

2018

# Policy on the Exercise of Proxy Voting Rights



DESJARDINS GLOBAL ASSET MANAGEMENT



**Desjardins**  
Wealth Management

GLOBAL ASSET MANAGEMENT

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## 1. STATEMENT

The primary responsibility of Desjardins Global Asset Management (DGAM), as a Portfolio Manager and Investments Funds Manager (“DGAM”) for the DGAM Funds and Desjardins ETF, is to protect the medium- and long-term interests of its clients and Funds securityholders (Clients) in order to ensure their capital grows by investing wisely in profitable companies or in companies that offer attractive profitability prospects.

This policy guides DGAM in its specific Manager role. It lays down the conditions that DGAM intends to meet with regard to the exercise of voting rights for securities held in the Clients’ portfolios, and in keeping with the Clients’ interests.

In addition to economics-based decisions, the prosperity of companies or other issuers of securities held by the clients’ portfolios also depends on non-financial factors. Companies have responsibilities to their surrounding communities. Corporate social responsibility issues are increasingly focused on risk management. More specifically, they affect protection of reputation and corporate image, management of environmental risk and possible serious concomitant financial impacts, access to financing, ability to recruit and retain personnel and, ultimately, the ability to hold on to markets and sustain operations.

## 2. OBJECTIVES

The sole and specific purpose of this policy is to define conditions governing the exercise of proxy voting rights for securities held in the Clients’ portfolios at any shareholders’ meeting when this exercise of proxy voting rights is not already covered in the Clients’ specific, written instructions.

## 3. TERMINOLOGY

**Greenmail payment:** Greenmail payment is a financial practice in which an investor acquires a significant interest in a company and then threatens to launch a takeover bid if the interest is not bought back at a price above the going market price.

**Blank cheque preferred shares:** shares whose characteristics (voting, dividend, conversion, etc.) are determined at the sole discretion of the Board of Directors. They usually carry a fixed dividend and are better secured than common shares.

## 4. POLICY ELEMENTS

### 4.1. General Principles of Interpretation of the Policy

#### 4.1.1.

The primary responsibility of DGAM, as Manager, is to protect the medium- and long-term interest of its Clients and to ensure their capital grows by investing wisely in profitable issuers or in issuers that offer attractive profitability prospects.

#### 4.1.2.

DGAM, either directly or through its agents, ensures the protection of the medium- and long-term interests of its Clients by fully exercising the rights attached to the securities held in the portfolios. These rights include obtaining accurate, up-to-date information on the status of the security issuer, the opportunity to communicate with its board of directors as deemed necessary, and exercising voting rights during shareholders’ meetings. DGAM, acting on behalf of its Clients, does not intend, however, to take the place of governments and regulatory agencies, or intervene in the internal governance of the issuers concerned.

#### 4.1.3.

In accordance with the Group’s values, DGAM states that profitability must be obtained while respecting communities and not overstepping corporate social responsibility, particularly as regards the environment and human rights.

#### 4.1.4.

The rules should always be applied taking into account each company’s or issuer’s specific situation. This policy serves as a reflection guide for all persons responsible for exercising voting rights. Though the specific situation of a company or an issuer is not an absolute, it should be considered when the vote is taken. It is especially important to consider the impact of proposals on an issuer’s value and operational capacity, and to avoid unduly restricting the Board of Directors’ freedom to manoeuvre or impose requirements that are outside the corporate mission. In addition, the issuer’s existing programs and measures must be taken into account so that they are not duplicated when new requirements covering the same topics are created.

#### 4.1.5.

Certain factors can limit the exercise of proxy voting rights attached to securities issued by non-Canadian and non-American entities. For example, very short proposal submission times may make reviews impossible; in certain countries, proxy voting is impossible.

#### 4.1.6.

In its endeavours to ensure the Clients’ capital growth, DGAM may commit securities through loaning operations. In the course of these transactions, it is possible that the proxy voting rights attached to securities loaned are transferred to the borrower, depending on rules applicable at the place where the transaction is carried out. This being the case, DGAM will decide whether it is in the Clients’ interest to recall loaned securities in order to exercise the proxy voting right, or to maintain the securities loan transaction.

#### 4.1.7.

This policy covers several subjects on which DGAM can be called on to exercise proxy voting rights. However, the policy is not exhaustive and does not cover all possible situations. Furthermore, the legal context or the management practices used in certain countries may render application of a position irrelevant or counterproductive. In exceptional situations or where required by circumstance, DGAM will exercise its proxy voting rights as constructively as possible, in keeping with the policy's general values and principles. In addition, all votes of this type will be re-examined annually to ensure that exceptions are always justified.

