practice necessary to provide some financial security to executives in case of an unexpected change in control. However, employment contracts are a normal method of providing compensation for executives in specific instances. Such contracts should always be reviewed by the compensation committee constituted to represent the interests of shareholders. There should be no objections to compensation arrangements of this type. Golden parachutes that may be used to entrench management, however, should not be supported.

#### **Voting Recommendation:**

Vote against golden parachutes that may provide compensation in excess of three times salary and bonus to management and/or may materially reduce the value of the company to an acquirer.

## **E. TAKEOVER PROTECTION**

### **1. Introduction**

Certain takeover protection measures can be detrimental to shareholders' interests. The recommendation is to support plans designed to provide the target company with sufficient time to maximize value in a takeover situation and not to support provisions that are designed to prevent a takeover from occurring. Shareholders should assess the fairness of the proposal and any consideration being offered and then act accordingly.

### **2. Standards**

We favour boards of directors that:

- a. Submit major corporate changes to a committee of independent directors for review and approval.
- b. Submit major corporate changes to a vote of shareholders not controlled by management (without impediment).
- c. Give shareholders ample time for review and enough information (preferably audited financial statements) to make informed judgements.
- d. Do not allow management to short track a takeover bid by:
  - using the company's retained earnings or borrowing power to buy up large blocks of stock, or
  - seeking out a friendly third party to buy large blocks of stock without extending the offer to other shareholders.
- e. Propose a shareholder rights plan with a renewable lifetime of not more than three years at which time the plan must be re-submitted to shareholders for approval.
- f. Approve only break fees that are within a modest limit and do not discourage competitive bids.
- g. Allow for exemptions for lock-up agreements so that a bid may proceed and not be prevented by a lock-up agreement.
- h. Do not allow the waiver of an existing shareholder rights plan unless the plan is waived for all subsequent bids as well.

### **3. Poison Pills**

"Poison pill" describes shareholder rights plans that are intended to induce a prospective acquirer to negotiate a takeover proposal with the board of directors of the target company. The Board can then act to maximize shareholder value.

It can be argued that a poison pill reduces the likelihood of a takeover bid being made. In the U.S., however, there are numerous examples of takeover bids being made for companies with poison pills in place. In most of these cases, the target company was ultimately acquired at higher prices after the target board had sufficient time to auction the company.

In certain highly publicized cases in the U.S., poison pills have been used by target boards of directors to thwart takeover bids in favour of proposals less attractive to shareholders. This has not occurred in Canada, and is unlikely to occur here, because Canadian securities regulators traditionally intervene on behalf of the shareholders.

Securities regulators in Canada have generally taken the position that poison pills can play a positive role in facilitating an auction to maximize shareholder value for a company "in play". In Canada, unlike the U.S., poison pills must be voted in by shareholders within a reasonable time following their adoption.

Most Canadian plans include a "permitted bid" provision, allowing a bidder to avoid any negotiation with the board and still bid for the company. A permitted bid must meet certain minimum requirements, including that it be outstanding for a specific period, typically 60 days. A bid is often outstanding for insufficient time to allow the target board to auction the company to maximize value.

Canadian institutions generally accept that it is in the interest of shareholders that boards and managements have sufficient time to auction a company in a takeover situation, but have been reluctant to agree that a poison pill should do much more than provide this basic protection.

**Voting Recommendation:**

Vote in favour of poison pill plans designed to provide the target company with sufficient time to maximize value in a takeover situation. Do not support provisions that are designed to prevent a takeover from occurring and which entrench management to the detriment of shareholder interests. Further do not support proposals where the permitted bid clause includes a minimum permitted bid period of less than 30 days, where the poison pill is not subject to shareholder approval and subsequent renewal, and where the term of the poison pill is longer than three years.

**4. Crown Jewel Defence and Going Private Transactions**

“Crown jewel defense” is when a company sells its most valuable assets to a friendly third party in the event of an unwanted suitor.

Going private transactions is when the controlling shareholder offers a price to buy out minority shareholders' equity interest. Shareholder opposition to going private transactions generally focuses on the fairness of the consideration offered for the shares rather than on principle. Usually, minority shareholders will feel they are unable to negotiate an acceptable price if the price is too low.

