CCGG Canadian Coalition for Good Governance

THE VOICE OF THE INVESTOR

ENGAGEMENT PROGRAM - 2021 ANNUAL REPORT

FEBRUARY 2022

3304-20 Queen St, Toronto, ON, M5H 3R3

Contents

EXECUTIVE DIRECTOR'S NOTE

CCGG's engagement program focusses on the board's role in overseeing material environmental, social and governance (ESG) matters on behalf of shareholders. We approach individual engagements from this perspective. By focusing on engaging with independent board members on ESG related topics we seek to communicate and amplify to directors the importance institutional investors place on the adoption of good governance practices as well as on disclosure that is clear and decision-useful.

Our engagement approach directly supports our Member organizations in the discharge of their stewardship responsibilities. In addition to collaboration with other institutional investors, good investor stewardship also requires engaging with companies at the appropriate level given the issue to be discussed. Board engagements are the appropriate forum to discuss a company's governance practices, including shareholder rights, board composition, executive compensation and board oversight of corporate strategy & material business risks, including material E&S risks.

Thank you for your interest in CCGG's engagement program. We plan to issue regular annual updates on our engagement program going forward.

Sincerely,

Catherine McCall
Executive Director

REPORT INTRODUCTION FROM THE DIRECTOR OF BOARD ENGAGEMENT

Since 2009, CCGG has engaged directly with the boards of public companies in Canada on behalf of its institutional investor Members. Over the years, CCGG has established and maintained direct dialogue with the boards of the vast majority of companies included in the S&P/TSX Composite Index; emphasising the governance and disclosure expectations and priorities of investors.

It is my pleasure to present to you our inaugural annual report on CCGG's board engagement program. This document is broken down into three sections that collectively address: (I) the purpose, objectives and process of our engagement program, (II) topics discussed and recommendations made during our recently concluded 2021 engagement season, and (III) our assessment of the ongoing impact of CCGG's engagement program.

Focus of engagement dialogue

Fundamental governance considerations, such as board composition and succession, governance policy infrastructure, scope and substance of board risk and strategy oversight, and related disclosure have always been an important part of CCGG's engagement discussions. In 2021, we continued the focus on structural elements of executive compensation programs, including performance measures driving compensation outcomes. Executive share ownership and share ownership requirements were also an important focus.

Since issuing the E&S Guidebook in 2018, CCGG has continued to integrate and expand discussions on the material environmental and social risks facing companies and how the board is providing effective oversight in these areas. In 2021, we developed an internal framework to assess whether companies we meet with are providing sufficient disclosure to allow investors: (I) to assess a company's exposure to climate-related transition risks, and (II) to assess, where relevant, a company's strategy to address transition risks, including through the disclosure of specific performance metrics or the adoption of specific performance targets. Where disclosure was limited and where a company's business was materially exposed to climate-related risks, we encouraged boards to consider enhancing disclosure in line with the TCFD framework. You can learn more about the range of topics discussed during our 2021 engagement season by reviewing pages 8 to 11 of this report.

Impact

CCGG's engagement and ongoing dialogue with public boards includes recommendations for improvements in governance policy, practices and corporate disclosure. Beginning in 2018, CCGG established a process for assessing, on an annual basis, the extent to which boards have adopted the recommendations provided. The process involves reviewing the company's subsequent disclosures (primarily, the Management Information Circular) for any changes in the recommended areas. This review is done on a "lagged" basis (i.e. 18 to 24 months following the meeting), in order to allow boards time to consider and potentially implement changes. I am pleased to advise that our annual assessments have typically shown that 70% of the boards we engage with end up adopting at least one of CCGG's suggested changes to their governance policies, practices or disclosure within two years of meeting with CCGG.

CCGG's 2021 impact assessment indicated that more than 80% of the boards with whom CCGG engaged in 2019 made at least one material positive change to their governance policies, practices or disclosure by 2021. We also observed significant improvements in company E&S disclosure, with 80% of the companies engaged with on this issue in 2019 either: (I) issuing an inaugural sustainability report aligned with investor recommended reporting frameworks or standards (TCFD and/or SASB), or (II) significantly improving their disclosure to better align with one or more investor recommended reporting frameworks or standards by 2021. Please refer to page 14 for additional details on the historical impact of CCGG's engagement program.

Thank you for your interest in CCGG's engagement program. Moving forward, we plan to issue regular annual updates and invite any questions or feedback you may have on this inaugural report. You are welcome to contact any one of the members of our team.

