FRONTLINE ADVISORS

Client Update

Glass Lewis Benchmark Policy Changes for 2022

November 16, 2021

Today, Glass, Lewis & Co., LLC ("**GL**") released its 2022 Policy Guidelines for the Canadian market. These changes are effective for shareholder meetings taking place beginning on or after January 1, 2022, unless otherwise stated. Changes and clarifying amendments affecting Canadian companies were made in the following areas:

- Board Gender Diversity: Beginning 2022, for TSX-listed issuers, GL will recommend withholding from the chair of the nominating committee at companies where there are fewer than two gender diverse directors (withhold from the entire nominating committee if no gender diverse directors). Outside the TSX, including the TSX Venture Exchange (TSXV), and all boards with six or fewer total directors, GL will require a minimum of one gender diverse director in 2022. Beginning 2023, GL will require at least 30% gender diverse directors for TSX-listed issuers. Institutional Shareholder Services Inc. ("**ISS**"), on the other hand, requires 30% female directors for S&P/TSX Composite Index issuers (providing a one-year grace period until the 2023 AGM before ramifications), and at least one female director for all TSX companies.

- Environmental and Social Risk Oversight: Beginning 2022, GL will note as a concern (without voting implications), at S&P/TSX Composite Index issuers outside the S&P/TSX 60, if the company does not provide clear disclosure concerning board-level oversight for environmental and social issues. Beginning in 2022, GL will hold the governance committee chair accountable if such disclosure is lacking for S&P TSX 60 issuers (and beginning in 2023 for S&P/TSX Composite Index issuers outside the S&P/TSX 60).

- Multi-class Share Structures with Unequal Voting Rights: Beginning 2022, GL will recommend withholding from the chair of the governance committee at companies with a multi-class share structure and unequal voting rights if a reasonable sunset is not present (generally seven years or less). Recall that ISS recently issued its proposed 2022 benchmark guidelines for the U.S. (but not Canada) seeking to hold directors accountable beginning 2023 if a company employs a stock structure with unequal voting rights. In conjunction with GL's new policy and ISS' proposed policy, we believe that market observers will begin to see an abundance of governance committee chairs targeted at many marquee U.S.-listed issuers with unequal voting rights, while the GL policy will affect Canadian issuers in addition to U.S. issuers.

- Size of Key Committees: Beginning 2022, GL will hold compensation, nominating and/or governance committee chairs accountable if the key committee consists of fewer than two members for the majority of the fiscal year. This policy, already

KEY CONTACTS

This update has been prepared by the expert advisors at FrontLine.

The FrontLine team is comprised of governance experts who have built their practice advising public company issuers and shareholders in all governance matters. Should you have any questions or wish to discuss our advisory capabilities, please contact us.

Victor Guo, CFA
President
E: vguo@frontlineadvisors.ca
T:+1.416.721.9070

Jackie Cheung
Senior Vice President, Governance
E: jcheung@frontlineadvisors.ca
T: +1.647.271.6111

For proxy solicitation needs, please contact the expert advisors at our sister company Gryphon Advisors.

Dexter John, LLB, ICD.D
President & CEO
E: djohn@gryphonadvisors.ca
T: +1.416.602.0050

Mike McLeod
Senior Vice President
E: mmcleod@gryphonadvisors.ca
T: +1.403.830.2070

applying to audit committees previously, aligns GL's view on all key committees as it pertains to committee size.

- Overall Approach to ESG: GL has updated its discussion related to its overall approach to ESG. In summary, GL evaluates all environmental and social issues through the lens of long-term shareholder value, and believes that companies should be considering material environmental and social factors in all aspects of their operations. Companies should also provide shareholders with adequate disclosures to allow shareholders to understand how these factors are considered and how risks are mitigated.

- Shareholder Proposals: GL has clarified that they evaluate shareholder proposals on a case-by-case basis with a view to promote long-term shareholder value, and that proposals are considered in the context of a company's unique operations and risk profile.

- Linking Executive Pay to E&S Criteria: GL has clarified that it does not maintain a policy as it relates to the inclusion of E&S metrics or whether these metrics should be used in either a company's short- or long-term incentive program, but if included, the quality of the disclosure as it relates to the goals, and the rigor of the performance targets, will be assessed in the grand scheme of executive compensation evaluation.

- Short-term and Long-term Incentives: GL has clarified that it will consider the adjustment to GAAP financial results (both in short-and long-term incentives) when assessing the effectiveness of tying incentive plans to performance.

- Front-loaded Awards: GL has clarified that front-loaded awards will continue to be assessed based on an annualized quantum of the full award. As well, GL will look at the overall dilutive impact to shareholders of the awards when making its assessment on front-loaded payments.

- Authorizations/Increases in Authorized Preferred Stock: Similar to the long-standing policy at ISS, GL has now clarified that it will vote against preferred stock authorizations or increases unless the company discloses a commitment to not use such preferred stock for anti-takeover purposes (or in a shareholder rights plan). As it relates to preferred stock authorizations, GL will also accept a commitment to submit any shareholder rights plan to a shareholder vote prior to its adoption.

- Disclosure of Fees for Audit Services: GL has clarified that where audit fee breakdowns are not clearly disclosed, the audit committee chair will be held accountable and receive a negative vote recommendation.

Importantly, in a supplementary policy document, GL also made several changes to its ESG Initiatives Voting Guidelines, and most pertinent to Canadian issuers, GL has codified its approach to Say on Climate. GL will generally oppose shareholder proposals requesting that companies adopt a Say on Climate vote on the basis that

GL is concerned that sufficient information to fully evaluate a climate transition plan is often not available to shareholders.

However, where a vote has been adopted voluntarily by management, GL will assess the company's climate transition plans on a case-by-case basis. GL's considerations will consider a company's unique operations and risk profile, but will generally look at the 'governance features' of the Say-on-Climate first, with them being:

(i) the disclosure of the board's role in setting company strategy in the context of the Say on Climate;
(ii) disclosure on how the board intends to interpret vote results; and
(iii) the board's engagement with shareholders on the issue.

Where the 'governance features' disclosure is not present, GL will either recommend that shareholders abstain, or vote against the management proposal depending on the quality of the plan presented. Regardless of the 'governance features' disclosure, GL will evaluate the quality of the climate transition plans on a case-by-case basis in order to determine whether or not to support it. Given the relatively new nature of such votes and plans, GL will look to best practices and standards, but believes that disclosure should be aligned with the recommendations of the Task Force for Climate-Related Financial Disclosures ("TCFD"). GL will look for how companies explain their goals, how GHG targets support the achievement of broader goals (i.e. net zero emission goals), and disclosure related to foreseeable obstacles that could hinder their progress. Other factors that GL will look at include, but are not limited to:

(i) the request of the resolution (e.g., whether companies are asking shareholders to approve its disclosure or its strategy);
(ii) the board's role in overseeing the company's climate strategy;
(iii) the company's industry and size;
(iv) whether the company's GHG emissions targets and the disclosure of these targets appear reasonable in light of its operations and risk profile; and
(v) where the company is on its climate reporting journey (e.g., whether the company has been reporting and engaging with shareholders on climate risk for a number of years or if this is a relatively new initiative).

Interested to know what influence Glass Lewis has on your shareholder base and what these proposed changes mean for you?

Contact our experts today to find out. Issuers and clients who wish to discuss the above-mentioned changes can also contact our expert team directly to explore ways in which we can help you prepare for your next AGM.