

## ***Policies & Guidelines***

### **PROXY VOTING**

Pursuant to National Instrument 81-106, Part 10, Harvest Portfolios has established these proxy voting guidelines to govern any Harvest mutual fund, limited partnership or other investment fund, whether currently active or which Harvest establishes at any point in the future, and that qualify as a mutual fund or investment fund that is a reporting issuer as defined in the Securities Act (Ontario). All of the aforementioned mutual funds, limited partnerships or other investment funds are hereinafter referred to collectively as the Funds (the “Funds”).

The pursuit of the Funds’ investment objectives requires that the Funds invest in and take ownership of the shares of other corporations or trusts. Share ownership bestows shareholders with its rights and responsibilities – one of the most important being the right to “vote their shares”. Voting rights provide shareholders with the right to obtain information regarding the performance and affairs of the company as well as the ability to influence the company by voting on various issues that arise.

In most public companies today, there is a separation of ownership and control in that shareholders own the company, but management controls strategic direction and day-to-day operations. This fact can make it difficult for shareholders to obtain information and to provide feedback to management. As long as there is a gap between the objectives of management and the objectives of the shareholders, there is always the risk that management will act in its own self-interest, which may be detrimental to shareholders. For this reason, shareholders have a right to vote on matters that affect the affairs of the companies in which they invest.

While pursuing their rights to information and influence, shareholders must keep the following points in mind:

- Shareholders must ensure that their quest for information does not detract from the company’s ability to compete in its marketplace.
- Shareholders must ensure that practising their right to influence the company does not translate into behaviour that is detrimental to the company.
- Shareholders must behave in such a way that their actions are in the best economic interest of all the company’s shareholders.

Corporate governance can be defined as “the system by which companies are directed, controlled, and evaluated.” Responsibility for corporate governance lies primarily with a company’s board of directors. The role of the shareholders is to appoint directors who they feel best suit their investment objectives and who will ensure that a proper governance structure is in place.

### **Proxy Voting**

One of the most important rights investors have is the right to vote in a manner that is most consistent with their interests as shareholders. The Funds take their right seriously on behalf of the shareholders of the Funds. While under no obligation to vote, Harvest in its capacity as the manager of each of the Funds will vote on the Funds’ behalf at every opportunity.



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Voting normally occurs at shareholder meetings. Those who are unable to attend such meetings are Allowed to vote by proxy, which is the legal right to transfer voting rights to another party. Voting instructions are usually transmitted to the chair of the meeting, who then casts the votes accordingly.

We have developed Proxy Voting Guidelines keeping in mind that our first responsibility is the shareholders of the Funds. It is our goal to exercise our rights and responsibilities in a manner that is consistent with our fiduciary duty to our Funds' shareholders, by voting only our initiatives that will serve to maximize the value of the Funds' shareholders upon request, and will be posted to the company's website on an annual basis.

### **Standing Policy**

We will vote with management on matters that are routine in nature. We will deviate from this standing policy if, in our opinion, management's position does not agree with the interests of the Funds' shareholders.

### **Non-routine Matters**

Non-routine matters are those that require thought and analysis in order to determine the course of action that is in the best interest of the Fund's shareholders. Non-routine matters are considered on a case-by-case basis, and involve the analysis of alternatives, reviewing research on management and corporate performance, corporate governance, and any other factors that are considered relevant. The final voting position on non-routine matters will be approved by an Advising Representative of Harvest.

### **Voting Procedures**

When Harvest as the Fund's investment manager receives meeting circulars for investee companies, the receipt is logged on an internal proxy voting memo. Harvest will review and analyse the content of the circular and form recommendations on how to vote after consulting with Harvest's Proxy Voting Guidelines. The recommendation will be approved by an Advising Representative of Harvest before being submitted to a proxy agent and the voting record will be maintained by the Chief Financial Officer.

## **BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

The board of directors plays the most significant role in the operation of any corporation. The board of directors has three main responsibilities:

- determining strategy and direction



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- exercising control
- evaluating performance

Board must be constructively formed and organized in order to perform these duties effectively. A constructively formed and organized board is one that is composed of qualified individuals, the majority of whom are independent of the management of the company. The individuals on the board must have the best interests of shareholder in mind at all times. Shareholders often seek to place restrictions on boards of directors with the aim of placing a higher degree of control in the hands of shareholders. While there is a degree of merit to this goal, we believe that a board should be flexible in its ability to act in the marketplace in the best interests of shareholders. The guidelines established by Harvest are designed to encourage the election of a board that will act in the best interests of shareholders in a manner that is free of unreasonable burdens.