Sincerely,

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PURPOSE, OBJECTIVES AND PROCESS

CCGG's Members are Canadian institutional investors who collectively manage approximately $5 trillion in assets on behalf of pension funds, mutual fund unit holders and other institutional and individual investors. A list of CCGG Member organizations is included in Appendix A.

Each year, CCGG meets with the boards of approximately 35 of Canada's leading public companies. The discussion is focused on governance matters that are of primary importance to investors. Our board engagement meetings provide a private forum for dialogue and exchange of views between independent directors and institutional investors. The meetings also provide an efficient means for boards to communicate with many of the company's largest shareholders. These meetings have proven to be mutually beneficial and provide corporate directors an opportunity to communicate their views on important governance matters to current and prospective investors.

CCGG considers various factors in identifying candidates for engagement, including:

- The company's prior meeting history with CCGG,
- CCGG Member common share ownership in the company,
- The company's market capitalization, and
- Input provided by the CCGG Board of Directors and Member organizations.

Prior to each engagement meeting, CCGG staff complete a comprehensive review of the engagement candidate's public filings, including the latest proxy circular and other relevant documents such as annual information forms and sustainability reports, and any other recent developments at the company. A briefing book is composed to outline key features of the company's ESG policies and practices, including their alignment with CCGG's public policies and position statements (available on our website: https://ccgg.ca/policies/). The briefing book is reviewed with CCGG attendees in advance of each engagement meeting and a list of potential topics to raise with the company is subsequently prepared. Discussion topics are unique to each company's situation and usually serve one or more of the following objectives:

- Gather information and perspectives from board members which, in turn, provide CCGG Members with a better understanding of a company's governance practices and informs their voting or investment decisions;
- Encourage boards to alter their governance practices to better align with shareholder expectations; and/or
- Encourage boards to enhance disclosure in one or more key areas.

While topics are tailored to each company, the agenda of our meetings is limited to matters that are within a board's purview, such as:

- Board oversight of executive compensation,
- Board composition, skills, and succession planning,
- Board oversight of management composition and succession planning,
- Board oversight of material business risks – including material environmental and social risks,
- Board oversight of business strategy, and
- Director-shareholder engagement.

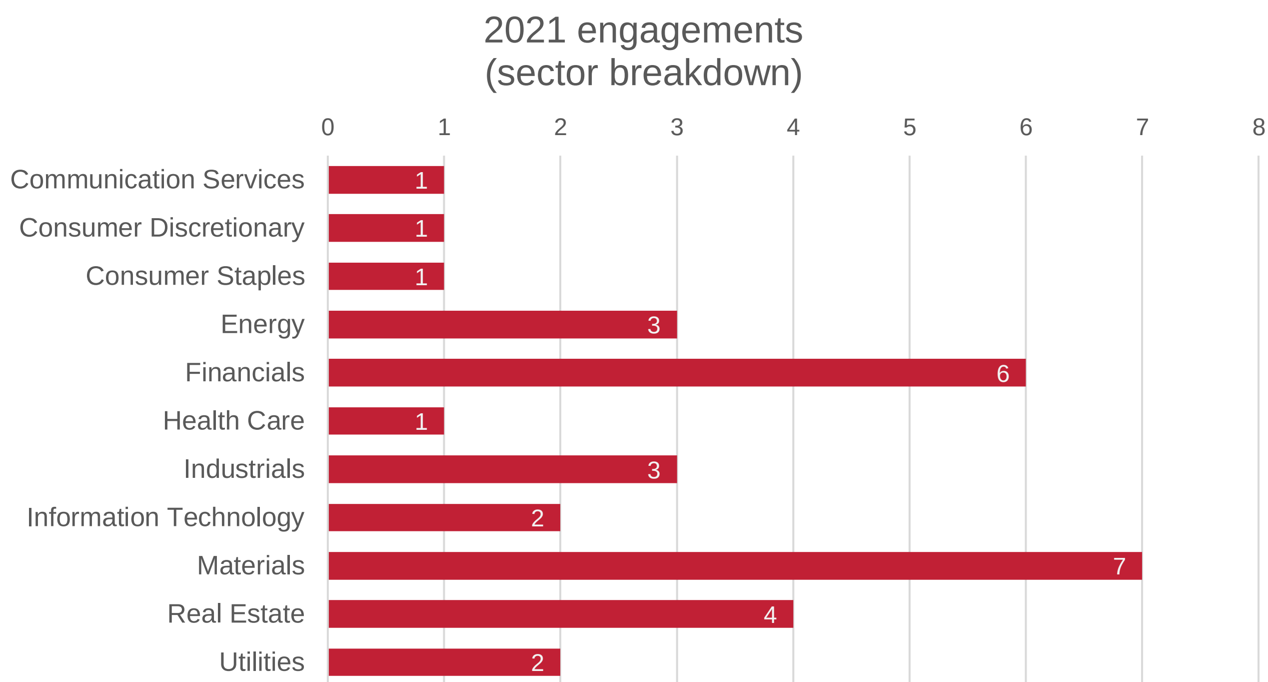
Following each engagement meeting, CCGG staff prepare a written summary of the meeting for our Members. Meeting summaries are not made public but are provided to the company's board for internal use. In all cases, the company's board has an opportunity to comment on a draft summary for accuracy before it is made available to CCGG Members.

