



## **PROXY VOTING GUIDELINES**

As a fiduciary, Investeco Financial Corp. is required to exercise voting rights in the best interests of the Investeco Global Environmental Sectors Fund's (the "**Fund**") unitholders. Accordingly we vote our proxies in favour of proposals that are likely to increase shareholder value. We take a long-term view of shareholder value, recognizing that proposals that have a short term cost can be beneficial to the long term health of the corporation.

The proxy voting guidelines set out below let Fund unitholders, and the directors and management of the companies in which we invest, know in advance how we are likely to vote on issues requiring a shareholder vote.

Notwithstanding that these guidelines contain policy statements and specific voting recommendations, they are not rigid policy positions. Under extenuating circumstances we may vote contrary to what the guidelines may suggest.

### **BOARDS OF DIRECTORS**

In proxy voting regarding matters pertaining to the nomination and election of board members, the establishment and operation of board committees, and director compensation, we use the following general principles as a guideline in reaching a decision:

#### **1. Independence**

Boards of Directors must be independent from management and insiders in order to ensure that such boards are able to properly represent shareholders without actual or potential conflict of interest. Therefore, we will vote to encourage:

- a. Boards of Directors containing a majority (preferably 75%) of independent outsiders
- b. Governance, nominating, audit, and compensation committees being comprised exclusively of independent outsiders
- c. The position of Chairman of the Board not being held by an executive of the company.
- d. Boards of Directors being nominated individually. Therefore, we do not support any slate voting of the Board.

## **2. Effectiveness**

We seek through voting to encourage Boards of Directors that are diverse, experienced, competent, and motivated to represent our interests diligently. Therefore, we will vote to encourage:

- i. Boards of Directors that are composed of between five and fifteen members so as to ensure its orderly and effective operation
- ii. Members with poor attendance records (e.g. less than 75% of meetings) not being reappointed
- iii. Adequate compensation of Members to ensure commitment to their roles and responsibilities. Compensation should be structured to ensure that members' interests are aligned with the long-term interests of shareholders. As such favour restricted stock options as a means of equity compensation for the board.

## **3. Accountability**

Shareholders require access to sufficient information so as to be able to evaluate the effectiveness of their representatives. Accordingly, we will vote to encourage:

- a. The establishment of internal evaluation processes covering the contribution of the Board of Directors on an individual, committee, and aggregate basis; and the company's corporate governance practices in general.
- b. A process whereby the results of such evaluations are reported to shareholders, at least on an annual basis.
- c. Corporate governance and board member compensation policies that are structured using the results of these internal evaluations.

## **4. Appointment of Auditors**

It is important that auditors remain independent of the company. Auditors should work with the management and report to an independent audit committee of the board who is responsible for the auditor's compensation and appointment. Accordingly, we will vote to encourage:

- a. The management not changing auditors without suitable explanation;
- b. Auditors being appointed who have not previously served the company in an executive capacity within the previous five years;
- c. All audit and non-audit fees paid to each audit firm being disclosed in the company's annual report; and
- d. A separation of the audit and non-audit functions by the retention of different firms for the functions.

## **EXECUTIVE COMPENSATION**

Executive Compensation policies can be critical to the ability of a company to create shareholder value. We support compensation policies that are sufficient to ensure access to high quality managerial skills. However, in order to ensure that shareholder value is not needlessly destroyed, and that executive incentives are properly aligned with those of shareholders, we vote our policies according to the following principles:

### **1. Compensation is for performance**

Adjusting compensation for performance is among the best tools available to shareholders to ensure maximum performance from their managing executives. Compensation should not reward failure. Accordingly, we support:

- a. Variable compensation that is directly tied to pre-determined and measurable performance benchmarks that are consistent with the long-term creation of shareholder value. Where possible, we prefer that these benchmarks are set relative to a peer group of companies;
- b. Compensation practices that are free of large, long term guarantees for bonuses and option-grants. Where such long-term compensation obligations exist, they should be clearly disclosed to shareholders;
- c. Stock options are a form of compensation and as such, we believe they should be expensed along with other forms of compensation. If stock options are not expensed by a company we shall not support their use. Furthermore, we prefer restricted stock over stock options as a means of equity compensation that better aligns management and shareholder interests.
- d. We believe that stock based compensation can be much more effective in aligning the long term interests of management and shareholders. We are in favour of minimum shareholdings for executives and mandatory holding periods; and.
- e. We do not support company loans to directors or employees to purchase shares; and
- f. We are in favour of employee stock option plans.

