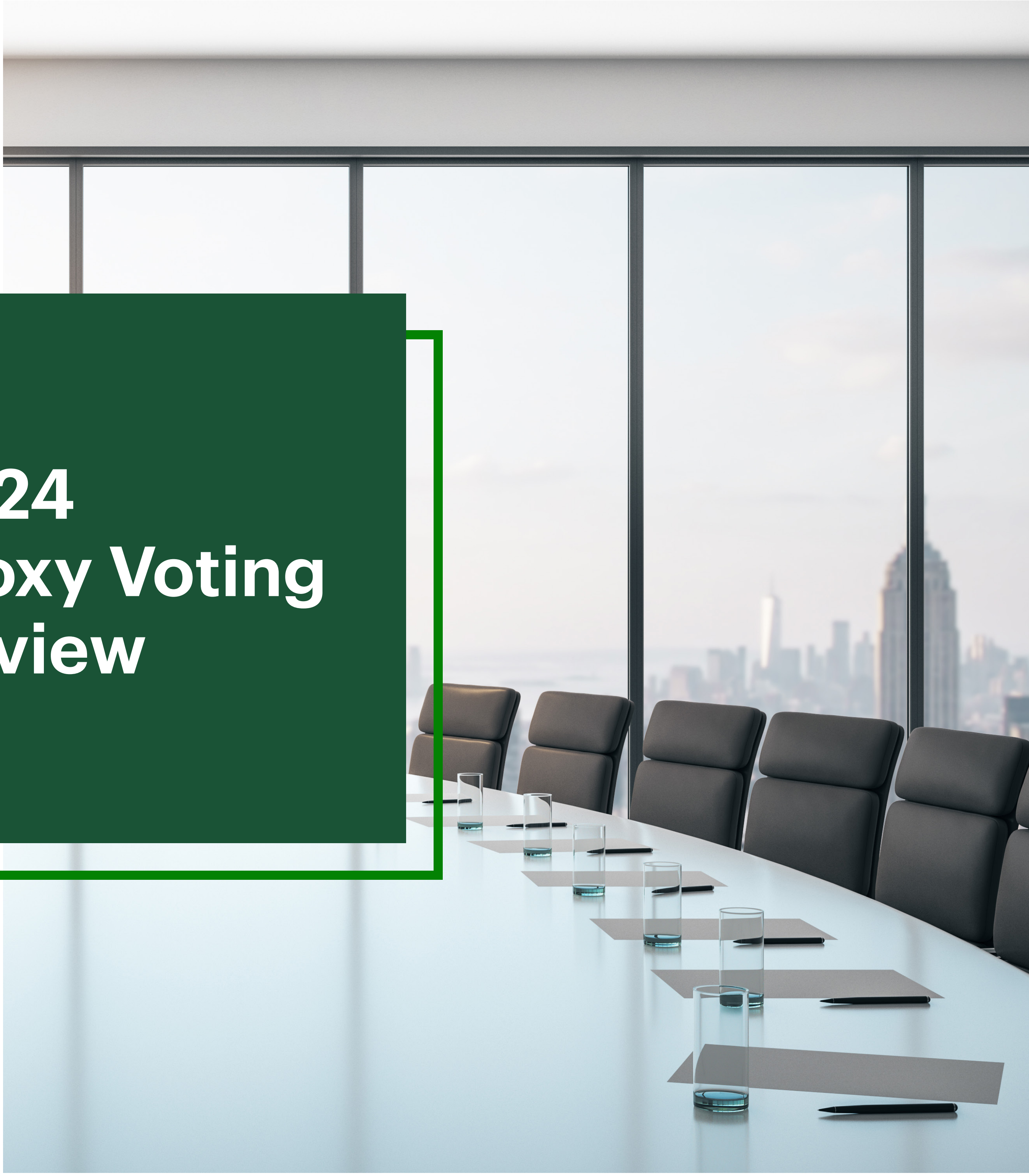
TD Asset Management

2024 Proxy Voting Review



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Proxy Voting

About the Report

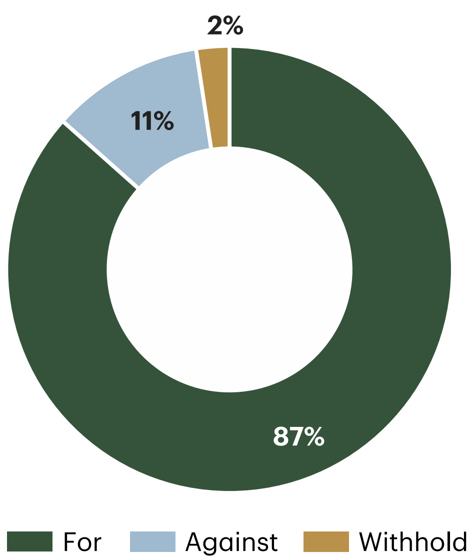
This report provides a summary view of proxy voting activity and trends across all public equities portfolios managed by TD Asset Management Inc. (TDAM) in the U.S., Canada and international markets as well as the trends seen in proxy year 2024 for the period from July 1, 2023, to June 30, 2024.[1]

Proxy voting is an important part of our stewardship and active ownership efforts, particularly in the area of corporate governance and increasingly on financially material environmental and social issues. For information on our proxy voting guidelines, please visit our **website >**.

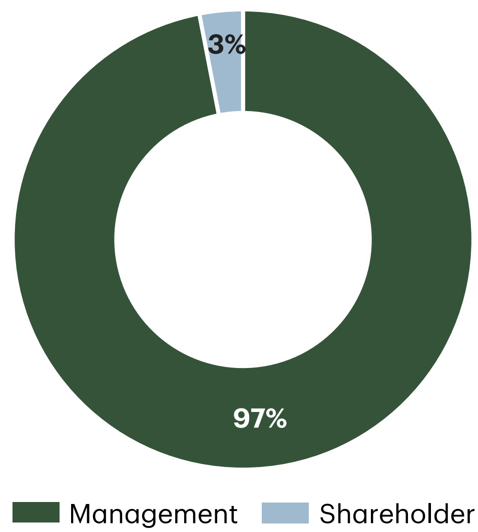
Summary of the 2024 Proxy Year in Charts

Figure 1: Basic Voting Activity

1.1 Vote Instructions[2]

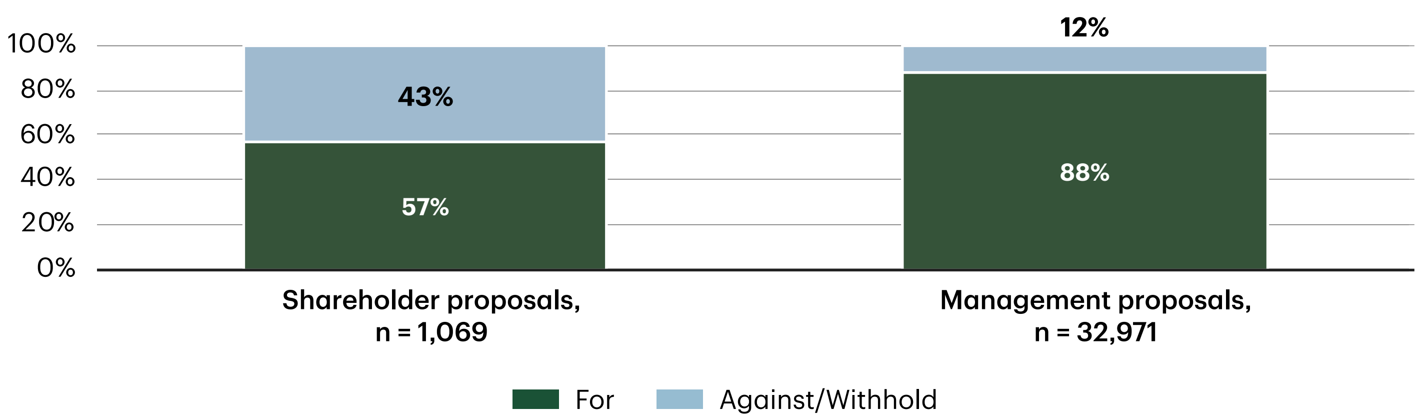


1.2 Proposals Voted by Proponent



Source: TDAM, Institutinal Shareholder Services (ISS). As of June 30, 2024.