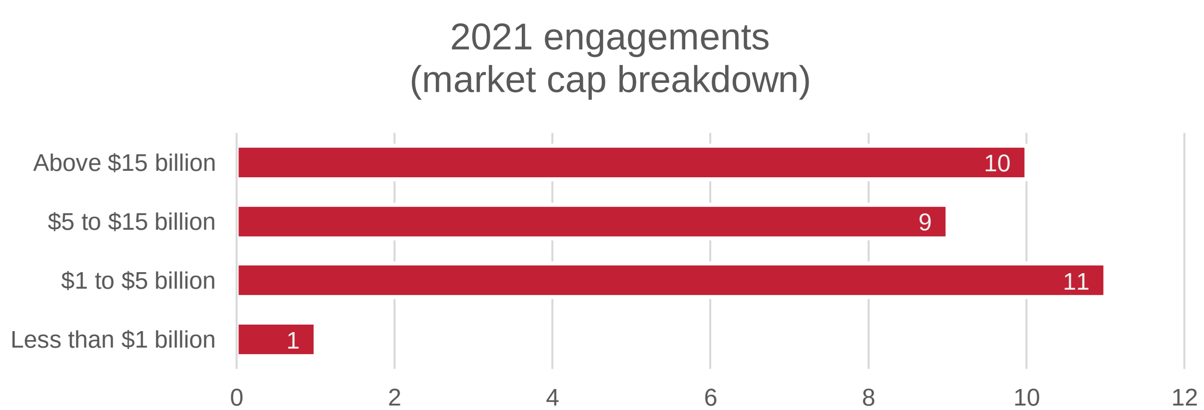
2021 ENGAGEMENTS

In 2021, CCGG completed 31 meetings with the boards of 31 different TSX-listed issuers. Out of these 31 meetings, 7 represented CCGG's first meeting with the company's board.

Sector and market capitalization breakdown

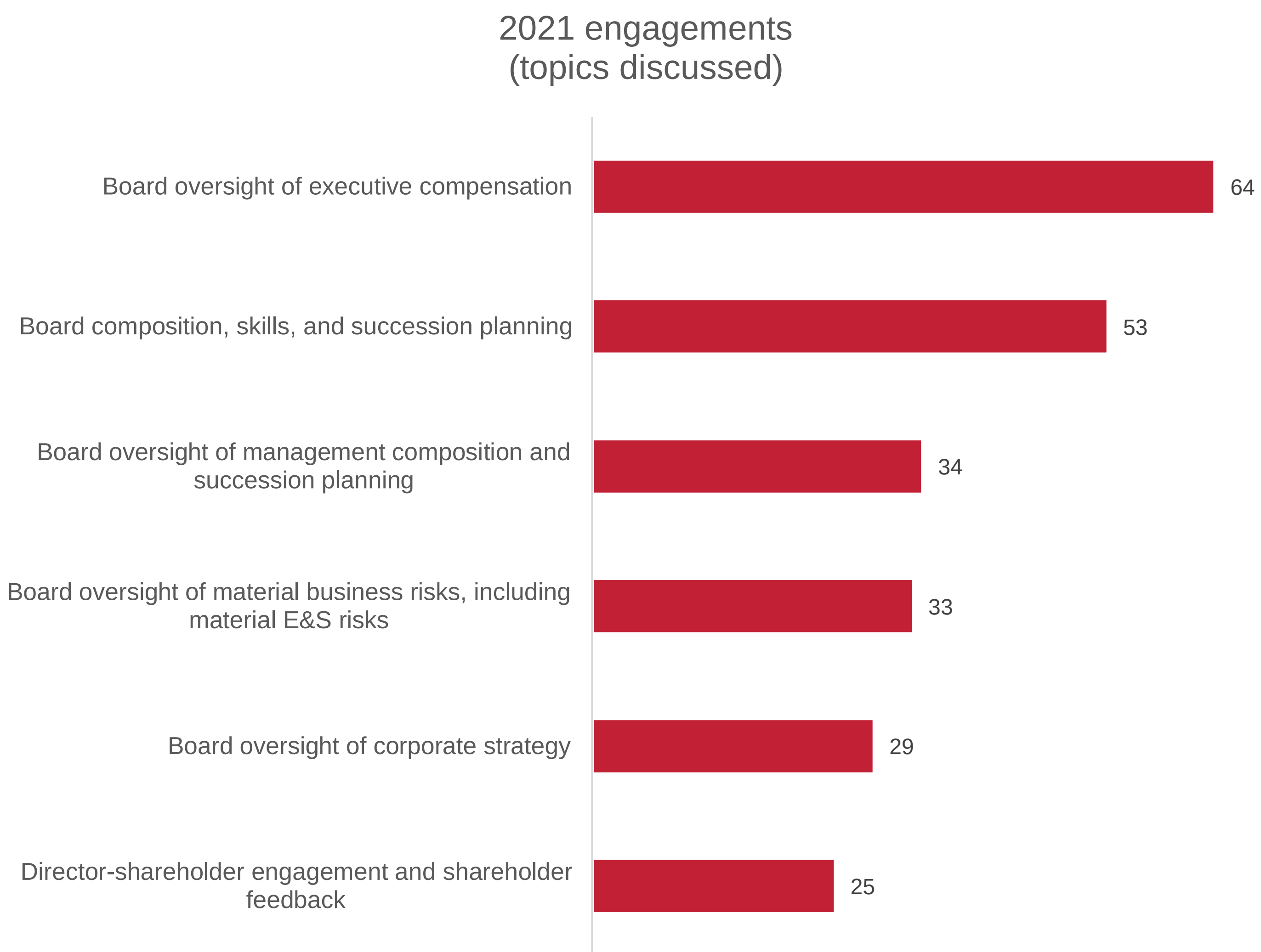
The 31 TSX-listed issuers we engaged with in 2021 represented all eleven sectors within the TSX Composite Index and had a median market capitalization equal to approximately $5.5 billion.





