

THE
DEFINITIVE
GUIDE TO
DIRECTOR-
SHAREHOLDER
ENGAGEMENT
FOREWORD

2019 EDITION

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SAMPLE APPROACHES TO SHAREHOLDER ENGAGEMENT

Manulife: Adopted Shareholder Engagement Principles, whereby “the board has developed a program, led by the Chairman and supported by Manulife’s investor relations team, to facilitate engagement with shareholders. Accordingly, the Chairman, at his or her discretion and in accordance with Manulife’s disclosure policy, meets with Manulife’s shareholders and organizations representing groups of shareholders.”

TD Bank Group: Lists shareholder engagement as part of the explicit duties of the Chairman of the Board, outlines ways that engagement policies have evolved since the previous circular, outlines who the board meets with and how to get in touch: “We are committed to effectively engaging with shareholders and other stakeholders on the topic of executive compensation on an ongoing basis. Supporting this commitment, each year we reach out to the bank’s largest institutional investors offering to discuss TD’s approach to executive compensation. We also work closely with management as appropriate to respond to shareholder queries regarding compensation that are received throughout the year, and periodically meet with other organizations such as proxy advisory firms to engage in dialogue regarding the bank’s approach.”

When we launched the first printing of *The Definitive Guide to Director-Shareholder Engagement* in 2014 and started meeting with boards across Canada to provide advice, we were often met with blank stares and skeptical questions.

Traditional wisdom about the role of a director and lack of understanding about shareholders’ expectations had led to a status quo where directors thought that meeting with shareholders was the job of management and an ineffective use of time; that addressing potential issues head-on could negatively impact the company’s reputation; and that routine disclosures should be more than enough to satisfy shareholders’ desire for communication. *(You can read more about this in the “Why Common Objections Don’t Hold Water” section on page 13 of the *The Definitive Guide to Director-Shareholder Engagement*.)*

Undeterred, we continued to pound the pavement and advocate for director-shareholder engagement. We saw it as a proactive way to head-off potential issues, dissuade shareholder activism, and demonstrate board capability.

Three years and four printings of *The Definitive Guide to Director-Shareholder Engagement* later and we felt compelled to comment: “Wow, how things have changed.”

Slowly but surely director-shareholder engagement has become the new normal. In fact, it is now expected by shareholders. Many initiate the effort and in fact have a target list of companies they are seeking to engage with — pretty hard to avoid it when outright asked. When we first printed this guide, we predicted that active shareholder engagement programs involving independent directors would grow amongst TSX-listed companies with the S&P/TSX 60 rapidly leading the way. As of the end of 2018, 62% of the TSX 60 included formal shareholder engagement policies in their circulars, with 15% of the index including policies on engaging with ESG issues. These numbers show that engagement is more than a trend — it is a valued part of any major company’s business and governance strategy. As a trusted advisor to boards and management across North America, we can tell you that not a single company we have advised has regretted the decision to embark on director-led shareholder engagement. In fact, many conclude that had they been more proactive sooner, they could have avoided significant, and in some cases unwarranted, scrutiny.

WHAT’S CHANGED FOR COMPANIES?

Director-shareholder engagement has moved from an oddity to the prevailing wisdom in both Canada and the U.S. We are no longer asked “Who else does this?” but instead “What are the best practices?”

The good news is there are a growing number of examples to look to across North America. A large survey done by the National Association of Corporate Directors (NACD) found that half of the boards polled indicated that a board representative met with institutional investors in the prior year — up from 48% in 2016 and 41% in 2015 — and 69% of those meetings included the board chair and 24% included the lead director. Interestingly, we have noticed a growing trend where boards will have a direct email address for shareholders to contact.

WHAT'S CHANGED FOR SHAREHOLDERS?

Today's shareholders have higher engagement standards than ever before. Not only do many of the world's leading investors have a preferred method of engagement, but they are clear on what directors should come prepared to talk about and have teams dedicated to facilitating substantive conversations.

The word conversation is key — engagement isn't a one and done meeting. Investors expect to be engaged outside of proxy season, in good times and in bad, not just when companies need their support.