1.3 Vote Instructions by Proponent



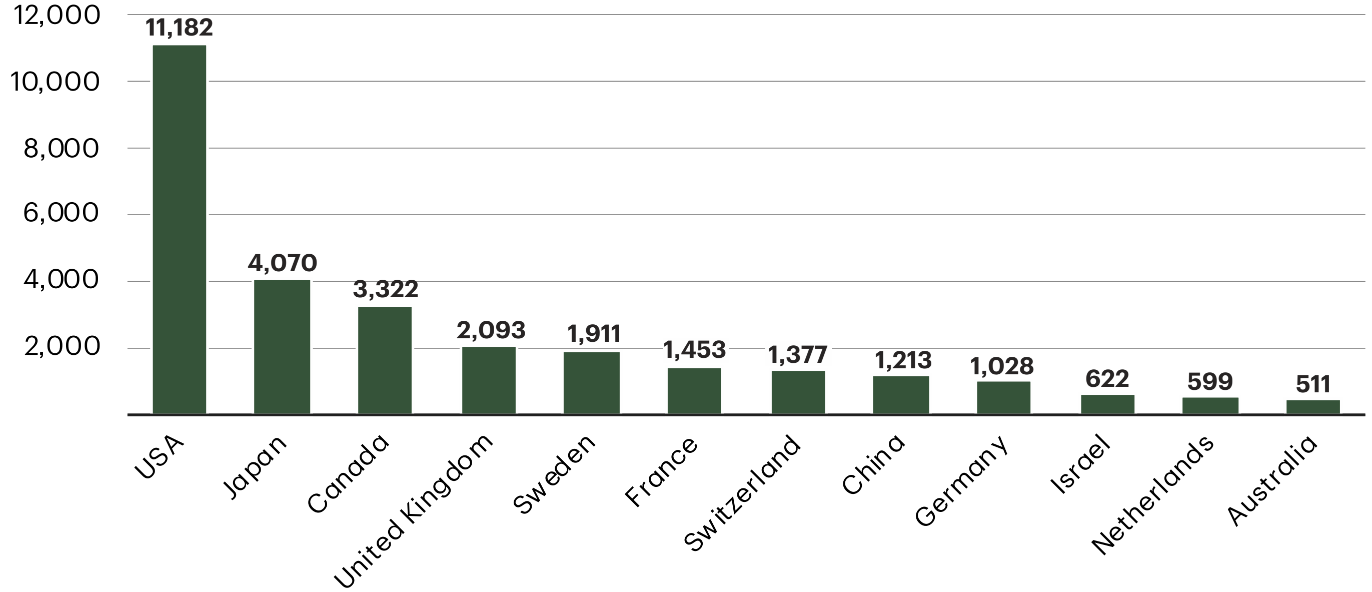
Source: TDAM, ISS. As of June 30, 2024.

[1] The annual TDAM Proxy Voting Review replaces previous quarterly proxy voting summary publications. The change will allow for a more robust and timely review following the bulk of the proxy season. You can also find additional information on our stewardship efforts in TDAM's annual **Sustainable Investment reports >**.

[2] Vote instructions reflect votes across management and shareholder proposals.

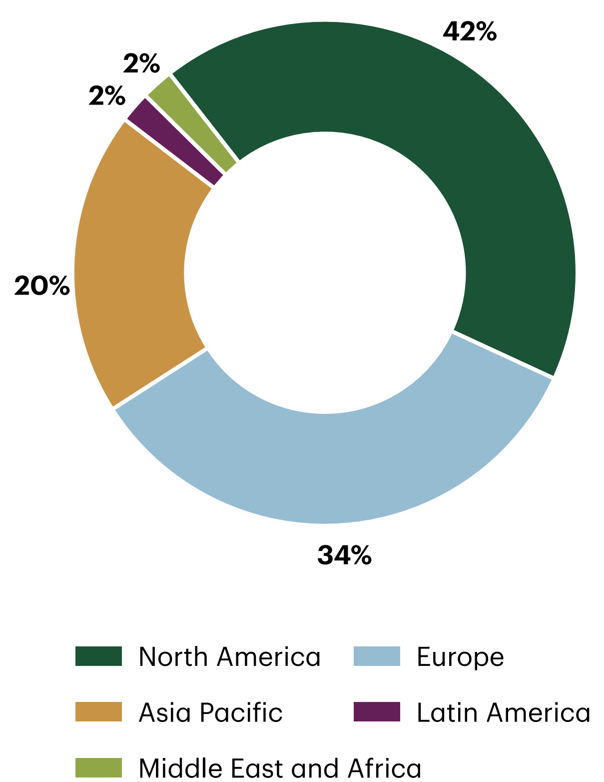
Figure 2: Geographical Breakdown of Proposals Voted

2.1 Proposals Voted by Country*



Source: TDAM, ISS. As of June 30, 2024.
*Figure includes countries where TDAM voted 500 proposals or more.

2.2 Proposals Voted by Region



Source: TDAM, ISS. As of June 30, 2024.

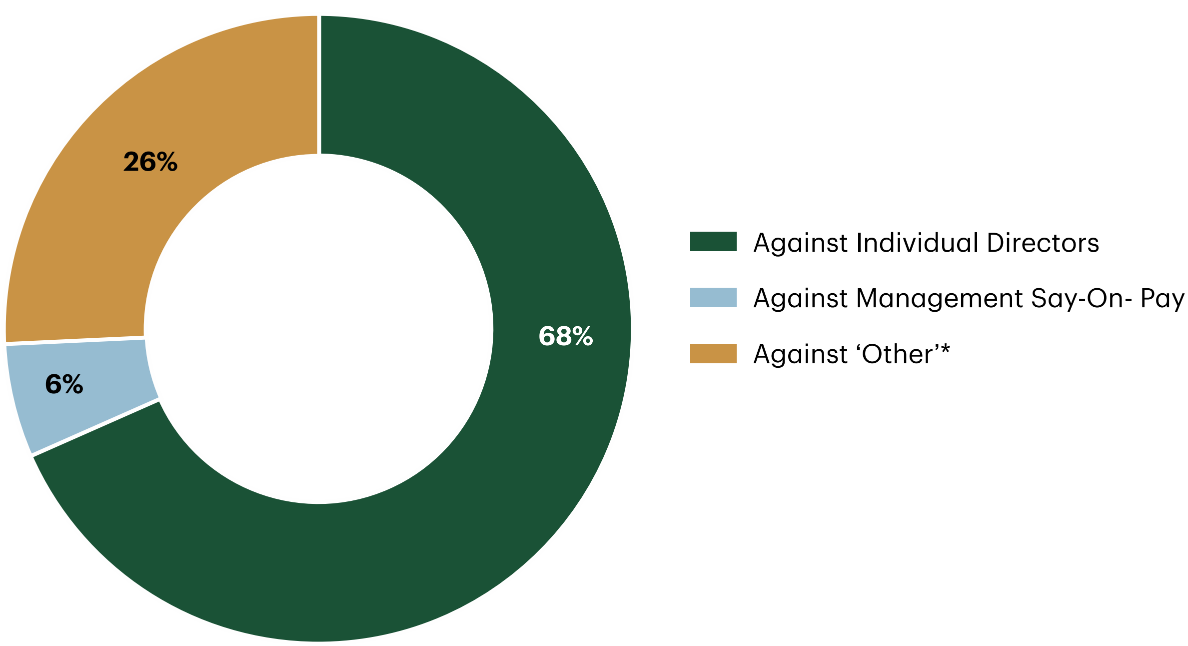
2024 Proxy Voting Activity

TDAM continues to adhere to our proxy voting guidelines, with no substantial changes to those guidelines in 2024. We continue to remain attentive to changing dynamics and may evolve those guidelines, as necessary.

- For the 2024 proxy year, TDAM voted a total of 34,182 proposals. Across these proposals, TDAM voted against 12% of management proposals and 43% of shareholder proposals.
- TDAM withheld support for directors on specific issues, including, but not limited to, board independence, executive compensation, board diversity and multi-class shareholding structures. Directors held accountable for maintaining strong governance and oversight amounted to 68% of against votes on management proposals over the year.
- A lack of board independence drove 41% of adverse director votes. This represents adverse director votes at 406 companies.
- TDAM continued to respond to a lack of representation from key segments, such as women and racial/ethnic minorities at boards, with 45% of the adverse director votes cast (at 514 companies) on board diversity. In the U.S. and Canada, a small subset of 20 companies were flagged for both a lack of gender and racial/ethnic diversity within their boards of directors, including 10 Canadian companies.
- Upholding the principle of "one share, one vote," 7% of our adverse director votes (at 65 companies) accounted for multiple-class share structures.
- We continue to analyze executive compensation, with compensation concerns seen at 93 companies, resulting in the casting of adverse director votes and voting against Management Say-on-Pay (MSOP) proposals.
- TDAM voted on a total of 1,069 shareholder proposals and supported 57% of them (605 shareholder proposals), including 188 proposals focused on social issues and 84 focused on environmental issues. In cases where we found a shareholder proposal overly prescriptive or misaligned with our proxy voting guidelines, we did not vote in support of the proposal.