Topics discussed

In 2021, we engaged on close to 240 different matters, which may be broadly classified under the following six themes:



Board oversight of executive compensation

In 2021, discussions on executive compensation represented more than 25% of all topics discussed at our meetings. Some of the most common executive compensation topics covered in 2021 included:

- <u>Non-GAAP performance measures</u>: When non-GAAP financial measures drive a significant amount of incentive compensation and when financial measures used in the compensation scheme have been subject to extensive adjustment, it is important for boards to clearly articulate their rationale for approving all material adjustments that have been made to GAAP figures. Where disclosure was limited, we asked boards to elaborate on their process for scrutinizing adjustments that were made to measures used in the compensation scheme. Where warranted, we also asked boards to discuss their rationale for approving adjustments that were described as 'non-recurring', 'one-time', or 'unrelated to operational activities'. This led to discussions on circumstances under which the board holds management accountable for non-recurring charges, such as asset write-downs or business impairments and restructurings.

- Executive share ownership: Executive officers, particularly the CEO and other members of the C-suite, should hold a meaningful common share interest in the companies they manage. In our view, one of the best ways to reduce (not eliminate) governance risk is by aligning the economic interest of managers running a business to that of shareholders. While investors may, at times, disagree on the best performance metrics to include in compensation schemes, the vast majority expect senior officers to build significant common share ownership during their tenure at the company. Where executive officer share ownership was low relative to an officer's total compensation and relative to an officer's tenure at the company, we asked boards to promote share ownership by considering either: (a) settling incentive compensation in common shares as opposed to cash, or (b) modifying executive share ownership requirements to exclude credit for any unvested compensation awards (such as performance or restricted share units) that are being used to satisfy a company's share ownership requirements.

- Performance measures used and target-setting: CCGG does not typically recommend specific performance metrics to be used within a company's compensation structure. We do, however, encourage boards to link compensation outcomes to performance measures that are within management's control or influence, and which incentivize long-term value creation. No compensation metric or measure is perfect; therefore, we expect boards to regularly review the most significant performance measures driving compensation outcomes and consider whether these measures are driving the right behaviours. For instance, in 2021, we asked questions when measures such as earnings before interest, taxes, depreciation and amortization (EBITDA) were used to determine a meaningful portion of executive compensation and if superior EBITDA performance had not translated into superior per-share financial performance. Similarly, when boards incorporate a series of short-term (typically one year) performance targets into long-term incentive compensation plans, we inquire whether they have considered assessing performance over a time horizon exceeding one year. For example, we ask questions when total shareholder return (TSR) is assessed over three one-year time periods as opposed to a single three-year time period.