#### 4.1.8.

In certain situations, DGAM can manage both fixed-income shares and preferred shares for a same Client. There may be a conflict between the interests of these various positions. In these special cases, the exercise of proxy voting rights must take into account all investments and will be carried out based on the dominant position of the Client's portfolio.

## 4.2. Rules of Sound Governance

### 4.2.1. Board of Directors

#### 4.2.1.1.

The Board of Directors (the "BD") oversees the promotion of the company's interests. The BD appoints the president and chief executive officer, defines their responsibilities, and evaluates their performance. It defines strategic corporate orientations, ensures the implementation of monitoring and control mechanisms, and ensures the follow-up. It is recommended that these functions be fully assumed independently of corporate management, whose interests can diverge from those of the company and, by the same token, those of shareholders.

#### 4.2.1.2.

Directors must be independent of the management of the company they administer.

#### 4.2.1.3.

Board member election and/or appointment mechanisms must facilitate representation on the BD that reflects shareholder composition as closely as possible and in this respect, promote the nomination of people from various backgrounds as company directors. Shareholders must have the opportunity to elect new board members on an annual basis. However, since continuity within the BD should be maintained, the replacement of the entire BD should be considered only as an exceptional measure, which should be warranted by equally exceptional circumstances.

#### 4.2.1.4.

Based on the existing election method that most companies use, directors can still be elected even though they receive fewer FOR votes by shareholders than abstentions. DGAM considers that candidates who receive fewer FOR votes than abstentions do not have true shareholder support and should step down.

If the BD chooses to appoint an audit committee, a nominating committee or a compensation committee, the committee should be made up of independent directors. Similarly, the BD must also ensure that the external auditor is independent of corporate management.

#### 4.2.1.5.

DGAM will generally vote in favour of proposals that create conditions in which the BD can work efficiently, competently and independently of corporate management.

#### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

4.2.1.A) DGAM will vote FOR proposals that will create or maintain a proportion of at least a two-thirds majority of independent directors. DGAM will vote AGAINST any non-independent candidates if their election reduces the proportion of independent administrators under two thirds;

4.2.1.B) DGAM will vote FOR proposals requesting the BD to amend the company bylaws or to adopt a governance policy that heavily promotes the nomination and election of directors who are independent of corporate management;

4.2.1.C) DGAM will vote FOR proposals aimed at establishing a majority vote when there is only one candidate for a given vacant position, or a plurality vote standard when there is more than one candidate per vacant position;

4.2.1.C.1) DGAM will vote FOR proposals requesting the BD to adopt a company bylaw, a governance policy or any other measure to the effect that any nominee appointed as director with fewer votes than the number of abstentions be required to step down and that the BD will have the power to accept or refuse such resignation, depending on the circumstances, and, if necessary, appoint a replacement;

4.2.1.D) DGAM will vote FOR proposals aimed at creating or maintaining an audit committee, a nominating committee or a compensation committee made up exclusively of independent external directors. The compensation committee will not be authorized to have more than one out of every three members working as a president and chief executive officer of a public corporation;

- 4.2.1.E) DGAM will vote FOR proposals requiring disclosure of all auditor fees, by separating audit fees from other service fees;
- 4.2.1.F) DGAM will SUPPORT the election of directors individually. DGAM will vote AGAINST proposals requesting the election of director slates. DGAM will favour proposals aimed at implementing an annual election of directors;
- 4.2.1.G) DGAM will vote FOR proposals aimed at separating the functions of chair of the board and president and chief executive officer and/or assigning the BD's chair role to an independent director. In smaller companies or in situations that justify both positions being held by the same individual, DGAM will request that the position of senior administrative officer be created and held by an independent director who will ensure that the BD's work is carried out effectively, or implement any mechanisms that will ensure the BD's independence, particularly with regard to issues related to the selection of directors and the compensation of management;
- 4.2.1.H) DGAM will vote AGAINST the directors in question, or the entire BD, depending on the situation, if those directors did not carry out their office duties, or have demonstrated incompetence or negligence in conducting the company's business;
- 4.2.1.I) DGAM will vote AGAINST the appointment or reappointment of a director if they believe that the individual will unlikely be able to devote enough time in the director role.

#### 4.2.2. Director and Management Compensation

##### 4.2.2.1.

The compensation plan must help to align the interests of directors and managers with the long-term interests of the company and its shareholders.

##### 4.2.2.2.

The compensation plan must take into account market conditions and the need to attract skilled resources.

##### 4.2.2.3.

The compensation incentive (variable) portion should be linked to objective factors, such as increased income or profitability, shareholders' return on investment, or other similar measurements. Other factors related to exercising corporate social responsibility as defined in Section 4.3 of this policy, may also be considered.