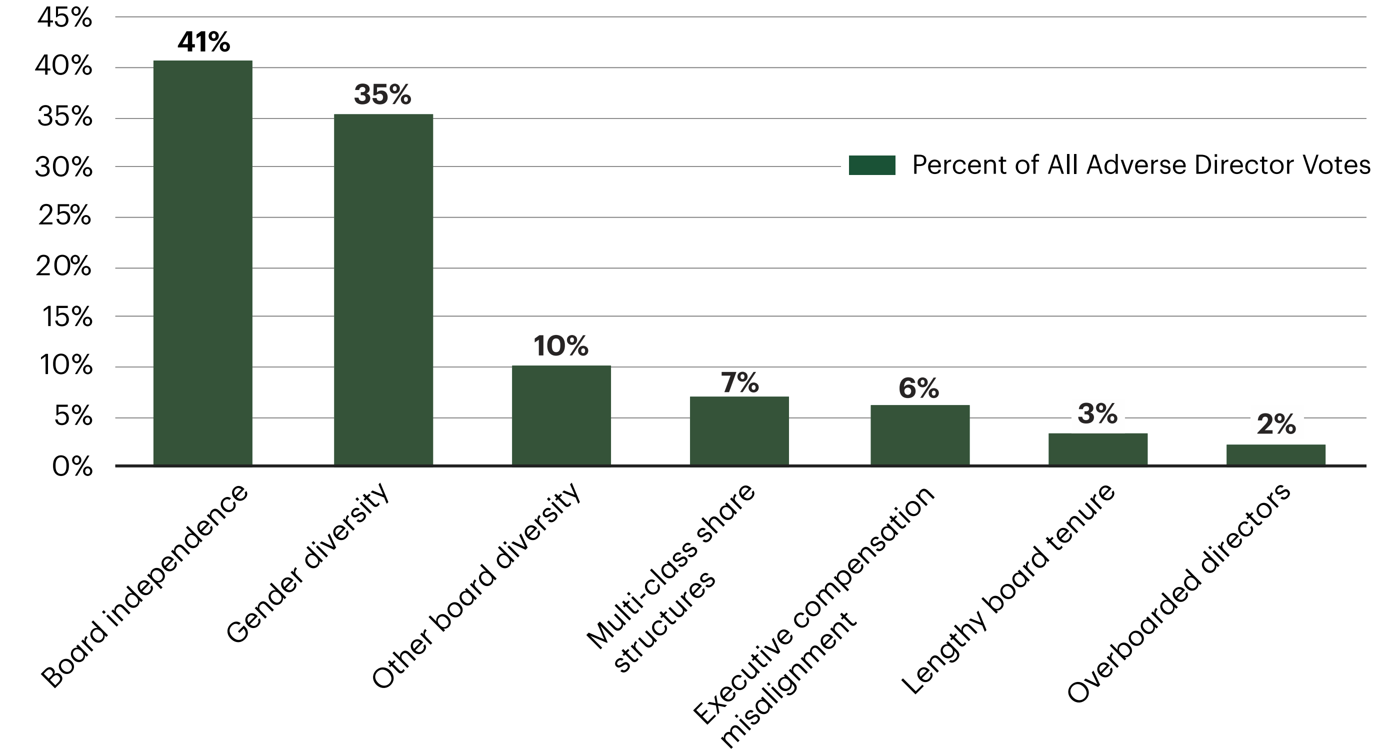
Figure 3: Votes Against Management Proposals

3.1 Vote Against Management Proposals – Overview



*Other corporate governance matters

3.2 Votes Against Management Proposals – Individual Directors[3]



Source: TDAM, ISS. As of June 30, 2024.

Supported Environmental and Social Shareholder Proposals

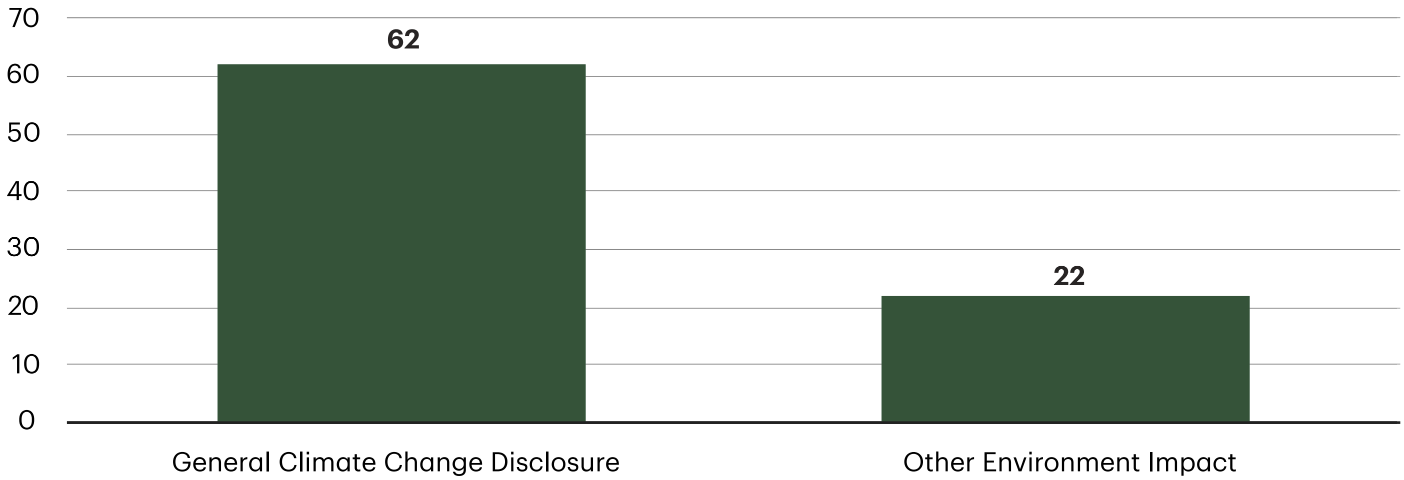
Key Takeaways from Shareholder Proposals

- TDAM supported 84 of the environmental shareholder proposals put forward (52% of all environmental shareholder proposals) at 73 companies. These proposals continued to look for enhanced disclosure of company climate risks and opportunities, including disclosure of any company-set carbon reduction targets, emissions metrics and the strategies aimed at moving targets forward as well as disclosures related to the capex allocated towards achieving targets. Several proposals were also aimed at building transparency around company efforts to reduce plastic waste and related risks.

- TDAM supported 188 social shareholder proposals (78% of all social proposals) at 120 companies. These proposals included requests for enhanced disclosure around political and lobbying activities, appropriate disclosures on company diversity, equity and inclusion efforts, as well as efforts to mitigate human rights risks that may negatively impact companies' current and future outlooks. These included proposals requesting companies to undergo independent assessments of their supply chain human rights due diligence, workplace safety conditions, labour rights policies and independent racial equity audits. These various types of assessments aim to provide transparency and improved management of human rights risks stemming from worker, customer and community relations.

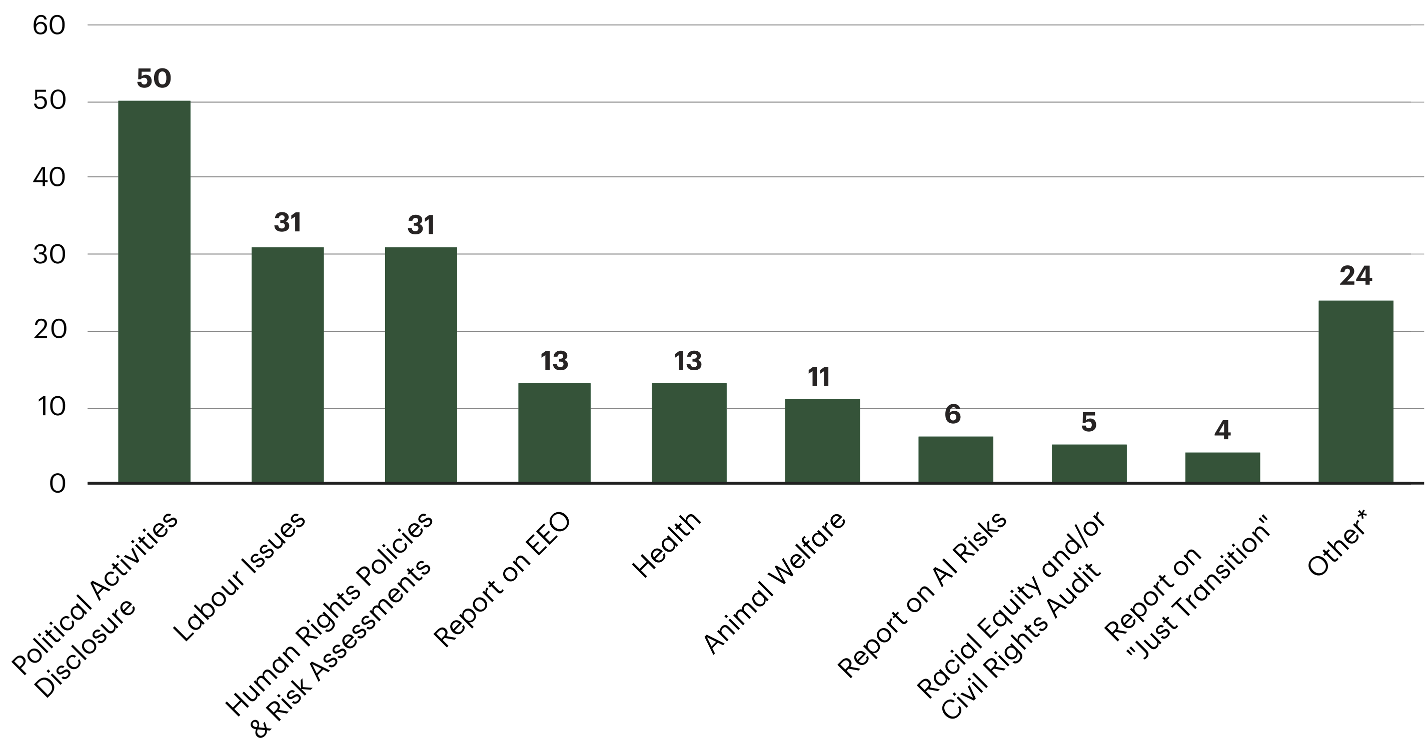
[3] Some Directors may have received an "against/withhold" vote due to more than one rationale (e.g., lack of gender diversity and lack of board independence).