- Compensation structure: Executive compensation is often, to a great extent, paid in the form of long-term, equity-linked or share-based instruments such as stock options, performance share units (PSUs) and restricted share units (RSUs). CCGG Members generally prefer the inclusion of full-value awards such as RSUs and PSUs within compensation structures over stock options. In 2021, in cases where stock options were a major component of compensation and where the company operated in an industry in which share prices are frequently and significantly impacted by factors beyond management's control (e.g. commodity prices), we asked boards to explain their rationale for emphasizing stock options within the compensation structure. In these cases, we also inquire how boards limit stock option awards (particularly during depressions in commodity or business cycles) to manage shareholder dilution and avoid the risk of unduly-excessive compensation being awarded to management teams based on factors beyond their control. To the extent possible, compensation should be structured to reward management skill as opposed to luck.

Board composition, skills and succession planning

A board's ability to oversee business strategy, material business risks and to assess management performance is directly linked to its composition and the collective skillset of its members. In 2021, over 20% of all topics we engaged on related to board composition. Examples of matters discussed in 2021 include:

- <u>Director skills & experiences</u>: We asked questions on director skills and experiences when management information circulars provided insufficient disclosure on a board's collective skillset or on the profile of individual directors. Where proxy circular disclosure was limited, we recommended that boards, in future, provide more fulsome disclosure on the board's collective skillset or on individual director profiles.

- <u>Board succession planning</u>: Where we felt a board's collective skillset did not match the needs of the business or where a board was not sufficiently diverse or sufficiently independent, we asked boards to discuss how they plan to address apparent gaps in the board's composition through succession planning and renewal efforts. Where relevant, we also invited comments on how boards are planning for succession within key board and committee leadership positions.

Board oversight of management composition and succession planning

One of the most important responsibilities of a board is to appoint a CEO and plan for his or her succession. In 2021, approximately 15% of all topics covered during our engagements included a discussion on management composition or succession planning.

- <u>Management succession planning</u>: When disclosure on the board's oversight of talent development or maintenance of succession plans for key positions within the company was limited, or when we felt a board had not appropriately managed executive succession in the past, we asked boards to discuss their involvement in developing or overseeing the development of succession plans for key roles within the organization. Where warranted, we asked boards to improve proxy circular disclosure on this topic going forward.

- <u>Management composition – diversity</u>: Over 20% of our engagements in 2021 were with companies in the materials sector. Achieving greater senior management diversity – particularly gender diversity – continues to be a challenge for many companies within the materials sector. Management diversity was a topic of conversation when we felt senior management teams were not sufficiently diverse and where proxy circulars provided limited information on the company's diversity objectives or the role and involvement of the board in monitoring and encouraging improvements in diversity.

Board oversight of material business risks

In 2021, over 10% of the topics we engaged on dealt with how boards oversee material risks facing their organizations. While we continue to ask boards to discuss their process for overseeing the most material risks facing the business, in 2021 over 70% of our engagement meetings included a discussion on how boards oversee a material environmental risk, such as climate-related risks, or a material social risk, such as those related to employee health and safety, local community relationship management, and cybersecurity.

- <u>Environmental or social risks</u>: In 2021, we developed a framework to assess whether companies we meet with are providing sufficient disclosure in order for investors: (I) to assess a company's exposure to climate-related transition risks, and (II) where relevant, to assess a company's strategy to address transition risks, including through the disclosure of specific performance metrics or the adoption of specific performance targets. Where disclosure was limited and where a company's business was materially exposed to climate-related risks, we encouraged boards to consider enhancing disclosure in line with the TCFD framework. Where relevant, we invited boards to discuss how they assess the effectiveness of the company's plan to mitigate transition risks or the robustness of the company's strategy for adapting to a low carbon economy.

Board oversight of corporate strategy

In 2021, over 10% of the topics we engaged on dealt with the role and involvement of boards in setting strategy, including how material environmental or social issues are integrated into corporate strategy.

- <u>Environmental or social issue integration within business strategy or long-term goals</u>: In 2021, where maintaining strong relationships with local communities (including local Indigenous communities) was vital to a company's success, we asked boards to comment on how they assess the effectiveness of the company's strategy or long-term goals in this area. Where relevant, we asked boards to comment on whether they directly engage with representatives of local communities in order to gauge the effectiveness of the company's relationship with such communities. We also ask boards to discuss considerations such as the extent to which local suppliers are included in the company's supply chain, whether the company provides employment opportunities to members of the local community, and whether the board regularly reviews a breakdown of the company's workforce – employees and contractors – for local community representation.

