

# P E M B R O K E

Pembroke Management Ltd.

## Proxy Voting Guidelines

### Introduction

Pembroke Management Ltd. ("Pembroke") manages Pembroke Money Market Fund, Pembroke Growth and Income Fund, Pembroke Global Balanced Fund, Pembroke Canadian Growth Fund, Pembroke American Growth Fund Inc., Pembroke Concentrated Fund, Pembroke Dividend Growth Pooled Fund, Pembroke Canadian Growth Pooled Fund and Pembroke U.S. Growth Pooled Fund (the "Funds") on behalf of Pembroke Private Wealth Management Ltd. As part of its fiduciary obligations to the unitholders of the Funds, Pembroke exercises its voting rights in the companies in which it invests.

The overriding objective of Pembroke's proxy voting activities is to enhance unitholder value on a long-term basis. As a result, our proxy voting guidelines have been developed in a manner which we believe is consistent with this goal. **However, it is important to note that these are guidelines only, and not rigid, inflexible, voting directives.** Our portfolio managers will evaluate each voting matter on a case-by-case basis and may vote in a manner contrary to the guidelines if they feel that this would ultimately enhance long-term unitholder value.

### Guidelines pertaining to the Board of Directors

#### Independence of the Board of Directors

Ideally, the board of directors will be comprised of a majority of unrelated directors, where an unrelated director is independent of management and is free from any relationship or interest that conflicts with the director's ability to act in the best interests of shareholders.

#### Experience of the Board

Ideally, a board of directors will have a relevant pool of experience to draw upon, and as such we will look favourably upon appropriately qualified nominees that contribute to this pool.

#### Size of the Board

A board of directors should be large enough to allow for sufficient coverage of responsibilities but should not be so large that meetings and discussions become cumbersome.

#### Board Committees

All boards shall have an Audit committee headed and staffed by outside directors.

#### Cumulative Voting

We are generally opposed to cumulative voting proposals but acknowledge that it may be a useful tool if a board is unresponsive to shareholders.

#### Staggered Boards

A staggered board is one in which some directors are elected to terms greater than one year. Our preference is for all directors to stand for election on an annual basis.

#### Director Attendance

While attendance is only one factor in evaluating a director's effectiveness, we view absences without extenuating circumstances negatively.

2020April01

Pembroke Management Ltd. | Gestion Pembroke Ltée

1002, rue Sherbrooke Ouest, bureau 1700, Montréal (Québec) H3A 3S4 Canada T 514 848-1991 F 514-848-1725 www.pml.ca

# P E M B R O K E

## Director Liability and Indemnification

We believe that directors should be provided insurance against liability claims, so long as their actions were taken honestly and in good faith with a view to the best interests of the company.

## Audit Process

We will generally support the auditor recommended by the Audit Committee but will review proposed changes in auditors on a case-by-case basis.

## **Guidelines pertaining to Executive and Director Compensation**

### Executive Management Compensation

- We consider individuals within a management team as integral to the execution of the company's strategy. As a result, attracting and retaining qualified individuals through competitive compensation is necessary. Competitive compensation is considered in the context of what other leading companies in the same industries are paying to attract and retain their managers.
- Compensation should be tied to measurable performance and motivate managers to reach longer-term targets, rather than used as a reward for past performance.
- Compensation should be tied to shareholder value so that the interests of both shareholders and managers are aligned.
- We are not opposed to stock options as a form of compensation, but we are critical of compensation packages that have excessive granting of options, that cause substantial dilution of the existing shareholders, which have no, or very short, vesting periods, and/or have options priced below the current market price. We will not support the re-pricing or extension of previously issued options held by senior management.
- We prefer to see stock options distributed to key contributors to corporate prosperity, but generally do not support plans that are excessively concentrated in the hands of a single individual.
- We support companies that encourage their Executives to buy and hold a meaningful number of shares in the company so that they have the same financial interest as other shareholders.
- Compensation measures such as 'golden parachutes' and corporate loans to individual managers are often justified by companies as ways of attracting and retaining quality managers, however, these compensation items are often abused, and we are opposed to compensation measures that are excessive and outside of competitive industry practices.

### Director Compensation

- Appropriate board members provide valuable experience and strategic support to the company, and competitive compensation is necessary to attract and retain these individuals.
- Compensation should be aligned with the interests of shareholders and managers.
- We support companies that encourage their board members to buy and hold a meaningful number of shares in the company so that they have the same financial interest as other shareholders.

### Guidelines pertaining to Takeover Protection

Takeover protection measures are created to guard against takeover bids that do not represent a fair value for the company's assets. The main purpose of a shareholder rights plan is to ensure equal treatment for all shareholders and to provide the Board sufficient time to consider alternatives. We generally will not support plans that are anti-

2020April01

Pembroke Management Ltd. | Gestion Pembroke Ltée

1002, rue Sherbrooke Ouest, bureau 1700, Montréal (Québec) H3A 3S4 Canada T 514 848-1991 F 514-848-1725 www.pml.ca

# P E M B R O K E

takeover in nature and serve to entrench the power of incumbent management and Boards. However, we will generally support takeover protection measures with the following objectives:

- Protecting the rights and interests of all shareholders
- Seeking to maximize shareholder value
- Allowing sufficient time for the Board to consider alternative options and competing bids to surface
- Making sufficient information available to shareholders for an informed decision

Takeover protection measures should be subject to shareholder approval and be adopted for a limited period only.

## **Guidelines pertaining to Shareholder Rights**

### Multiple-voting Class Structure

A multiple-voting class structure refers to unequal voting rights between classes of shares. This potentially allows minority shareholders with multiple voting rights to impose their interests over those of all other shareholders. Therefore, we generally will not support the creation or extension of multiple-voting structures. We will support the replacement of multiple-voting structures with one vote per share, given the cost of such change is modest and is in the best interest of non-controlling shareholders.

### Supermajority Approval

While supermajority requirements are appropriate in some circumstances, they can be subject to abuse and act as an anti-takeover mechanism. While a two-thirds supermajority (66.7%) is most common and is considered reasonable, we will review supermajority proposals requiring more than a two-thirds majority on a case-by-case basis.

### Increase in Authorized Shares

We acknowledge that the Board may need the flexibility to issue shares to meet changing financial conditions, such as stock splits, restructurings, acquisitions, stock option plans, or takeover defenses. We will review proposals on a case-by-case basis to determine if the amount requested is necessary for sound business reasons.

### "Blank Cheque" Preferred Shares

"Blank-cheque" preferred shares usually carry a preference in dividends, rank ahead of common shares upon liquidation, and give the Board broad discretion (a "blank cheque") to establish voting, dividend, conversion and other rights in respect to these shares. Once those shares have been authorized, shareholders have no further power to determine how or when they will be allocated. Due to the potential for abuse, we generally will not support the authorization of, or an increase in, "blank-cheque" preferred shares.

### Linked Proposals

Linked proposals are resolutions that link two issues together. Linked proposals may be used to pass proposals that would not be approved if they were proposed individually. We generally will not support linked proposals except in the case where each individual issue contained in the proposal is in the best interests of shareholders. Each issue within a linked proposal will be considered as being mutually exclusive of each other.

### Shareholder Proposals

Shareholders should have the right to bring relevant proposals to the annual general meeting. These proposals should be included on the proxy ballot for consideration by all shareholders. Certain shareholder proposals put unreasonable constraints on management and the Board, which may hinder the company's ability to create long-term shareholder value. We will review shareholder proposals on a case-by-case basis.