Corporate governance refers to the system by which companies are directed, controlled, and evaluated. Board committees such as the audit committee, and compensation committee, in addition to the external auditor, are key components of good corporate governance. We believe that a properly constituted board, together with effective board committees and an independent and respected auditor are in the best interests of a corporation and its shareholders, and our proxy voting guidelines aim to make these characteristics commonplace among our investee companies.

### **INDEPENDENT BOARD OF DIRECTORS**

#### **GUIDELINE**

We support an independent board of directors. Generally speaking, we will not vote against a slate of directors simply because it fails to meet the independence standard, but we may do so if corporate performance is unsatisfactory over a reasonable period of time.

### **THOROUGH NOMINATION PROCESS**

#### **GUIDELINE**

We support the establishment of an independent nominating committee; however, will not ordinarily vote against a slate of directors simply because a board lacks a properly constituted nominating committee. We may do so if corporate performance is unsatisfactory over a reasonable period of time.

### **INDEPENDENT AUDITORS**

#### **GUIDELINE**



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We support the establishment of independent audit committee, and we also generally support the choice of auditors recommended by the corporation's board of directors, specifically by the audit committee of these directors. A change in auditors other than as a result of routine rotation will be reviewed on a case-by-case basis.

### **NON-AUDIT FEES COMPROMISE INDEPENDENCE**

#### **GUIDELINE**

The majority of revenues generated by the accounting firm through its relationship with the company should come from the audit function. Where there is no disclosure or a breakdown of fees and the non-audit fee is greater than the audit fee without further clarification, we will not support the re-appointment of the outside auditor.

### **COMPENSATION REVIEW PROCESS**

#### **GUIDELINE**

We support the establishment of an independent compensation committee, and generally speaking, we will not vote against a slate of directors simply because the board lacks a properly constituted compensation committee. However, we may do so if corporate performance is unsatisfactory.

### **SIZE OF BOARDS OF DIRECTORS: 5 TO 16 MEMBERS**

#### **GUIDELINE**

We support a board size of 5 to 16 members. Generally speaking, we will not vote against a slate of directors simply because the size of the board does not meet this standard, however, we may do so if corporate performance is unsatisfactory.

### **CUMULATIVE VOTING FOR DIRECTORS**

#### **GUIDELINE**

Cumulative voting proposals will be reviewed on a case-by-case basis. We will generally support cumulative voting proposals when they ensure an independent voice on an otherwise unresponsive board of directors.

### **CLASSIFIED OR STAGGERED BOARDS**



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### **GUIDELINE**

We prefer the annual election of all directors, and will generally not support staggered terms for board members. However, if a proposal to adopt staggered terms has been approved by a vote of shareholders, then we will generally support the directors who are standing for staggered terms when a vote for such director is in the best interests of shareholders and conforms with the guidelines for the election of directors. We will not vote against such directors because we disagree with staggered boards.

### **SEGREGATION OF BOARD AND MANAGEMENT ROLES**

#### **GUIDELINE**

We support the segregation of board and management roles. While we will not generally vote against a slate of directors where segregation does not exist, we may do so if corporate performance is not satisfactory.

### **DIRECTOR LIABILITY AND INDEMNIFICATION**

#### **GUIDELINE**

We will generally support proposals that limit the liability of directors and provide indemnification subject to the conditions below.

### **MANAGEMENT AND DIRECTOR COMPENSATION**

Over the past number of years, management and director compensation packages have become increasingly complex. Today, most compensation plans involve some level of base salary plus incentive payments based on performance. These incentives can take the form of cash payments, but more often come in some form of equity compensation such as the granting of stock or stock options. Compensation and incentives paid to management and directors should be consistent with the long-term interests of shareholders. Compensation packages should reward and motivate individuals, but at the same time, should not be unduly generous. Salaries should be competitive and should be representative of amounts necessary to attract and retain qualified managers and directors. Any perquisites afforded should be based on a justifiable corporate need and should be able to stand the scrutiny of a reasonable cost-benefit analysis. In summary, compensation plans should be constructed such that managers and directors are rewarded and motivated in a manner that is fair, and in a manner that aligns the goals of managers and shareholders.