Director-shareholder engagement & shareholder feedback

Finally, through our engagement program we continue to encourage boards to directly engage with shareholders on a regular basis. When a significant number of shareholders oppose the election of a director or the approval of a management resolution, we inquire whether boards have taken steps to understand and potentially address shareholder concerns.

Recommendations

In 2021, we made over 80 recommendations to either: (I) introduce or modify a governance policy or practice, or (II) enhance disclosure.

The vast majority of our recommendations to introduce or modify a policy or practice focused on the area of executive compensation, whereas most recommendations to enhance disclosure fell under one of the following four categories:

- Enhance environmental or social disclosure in line with one or more of SASB's industry-specific recommendations or in line with one or more of TCFD's recommendations.
- Enhance disclosure on executive compensation decision-making, including board scrutiny of non-GAAP performance measures and performance measures and targets on which compensation decisions are based.
- Enhance disclosure on the board's contribution or involvement in setting business strategy or the board's role in overseeing material business risks.
- Enhance disclosure on director skills and experiences.

2022 ENGAGEMENT PLAN

In 2022, we will continue to select engagement candidates based on the following criteria:

- The company's prior meeting history with CCGG,
- CCGG Member common share ownership in the company,
- The company's market capitalization, and
- Input provided by the CCGG Board of Directors and Member organizations.

We will also continue to select engagement candidates from the TSX Composite Index and, to the extent possible, will try to include a company from every major sector within the Composite Index. We also anticipate meeting with companies across a range of market capitalizations.

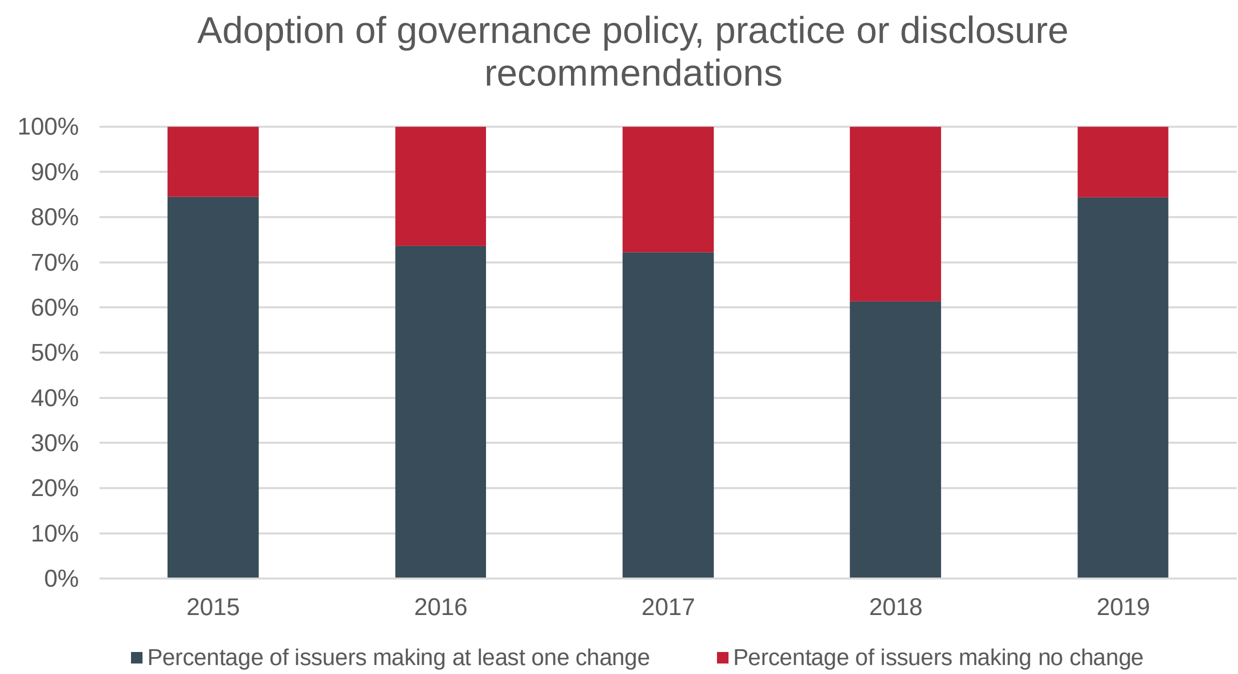
We will continue to tailor our engagement meeting discussions to each company's ESG practices and disclosure, however, we anticipate that the following six items will continue to represent a significant part of our meeting agendas:

- Board oversight of executive compensation,
- Board composition, skills, and succession planning,
- Board oversight of management composition and succession planning,
- Board oversight of material business risks,
- Board oversight of business strategy, and
- Director-shareholder engagement & shareholder feedback.