Engagement Teams

BlackRock, Vanguard, and other institutional heavyweights are incorporating investment stewardship teams into their overall investment strategy. These teams consist of senior leaders who oversee the engagement, analysis, and voting for companies in their sector, and are prepared to engage with company executives and directors.

A recent development, these teams now have committed personnel, infrastructure, and resources to track and respond to engagement year-round.

Investment stewardship teams raise the bar for engagement by prompting directors to be even more well-versed in their company's Environmental, Social, and Governance (ESG) statistics, governance, and long-term vision. These teams have the power and resources to ask thoughtful questions and proactively reach out to companies.

LATEST TRENDS ESG Has Helped Drive Engagement

Since we launched our original guide, ESG concerns have exploded.

Increasingly, investors around the world are taking the view that an issuer's environmental and social activities will impact its financial returns and long-term sustainability. In response, everyone from Fortune 500 companies to activists to proxy advisors have increased their focus on ESG issues such as what is being done to address climate change risk, build inclusive and safe workplace cultures, manage supply chains and more. But because what a company is doing to manage ESG risks is not as easily apparent as its capital spending or compensation program, shareholders have had to seek out additional information and increased their expectations for specific disclosure and engagement on risks, policies, and plans. As a result, some companies have engagement practices and policies specifically related to ESG issues.

SHAREHOLDER ENGAGEMENT IN THE TSX 60



62% of TSX 60 companies disclosed shareholder engagement policies in their latest circulars.



15% of TSX 60 companies disclosed an engagement policy, specifically on ESG issues

Changing Views of the Proxy Advisors

Broadly speaking, ISS' and Glass Lewis' benchmark guidelines describe situations that require board engagement and responsiveness, mainly in reactive circumstances. One of ISS' fundamental principles when determining vote recommendations on director nominees is board responsiveness.

Within ISS' benchmark guidelines, they outline specific cases where board communications and responsiveness are expected. ISS clearly outlines what it considers appropriate board responses, which may include "disclosure of engagement efforts regarding the issues that contributed to the low level of support, specific actions taken to address the issues that contributed to the low level of support, and more rationale on pay practices" among other criteria.

Wheaton Precious Metals Corporation: For engagement events, Wheaton discloses the type of event (i.e. call, meeting, tour, etc.), staff in attendance (i.e. directors vs senior management), type of shareholders who attended (i.e. select analysts, all investors, major investors, etc.) and topics discussed. Their circular also identifies management contacts for issues with the board, executive compensation, and governance, and provides phone, email, and mail contact information for each contact.

COMPANY ENGAGEMENT ON ESG

Bank of Montreal Financial Group: "We communicate with Shareholders and other stakeholders through various channels, including our annual report, management proxy circular, annual information form, Environmental, Social and Governance Report & Public Accountability Statement, quarterly reports, news releases, website, industry conferences and other meetings."

Barrick Gold Corporation: "We prioritize engagement with stakeholder groups who are directly impacted and interested in our activities (such as local communities and host governments) and those that can have a significant impact on our business success (such as our investors, civil society, and governments)."

Canadian National Railway: "The CN Board has always taken great pride in our commitment to being a good corporate citizen, which touches nearly every aspect of what we do, from governance and business ethics to diversity and

inclusion. We also prioritize community engagement on safety along our rail lines.”

INVESTOR ENGAGEMENT ON ESG

Royal Bank of Canada Global Asset Management (RBC GAM): “Engaging with management or directors of the companies in which we are invested is another tool we use to maximize our investment returns and lower our risk. Portfolio managers and analysts meet with the companies in which they invest on an ongoing basis and often discuss risks and opportunities relating to ESG factors. We engage more specifically with companies on ESG-related issues when those issues have been identified as particularly material for that company. Our ESG-focused engagements will be chosen and prioritized using a risk-based approach, focusing on the materiality of the ESG risks and opportunities facing each company and the size of our investment in it.”

State Street Global Advisors: “We also conduct proactive engagements to address significant shareholder concerns and environmental, social and governance (“ESG”) issues in a manner consistent with maximizing shareholder value.”