Figure 4: Supported Environmental Shareholder Proposals



Source: TDAM, ISS. As of June 30, 2024.

Figure 5: Supported Social Shareholder Proposals



Source: TDAM, ISS. As of June 30, 2024.
*Other includes proposals on various other topics, including data security, product obsolescence, product access, etc.

Trends and Takeaways: TDAM's Perspectives and Case Studies

Corporate Governance

In the context of corporate governance, TDAM remains focused on three core pillars which underpin the way we engage and cast our votes. At a high level, we continue to believe that boards should be well structured, largely independent and high-performing, such that companies have the appropriate oversight, including oversight of financially material environmental and social risks, to generate long-term, sustained value. With regards to executive compensation, we believe that companies should have management incentives tied to long-term value creation designed in such a way that excessive risk-taking is disincentivized. Finally, we continue to be focused on shareholder rights and ensuring that such rights are not inequitably diminished.

Board Quality, Composition, and Effectiveness

TDAM voted against directors at 331 companies globally during the proxy year due to boards not meeting the requisite two-thirds independence requirement that we have in certain jurisdictions. Additionally, we voted against directors at 89 companies globally where more than one-third of the board is comprised of directors whose tenure exceeds 15 years. We continue to believe that these board characteristics work in tandem to allow us to assess whether the boards encourage renewal and refreshment, processes critical to ensuring that boards remain effective and high performing.

Case Study

Nuanced Guideline Applications at a Large Canadian Energy Company

While we have enshrined principles within our proxy voting guidelines, TDAM continues to take a case-by-case approach on certain principles-based issues where circumstances warrant. By way of example, this past proxy year, TDAM considered the circumstances around the election of a director at a large Canadian energy company where the director held several outside directorships. We decided to support the director given the relationship between the director's primary occupation as a senior leader at a holding company, the various boards the director sits on as a result of investments made in these companies, and the director's attendance at various boards, among other reasons. In this case, the representation of the director on the subject board is approximately proportionate to the equity and voting share ownership the investment holding company had invested in the Canadian energy issuer, supporting proportionate directorships based on the "one share, one vote" principle.

Perspectives

Case Study

Shareholder Proposal on Board Composition Based on Specific Skills at an International Energy Company

This year, we saw another unique proposal at an international energy company where shareholder proponents submitted a proposal seeking to have the board ensure that at least 50% of future nominated director candidates have competency in energy transition and sustainability. While we do have threshold expectations for certain other board qualities, such as diversity and tenure, we believe effective boards should have a mix of skills and qualifications. In this instance, we did not find the proposal to be supportable because in our view the existing board had adequate skills and competencies in what was being sought, and establishing a minimum threshold, especially at a high bar of 50%, would be overly prescriptive.

Case Study

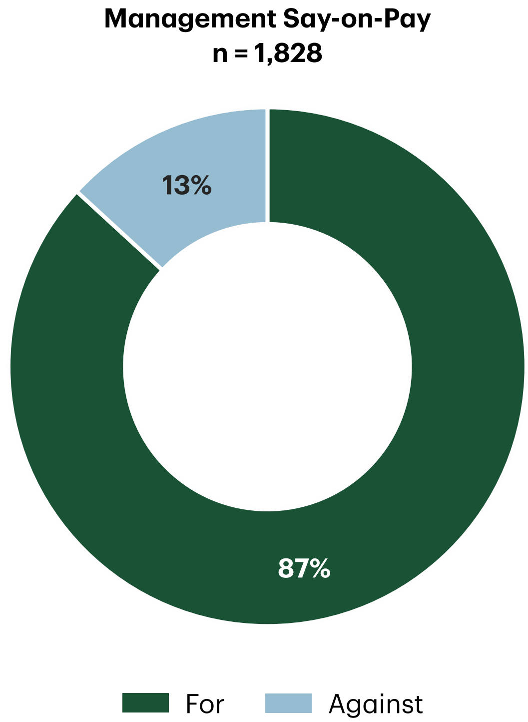
Shareholder Proposals Seeking Standing Committees on Topical Issues

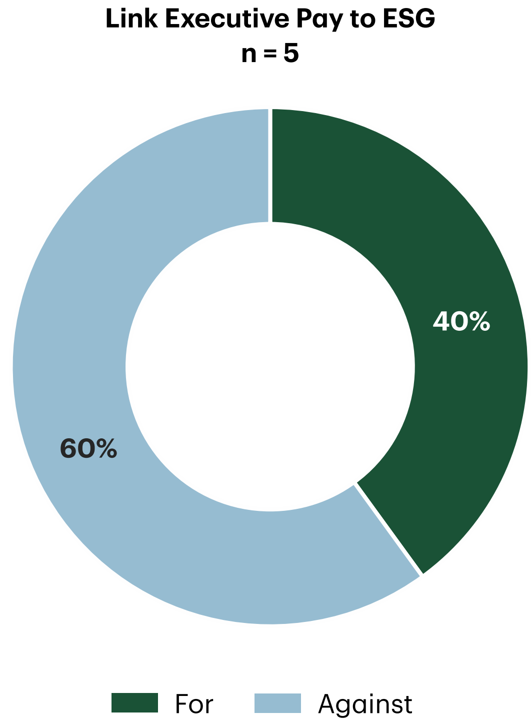
Likewise, we saw multiple examples of proposals seeking the constitution of board-level standing committees on topical issues such as artificial intelligence (AI) and public policy oversight. In evaluating these proposals, TDAM generally voted against such proposals after taking into consideration governance and oversight frameworks already in place at the companies in question through various existing board mandates. However, where there are lapses in board oversight for financially material topical issues and where we believe existing committee mandates have not been sufficient to ensure oversight of such risks, we may consider supporting such proposals in the future.

Case Studies

Executive Compensation and Management Incentives

Figure 6: Percentage of TDAM votes For and Against Executive Compensation-related Proposals





Source: TDAM, ISS. As of June 30, 2024.

Management Say-on-Pay

This past proxy year, TDAM voted against 241 Say-on-Pay proposals globally, with 79 in the U.S., 8 in Canada and 154 in other jurisdictions. Where TDAM votes against Say-on-Pay proposals in the North American markets for companies of a particular size and scale, we generally also vote against the chair of the compensation committees. In circumstances where compensation concerns are persistent and/or the board has not been responsive, "against" votes may also extend to other compensation committee members. For context, this past year, we voted against directors at 93 companies due to executive compensation concerns globally. TDAM generally evaluates a company's approach to executive compensation on a case-by-case basis, depending on circumstances specific to the company. However, there were some key themes observed during this past proxy year that led to "against" recommendation. They included:

- Significantly outsized one-time payments to executive officers that cannot be substantiated with long-term performance achievement (even considering the award's annualization of the intended performance period);
- A persistent and/or severe disconnect between company performance and executive compensation levels without adequate response from the company to shareholder concerns or problematic pay structures; and egregious one-time actions (e.g., re-pricing of stock options without shareholder approval).

Case Study

Shareholder Proposals Seeking ESG Metrics in Executive Compensation

In terms of shareholder proposals related to executive compensation, one area where we see continued activity is the filing of shareholder proposals seeking the inclusion of environmental and/or social metrics into compensation plans. Overall, our approach to such proposals remains specific to the case of the company. In the past year, we have been both supportive and non-supportive of such proposals depending on several factors, which included the following:

Metric Relevance, Materiality and Company Performance

Where the proposal seeks specific metric inclusion (such as specific social metrics), TDAM assesses whether the metrics highlighted by the proponent are relevant and financially material to the company, and whether the company lags vis-à-vis its peers. Asking for relevant financially material metrics where the company lags in performance will improve the probability that TDAM would support such proposals.

Existing Disclosures

Consideration may also be given to whether the company has already made robust disclosures in other formats or publications. The lack of disclosure from a company elsewhere may mean that including such environmental or social metrics in pay plans, for example, would at a minimum indicate that the company will now likely measure relevant metrics on an annual basis to account for performance. Such inclusion may also mean improved disclosures if the company includes additional details regarding the measured metrics in the Compensation Discussion and Analysis (CD&A). Measurement at the very least makes issues top of mind for management, which can incentivize behaviour. Disclosures in the CD&A, on the other hand, may mean that shareholders might have access to more timely and relevant metric data, whereas previously updates may not have been as regular.