We also anticipate that, where relevant, environmental issues, including climate-related topics, and social issues, including diversity, employee health & safety, local community relationship management, and cybersecurity, will continue to be a part of our conversations on board & management composition, risk oversight, corporate strategy and executive compensation. Furthermore, where relevant, we will continue to encourage boards to enhance company disclosure to better align with one or more of SASB's industry-specific recommendations or TCFD recommendations.

ENGAGEMENT OUTCOMES AND RESULTS

Since 2018, CCGG has undertaken an annual internal review of engagement meetings held in prior years to assess the impact CCGG has had on governance policies, practices and disclosure of public companies with whom we engage. Our annual assessments have typically shown that 70% of the boards we engage with end up making at least one material positive change to their governance policies, practices or disclosure within two years of meeting with CCGG.



2021 assessment

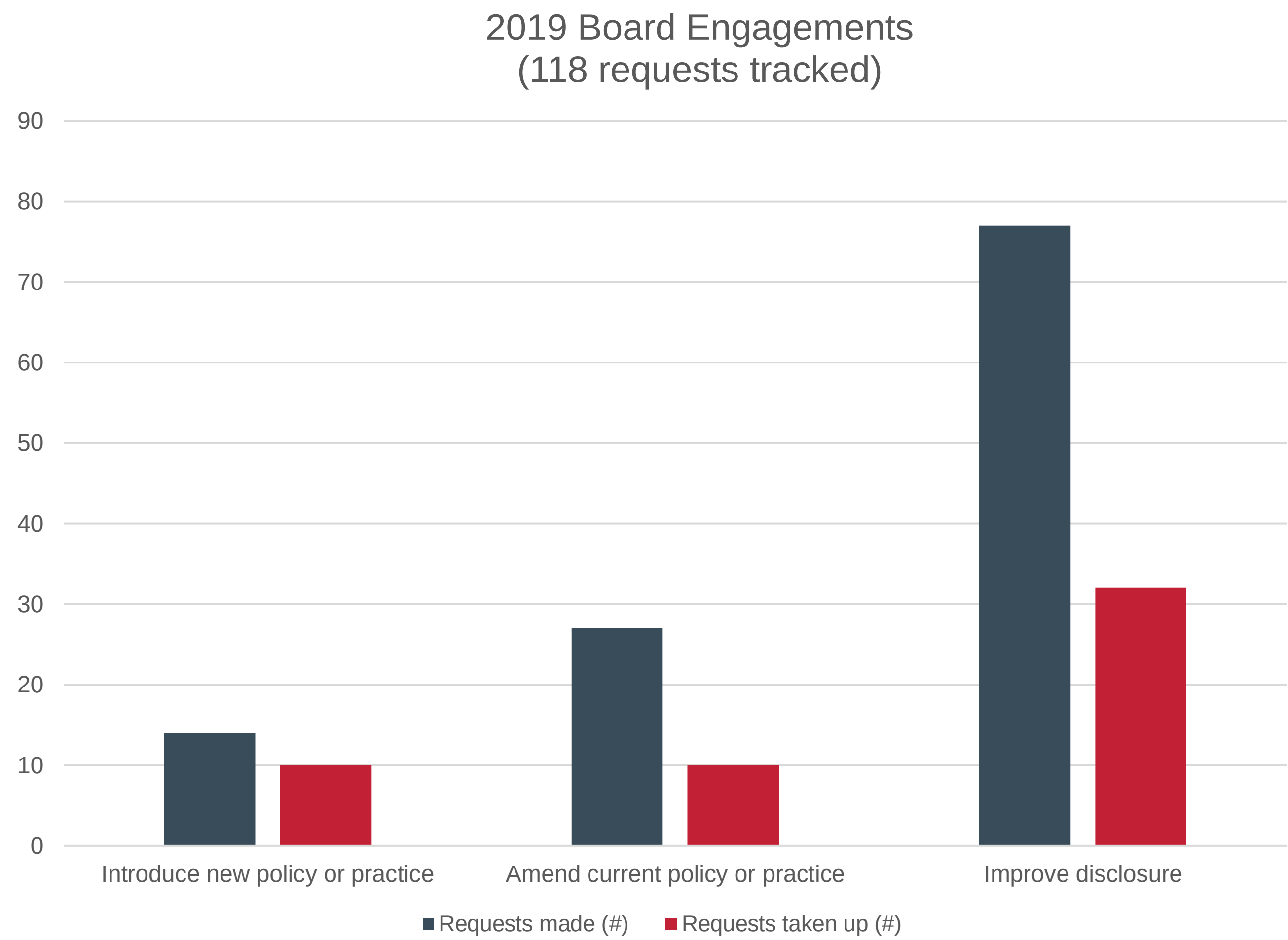
For each individual issuer with whom CCGG had engaged in 2019, the review process consisted of:

