



Statement of Compliance with The UK Stewardship Code

September 2016

About Ontario Teachers' Pension Plan

With C\$171.4 billion in net assets as of December 31, 2015, Ontario Teachers' Pension Plan (Ontario Teachers') is the largest single-profession pension plan in Canada. An independent organization, it invests the pension fund's assets and administers the pensions of approximately 316,000 active and retired elementary and secondary teachers in the province of Ontario.

What is The UK Stewardship Code?

Developed to improve the quality of engagement by institutional investors, the UK Stewardship Code (The Code) was first published in 2010 by the Financial Reporting Council (FRC) in the United Kingdom. The intent of The Code is to establish good practices in engagement between institutional investors and their investee companies. The Code was updated in September 2012.

Compliance with The Code is on a comply-or-explain basis. UK-based institutional investors are required to provide an annual report as to what steps they have taken to comply with The Code or explain why they are unable to do so. Institutional investors not domiciled in the UK are not required to report against The Code, although they may do so voluntarily.

In complying with the seven principles of The Code, institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

As an international investor, Ontario Teachers' voluntarily reports on its stewardship activities. We do so because we believe we have the responsibility to our plan members to be good stewards of their retirement funds and it is both logical and appropriate that we communicate how we go about fulfilling our stewardship responsibilities transparently.

Ontario Teachers' Report on Stewardship Activities

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The [Investments](#) section of our website is our key communication tool to describe the policies, guidelines and activities throughout the investment chain that enables the discharge of our stewardship responsibilities.

Our [Investment Strategy](#) provides details on our investment beliefs, our active management of assets and how we seek, evaluate and monitor investments.

In describing our approach to [Responsible Investing](#) (RI) we include links to our Statement of Investment Policies & Procedures (SIPP), our Good Governance Principles and Proxy Voting Guidelines, our proxy votes, our approach to Climate Change and our Responsible Investing Principles.

[Our Principled Approach](#) describes our journey towards responsible investing, our Fiduciary Duty and what Responsible Investing looks like at Ontario Teachers'. Furthermore, there is a link to a report on how our five Responsible Investing Principles – Seeking Disclosure, Collaboration, Integrating ESG, Engaged Ownership and Continuous Learning – guide our actions.

[Governance and Voting](#) explains why we vote every share we own, offers an overview of the fundamentals of corporate governance, details how we arrive at vote decisions, provides access to our proxy votes and describes how Responsible Investing is more than voting.

Our vote decisions are guided by our Corporate Governance Principles and Proxy Voting Guidelines. Our Corporate Governance Principles lay out our expectations of boards and directors. We believe these expectations are fundamental to an effective corporate governance system and well-governed companies. The Proxy Voting Guidelines describe our voting decision making process across four broad categories:

- Board of Directors (including independence, separation of board and management and board size)
- Management and Director compensation
- Takeover Protection

- Shareholder Rights.

The Corporate Governance Principles and Proxy Voting Guidelines are reviewed annually by our Board.

The link to our proxy voting database contains all of our vote decisions going back as far as 2005. Where appropriate, we provide a rationale to explain our vote decision.

Being a responsible investor goes beyond voting and requires a number of regular and on-going activities including:

- Encouraging regular dialogue with companies at the board and/or management level
- Examining and assessing the ability of the board of directors to make effective decisions that are in the best interests of the corporation
- Collaborating with other investors where appropriate
- Entering into targeted discussions with companies' boards and/or management when the situation warrants.

Finally, the [Perspectives](#) section offers our view on responsible investment issues, including our four-pillar approach to climate change, some leading practices demonstrated by our investee companies and access to all of our comments, research work and regulatory submissions.

Global External Manager Program

In our Global External Manager program residing within Public Equities we take steps to monitor the stewardship activities of our external managers. Each manager is required to vote in accordance with our Proxy Voting Guidelines and submits regular voting reports. We review these reports for consistency with our Proxy Voting Guidelines, contacting individual external managers for clarification when needed. In addition, we maintain an open channel with our external managers and their service providers to offer as-needed direction on the interpretation of our Proxy Voting Guidelines.

We undertake an extensive due diligence process in the selection of our managers and continue this diligence process through regular ongoing portfolio review meetings. We hold in-person meetings with each manager at least three times per year and conduct an annual office visit which includes an on-site operational due diligence. There is the expectation that we can speak to our external managers at any time.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Ontario Teachers' is a single profession pension fund, managing the retirement pensions of the elementary and secondary teachers of Ontario. We regularly monitor our portfolio for potential conflicts of interest and do not believe we are subject to the same conflicts of interests in relation to stewardship that other funds might encounter. Our Statement of Investment Policies & Procedures requires that all employees of Ontario Teachers' follow the Board's Code of Conduct.

With respect to our external managers, there is the expectation that conflicts of interests and inside information are addressed through their compliance activities. In addition, through operational due diligence reviews and ongoing contact with our managers we are able to satisfy ourselves that our managers are effectively managing their conflicts of interest.

Principle 3 – Institutional investors should monitor their investee companies.

The internal and external portfolio managers of the fund are charged with monitoring the companies within their respective portfolios. In addition, there is a dedicated corporate governance group within Ontario Teachers' responsible for monitoring the corporate governance and related practices of the portfolio companies.