In Canada such transactions usually require approval of a majority of the minority shareholders. Canadian law has an "appraisal remedy" which requires that substantially all of the assets of a corporation are included in this transaction or the transaction would change the essential nature of a corporation's business. The dissenting shareholders could then seek the fair value of their shares from the acquirer. The appraisal remedy is available to dissenting shareholders even if they lose the vote.

These kinds of transactions are usually made on short notice and extreme care should be exercised in voting such proposals or considering the appraisal remedy.

**Voting Recommendation:**

Vote against "crown jewel defence" proposals unless there is evidence that shareholder interests are protected.

Vote for going private transactions only if all shareholder interests are protected.

## 5. Leveraged Buyouts and Lock Up Arrangements

In cases of leveraged buyouts or "lock up" arrangements, other potential bidders should have an opportunity to investigate the company and make competing bids.

It is inappropriate for management with a controlling interest in the target company to:

- use retained earnings to purchase stock;
- exceed competing offers in buying a large amount of stock safely for management until the takeover opportunity has passed; or
- to seek out a friendly third party who has no intention of participating in management, to secure management's position by buying large amounts of stock without extending the offer to other shareholders.

Where there is an agreement by some shareholders to tender their stock to the target company, or to a third party friendly to the target company, the sale is entirely voluntary and there is no shareholder vote required and no appraisal remedy. The only avenue of protest open to dissenting shareholders is to vote against the slate of directors that allowed these practices at the first opportunity.

**Voting Recommendation:**

Withhold votes from, or vote against the slate of directors at the first opportunity, if it is evident shareholder interests are not protected.

## **Reincorporation**

Reincorporation involves a proposal to re-establish the company in a different legal form or jurisdiction. There are a number of legitimate reasons why a company may want to reincorporate, but it is often a tactic by management to frustrate a potential takeover or to limit director liability.

### **Voting Recommendation:**

Support reincorporation proposals when management and the board can demonstrate sound financial or business reasons.

Do not support proposals that are made as a takeover defense, to limit directors' liability, that aim to take advantage of more relaxed corporate governance rules or result in a loss of shareholder rights.

## **F. SHAREHOLDER RIGHTS**

### **1. Introduction**

Stock ownership rights, which include proxy votes and participation in corporate bankruptcy proceedings and shareholder litigation, are financial assets. They must be managed with the same care, skill, prudence and diligence as any other financial asset. Such rights must be exercised by fiduciaries for the exclusive benefit of pension plan beneficiaries in such a way as to protect and enhance long-term shareholder value.

Managing stock ownership rights and the proxy vote includes questions about preserving the full integrity and value of the ownership characteristics of common stock. For example, the value of the vote may be diminished by a staggered board or by dual class capitalization and the right to transfer the stock to a willing buyer at a mutually agreeable price may be abrogated by the adoption of a "poison pill".

### **2. Standards**

Effective shareholders will keep themselves informed about corporate governance issues, not shrink from an activist role, exercise where possible, their right to make shareholder proposals in support of these standards and manage their proxy votes in order to protect stock ownership rights from erosion.

Effective shareholders will not allow a preoccupation with the short-term to interfere with management's ability to concentrate on long-term returns, productivity, and competitiveness.

The proxy system should be sufficiently discrete to permit shareholders to vote on issues individually and without links to other proposals.

All shareholders should be treated equally, with the same rights per share.

The disclosure of proxy voting results should be timely, full and complete and include, at a minimum, the votes for, against and withheld.

### **3. Unequal or Subordinate Voting Shares**

Common stock traditionally carries one vote per share. It is not unusual for certain convertible securities or specifically designated preferred stocks to carry more than one vote. Generally, authorization of such securities has been approved after discussion.

Some companies issue securities with unequal or multiple voting rights attached for the purpose of concentrating voting control in a few hands. This means that controlling shareholders may be treated more favorably than other shareholders; voting control is among a few individuals and generally restricted for institutional holders. Issuance of such shares is not generally in the best interest of shareholders and should not be supported.

**Voting Recommendation:**

Vote against the granting, extension, or restoration of any multiple-voting privileges held by any officer or director of the corporation. Vote for the replacement of dual class shares with one-share, one-vote shareholder democracy, provided that the cost of such change is modest and in the non-controlling shareholders' best interests.