##### 4.2.2.4.

Shareholders should always be able to express their opinions on director and management compensation plans. Director compensation plans should be addressed in proposals separate from management compensation plans.

##### 4.2.2.5.

DGAM is generally opposed to stock option plans for directors since, unlike shareholding, such plans do not include any down-trading risks, and their returns are often the result of a bull market rather than the corporation's individual performance. However, DGAM realizes that under certain circumstances, such as with start-up companies wishing to attract experienced directors, these plans may prove useful. Regardless, these plans should never apply to both the directors and company management.

##### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

- 4.2.2.A) DGAM will SUPPORT authorizing the compensation committee to seek independent expertise as required. DGAM will vote FOR proposals requesting the disclosure of consultants' identity, as well as of the full amounts of fees paid to them, by separating fees for compensation work from other fees;
- 4.2.2.B) DGAM will vote FOR proposals that aim to create or maintain a director or management compensation plan based on achieving objectives consistent with the long-term interests of the company and its shareholders; these objectives may be financial, but may also be linked to exercising the company's social and environmental responsibilities;
- 4.2.2.C) DGAM will vote AGAINST the creation of stock option plans for managers or directors, and will vote AGAINST any addition to existing plans, except for start-up and small-cap companies (based on the cap defined by the Canadian market), in which case DGAM will review proposals regarding such plans on a case-by-case basis, particularly taking into account the cost of the plan, the dilutive effect, and the reasonableness of the plan with respect to the terms and conditions of participation and the linking of the plan to the company's performance. Neither the arrangements of the plan nor the option exercise price may be amended without the consent of the shareholders;
- 4.2.2.D) DGAM will vote FOR proposals approving the presentation of expenses related to options granted in the financial statements;

- 4.2.2.E) DGAM will review proposals regarding loan programs for management on a case-by-case basis and will ask in particular that the requested interest rate be at least equal to the market rate;
- 4.2.2.F) DGAM will review proposals regarding severance payments on a case-by-case basis and will oppose those that appear to be excessive or unjustified (golden parachutes);
- 4.2.2.G) DGAM will vote FOR proposals supporting the disclosure of the director and management compensation plan;
- 4.2.2.H) DGAM will vote FOR any motion requesting an advisory vote on the compensation of directors and senior management;
- 4.2.2.I) DGAM will vote AGAINST directors who do not own any of the corporation's stock after sitting one year on the BD;
- 4.2.2.J) DGAM will vote FOR proposals requesting the disclosure of a fairness report or a ratio between the total compensation of the highest paid employees and average employee compensation.

#### 4.2.3. Takeover Bid Protection

##### 4.2.3.1.

DGAM will generally consider takeover bids on a case-by-case basis and shareholder interest will be the main reference criterion.

##### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

- 4.2.3.A) DGAM will vote FOR shareholder rights plans that give shareholders fair treatment in a takeover bid and that allows the company enough time to consider alternatives to the bid. DGAM will vote AGAINST shareholder rights plans whose obvious goal is to protect management or that create unfair conditions for some shareholders;
- 4.2.3.B) DGAM will vote AGAINST any defensive measures consisting in selling the company's best assets, unless that is shown to be in the best interest of the stakeholders;
- 4.2.3.C) DGAM will generally vote FOR going-private transactions, leveraged buyouts, and other purchase transactions if they adequately compensate shareholders. However, a case-by-case analysis will be carried out in situations where these proposals would not be in the best interest of stakeholders other than shareholders;
- 4.2.3.D) DGAM will vote AGAINST lock-up agreements whose obvious aim is to prevent competing bids that might be more advantageous for shareholders;
- 4.2.3.E) DGAM will vote AGAINST greenmail payment. The price paid for the company's shares must be the same for all shareholders;
- 4.2.3.F) DGAM will vote AGAINST reincorporation proposals whose only purpose is to counter a takeover; DGAM will nonetheless support reincorporation based on financial, business, or economic reasons.

#### 4.2.4. Shareholder Rights

##### 4.2.4.1.

DGAM wishes to preserve the principle that each company share conveys the same rights, especially voting rights, and to prevent a company from being controlled by a minority of shareholders holding a majority of voting rights.

##### 4.2.4.2.

DGAM generally supports secret ballot voting to allow shareholders to vote as freely as possible.

##### 4.2.4.3.

DGAM generally supports simple majority votes but believes that supermajority votes are sometimes justified.

##### 4.2.4.4.

DGAM generally supports the practice of cumulative voting.

