



# POLICY ON THE PRINCIPLES GOVERNING THE EXERCISE OF VOTING RIGHTS OF PUBLIC COMPANIES

## PR-A-01 APPENDIX I - COMPANIES WITH MORE THAN ONE CLASS OF PARTICIPATING SHARES<sup>1</sup>

### Statement of principle

La Caisse 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, la Caisse prefers companies with a single class of voting shares.

This principle is a key foundation of corporate democracy to ensure 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.

La Caisse notes, however, that capital structures with subalternate voting shares are common in certain industries and in certain countries, particularly Canada

La Caisse invests in such companies when they excel over the long term and are concerned about treating holders of subalternate voting shares fairly.

In all circumstances, companies' long-term performance is what guides la Caisse's investment decisions and discussions with their management.

### La Caisse's position

La Caisse generally prefers a one-vote-per-share capital structure. It does not systematically object, however, to a capital structure of subalternate voting shares. It assesses each case individually.

La Caisse may consider it appropriate to allow entrepreneur-founders to continue to manage their company during an expansion phase and to finance this growth with their own equity, even if their resources are insufficient to maintain a position of control.

La Caisse may therefore encourage a company with an interesting expansion project to access capital markets without the entrepreneur-founder being forced to lose his position of control over the short or medium term. At the same time, it participates in the creation of economic leaders of national, even international scope.

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<sup>1</sup> *Participating shares: common shares with multiple or limited voting rights, common shares with no voting rights, subalternate voting shares, "controlling" shares, and generally all shares of a company in which there are various classes of common shares.*

On the other hand, however, la Caisse deems that companies with subalternate voting rights must be overseen closely to provide the subalternate shareholders with the assurance of sound governance. These companies must demonstrate best practices in corporate governance and transparency, particularly concerning disclosure of information to subalternate shareholders.

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

### 1. Alignment of interests

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

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

### 2. Performance

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

When la Caisse considers an investment in a company that creates or maintains a subalternate voting share structure, it could also request that certain measures be taken to protect the interests of all shareholders. These measures include, in particular:

- In the context of an initial public offering, provide that the controlling shareholder retain at least 15% of the capital over the long term;
- For subalternate voting shareholders, reserve the right to elect a minimum number of board members, 1/3 for example;
- If a member of the controlling shareholder's family or the holder of a significant block of shares applies for the position of chief executive officer, assign independent directors the task of defining the personal characteristics, experience and skills required for the position and of 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 the transition to a one-vote-per-share structure;
- Present the same terms and conditions of any takeover bid to all shareholders.

### A certain type of preferred shares

La Caisse 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.