

# 2021 AGM Checklist

AGMs were once simple and routine. Not anymore.

Many public companies are recognizing that AGMs now require year-round consultation, preparation and planning to be successful. Those that don't may be surprised by their voting results or the recommendations from proxy advisors.

As the advisor with the largest roster of annual general meeting clients on the TSX, Kingsdale Advisors' AGM checklist is the go-to tool for Canadian companies preparing for their next shareholder meeting.

1

**Do you know your shareholders?** Are you aware of how sensitive they are to the recommendations of the proxy advisors? Too often companies are taken aback by how many shareholders follow the voting recommendations of Institutional Shareholder Services (ISS) and/or Glass Lewis. At the same time, we know that an increasing number of large institutional shareholders are taking back the decision-making process with the expansion of in-house governance teams with custom, and sometimes stricter, voting policies. For these investors, ISS and Glass Lewis have become data aggregators, not vote-deciders.

2

**Are you considering a virtual-only or hybrid AGM?** Canada's large financial institutions first obtained court permission to hold their 2020 shareholder meetings online in March during the early part of the pandemic. Since then, we've seen numerous companies host virtual-only meetings. Virtual or hybrid AGMs allow all shareholders the opportunity to participate in your meetings. With COVID-19 expected to last well into 2021, combined with the fact that 95% of shares are voted well in advance of an AGM, any incremental benefits of an in-person AGM are debatable. For 2021, ISS will generally support management proposals allowing for virtual shareholder meetings, as long as companies do not preclude in-person meetings, and Glass Lewis' pre-COVID-19 guidance will apply.

3

**What is your participation rate at your meetings?** While meeting attendance will likely be online only this year, what remains true is that a strong voter turnout is a sign of a healthy, well-governed company. Have you noticed the participation rate at your meetings on the decline? How does it stack up against peers? Running a strategic AGM outreach and solicitation program will not only increase your shareholder visibility and turnout, but also provide management and the board with an opportunity to identify potential issues and address any vulnerabilities.

4

**The climate is changing; is your response?** Environmental issues are a critical component in the decision-making process for institutional investors and its importance is only growing. BlackRock, the world's biggest asset manager, said it expects companies to disclose a plan for transitioning to a lower carbon economy, and recently, British billionaire Chris Hohn, founder of TCI hedge fund, started a campaign to get all major companies to submit climate plans for annual scrutiny. We are also seeing a trend of 'say-on-climate change' shareholder proposals targeted at major issuers. Unilever Plc recently became the first blue-chip company to give shareholders a say on its strategy of addressing climate related matters. Do you know what your shareholders are looking for in your response to climate change?

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**Is your board diverse enough?** Expanding diversity, beyond comply or explain when it comes to female representation, to include all forms of inclusiveness is in full force. Corporations under the *Canadian Business Corporations Act* must either disclose information about their policies and targets for the representation of the designated diversity groups – female, persons with disabilities, Indigenous and visible minorities – or explain why they do not have a policy and targets. Several institutional shareholders, including many of the biggest names in the Canadian investment landscape, have committed to promoting diversity and inclusion in their portfolios and organizations, and more than 400 organizations have signed BlackNorth Initiative's pledge to end anti-Black systemic racism.

6

**Have you shown your social conscience?** The COVID-19 pandemic firmly placed the 'S' in ESG – the social aspect – at the forefront of governance. The social conscience of corporations is under unprecedented scrutiny with shareholders questioning how the company addressed the needs of their employees, clients and shareholders; how they helped communities through the turbulent times; and how the company took a stance on social or political issues.

7

**Are your directors suited for your company's current situation and future challenges?** Do you maintain a skills matrix of the expertise required by your board today and into the future? Are any of your directors at risk of being overboarded or long-tenured? Having long-tenured board members does not necessarily indicate a problem, but activists will target these directors particularly if their tenure is coupled with underperformance. If you do have long-tenured directors, are shareholders clear on why they are important and your broader approach to refreshment and succession planning?

8

**Do you have a defense playbook, and if so, is it up to date?** There were 39 proxy contests launched between March and November 2020, a 44% increase over 2019 and 18% higher than 2018. What's more is we're seeing a trend of contested M&A with public opposition coming out from significant shareholders. An activist-defense team will help you take stock of your vulnerabilities beyond a simple SWOT analysis and will prepare your board to effectively respond to an activist's challenge.

9

**Is your executive compensation in line with your company's performance, and are you planning to make discretionary adjustments to incentive plans due to the impacts of COVID-19?** Shareholders traditionally look at total shareholder return performance, but ISS and Glass Lewis look at a variety of financial metrics. Are you contemplating discretionary adjustments to the incentive payouts? What is the supporting rationale and is that aligned with shareholder experience? Both ISS and Glass Lewis expect robust disclosure of changes and the underlying rationale in proxy circulars.

10

**Are you planning to renew your rolling reserve equity plan, or do you intend to seek shareholder approval for additional treasury services?** Be aware of the ISS Equity Plan Scorecard approach to evaluating equity plans and Glass Lewis's equity compensation model.

As trusted advisors to boards and management, we regularly help our clients work through these challenging issues.  
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