##### 4.2.4.5.

Shareholders should also have access to full and accurate information about the company.

##### 4.2.4.6.

Shareholders must be able to consider each proposal submitted to them independently of all other proposals.

##### 4.2.4.7.

For any measures resulting in the creation of new shares or the modification of features of existing shares, a proposal must be submitted to shareholders because they directly affect shareholders' rights. Nonetheless, it may be desirable to empower directors to create new shares for various purposes when company interests so justify, such as securing a stock split or financing restructuring or acquisitions.

##### 4.2.4.8.

Shareholders must be able to submit proposals at shareholders' meetings; they must also have the chance to justify such proposals to allow shareholders to make informed decisions. However, such proposals should not result in the imposition of undue constraints on directors' or managements' freedom to act. The proposals should also not result in the diffusion of directors' fiduciary responsibilities to the company or the creation of responsibilities to individuals who are not shareholders.

##### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

- 4.2.4.A) DGAM will vote FOR proposals requesting the nomination of directors designated by the shareholders, as long as the proposals are submitted by shareholders who have owned, for at least two years, a minimum number of shares determined based on company size. DGAM will then examine each nomination based on the skills of the candidates and the specifics of the company;
- 4.2.4.B) DGAM will vote AGAINST creating or extending dual-class share structures (restricted shares, multiple-voting shares, etc.) and vote FOR abolishing such structures;
- 4.2.4.C) DGAM will OPPOSE the practice of linked proposals, except in cases where it is clearly demonstrated that both resolutions are consistent with shareholders' interests and that it is logical to adopt them simultaneously;

- 4.2.4.D) DGAM will vote FOR establishing or maintaining the practice of cumulative voting;
- 4.2.4.E) DGAM will vote FOR proposals authorizing directors to create new shares. However, DGAM will generally vote AGAINST proposals requesting an increase of more than 50 percent in the number of shares, unless the proposal specifically indicates why the new shares are required;
- 4.2.4.F) DGAM will vote AGAINST issuing blank cheque preferred shares whose conditions can be determined by the BD without shareholder consultation, unless it is clearly established that doing so is in the shareholders' interest.

### 4.3. Corporate Social Responsibility

#### 4.3.1. Human Rights and Labour Rights

DGAM endorses the United Nations' position that even though companies should not replace governments and international agencies in the promotion of human rights and labour rights, they are nonetheless responsible for ensuring their operations do not impede the exercise of these rights.

##### 4.3.1.1.

DGAM generally supports proposals fostering respect for human rights in Canada and in other areas of the world when the proposals are based on universal principles established by the United Nations Universal Declaration of Human Rights, International Labour Organization ("ILO") conventions, the Charter of Rights and Freedoms in the Canadian Constitution, or other instruments with universally recognized scope.

##### 4.3.1.2.

DGAM also believes that companies should call on internationally recognized human rights certification agencies to guide and assess their performance in these matters.

#### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

- 4.3.1.A) DGAM will vote FOR adopting codes of conduct or measures affecting any of the following issues:
- 4.3.1.A.1) Labour rights as set forth by the ILO and particularly prohibition of forced labour, prohibition of child labour, prohibition of discrimination in hiring and in working conditions, and rights of association and collective bargaining;
  - 4.3.1.A.2) Policies against discrimination based on sex, skin colour, ethnic origin, religion or sexual orientation;
  - 4.3.1.A.3) Fundamental rights in areas of conflict;
  - 4.3.1.A.4) Assurance of adequate working conditions in all company facilities and by its subcontractors throughout the world;
- 4.3.1.B) DGAM will vote FOR any resolution calling on an internationally recognized certification organization to monitor human rights compliance in company facilities and those of its subcontractors, and to draft suitable recommendations.

### 4.3.2. Sustainable Development

#### 4.3.2.1.

The Group, to which DGAM fully belongs, subscribes to the United Nations Environment Program Statement by Financial Institutions on the Environment & Sustainable Development, which considers sustainable development to be a fundamental aspect of sound business management.

#### 4.3.2.2.

DGAM feels that companies should use the tools developed by the international community to direct their approach to sustainable development, initiatives of the United Nations and international bodies or organizations, as well as repositories, standards, guides and codes of conduct or other generally accepted social responsibility, environment or sustainable development tools.

#### 4.3.2.3.

DGAM recognizes, however, that companies may need time to adapt to such international instruments.

#### 4.3.2.4.

DGAM generally expects that the companies DGAM invests in to take the necessary measures to protect the environment, as concerns both their activities and their products or services. DGAM should subscribe to the precautionary principle, as defined by Quebec's *Sustainable Development Act*, the guiding principles adopted by the Government of Canada, as well as customary international law. Generally, they should adopt a cautious stance toward health and the environment and assess all possible options, rather than analyzing one set of risks related to a preferred option.