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One of the most complex and contentious issues is the use of stock options to reward and motivate managers. When used effectively, the use of stock options is a very useful tool in aligning the goals of shareholders and management since both benefit from an increase in the value of a company's stock. Unfortunately, poorly constructed options plans can be detrimental to managers, and perhaps more importantly, to shareholders. Abuse can occur if plans are structured in such a way that gives management incentive to gain in the short-term at the expense of shareholders who plan on holding their shares with the aim of long-term appreciation. At the same time, managers can suffer if plans are structured in such a way that makes it almost impossible for them to benefit, possibly leaving them less motivated to act in the best interests of the company and its shareholders. We are not opposed to the use of stock option plans; however, they should be formulated in such a way that will benefit both shareholders and management over a reasonable period of time.

Stock option plans require a high degree of disclosure and scrutiny. Newly adopted accounting standards require that public companies in Canada expense stock options granted during the year, Accounting standards in the United States do not require that stock options be expensed on a company's income statement, but the expense of the options must be disclosed in the notes to the financial statements.

### **EFFECTIVE STOCK PLANS**

#### **GUIDELINE**

We assess proposed stock option plans on a case-by-case basis after reviewing the features of the plan together with the other components of total compensation to determine whether the plan as a whole is reasonable.

### **MANAGEMENT COMPENSATION**

#### **GUIDELINE**

We will review management compensation plans on a case-by-case basis and base our assessment on the features of each plan to determine whether the plan as a whole is reasonable.

### **DIRECTOR COMPENSATION**

#### **GUIDELINE**

We generally support proposals that call for a certain proportion of director's compensation to be in the form of common shares, however, we will not vote against a slate of directors where the practice of

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paying some percentage of compensation in common stock does not exist unless corporate performance is not satisfactory.

**SEVERANCE COMPENSATION**

**GUIDELINE**

We will review severance compensation arrangements on a case-by-case basis, and we will not support severance packages (“golden parachutes”) that we deem to be excessive.

**TAKEOVER PROTECTION**

**SHAREHOLDERS RIGHTS PLANS**

**GUIDELINE**

We will review shareholders rights plans on a case-by-case basis, and we will generally not support those that go beyond ensuring fair and equal treatment of shareholders in the event of a bid and those that do not allow the company sufficient time to consider alternatives.

**GOING PRIVATE, LEVERAGED BUYOUTS, AND OTHER PURCHASE TRANSACTIONS**

**GUIDELINES**

We will evaluate going private transactions, leveraged buyouts, and other purchase transactions on a case-by-case basis, and we will not support transactions that do not adequately compensate minority shareholders. We generally not support crown jewel defenses unless they are clearly in the best interests of all shareholders. We will support proposals that seek to prevent the payment of “greenmail” to an unwanted purchaser and we will not support the payment of “greenmail”.

**REINCORPORATION**

**GUIDELINE**

We will support reincorporation proposals when management and the board are able to determine sound reasons for doing so. We will not support proposals that are made as part of a takeover defense or solely to limit director’s liability.

**SHAREHOLDERS’ RIGHTS ISSUES**

**CONFIDENTIAL VOTING BY SHAREHOLDERS**

**GUIDELINE**



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We will generally support proposals to introduce confidential voting.

### **MULTI-CLASS SHARE STRUCTURES**

#### **GUIDELINE**

We support companies having only one class of shares and will generally not support the creation or extension of multi-class share structures.

### **SUPERMAJORITY APPROVAL OF BUSINESS TRANSACTIONS**

#### **GUIDELINE**

We will review supermajority proposals on a case-by-case basis, however, we will generally not support proposals to increase the number of votes required on an issue above two thirds (66.76%) of the outstanding shares.

### **INCREASE IN AUTHORIZED SHARES**

#### **GUIDELINE**

We will generally support proposals for an increase in the amount of authorized shares permitted to be issued by a company provided that the increase is requested for legitimate business reasons. We will generally not support proposals that would increase the number of authorized shares by more than 50% unless management is able to demonstrate a specific need. We will generally not support the authorization of, or the increase in, blank-cheque preferred shares.

### **SHAREHOLDER PROPOSALS**

#### **GUIDELINE**

We will evaluate shareholder proposals on a case-by-case basis; however, we will not support proposals that place arbitrary or undue restraints on the company, its management, or its board of directors.