**4. Super-majority Approval of Business Transactions**

Super-majority vote requirements in a company's charter or bylaws require a level of voting approval of more than a simple majority (as much as two-thirds, 80 percent, or even higher) of the outstanding shares. They ensure broad agreement on issues that may have a significant impact on the future of the company.

Higher voting requirements detract from a simple majority's power to enforce its will. When the super-majority requirement exceeds the normal level of shareholder participation at a meeting, actions that would require a super-majority are made all but impossible.

Shareholders are not often given a chance to vote on super-majority requirements because the proposals are often bundled with other provisions.

**Voting Recommendation:**

Vote against any super-majority voting requirement that exceeds fifty percent of the outstanding shares. Vote in favour of proposals to eliminate super-majority voting requirements.

**5. Payment of Greenmail**

Greenmail is the payment of a premium over the market value of shares to a raider who has accumulated a substantial block of shares. Greenmail is paid in exchange for his shares and a guarantee to terminate a takeover bid. Although greenmail transactions have frequently occurred in the US, issue bid requirements under the provincial securities acts do not permit them in Canada.

A company may argue when a greenmail payment enables a company to remain independent, allowing it to pursue plans that may provide long-term gains to patient investors, is a comparatively small price to pay. The target company may even make changes proposed by the bidder, benefiting shareholders. However, the greenmail payment is usually a premium above the market price of the shares so that it discriminates against the other stock holders. Studies by the Securities & Exchange Commission Chief Economist's Office and other agencies show that greenmail devalues a company's stock price.

Anti-greenmail proposals may be offered by either shareholders or management. When offered by management, they are frequently coupled with anti-takeover provisions that, by themselves,

are less popular with shareholders. Institutional investors may, as a matter of policy, oppose greenmail transactions because they prevent takeover bids and treat shareholders unequally; they may vote in favour of requiring shareholder approval of such transactions; or they may review each greenmail transaction on its merits.

ATRF will oppose greenmail transactions because they prevent a takeover bid and treat shareholders unequally.

**Voting Recommendation:**

Vote against greenmail or equivalent transactions. If no vote is offered on a greenmail transaction, withhold votes from or vote against the slate of directors at the first opportunity.

## **6. Linked Proposals**

Proposals linking two elements of an issue tend to confuse the subject and may be a smoke-screen or a form of coercion. Some of these proposals have had a negative impact on shareholders. These resolutions are generally discouraged, but they should be examined on a case-by-case basis.

Fair price provisions were designed to help guard against two-tiered tender offers, in which a raider offers a substantially higher cash bid for an initial and often controlling stake in a company and then offers a lower price for the remaining shares. Where charter or bylaw provisions require a bidder pay the same "fair" price for all shares purchased, the fair price is usually defined as the highest price paid by the bidder for shares acquired before the start of the tender offer. Most fair price provisions do not apply if an offer is approved by the target's board or if the bidder obtains a specified super-majority level of approval from the target's shareholders.

While these provisions guarantee an equal price for all shareholders, the coercive pressure associated with such an offer may force shareholders to tender before they have considered all relevant facts. Critics also feel these provisions may stifle bidder interest in the company altogether and thereby devalue the stock. Although studies have shown slight negative stock price effects on the adoption of fair price amendments, shareholder opposition to them has focused mainly on linked super-majority requirements so high as to discourage tender offers altogether.

Recent proposals have linked corporate governance issues with the payment of a dividend or the granting of a right. Such proposals may coerce or "blackmail" shareholders into approving a proposal they would not support if it were proposed alone.

**Voting Recommendation:**

Vote against linked proposals where any of the proposals harm shareholder interest.

## 7. Unlimited Share Issues - Blank Cheque Preferreds

Blank cheque preferred stock carries a fixed dividend that is better secured by company assets than common stock and gives the board broad discretion (a "blank cheque") to establish voting, dividend, conversion, and other rights.

A blank cheque preferred stock issue can provide corporations with the flexibility needed to meet changing financial conditions. It may also be used as a vehicle for a poison pill defense against hostile suitors, or it may be placed in friendly hands to help block a takeover bid. Once this stock has been authorized, however, the shareholders have no further power to determine how or when it will be allocated, and this is a matter for concern.

