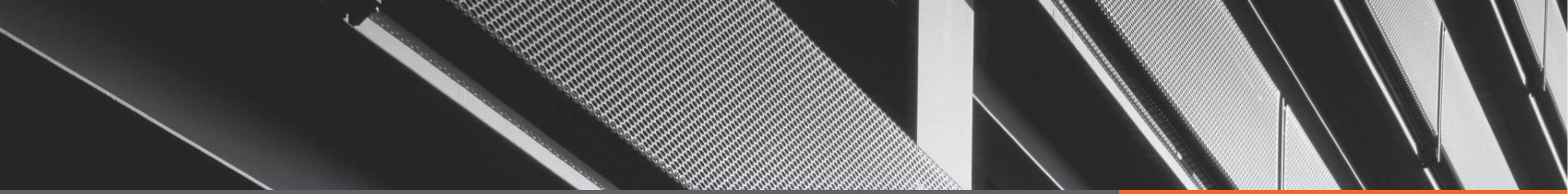

ISS and Glass Lewis Update Guidelines for 2019 (Canada & U.S.)

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Institutional Shareholders Services ("ISS") and Glass Lewis ("GL") have updated their 2019 voting guidelines for Canada and the U.S. The updated guidelines from ISS will apply to shareholder meetings for publicly-traded companies on or after February 1, 2019, while those from Glass Lewis will apply to meetings held on or after January 1, 2019. This memo provides a summary of policy updates on compensation-related and select board-related topics in both the Canadian and U.S. market.

Key Policy Highlights

- Majority of changes in 2019 were around board oversight and governance, with less focus on compensation related policies.
  - ISS has not updated any compensation related policies for Canada
  - Glass Lewis has updated policies regarding front-loaded awards, clawbacks, short-term incentives, and provided more information in respect of their pay for performance analysis

- Both ISS and Glass Lewis updated their Environmental & Social Policy Guidelines in the U.S. and Canada. In cases where environmental and social risks have been mismanaged, Glass Lewis may recommend against directors responsible for the oversight of environmental and social risks. ISS continues to assess E&S proposals on a case-by-case basis but will place greater scrutiny on those with risks to shareholder value
  - While management of E&S risks have not been explicitly entrenched into voting guidelines of either proxy advisor, or widely considered within executive pay programs, these changes reflect increasing attention among shareholders

- US diversity-related policies will be more aligned to Canadian policies in 2019, (i.e., recommending against the nominating committee chair of a board with no female members)

Canada 2019 Compensation-Related Policy Updates

Glass Lewis: Grants of Front-Loaded Awards

- Glass Lewis perceives certain risks associated with front-loaded awards, adding additional cautionary language on their guideline, "*Front-end loaded awards may preclude improvements or changes to reflect evolving business strategies. The considerable emphasis on a single grant can place pressures on the award design and amplify any perverse incentives*"

Glass Lewis: Clawback Provisions

- Updated clawback policy clarifying that more expansive policies allow for the recoupment of both short and long-term incentive awards in cases of financial restatement or misconduct

Glass Lewis: Short Term Incentives

- Clarification that 1) should a company choose to rely on a subjective assessment alone, the board should provide a meaningful discussion of their rationale in granting awards and 2) such an approach may drive a negative recommendation in combination with other pay concerns

Glass Lewis: Pay for Performance

- Grading system has updated descriptions of a company's compensation program at each grade, and provided more details for determining the grade using the Equilar peer group

Glass Lewis: Contractual Payments and Arrangement

- Extended its policy on contractual payments as part of analysis of executive compensation and clarified that when evaluating severance and sign-on agreements, Glass Lewis will consider market practice, size and design of entitlements

US 2019 Compensation-Related Policy Updates

Glass Lewis: Executive Compensation Disclosure for Smaller Reporting Companies

- In June 2018, SEC adopted amendments to significantly expand the number of companies eligible to comply with reduced disclosure requirements
- Glass Lewis will consider the impact of materially decreased CD&A disclosure when formulating its recommendations and may consider recommending against members of the committee where a reduction in disclosure substantially impacts shareholders' ability to make an informed assessment of the company's executive pay practices.