Plan Credibility

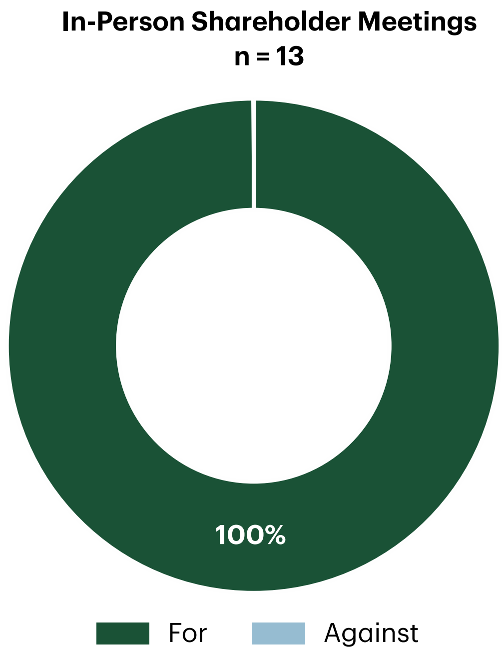
We will consider whether the company's plan to tackle the financially material issue related to the metric has credibility. Our general philosophy on management incentives is that the companies should link executive compensation to areas that require management's attention. If the company is making good progress against a credible plan, ESG metric inclusion may not be required or appropriate, as we prefer the company to focus its efforts (and pay plans) on more material and pressing issues. However, even when compensation plans include financially material metrics, such as carbon emission reduction metrics, if the company lacks a well thought-out and credible plan to reduce overall carbon emissions, no degree of metric inclusion will create the conditions necessary to incentivize management, as the plan would likely not have included achievable or appropriate targets.

Degree of Prescription and Feasibility

Overall, where the proposals are overly prescriptive in that the proponent's asks are not feasible or actionable within the stated timeframe for inclusion, we are less receptive to supporting the proposal.

Shareholder Rights

Figure 7: Percentage of TDAM votes For and Against Proposals Advancing Continued Use of In-Person Shareholder Meetings



Source: TDAM, ISS. As of June 30, 2024.

Case Study

Shareholder Proposals on Virtual Meetings

In preparation for proxy year 2024, TDAM updated its proxy voting guidelines to provide further clarity on how it views virtual shareholder meetings. In line with the Canadian Coalition for Good Governance (CCGG) recent position paper, TDAM supports continued use of in-person meetings alongside virtual meetings. This past year, we saw an influx of shareholder proposals which sought continued use of in-person meetings alongside virtual meetings. TDAM supported 13 proposals across its holdings for shareholder proposals asking for annual meetings to be held in person in a hybrid format, and not to virtual meetings alone. While we recognize the importance of virtual options which enables broader participation, a hybrid meeting is the best of both worlds which also provides shareholders with full and unfettered access to attend meetings in person whilst allowing for broader participation online.

Proposals

Case Study

Significant Shareholder Rights Vote at a Multinational Oil and Gas Company

One significant vote for TDAM this year involved the deliberation of shareholder rights issues at a multinational oil and gas company. Several of the company's shareholders had publicly protested the company's legal action against two shareholder proponents who filed a shareholder proposal for inclusion at their 2024 annual meeting, with some filing exempt solicitations against certain company directors.

A key point of contention involved the company's continued lawsuit against the proponents, despite them withdrawing their proposal and pleading for the lawsuit to be dropped. At TDAM, we continue to believe that the ability to file shareholder proposals remains an important shareholder right. It is one of the most economical and direct ways for shareholders to have their materials presented in the company's proxy statement alongside management's proposals.

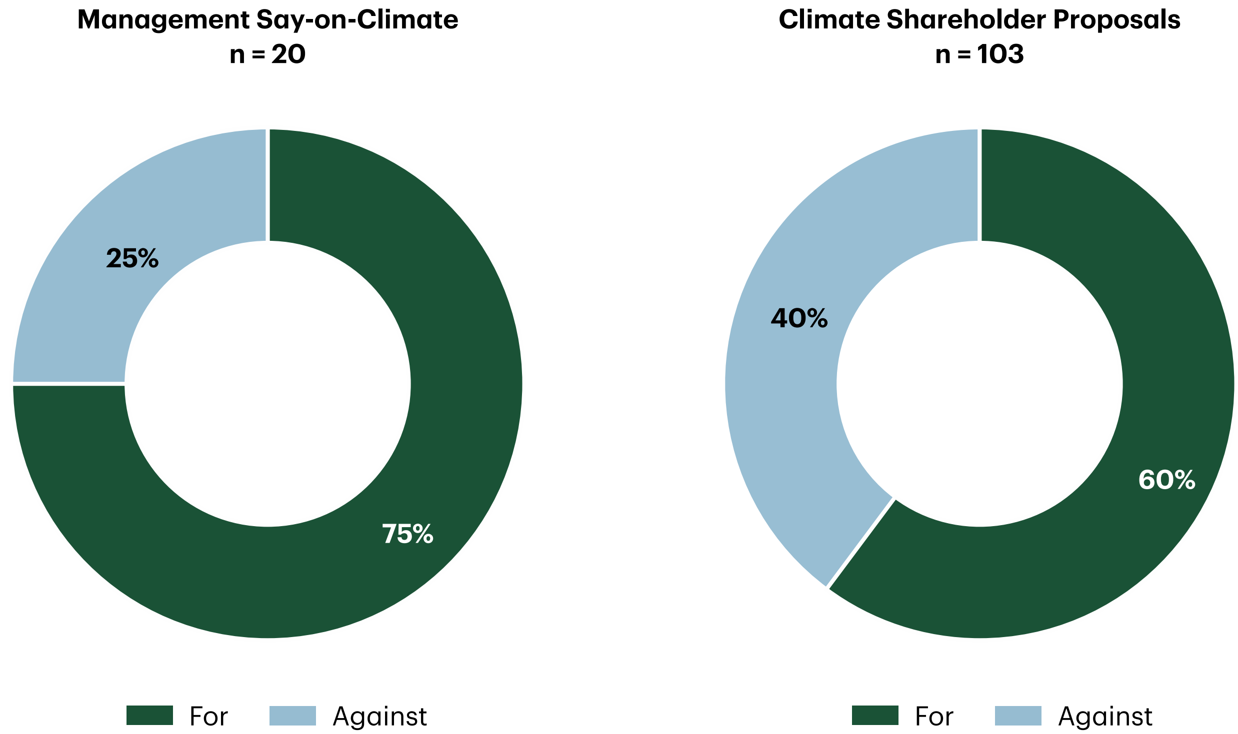
While it is within the right of the company to pursue legal action against the proponents, there remains a significant and established process whereby shareholder proposals are deliberated through the "no action" process set out by the Securities and Exchange Commission's (SEC) Rule 14a-8, rather than through litigation. We generally view the "no action" process already in place as a market-accepted arbiter of the shareholder proposal process. We believe the continued pursuit of the lawsuit, in light of the shareholder proponent's withdrawal, may unintentionally deter the filing of shareholder proposals. For these reasons, TDAM voted against the chair of the governance committee and lead director, to aptly express our views regarding the potential impacts to shareholder rights.

Shareholder Rights

Environmental

Climate Change

Figure 8: Percentage of TDAM votes For and Against Proposals on Climate



Source: TDAM, ISS. As of June 30, 2024.

During the 2024 proxy year, there was a 27% decrease in climate-oriented proposals referred to TDAM, compared to the previous proxy year. While there may be several contributing factors to this, we believe there are two primary reasons:

1. In 2023, we observed an overall increase in proposals but perceived a decrease in the quality of proposals being put forward. There were several instances of proposals that were overly prescriptive or not relevant to the company receiving them. This resulted in an overall drop in support levels for climate proposals in 2023. As a result, although we saw a lower number of proposals in 2024, we observed higher-quality proposals emerging in 2024, resulting in increased support levels from TDAM.

2. Uncertainty about potential legal and reputational risks surrounding certain types of shareholder activism - such as filing shareholder proposals - may have reduced investor interest in filing proposals in proxy year 2024.

At TDAM, we continue to evaluate and vote on climate-oriented shareholder proposals on a case-by-case basis, while considering the relevancy and materiality of the request in the shareholder proposal, the cost associated with fulfilling the ask, as well as the quality of the company's existing transition plan and climate reporting.

Diverging Reporting Requirements

In 2024, in line with previous years, we saw many proposals requesting disclosure of certain climate-related items, ranging from Scope 1, 2 and/or 3 Greenhouse Gas (GHG) emission disclosures, reduction targets tied to GHG emissions, and/or quantitative or qualitative scenario analysis.

Meanwhile, several jurisdictions and standard-setting bodies have been exploring and implementing the climate reporting requirements of corporate entities. This includes requirements being put forward by the International Sustainability Standards Board (ISSB), the Canadian Sustainability Standards Board (CSSB) and the Canadian Securities Administrators (CSA), the SEC in the U.S., the EU Corporate Sustainability Reporting Directive (CSRD), and the Australian Sustainability Reporting Standards (ASRS), among others globally.

While there are many overlaps in the types of climate disclosures that these standards require, there are some differences. For instance, the SEC will not include Scope 3 disclosures within the reporting requirements. This contrasts with the ISSB, CSSB, CSRD and ASRS, which have all recommended requiring Scope 3 emissions disclosures, albeit at different points in the future.

This proxy year, we also saw companies reference the differences in reporting standards and timelines as a reason to vote against shareholder proposals requesting certain disclosures. We noticed several mentions from management teams and Boards of Directors about the lack of clarity around what will be required and when it will be required as a reason shareholders should vote against certain proposals. We also heard this reason cited frequently in our engagements with investee companies facing such proposals this year.