Our Compliance Department has in place policies and procedures to identify situations where Ontario Teachers' becomes an insider and takes the necessary steps to ensure we act in accordance with prevailing laws.

The regularity and depth of our engagements with our external managers allow for an ongoing assessment of the manager, including monitoring their effectiveness and their processes that address situations when they become an insider. Each manager's compliance activities should address inside information. In addition, the segregated nature of the external accounts affords the opportunity to undertake internal reporting to assist in the monitoring of the external portfolios.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Ontario Teachers' continually monitors the companies within its portfolios and will usually address issues at investee companies on a case-by-case basis. When a situation arises where an engagement is necessary the first step would be to contact the company either by telephone, e-mail or letter outlining our concerns and requesting a response. Should our concerns remain unresolved, the escalation of the engagement would include some or all of the following steps, depending upon the circumstances.

- Arrange a meeting with the Independent Board Chair or Independent Lead Director to further discuss the concerns.
- Use our voting right to indicate our dissatisfaction.
- Collaborate with other investors regarding our concerns (subject to regulation).
- Submit a shareholder proposal.
- Speak publicly by posting a commentary on our web site.
- Divest our holding (as a last resort, if we feel the investment is at serious risk).

It is our preference that our engagements remain confidential as we believe that a public approach can be viewed as confrontational and counter-productive. That being said, we will make our views known if a company is unresponsive or the situation is such that a public response is appropriate and/or more effective. As it is known that we post our proxy votes publicly (see Principle 7), our broad views regarding an investment are likely to be publicly noted, but not with the specifics that would be included in our direct correspondence or conversations.

The vast majority of our external managers conduct extensive “bottom-up” analysis prior to investing and as a result extensive engagement with the company is a matter of course. In addition, portfolios tend to be small and concentrated. Such investing strategies are characterized by a strong relationship between the investor and the portfolio company as well as a deep understanding of their business.

The ongoing reviews we have with our external managers provide the opportunity for our managers to discuss their engagement activities in terms of process, outcomes and effectiveness. We believe that engagements are unique events and as a result there is significant variation in escalation triggers among our manager and/or within a given portfolio. Therefore, we consider the case-by-case discussion incorporated into our regular meetings a more valuable way to assess an external manager’s engagement program.

Principle 5 – Institutional investors should be willing to act collectively with other investors as appropriate

Ontario Teachers’ believes that in certain situations working collaboratively with other investors can be a very effective and efficient means of engagement. We acknowledge that working collaboratively is subject to the respective laws and regulations of the relevant jurisdiction where the issuer resides.

We work collectively on general corporate governance issues through our membership in a number of formal and informal investor organizations on a national and international level. Our membership in these organizations provides us with an international network of investors and access to local market intelligence and expertise which is an invaluable resource in our

stewardship activities. As a member of these organizations, Ontario Teachers' reserves the right to limit participation to those activities that are in the best long-term interests of the fund and its members.

On occasion when mutual interests converge, we have partnered with specific individual investors who are part of our international network.

Investors looking to investigate the possibility of partnering with Ontario Teachers' should contact Paul Schneider, Head of Corporate Governance, Public Equities (corp-governance@otpp.com).

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

Ontario Teachers' proxy voting guidelines are published on our website (www.otpp.com). These guidelines undergo an annual review and are updated to reflect market developments. Since 2005, all proxy votes have been posted on our website, on a proposal-by-proposal basis and in advance of the annual meeting. In circumstances where we are not supporting a management proposal or the proposal is deemed to be contentious, we will provide a rationale for the voting decision, as is reflected in our Good Governance Guidelines, and publish it on our website.

We use a number of different inputs to arrive at our proxy voting decisions, including publicly available disclosures issued by the company, our proxy voting guidelines, an internal assessment of decisions made by board/directors over time, third party research (including reports from our proxy advisor¹ and ESG rating services) and where necessary discussions with the company board and/or management to seek clarification. The recommendations provided in the proxy advisor reports are consultative and considered within the context of our proxy voting guidelines.

Ontario Teachers' does not have a stock lending program.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

All our proxy votes relating to internal holdings are published on our website with all vote activities executed by the dedicated governance staff within Ontario Teachers'. For shares held externally, the respective manager is responsible to vote on our behalf. All external managers are expected to vote in accordance with our published proxy voting guidelines and we require

¹ Ontario Teachers' uses the proxy advisory services provided by Glass Lewis & Co., LLC which is a portfolio company of the Fund. Glass Lewis operates independently of Ontario Teachers'. Glass Lewis takes precaution to avoid conflicts of interest which is summarized in their Conflict of Interest Statement available from <http://www.glasslewis.com/about-glass-lewis/disclosure-of-conflict/>.

each external manager to regularly provide a summary of their voting activities. This summary is reviewed by the corporate governance staff and any resulting voting issues are discussed with the external managers. An annual report on all our corporate governance activities is prepared and presented to the Board of Directors of the Fund. Our annual report to members includes a discussion of our Responsible Investing activities over the past year, including proxy voting. Our [Responsible Investing](#) section of our web site is continually updated with policies, thought pieces and case studies.

We have established an internal repository to track and record all our engagement activities. Information captured includes company, issue(s) discussed, attendees, preparation research, meeting details (date, time and type), discussion notes and required follow-ups. All investment professionals have access to this information.