A company may ask shareholders to authorize additional common stock for a number of reasons:

- to implement a stock split to improve and expand the market for corporate securities;
- to aid in a restructuring or acquisition to make the company more competitive;
- to provide sufficient shares for use in stock option or other executive compensation plans; or
- to implement a poison pill or other takeover defense.

The issuance of new shares may dilute the value of the outstanding shares.

### **Voting Recommendation:**

Vote against unlimited share issues and share issues or equivalents for which voting privileges have not been defined, such as blank cheque preferreds.

Vote for an issue only if the amount of stock to be issued is limited and the purpose of the issue is clearly in the shareholders' interests.

Vote against common stock increases that would increase the total authorized amount to a total greater than three times current outstanding and reserved shares.

## 8. Shareholder Proposals

Shareholder proposals can be beneficial to both corporations and their shareholders. Shareholders receive an opportunity to raise issues and be heard, while corporations receive the benefit of shareholders' insights, and the knowledge of the extent of interest or concern over particular issues.

However, proposals must respect and not seek to alter the fiduciary responsibility of officers and directors to the company's shareholders. Proposals should also not require management or directors to consider a wide range of discretionary factors in making business decisions.

Directors must act in accordance with their fiduciary obligations and make decisions in the best interests of shareholders.

**Voting Recommendation:**

Shareholder proposals will be evaluated on a case by case basis.

Vote against proposals that place arbitrary or artificial constraints on the company, board or management.

## **G. SOCIAL RESPONSIBILITY**

### **1. Introduction**

Fiduciaries, according to trust law, must put the financial interests of their beneficiaries first, ahead of any social, labour, political, or environmental agenda. While respecting this requirement, ATRF believes that non-financial criteria should be part of its investment process. The evaluation of any particular investment may include consideration of a number of social factors such as labour relations and environmental stewardship, where the portfolio manager believes, based on available information, that such factors should be properly considered in assessing the investment's overall risk and performance. ATRF believes the long term economic and financial results of any corporation may suffer if it is not responsive to public concerns. Therefore, corporations must carefully assess public attitudes and values, and operate accordingly or place optimal financial performance at risk.

Because of the constraints placed upon trustees by trust law, shareholder resolutions dealing with issues of social and environmental responsibility have generally been framed as requests for information from boards of directors about the effect of their corporation's practices on the environment or the extent and kind of participation in certain industries or countries.

Shareholders have a right to know about the activities of their investee companies and should generally vote for requests for reasonable information and disclosure. More specific shareholder resolutions should be examined on a case-by-case-basis, with special regard for the effects the proposed action will have on the corporation's long-term value and the financial well being of beneficiaries. Proxies may contain proposals that relate to social or political matters.

### **2. OECD Guidelines for Multinational Enterprises**

The Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (Guidelines) was conceived in 1976 and updated in 2000. The Guidelines are a multilateral initiative agreed to by the governments of 33 countries. The Guidelines are primarily designed for companies that operate in more than one country, including having operations in developing nations. Involved in the 2000 update were Canadian labour and business groups.

The Guidelines propose a comprehensive set of voluntary standards and principles for responsible corporate behavior including social and labour responsibilities and environmental stewardship. Companies should be able to behave in a socially and environmentally responsible manner and to maximize shareholder value at the same time. Companies should be encouraged to adopt and operate within the Guidelines, when practicable.

### **Voting Recommendations:**

Proposals regarding social, environmental and governance issues must be individually examined. Vote in support of disclosure type proposals, provided that such disclosures are reasonable and do not impose a significant burden on the company's resources.

ATRF supports the principles of the OECD Guidelines. Vote in favor of reasonable proposals requesting that companies report on the extent their operations comply with the Guidelines.

### **OECD Guidelines for Multinational Enterprises<sup>1</sup>**

Multinational enterprises (MNEs) are an important part of the international economy. Through international direct investment, they bring substantial benefits to home and host countries in the form of productive capital, managerial and technological know-how, job creation and tax revenues. At the same time, public concerns remain about the social, economic and environmental impact of MNE activities on the societies in which they operate. The OECD Guidelines for Multinational Enterprises (Guidelines) is an important multilateral initiative that addresses these concerns.