It has become clear that there will be notable differences over the short to medium term in climate reporting requirements for corporate entities across different jurisdictions. At TDAM, we will continue to evaluate and vote on climate-oriented shareholder proposals on a case-by-case basis, while considering the relevancy, materiality, cost, existing climate strategy and existing reporting. TDAM will generally support proposals seeking basic and enhanced disclosures on how the company identifies, measures and manages its climate-related risks, as well as those calling on companies to reduce their GHG emissions and set targets aligned with the Paris Agreement.

We expect, at minimum, that the company provides detailed disclosure about climate-related risks, including disclosure about related board governance measures, corporate strategy, risk analyses, metrics and associated targets (including appropriate GHG emissions reduction targets).

Climate Change

Energy Supply Financing Ratio

A significant new proposal that emerged in 2024 was a request for several large North American banks to begin publishing the ratio of clean energy supply financing to fossil fuel energy supply financing and their underlying methodology. The proponent was the Office of the Comptroller of New York City. The Bloomberg New Energy Finance (BNEF) research organization introduced this metric in 2022 and began publishing results for several large global banks.

Case Study

How TDAM Voted on Clean Energy Supply Financing Ratio Proposals

The Clean Energy Supply Financing Ratio is an emerging topic for large banks. Six large North American banks received a shareholder proposal requesting that they disclose their Clean Energy Supply Financing Ratio annually. This ratio is defined as a bank's total financing (through equity and debt underwriting, and project finance) of low-carbon energy supply as a proportion of that in fossil-fuel energy supply. The disclosure, prepared at reasonable expense and excluding confidential information, shall describe the company's methodology, including what it classifies as "low carbon" or "fossil fuel."

The ratio originated from the BNEF research organization, which has begun annually reporting an Energy Supply Investment Ratio (ESIR) for major global banks. ESIR shows the proportion of capital outlay going into low-carbon supply components as a share going into fossil fuel supply areas.

BNEF research indicates that in order to limit the global temperature rise to 1.5°C, in line with the most commonly cited net-zero climate scenarios, global investment in low-carbon energy supply needs to average four times that in fossil fuels this decade, forming the basis for a 4:1 ESIR. According to BNEF, the required ratio scales significantly, to an average of 6:1 in the 2030s and 10:1 in the 2040s.

BNEF annually publishes a report tracking how large banks perform against this ratio year over year, albeit using imperfect information. TDAM engaged with multiple banks on the issue. As part of our discussions, we encouraged the banks to consider disclosing the ratio and having the shareholder proposal withdrawn. In our view, metrics disclosed directly by the companies would enable investors to verify publicly available information, including Bloomberg's ESIR, which is now widely used to assess banks' progress on their stated climate commitments. We believe disclosures by the banks would lead to higher quality of the data and result in quantifying progress and contextualization of the ratios within a bank's broader client engagement and sustainable finance strategy.

Three banks facing the proposal agreed to work with BNEF to develop a methodology that would work for all stakeholders and publish their results moving forward. This led to the proposal being withdrawn at those three banks, while remaining on the ballot at the other three banks. This strengthened our view that this ratio is likely to become an important and necessary part of the annual climate disclosures of large banks.

Given this, TDAM felt support for the proposal was warranted at the three banks that did not have the proposal withdrawn. The support level for the proposals was high, ranging from 22.5% to 28.5%. Given the high support levels and agreement by several global systemically important banks to disclose the metric, we expect to see the proposal again in 2025 at large banks that have not agreed to disclose.

Say-on-Climate Proposals

In proxy year 2024, we saw a slight increase in the volume of management-sponsored Say-on-Climate proposals. These non-binding proposals request that shareholders vote for a company's climate transition plan. TDAM supported 75% of the management-sponsored Say-on-Climate proposals it voted on this year, signaling strong support for management and the plans they have put forward. While this number may seem high, the types of companies putting forward these proposals already likely have strong confidence that their plan will garner support.

TDAM continues to vote on these proposals on a case-by-case basis. Our evaluation framework is broadly based on the relevancy, materiality, cost and existing climate strategy, similar to shareholder-driven proposals. Our assessment of a company's climate action plan may include, but is not limited to, the strength of targets within the climate plan and related duration of such targets, disclosures based on the recommendations of the Task Force on Climate-related Financial Disclosures, pathways toward achieving set targets, alignment of lobbying activities with targets, as well as any additional context gained through our engagements with companies where applicable.

Case Study

Management Say-on-Climate at a North American Rail Company

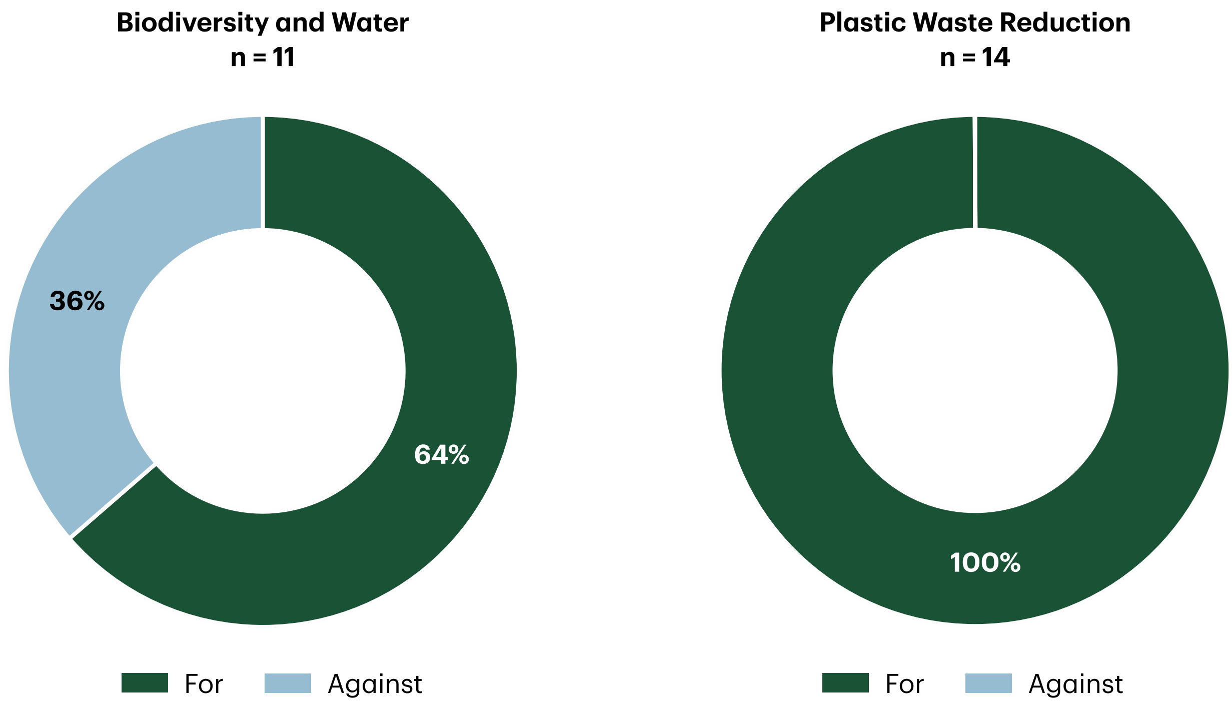
Historically, we had not supported this company's Say-on-Climate proposal as its climate plan lacked long-term targets, including a full net-zero commitment. The company's closest peer had included these elements as part of its climate plan. Given the disparity between the two companies' plans, we felt comfortable supporting one and not the other.

However, the company underwent a significant merger over the last year and the new entity has been forced to revisit its transition plan for the new combined enterprise. Its first step included setting a new 2030 GHG emissions reduction target for the new entity's combined locomotive operations. The company used the sectoral-based approach for railways and a well-below-2°C global warming scenario which covers all three scopes of emissions provided by the Science Based Targets initiative (SBTi). At the same time, the company announced that it has joined SBTi's Business Ambition for 1.5°C global campaign, which includes alignment in supporting the global goal to achieve net-zero emissions by 2050, signaling that its new targets will include long-term GHG reduction targets, and a net-zero goal. The new targets will also be submitted to SBTi for verification once complete, which is a best practice in TDAM's view.

The TDAM ESG Research and Engagement team met with the company's Chair of its board in February 2024. We learned about the significant work that is underway to complete an emissions inventory, align reporting, and conduct a combined risk assessment that will enable this new set of targets to be developed for the new entity. Given this commitment from the company, which would bring its plan in line with the plan developed by its peer, and given the complexity required to establish new goals for the combined enterprise, we were comfortable with providing our support this year. Overall, the company received 89.3% support on its Say-on-Climate this year.

Natural Capital

Figure 9: Percentage of TDAM votes For and Against Proposals on Biodiversity, Water and Plastic Waste



Source: TDAM, ISS. As of June 30, 2024.

Biodiversity and natural capital have become a frequent topic of conversation, particularly after the signing of the Kunming-Montreal Global Biodiversity Framework in late 2022 and the 2023 finalization of the recommendations of the Taskforce on Nature-related Financial Disclosure (TNFD). The former sets out a plan and targets for the global prevention of further biodiversity loss and the various services that nature provides. TNFD provides a guidepost for companies to disclose their biodiversity impacts and dependencies and the structures they have in place to mitigate biodiversity risks.