Glass Lewis: Excise Tax Gross Ups

- Glass Lewis will now include new excise tax gross up provisions as an additional factor that may contribute to a negative voting recommendation

Environmental and Social (“E&S”) Updates

ISS (US & Canada)

- ISS continues to vote on E&S proposals on a case-by-case basis but has clarified that its primary focus is whether the implementation of the proposal enhances shareholder value. The update makes it more explicit that significant controversies, fines, penalties or litigation are considered when evaluating E&S proposals
- Implication: E&S concerns are still not factored into ISS’ formal vote recommendations but signals the increasing focus of E&S among investors. Boards should begin preparing for an increase in engagement requests on these topics, regardless of industry.

Glass Lewis (US & Canada)

- Glass Lewis has codified board oversight of environmental issues. For large cap companies, Glass Lewis will review a company’s overall governance practices and identify which directors or committees have oversight of environmental and social issues, and note when such oversight has not been clearly defined by companies in their governance policies
- Where a company has not appropriately managed or mitigated E&S risks, Glass Lewis may consider recommending against members of the board who are responsible for such oversight

Gender Diversity-Related Policy Updates

ISS (Canada)

- ISS introduced the Board Gender Diversity policy for the Canadian market in 2017, applicable to S&P/TSX Composite companies after Feb 1, 2018 and the full TSX universe as of Feb 2019. Due to many smaller, narrowly held, TSX-listed companies with no female directors, ISS has now determined that extending the policy to these issuers may result in disproportionate number of withhold recommendations. As such, the policy has been revised and will only be applied to a “universe of widely held TSX reporting issuers,” as their corporate governance practices are the most likely to be subject to heightened scrutiny from investors

ISS (US)

- Effective for meetings after Feb 1, 2020 for companies in the Russell 3000 or S&P 1500 indices, ISS will generally recommend withholding votes from the chair of the nominating committee at companies when there are no women on the company’s board

Glass Lewis (US & Canada)

- Gender diversity policy announced in November 2017 will take effect for meetings held after January 1, 2019. Glass Lewis will now generally recommend voting against the nominating committee chair of a board that has no female members. Also, Glass Lewis may recommend against issuers where the board has not adopted a formal written diversity policy

- If sufficient rationale exists, (e.g., a disclosed timetable for addressing diversity and any restrictions in place regarding Board's composition, such as director nomination agreements with significant investors) Glass Lewis may refrain from recommending against

Select 2019 Board-Related Policy Updates

ISS: Overboarding (Canada)

- Directors will now be considered overboarded without consideration of their attendance record (i.e., 75% attendance)

Glass Lewis: Board Skills (Canada)

- Guidelines have been updated to encourage companies to disclose sufficient information for a meaningful assessment of a Board's skills and competencies. Starting in 2019, analyses of director election at TSX60 companies will include the use of board skills matrices

ISS: Board Composition – Attendance (US)

- In cases of chronic poor attendance without justification, in addition to voting against the director(s) with poor attendance, ISS will now generally vote against or withhold from appropriate members of the nominating/governance committees of the full board
- ISS defines "chronic poor attendance" as three or more consecutive years of poor attendance with no reasonable explanation

Concluding Thoughts:

Proxy advisor recommendations are widely believed to have a material impact on the voting results at shareholder meetings. Issuers should be mindful of the policy updates from ISS and Glass Lewis and be aware of the potential implications of these policies. Having said that, based on Hugessen's experience, there is an increasing willingness, particularly among institutional shareholders, to assess company compensation programs on a nuanced case-by-case basis, which underscores the importance of providing clear, transparent disclosure and maintaining open communication with shareholders