#### 4.3.2.5.

The companies should produce regular environmental performance reports disclosing any environmental risks and responsibilities, particularly with regard to the environmental impact of their activities, products or services, as well as their new infrastructure construction or operational growth projects.

#### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

- 4.3.2.A) DGAM will vote FOR proposals subscribing to or approving compliance with initiatives of international bodies or organizations, as well as repositories, standards, guides and codes of conduct or other generally accepted tools;
- 4.3.2.B) DGAM will vote FOR proposals encouraging companies to produce an environmental report of their current or future operations, as well as those requiring the adoption of quantifiable objectives related to pollution load reduction.

### 4.3.3. Community Support

#### 4.3.3.1.

Community support is central to the Group's mission. Desjardins has been a true example of this for more than a century. DGAM's position on this issue can be summed up in one broad and all-encompassing sentence: DGAM supports companies that are socially and economically involved in the community.

#### 4.3.3.2.

A company's ultimate purpose is to prosper economically. Experience has shown that a company with deep roots in the community is stronger, more resilient, and more likely to prosper in the long term.

#### 4.3.3.3.

DGAM also supports the practice of social responsibility reports in which companies account for their overall impact on a community, and once again, only if these efforts remain proportionate to the company's resources.

#### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

4.3.3.A) DGAM will vote FOR proposals aimed at developing or maintaining the company's social or economic involvement, only if it is proportionate to the company's financial capacity and resources;

4.3.3.B) DGAM will vote FOR proposals requiring the publication of a social responsibility report to show how the company exercised its social responsibility.

#### 4.3.4. Financial Ethics

##### 4.3.4.1.

The Group was founded on the will to create capital and to make it available on reasonable terms and conditions to people who need it. The requirement to meet that need remains just as important worldwide. DGAM wishes to reaffirm and continue to live by these broad principles.

##### 4.3.4.2.

Moreover, the globalization of financial operations has revealed the role and the responsibility of financial institutions with respect to certain practices that may sometimes be legitimate, but can also be used for illicit purposes to corrupt the political process or support criminal activity. DGAM believes that illegal use of the international financial system by some must be vigorously denounced.

#### *Position*

When DGAM exercises its voting rights and no special situation in a company justifies a contrary vote:

4.3.4.A) DGAM will vote FOR proposals aimed at eliminating usurious or abusive interest rates;

4.3.4.B) DGAM will vote FOR proposals aimed at implementing micro-credit for people and groups for whom such financial tools are essential;

4.3.4.C) DGAM will vote FOR proposals aimed at countering the use of financial tools for illicit purposes, be it in Canada or internationally;

4.3.4.D) DGAM will OPPOSE all financial contributions to political parties, but, when such contributions are made, DGAM will SUPPORT all proposals requiring their disclosure in whatever country the contribution is made. DGAM will vote FOR any motion requesting the disclosure of contributions or payments made to organizations whose main activities include lobbying;

4.3.4.E) DGAM will vote FOR proposals aimed at prohibiting or countering corruption, regardless of the country in which it occurs.

## 5. RESPONSIBILITIES, APPLICATION AND REVISION

### 5.1

The Investments Division is responsible for implementing and revising the Policy on the Exercise of Proxy Voting Rights. Any change in the orientation of this policy must be submitted for approval to the BD of Desjardins Global Asset Management Inc. This revision shall be conducted at least every three years.

### 5.2

DGAM must make the results of the exercise of voting rights for the Desjardins ETFs available on the Internet, no later than August 31st of each year, for the 12-month period ending June 30. The following information is grouped on the site for each proposal:

- the name of the issuer;
- the stock symbol of the securities;
- the CUSIP number of the securities;
- the date of the shareholder meeting;
- a summary of the question(s) submitted to the vote;
- the identity of the proponent (issuer, issuer management or other person);
- whether the Desjardins ETFs voted on each of these questions;
- the direction in which the Desjardins ETFs exercised their votes, if any;
- whether the Desjardins ETFs voted for or against the recommendation of the issuer's management.

## 6. DELEGATION

N/A

## 7. EFFECTIVE DATE

The Policy comes into effect on the day it is adopted by the Board of Directors of Desjardins Global Asset Management Inc.

## 8. APPENDICES

No appendix.





**Desjardins Global Asset Management Inc.**

514 350-8686 (for the Montréal Area)

1 877 353-8686



**Desjardins**

**Wealth Management**

**GLOBAL ASSET MANAGEMENT**