Biodiversity Risks within Portfolios

Biodiversity is the variety of nature's living components. It has a role in ensuring the resilience of natural capital assets and securing them for future use. Economic activity relies on biodiversity and natural capital. According to the World Economic Forum, over half of global Gross Domestic Product is moderately or highly dependent on nature and ecosystem services.[4] However, land use change, climate change, exploitation of natural resources and pollution are driving biodiversity and ecosystem loss. Given a continued global need for natural assets and systems, an emerging regulatory landscape to protect them, and growing consumer awareness around corporate environmental behaviour, it is in the best interest of companies to innovate to help maintain these assets. It is important for asset managers to understand how investee companies are addressing their biodiversity risks – how these risks are identified, goals for mitigation and strategy towards progress and innovation – and how these risks impact the portfolios they manage.

[4] World Economic Forum (January 2020). Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy. Accessible via the following link: https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf >

The heightened attention around these global biodiversity initiatives has spurred various companies to evaluate their policies, practices, nature targets (i.e., corporate goals for mitigating any negative impacts on natural capital from their operations) and associated disclosures to understand how well they align with the different components of these frameworks. Investors, including TDAM, have also folded biodiversity into their stewardship efforts where we think it is most material. During this proxy year, we have seen some added variety to environmental proposals, with new proposals requesting companies to enhance their policies and assessments related to biodiversity and water risks, and a continuation of more familiar proposals on managing the risks of plastic waste. Though the increase in biodiversity-related proposals has been tempered in 2024, we expect this area to attract further shareholder action in the future.

For the 2024 proxy year, TDAM supported various biodiversity-related shareholder proposals, including a couple requesting for companies to assess their biodiversity impacts and dependencies. These proposals received support between 16% and 18%. We also supported a few proposals asking for reports on supply chain water risks and independent assessments of water impacts from company operations. Though they did not pass, water proposals saw healthy support levels between 25-35%. TDAM supported an additional 14 proposals on plastic waste reduction, including proposals asking for reports on company efforts to shrink plastic use and reports evaluating company recyclability claims and associated risks. Six of those received shareholder support over 20%.

Case Study

Attention on Water Risks and Their Impact on Communities

Water risks come in many forms, including limited water supply in water-stressed regions, high water use intensities, and water contamination that can have adverse environmental and community impacts. One mining company saw a proposal requesting it to conduct an independent assessment of its water impacts. The proposal expressed concern around the company's operations and expansion plans, particularly the need to mitigate adverse environmental impacts on nearby watersheds and subsequent impacts on local livelihoods.

We did engage the company regarding this proposal to better understand its approach to water stewardship. The company indicated that current permit and licensing processes required in various jurisdictions in which it operates are rigorous, and it regularly conducts requisite technical and social studies that meet both local law and international best practice. While we thought the conversation was helpful, we supported the proposal. We viewed the request for an independent audit on water impacts as a compliment to the company's current efforts to uphold water quality. Overall shareholder support for this proposal amounted to 25%, a significant level of support that demonstrated a desire for further assessment and transparency.

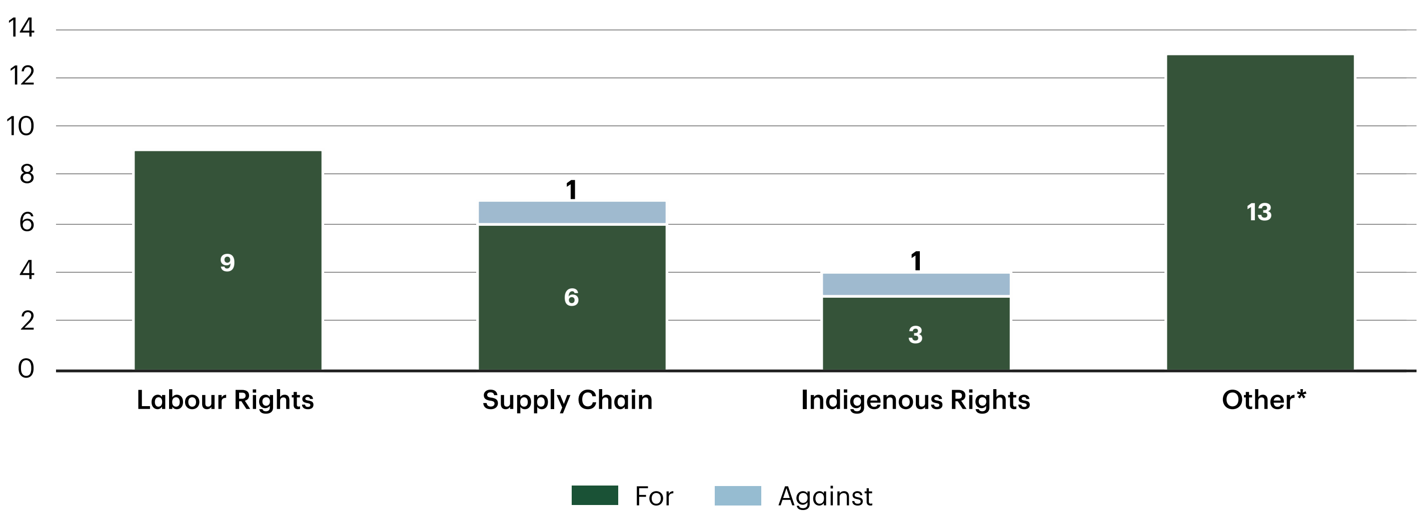
Social

Human Rights

Figure 10: Percentage of TDAM votes For and Against Proposals on Human Rights Impact Assessments and Human Rights Policies

Source: TDAM, ISS. As of June 30, 2024.

Figure 11: Areas of Concern for Human Rights Assessments and Policies



Source: TDAM, ISS. As of June 30, 2024.
*The Other category is largely made up of proposals requesting general human rights policies or risk assessments.

As seen in prior proxy seasons, human rights risks remain a topic of concern in many shareholder proposals. TDAM supported 15 proposals requesting human rights risk assessments, most of which request that companies report on the human rights risks to the employees and workers within their supply chain.

Proposals have also looked to understand company customer due diligence practices that look to mitigate human rights abuses stemming from misuse of products or services as well as the human rights risks of targeted, AI-driven advertising and risks to Indigenous communities.

Case Study

Building Human Rights Infrastructure in the Apparel Industry

An apparel company faced criticism after closing an international factory, which came just after the host country's Supreme Court of Justice ruled that the company had violated national labour laws by unjustly dismissing workers. There were concerns around worker injuries, long work hours and involuntary overtime, and unreasonable targets for worker output. Some see the company's closure of the factory as retaliation against workers for speaking up and organizing to improve their working conditions. Given the potential for similar legal and reputational consequences at the company's other facilities, we supported a shareholder proposal put on the ballot for the company to report on its human rights risk infrastructure. The report could build transparency around the company's policies and infrastructure that is aimed at mitigating risks related to human rights.

Human Rights

Case Study

Respect for Indigenous rights

Proposals requesting reports about company efforts to respect Indigenous rights were seen at three banks and an energy pipeline company. We are generally supportive of proposals which look to ensure that companies respect the rights of Indigenous communities to determine the trajectory of their lands according to their culture, traditions and beliefs. TDAM encourages companies to operationalize global standards that call for Free, Prior and Informed Consent (FPIC) and to fold this concept into their formal policies, consultations practices and due diligence processes. Should companies fail to consider the perspectives and direction of Indigenous People, they may lose their license to operate and face community protests that could have financial implications for company operations.

This proxy season, we supported three proposals asking companies to report on the effectiveness of their policies, processes and practices in respecting Indigenous rights. These proposals received healthy support, with between 24% and 30% of shareholders voting in favour of the resolutions.

A shareholder proposal at a Canadian energy company requested an independent assessment of the financial impacts of the company's failure to obtain FPIC for its pipeline projects. While TDAM values the intent of the proposal in its want for the company to advance positive and constructive relationships with Indigenous communities, we did not find this proposal to adequately serve that purpose. The requested assessment of the financial, time, reputational and goodwill impacts of not obtaining FPIC would be difficult to measure, speculative and overburdensome.

Note that the requested assessment went beyond what has been asked for in shareholder resolutions seen recently at other companies. Those resolutions focused more on strengthening company policies, practices and disclosures to align with globally recognized standards on Indigenous rights. We are of the view that the company should focus on strengthening its adherence to FPIC and moving forward initiatives that better align stakeholders in support of company advancement. For these reasons, we did not think support for this proposal was warranted. Moreover, this proposal failed to receive the same level of shareholder support as the other three, with only 9% support.

Indigenous Rights

Labour Rights

Shareholder support remained strong for proposals requesting companies to adopt or strengthen policies which respect collective bargaining rights, in line with certain global standards such as the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work and the United Nations' Guiding Principles on Business and Human Rights. TDAM supported 16 proposals to improve human rights standards and policies, nine of which related to respecting collective bargaining rights. Of those nine, seven had overall shareholder support of 20% or more.

