

A voice for shareholders

Shareholders can often struggle to have their voices heard by the companies they invest in, and this can be especially true for smaller shareholders. One tool that can help level the playing field is the shareholder proposal – a resolution put forward by a shareholder, or a group of shareholders, for consideration at a company’s annual meeting. All shareholders of a company will have the opportunity to vote for or against the proposal. These proposals are generally not binding, but the expectation is that a company will implement a proposal, or take some kind of significant action to address the issue when a majority of its shareholders vote in favour of it. As such, shareholder proposals can be a very effective catalyst for change, especially when other methods of engagement have proved ineffective.

Over recent years, we have seen an increase in the use of shareholder proposals to bring an ever-expanding range of issues to the attention of management, boards, and other shareholders. It is perhaps timely that we take a closer look at how we assess shareholder proposals when making voting decisions, and consider some recent examples from the 2016 proxy season.

How does RBC Global Asset Management assess shareholder proposals?

The approach to how RBC Global Asset Management (RBC GAM), manager of PH&N Funds, RBC Funds and BlueBay Funds, assesses shareholder proposals is detailed in the RBC GAM Proxy Voting Guidelines.¹ Overall, RBC GAM encourages companies to include shareholder proposals on their proxy ballot so long as they address appropriate issues, and are not used to air personal grievances or to obtain publicity. In general, RBC GAM will assess shareholder proposals on a case-by-case basis, meaning that each proposal will be assessed individually, on its own merits.

Types of shareholder proposals

There are two broad categories of shareholder proposals; those that ask for enhanced disclosure, and those that ask the company to take some sort of action. For example, a shareholder proposal on climate change might ask a company to report its greenhouse gas emissions (disclosure), or it might ask the company to adopt greenhouse gas emission reduction targets (action).

For disclosure-related shareholder proposals, RBC GAM will generally vote for them so long as they are asking for improved disclosure of a material risk that is not currently being adequately disclosed. Common shareholder proposals that ask for enhanced disclosure often address such issues as executive

compensation, climate change or other environmental risks, human rights, political contributions and lobbying payments.

For action-related shareholder proposals, RBC GAM will generally vote for the proposal if it seeks to address a material risk that the company is not adequately addressing, and if the proposal is not overly restrictive. This last point is important, as it can be common for these types of shareholder proposals to prescribe an action that imposes unreasonable constraints on the board and management. In the example above, if a shareholder proposal asked for the company to adopt greenhouse gas emission reduction targets, RBC GAM would likely vote for it. If the proposal asked for the company to adopt greenhouse gas emission reduction targets of 10% per year, RBC GAM would likely vote against it. This is because the company is in the best position to determine what targets are appropriate and how they achieve those targets.

Examples of shareholder proposals from 2016 proxy season

Climate change disclosure in the energy industry

This proxy season, RBC GAM saw a number of shareholder proposals related to climate change – particularly for companies in the energy industry. Management at a number of fossil fuel producers such as BP, Royal Dutch Shell, Statoil, Rio Tinto, Anglo-American, Glencore and Suncor took the slightly unusual step of supporting shareholder proposals for improved climate risk reporting.

In particular, proposals were filed by shareholders of Exxon and Chevron – which are perceived to be lagging behind their peers on climate change – asking for enhanced disclosure of climate-related risks and for the companies to adopt policies to manage these risks. Although these proposals did not receive majority support, approximately 40% of shareholders

¹The RBC GAM Proxy Voting Guidelines are available at www.rbcgam.com.

voted in favour of them. The climate change related shareholder proposals presented at Exxon and Chevron this year will likely be on the ballot again next year, and it seems likely that shareholder support will only grow. Clearly, climate change risk is an issue that shareholders are concerned about, and they are willing to take action when they perceive that companies are inadequately managing those risks.

Separating the roles of Chair and CEO in the U.S.

The shareholder proposal most often on the ballot of U.S. companies this year asked for an independent director to serve as board Chair. It is a little puzzling as to why there has been such resistance to separating the roles of Chair and CEO in U.S. boardrooms. The U.S. has a raft of corporate governance regulations that mandates good corporate behaviour in other areas, but these do not address something as fundamental as requiring an independent Chair of the board.

One of the primary functions of a company's board is to appoint and oversee management. It is therefore a fundamental conflict of interest when a member of management, usually the CEO, also serves as Chair of the board. In most instances, an

independent "Lead Director" will be appointed to take on some of the roles of an independent chair. However, a Lead Director is seen as less effective in maintaining overall board independence than an independent Chair. In other English-speaking markets such as the U.K., Canada, and Australia, it is very unusual to have a combined CEO/Chair. And judging by the number of shareholder proposals that were filed at U.S. companies this year, U.S. shareholder patience appears to be running out as they take matters into their own hands. RBC GAM votes for all shareholder proposals to separate the roles of Chair and CEO.

Final word

In today's world of active and engaged shareholders, all shareholder proposals will be considered carefully. Shareholder proposals that address material issues in a practical way will usually receive considerable support, and increasingly, the support of a majority of shareholders. Even though these proposals are not binding, companies are feeling compelled to take some kind of meaningful action to address the issues. Otherwise, they face the real potential of backlash from shareholders for failure to act. This is the new reality of corporate democracy, where shareholders have a voice.

RBC GAM FILES ITS FIRST SHAREHOLDER PROPOSAL

After extensive engagement over several years, and in collaboration with the British Columbia Investment Management Corporation (bcIMC), RBC GAM recently filed two shareholder proposals with Barrick Gold Corp. (Barrick). RBC GAM asked the company to: (1) nominate additional independent board directors with operational mining expertise; and (2) implement changes to the company's governance structure.

After ongoing engagement with Barrick, the company agreed to implement the first proposal and nominated an experienced geological and mining engineer as an independent director of the board at the 2016 annual meeting, where he was subsequently elected. The company also agreed to nominate an additional independent director with operational mining expertise at the 2017 annual meeting.

After engaging with independent directors of the board in response to the second proposal, bcIMC and RBC GAM agreed to withdraw it. In exchange, the company committed to providing more detailed disclosure of its corporate governance practices and changes to the structure of its executive compensation plan.

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