1. A review of the post-meeting summary report (available in the Members' Area of the CCGG website) to identify whether any specific recommendations were made in one of the following areas:
    - ***New policy or practice adoption***,
    - ***Existing policy or practice amendment***, or
    - ***Disclosure enhancement.***
2. A review of each issuer's management information circular or other public documents issued in 2021 to determine the extent to which CCGG's recommendations had subsequently been taken up by the issuer approximately two (2) years after the meeting took place.

2021 findings

CCGG met with the boards of 34 companies in 2019. Of the 34 companies with whom we engaged, data gathered from 32 meetings[1] was analyzed to assess CCGG's impact on governance policies, practices and disclosure.

We tracked a total of 118 specific recommendations that were communicated to 32 issuer boards. Based on our review of 2021 information circulars, ***27 of the 32 issuers (over 80%) had made at least one material positive change to their governance policies, practices or disclosure.***



[1] Data was not available for 2 of the 34 meetings conducted in 2019

APPENDIX A: CCGG MEMBER ORGANIZATIONS

Alberta Investment Management Corporation (AIMCo)
Alberta Teachers' Retirement Fund (ATRF)
Archdiocese of Toronto
BlackRock Asset Management Canada Limited
BMO Global Asset Management Inc.
Burgundy Asset Management Ltd.
Caisse de dépot et placement du Québec
Canada Pension Plan Investments (CPP Investments)
Canada Post Corporation Registered Pension Plan
Capital International Asset Management (Canada), Inc.
CIBC Asset Management Inc.
Colleges of Applied Arts and Technology Pension Plan
Connor, Clark & Lunn Investment Management Ltd.
Desjardins Global Asset Management
Fiera Capital Corporation
Forthlane Partners Inc.
Fondation Lucie et André Chagnon
Franklin Templeton Investments Corp.
Galibier Capital Management Ltd.
Healthcare of Ontario Pension Plan (HOOPP)
Hillsdale Investment Management Inc.
IGM Financial Inc.
Investment Management Corporation of Ontario (IMCO)
Industrial Alliance Investment Management Inc.
Jarislowsky Fraser Limited
Leith Wheeler Investment Counsel Ltd.
Letko, Brousseau & Associates Inc.
Lincluden Investment Management Limited
Manulife Investment Management Limited
NAV Canada Pension Plan
Northwest & Ethical Investments L.P. (NEI Investments)
Ontario Municipal Employee Retirement System (OMERS)
Ontario Teachers' Pension Plan (OTPP)
OPSEU Pension Trust
PCJ Investment Counsel Ltd.
Pension Plan of the United Church of Canada Pension Fund
Public Sector Pension Investment Board (PSP Investments)
QV Investors Inc.
RBC Global Asset Management Inc.
Régimes de retraite de la Société de transport de Montréal
RPIA
Scotia Global Asset Management
Sionna Investment Managers Inc.
SLC Management Canada
State Street Global Advisors, Ltd. (SSgA)
Summerhill Capital Management Inc.
TD Asset Management Inc.
Teachers' PP Corporation of Newfoundland and Labrador
Teachers' Retirement Allowances Fund
UBC Investment Management Trust Inc.
University Pension Plan Ontario
University of Toronto Asset Management Corporation
Vestcor Inc.
Workers' Compensation Board - Alberta
York University Pension Fund

CCGG Board of Directors

Marcia Moffat, CCGG Board Chair Managing Director – Head of Canada, BlackRock, Inc.	Bruce Cooper, CCGG Board Vice-Chair Chief Executive Officer, TD Asset Management Inc.	Helen Beck EVP and Head of Equity Markets, Caisse de dépôt et placement du Québec
Julie Cordeiro VP, CAO & General Counsel, Burgundy Asset Management Ltd.	Phil Cotterill Head of Client Solutions, CCL Investment Management Ltd.	Duane Green President and CEO, Franklin Templeton Investments Canada
Michael Kelly Chief Legal & Corporate Affairs Officer, OMERS	Peter Letko Senior Vice-President, Letko Brosseau & Associates Inc.	Peter Lindley President and Chief Executive Officer, OPTrust
Maxime Ménard President & Chief Executive Officer, Jarislowsky Fraser Limited	Amit Prakash Chief Investment Strategy Officer, Alberta Investment Management Corp	Kim Shannon President & Co-CIO, Sionna Investment Managers Inc.
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