Wage standards were specifically in focus, with various retail companies facing shareholder requests to develop living wage policies. According to the ILO, a living wage is a level of pay that "is necessary to afford a decent standard of living for workers and their families, taking into account the country circumstances."[5] Ahead of the proxy season, in February 2024, the ILO took up the issue of a living wage, agreeing to its role in economic and social development and reducing inequality. With that announcement, the ILO will advance work on estimating living wages and moving this concept into practice.

Higher wages do have financial implications that can impact profitability. Despite this, we believe that companies must also be cognizant of how their wage policies impact employee participation, productivity, retention, equity and morale. Currently, however, living wage policies are not standard practice and the costs and benefits of a move in that direction would need to be sufficiently analyzed and understood before implementing a policy. The large U.S retailers that faced these living wage proposals did have minimum starting wages of at least $14, higher than the current U.S. federal minimum wage of $7.25 per hour. However, wages still fell below the 2022 living wage level of $25.02 advanced by the proponents. In their response to these living wage proposals, companies generally spoke about the improvements employees had seen in wages and benefits over the years. Companies also mentioned how they must balance raising wages with keeping products affordable for their customer base.

As we reviewed these proposals, we did see various company statements indicating that they intend to do more to further improve employee compensation. TDAM will look to better understand those intentions as we continue to engage companies on their human capital practices. We encourage companies to factor in living wage standards as those standards are studied, developed, reviewed and better understood. We will similarly adapt our thinking as standards evolve, given the systemic risk economic inequality can pose to portfolios.

Labour
Rights

[5] International Labor Organization (March 2024). ILO reaches agreement on the issue of living wages. Accessible via the following link: https://www.ilo.org/resource/news/ilo-reaches-agreement-issue-living-wages >

Case Study

Proxy Contest Focused on Labour Rights

Collective bargaining was also the root cause of a withdrawn proxy contest at a large U.S. coffee retailer. The company has faced a wave of unionization since 2021, with employees wanting better wages, benefits and staffing levels. Since the start of this unionization, the company has also seen several challenges from the U.S. National Labor Relations Board, with various findings by the Administrative Law Judge that the company failed to uphold federal labour laws and employee collective bargaining rights. These developments pose legal as well as operational and reputational risks for the company. For example, in late 2023, hundreds of workers in the U.S. walked off the job during a major day of promotion for the company which typically brought in greater foot traffic, contributing to dampened sales.

Concerns around the company's management of these issues became evident in 2023. During the 2023 proxy year, TDAM supported a shareholder proposal requesting an independent assessment of the company's commitment to freedom of association and collective bargaining. That proposal passed, receiving 52% shareholder support. This high level of support demonstrated the extent of investor concerns about the company's recent labour issues.

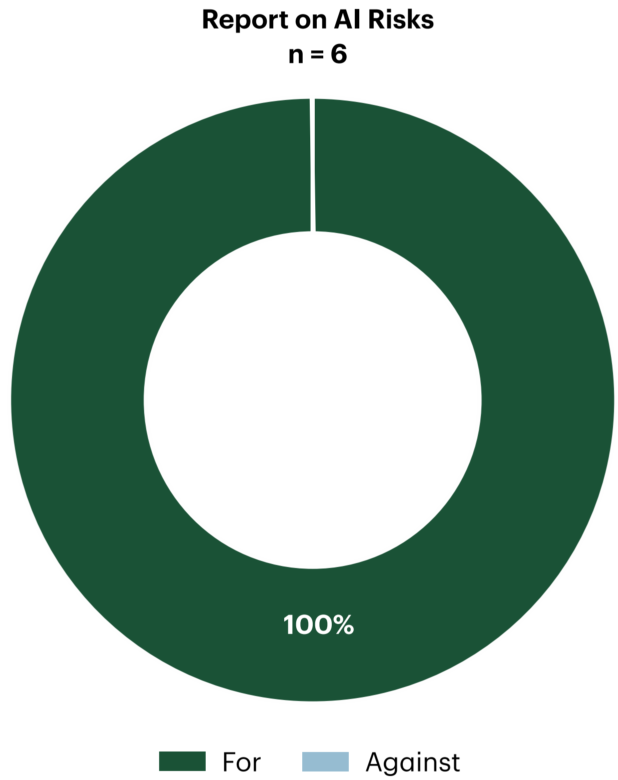
To its credit, the company was responsive after the vote, engaging several shareholders and agreeing to undertake the proposed independent assessment. Summary results were released in late 2023, with the report noting both positives and negatives within the company's strategy. However, the report acknowledged that the company did not have the capacity to handle the wave of unionization that it has experienced. The report noted that the company could have been better prepared to avoid some of the missteps experienced and that it still has areas needing improvement to effectively adapt to and manage employee collective bargaining activity. The company indicated that it intends to take meaningful action to address recommendations made within the report.

In 2024, the issue drove a coalition of labour unions to challenge the company in a proxy contest. The coalition withdrew the proxy contest just ahead of the company's annual meeting after the company made progress in its union negotiations and a commitment to develop a framework for achieving collective bargaining agreements.

Proxy Contest

Artificial Intelligence

Figure 12: Percentage of TDAM votes For and Against Proposals Requesting Reports on AI Risks



Source: TDAM, ISS. As of June 30, 2024.

There is broad awareness that managing AI will be a significant imperative globally. AI has rapidly grown in utility and provides companies with opportunities to operate more efficiently and allows for further innovation. However, various concerns arise around the complex nature of AI, including privacy violations, the magnification of negative biases and perpetuation of misinformation.

There are efforts to develop ethical practices and risk oversight globally, with one of the more far-reaching laws being the European Union's Artificial Intelligence Act (EU AI Act) which came into force in August 2024. The law aims to regulate AI to ensure its ethical development and use. The EU AI Act has consequences for a large number of global players as it covers AI systems that are placed on the market, put into service or used in the EU. The Act creates obligations for companies to assess their AI systems and ensure proper security, transparency and oversight of those systems depending on the level of risk they pose to health, safety or individual fundamental rights.

As investors, we expect companies to put in place governance structures that ensure responsible oversight of their AI development and use. As this expectation is reflected in regulation across jurisdictions, companies will need to have the infrastructure in place to ensure societal risks are mitigated or they could face litigation and/or penalties.

We generally supported shareholder proposals asking companies to report on their use of AI and any related risks. In addition to proposals requesting specific board oversight of AI use and one requesting a human rights risk assessment of company AI systems, there were six other proposals requesting reports on the risks of AI use. These proposals largely focused on how AI can contribute to the spread of false information. Support levels for those proposals ranged from 16% to 43%.

Case Study

Big Tech and AI Oversight

Several large tech firms faced shareholder resolutions requesting them to provide reports which assess the risks their AI use poses for society, company operations and their finances. In the case of one company, a study found that one of its technologies had a high rate of creating incorrect or misleading information relative to other AI systems. During a demo, one of its other AI systems made an error that failed to meet shareholder expectations and led to a significant fall in share price. The company has also faced various lawsuits around using customer data without consent to inform its AI. Though the company has a set of AI principles and a risk assessment framework, concerns remain that the guardrails it is relying on are insufficient to fully mitigate AI risks. Given the importance of managing AI risks, we supported the shareholder proposal to allow for further transparency on how the company assesses and manages risks related to its use of AI and mitigation efforts to prevent inaccurate and misleading information.

Concluding Thoughts

From a corporate governance standpoint, our perspectives on well-structured and high-performing boards continue to underpin how we vote on the election of directors. These principles will guide our view on emerging topics, such as the governance of AI. With respect to executive compensation, we continue to refine and apply a nuanced evaluation approach, with the underlying principle that management incentives should be tied to long-term value creation. We continue to see several developments domestically and globally where the status quo of shareholder rights may be challenged. Our considerations will focus on ensuring that existing rights are not inequitably diminished, and that shareholders are able to exercise their rights effectively based on the “one share, one vote” principle.

Our views on the prudent management of climate risks and opportunities will shape how we vote on climate proposals put forward by management or shareholders. As always, when evaluating climate shareholder proposals, we will consider the relevancy and materiality of the request in the proposal, the cost associated with fulfilling the ask, as well as the quality of the company’s existing transition plan and climate reporting.

There are also considerations around nature risks, and we look forward to further engaging companies to better understand how they are evolving their analyses, initiatives and disclosures around their nature dependencies and impacts to ensure related risks are identified, monitored and mitigated.

The need for companies to maintain their social license to operate is critical because loss of that license can have consequences for investor portfolios. We will continue to encourage companies to address the rights of the communities impacted by their operations and the concerns of the employees they rely on to perform. Setting formal policies around human rights and labour rights, developing the infrastructure and practices necessary to ensure adherence to those policies, and conducting assessments of those efforts will allow companies to evolve and improve. Human rights violations and employee unrest can have legal, regulatory, operational and financial implications. For this reason, we anticipate continued shareholder resolutions along the same lines next year.

Having concluded the 2024 proxy year, we now enter our engagement season. This will provide us with an opportunity to include some of the proxy proposals seen in 2024 in our discussions. We will aim to follow up with various companies to understand how they have responded to different proposals and sought to evolve their practices given vote results and feedback from shareholders.

Proxy Voting Review

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