An instrument of the Organization for Economic Cooperation and Development (OECD), the Guidelines are recommendations addressed by governments to MNEs. They provide voluntary principles and standards for responsible business conduct, consistent with domestic and international laws. Reflecting good practice for enterprises wherever they operate, the Guidelines aim to:

- ensure that the operations of enterprises are in harmony with government policies;
- strengthen the basis of mutual confidence between enterprises and the societies in which they operate;
- improve the foreign investment climate; and,
- enhance MNEs' contribution to sustainable development.

The Guidelines provide general as well as specific recommendations in the following areas:

1. **General Policies:** Sets out general areas of good corporate behaviour, including respect for human rights.
2. **Disclosure:** Covers the public dissemination by MNEs of reliable and relevant information on their activities.
3. **Employment and Industrial Relations:** Covers, inter alia, the issues of non-discrimination, forced labour, child labour, and freedom of association and collective bargaining.

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<sup>1</sup> Source: Government of Canada, "Canada's National Contact Point for the OECD Guidelines for Multinational Enterprises".

4. Environment Stewardship: MNEs should, within the framework of the law and regulations, take account of the need to protect the environment, public health and safety, and conduct their activities with a goal of sustainable development. These activities include:
  - Establishing environmental policies, with a process for measuring, monitoring and improving environmental performance.
  - Communicating with the public and employees affected by the environmental, health and safety practices of the enterprise.
  - Assessing, and addressing in decision making, the impact on the environment from future activities. Act in a proactive manner to avoid serious or irreversible environmental damage resulting from activities.
  - Maintaining contingency plans for preventing, mitigating and controlling environmental damage, including accidents and emergencies.
5. Combating Bribery: Aims to eliminate bribery of foreign public officials.
6. Consumer Interest: Seeks to ensure that MNEs respect consumer rights, including regarding the quality and safety of products.
7. Science and Technology: Recognizes that MNEs can play an important role in improving local knowledge without compromising their intellectual property rights.
8. Competition: Promotes respect for competition rules and avoidance of anti-competitive behavior.
9. Taxation: Address MNE compliance with tax laws and regulations.

The Guidelines are not a substitute for, nor do they override, Canadian law or any other country's laws. They represent supplemental standards and principles of behaviour and, as such, do not create conflicting requirements.

The Guidelines are the only multilaterally-endorsed comprehensive code of conduct that governments have committed to promote. The fact that they set out the expectations of the governments of thirty-three adhering countries gives them added credibility and strength as a policy tool to promote corporate social responsibility. Moreover, the adhering countries are the source and destination of most MNE investment activity worldwide. In the intensely competitive international environment in which MNEs operate, the Guidelines help to "level the playing field" with respect to responsible conduct, thus enhancing the climate for foreign direct investment.

## **Key Results of the OECD Review of the Guidelines**

The Guidelines have been reviewed four times since their inception in 1976. The most recent review was completed in June 2000, when Ministers from the thirty OECD member countries and three non-member countries officially adopted the revised Guidelines. Currently there are a total of 39 national governments, 30 OECD and 9 non-OECD, that have adopted the guidelines.

Both the Canadian Labour Congress and the Confédération des syndicats nationaux were involved in the 2000 review of the Guidelines and are the Canadian voices at the Trade Union Advisory Committee at the OECD. The Canadian Council for International Business, in a strategic alliance with the Canadian Chamber of Commerce, was actively involved in the 2000 review of the Guidelines and is the Canadian voice within the Business and Industry Advisory Committee to the OECD.

Notable changes include the addition of recommendations relating to the International Labour Organization's core labour standards on elimination of child and forced labour, and new recommendations on environmental management and contingency planning for environmental impacts. New chapters on the promotion of consumer interests and on combatting bribery were added, as were general recommendations on human rights, whistle-blowing and not seeking exemptions to regulations. The chapter on disclosure and transparency has been updated to encourage social and environmental accountability.

Implementation procedures have been improved. Governments through their National Contact Points continue to be responsible for promoting the Guidelines, handling enquiries and helping to resolve issues that arise in specific instances.

The revised Guidelines are clear that the recommendations represent good corporate practice wherever enterprises operate, i.e., their coverage is not limited to the OECD area and includes developing countries.