POLICY GOVERNING THE EXERCISE OF VOTING RIGHTS OF PUBLIC COMPANIES

APPENDIX I – COMPANIES WITH MORE THAN ONE CLASS OF PARTICIPATING SHARES[1]

Statement of principle

CDPQ is of the opinion that the right to vote is an important attribute of common shares. It considers that when common shares involve the same level of risk, they must offer the same advantages and confer the same rights on their holders. For this reason, CDPQ prefers companies with a single class of voting shares.

This principle is a key foundation of corporate democracy that ensures that all shareholders have an influence proportionate to the weight of their interest. This proportionality is paramount when decisions are likely to influence shareholders' investments.

CDPQ notes, however, that capital structures with subordinate voting shares are common in certain industries and in certain countries, including Canada.

CDPQ invests in such companies when they excel over the long term and when they treat holders of subordinate voting shares fairly. In all circumstances, long-term performance is what guides CDPQ's investment decisions and discussions with their management.

CDPQ's position

CDPQ generally prefers a one-vote-per-share capital structure. However, it is not systematically opposed to a capital structure of subordinate voting shares. It assesses each case individually.

CDPQ may consider it appropriate to allow an entrepreneur-founder to continue to manage the company during an expansion phase and to finance this growth through equity, even if the entrepreneur-founder's resources are insufficient to maintain a position of control.

CDPQ may therefore encourage a company with a worthwhile expansion project to access capital markets without the entrepreneur-founder being forced to lose their position of control over the short or medium term. In so doing, CDPQ is participating in the creation of economic leaders of national, even international scope.

On the other hand, CDPQ is of the opinion that companies with subordinate voting rights must be overseen closely to provide subordinate shareholders with the assurance of sound governance. These companies must demonstrate best practices in corporate governance and transparency, particularly with regard to disclosure of information to subordinate shareholders. When a company that has subordinate voting rights discloses voting results at annual shareholders meetings, and discloses voting results on a consolidated basis, CDPQ supports the disclosure of voting results separately, by share class.

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1 *Participating shares: multiple and limited voting common shares, non-voting common shares, subordinate voting shares, controlling shares and, more generally, all the shares of a company that has different classes of common shares.*

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When considering an investment, CDPQ will pay special attention to the following two factors:

1. Alignment of interests

For there to be alignment of interests between the controlling shareholder and the subordinate voting shareholders, it is important for an entrepreneur-founder to have a significant interest in the company. This will make the entrepreneur-founder particularly inclined to introduce tight controls on capital investments and operations management and to focus on strategies that generate long-term value.

There is no objective criterion to determine what represents a significant interest, but CDPQ considers it reasonable to expect a controlling shareholder to maintain, over the long term, an interest of at least 15% in the company’s equity. Put otherwise, this is equivalent to a maximum of six votes per multiple voting share.

2. Performance

CDPQ will closely monitor the execution of the business plans of companies with subordinate voting rights. These companies must report solid returns over the long term. If the company fails to achieve its financial and operational targets, CDPQ may request a change in management or the conversion of a certain number of multiple voting shares to reduce their influence.

When CDPQ considers an investment in a company that creates or maintains a subordinate voting share structure, it could also request that certain measures be taken to protect the interests of all shareholders. Of these measures, we note in particular the following:

- In the context of an initial public offering, stipulate that the controlling shareholder must retain at least 15% of the capital over the long term;
- For subordinate voting shareholders, reserve the right to elect a minimum number of board members: one-third, for example;
- If a member of the controlling shareholder’s family or the holder of a large block of shares applies for the position of chief executive officer, assign independent directors the task of determining the personal characteristics, experience and skills required for the position and discussing each candidate’s qualifications with the board and controlling shareholders;
- If the controlling shareholder has no descendants likely to play an important role in management or as a member of the board, plan for the transition to a one-vote-per-share structure;
- Ensure that any takeover bid is presented under the same terms and conditions to all shareholders.

A certain type of preferred shares

CDPQ takes the same position, with the necessary adjustments, in the creation or perpetuation of classes of shares that may, at the discretion of the board of directors, involve one or more voting rights or that may be convertible into shares with voting rights.