### **2. Compensation policies should not destroy shareholder value**

This is obvious, but there are many relatively common practices in current executive compensation trends that destroy shareholder value. We vote against the following practices:

- a. Excessive dilution of current shareholders;
- b. Unrestricted options, options priced below current fair value, and the post-issue reduction in the exercise price of options; and
- c. Golden parachutes or other large settlement payments to departing executives, unless contractually obligated.

## **TAKEOVER PROTECTION AND SHAREHOLDER RIGHTS**

We do not generally support takeover defense strategies, as they usually serve only to entrench management and discourage potential buyers from offering higher bids in the event a company becomes an acquisition target. Nevertheless, we recognize that there are instances in which shareholder value is best served by protective measures: for example, repelling an opportunistic lowball bid that does not recognize the fair value of a company, or establishing break-up fees to reduce the risk to potential buyers of the cost of the bid. Generally, we vote our proxies regarding takeover protection issues according to the following principles:

- a. Shareholders should be duly consulted on all matters of ownership control;
- b. It is imperative that any proposed takeover protection measures, which could potentially dilute shareholder value, are approved in advance by full shareholder vote;
- c. On any voting matter, shareholders should be given sufficient time and supporting information to enable informed decisions;
- d. Adopted takeover protection measures should have a sunset clause not greater than three years, after which they must be submitted to a shareholder vote for renewal;
- e. All Shareholders should be treated equally and fairly;
- f. Takeover protection measures should be structured with a single goal of maximizing long-term shareholder value for all shareholders;
- g. Break-up fees on proposed mergers should not be so large as to act as a deterrent to a competitive bidding process;
- h. Lock-up arrangements should be structured so that competing bids are not prevented;
- i. Partial bids should be offered equally to all shareholders on a pro-rata basis and remain open for a sufficient period of time to allow for notification and informed decisions; and
- j. Any new issuance of stock with rights that exceed those in shares should be offered equally to all shareholders on a pro-rata basis.

## **CAPITAL STRUCTURE**

Issues surrounding capital structure, whether the company has an authorized or conditional capital system, usually deal with the means to finance business activities. Increases in capital may be justified if the purposes of the authorization are in the

shareholder's interests. Capital management involves finding the right mix of equity, long-term debt and short-term financing in order to enhance shareholder returns. Shareholders should be aware of financing decisions that could have an adverse effect on shareholder returns.

### **1. General issuance**

- a. Authorizations should be limited to a fix number of share or a percentage of capital at the time of issuance in order to prevent dilution to the shareholders.
- b. Any unlimited capital authorization with not be supported.

### **2. Equal treatment of shareholders**

- a. A one share, one vote policy is supported. We oppose dual-class share structures.

### **3. Reduction of Capital**

- a. Proposals to reduce capital for routine accounting purposes will be supported unless it is unfavourable to shareholders.

## **CORPORATE RESPONSIBILITY IN SOCIAL AND ETHICAL MATTERS.**

Proposals concerning corporate behaviour in social, environmental, and ethical issues are being put to shareholder vote with increasing frequency. Certainly, as corporations have grown global in scale and transcended national borders, governmental regulations are often no longer sufficient in guiding corporate decisions in these complicated and controversial fields. While directors' and fiduciaries' responsibilities are first and foremost to shareholders, there are many other stakeholders in corporations that should be given consideration in strategic and operational decisions. Employees, customers, suppliers, trading partners, the environment, and inhabitants of areas of operation can all be impacted by corporate actions. These stakeholders can in turn impact shareholder value, positively, or negatively, through their response to corporate behaviour. It therefore obligates corporations to recognize their broader responsibilities as global citizens, to adopt a code of ethical standards by which decisions can be made, and to have in place a well-defined process for resolving apparent conflicts between adhering to these standards and maximizing shareholder value.

At Investeco, our proxy voting guidelines on ethical issues place long-term shareholder value as the prime consideration. However, this does not preclude voting for proposals that boards of directors recommend against. We believe that proposals to promote environmental responsibility, greater transparency, a better public image, and higher satisfaction levels among the various stakeholders in a corporation can, in so doing, also increase shareholder value, even when the costs of such proposals are taken into account.

The practical application of these principals is determined by Investeco on a vote-by-vote basis. As in any economic decision, the estimated costs are balanced against the benefits, and the risks against the rewards. We understand that our clients' assessments of costs and benefits in any specific issue may differ from our own.