Beyond say-on-pay, if a management proposal fails or a shareholder proposal passes, ISS will expect the board to be responsive and engage shareholders. Similarly, Glass Lewis believes that any time 20% or more of shareholders vote contrary to the recommendation of management, the board should demonstrate some level of engagement and responsiveness to address the shareholder concerns (this is down from 25% in previous years). Engagement efforts should also be described in depth within the circular including who was involved, aggregate level details on shareholders engaged, and changes made as a result.

Interestingly, we have also seen both ISS and Glass Lewis themselves become more open to engagement with boards. Most importantly, regardless of what recommendations the proxy advisors ultimately issue, the ability for directors to follow up on previous engagements they have had with shareholders may render these recommendations less important.

WHAT DIRECTORS NEED TO KNOW FOR 2019 AND BEYOND

While the guidelines we set out three years ago still hold, we would add to them by emphasizing the following:

- **BE PREPARED.** Expect shareholders to be proactive in reaching out to companies and boards, and be ready to answer their questions at any time. Engagement season is now all year-round.
- **DON'T ASSUME THE WORST.** When a shareholder requests a meeting, it doesn't necessarily mean that they have complaints or intend to be combative. They may just have questions about their investment or had a quantitative screen flag a marker they are focused on. On the other hand—if an investor doesn't want to meet with you, don't take it as a negative—investors have a large number of companies within their portfolios and don't often have the time, resources, or need to meet with representatives from all the companies they've invested in.
- **GET TO KNOW THE NEW TEAMS.** Connect with investors' shareholder engagement teams and keep them updated throughout the year.
- **PLAN TO PLAN.** Companies can experience ineffective shareholder engagement interactions or receive a poor response if they are not prepared or only reactive in their approach. Boards and their IR teams should sit down a few times a year to plan and review their annual engagement cycle. When is the best time to talk to an investor? When will we have something to share? How much lead time do we need to consider and act on anything they raise? This is especially important for companies who do not make up a significant portion of their shareholder's holdings.
- **BE EFFICIENT.** Engagement does not require you need to block out days for travel and face-to-face meetings. Use technology to meet with or reach remote shareholders and project an image of transparency and accountability.
- **BUILD BOARD EXPERTISE IN THE AREA OF ENGAGEMENT.** Recruit to the board and succession plan with a focus on ensuring those with a competency in shareholder engagement. For current directors who will be embarking on shareholder discussions for the first time, Kingsdale regularly provides training sessions to ensure effective engagement.

ANATOMY OF DIRECTOR-SHAREHOLDER ENGAGEMENT PROGRAM

DESIGN STRATIFIED OUTREACH PLAN	USE ALL CHANNELS AT ALL TIMES	OVER-PREPARE	CLOSE THE FEEDBACK LOOP	GET CREDIT
<ul style="list-style-type: none">• Divide based on level of ownership or other relevant metric• Identify voting history, policies, and who makes voting decisions (PM vs. Gov.)	<ul style="list-style-type: none">• Engage ahead of proxy season• Doesn't have to be the same directors• Piggyback on other IR, not all need to be face to face	<ul style="list-style-type: none">• Understand the uniqueness of the shareholder• Know role vis-à-vis management• Prepare and practice	<ul style="list-style-type: none">• Let shareholders know what actions have been taken and, if they haven't, reasons as to why• Maintain ongoing dialogue	<ul style="list-style-type: none">• Disclose and fully describe your policy and efforts in your proxy statement

WHAT'S NEXT

Clearly the bar has been raised for shareholder engagement. There are bound to be more developments in the 2019 season, and we expect the next frontier to include:

- Increased use of technology to accelerate and increase meaningful shareholder engagement, i.e. video conferences, online chats, Reddit Ask Me Anything (AMA) sessions, Q&As on Stockhouse, etc.
- Expectations for other stakeholder engagement beyond shareholders will increase. Directors' decisions can impact suppliers, creditors, consumers, unions, the government and the communities the company operates in. While this is an evolving topic, legal evidence is building that directors have a duty of care beyond just their shareholders and debt/credit holders.

The full version of Kingsdale's updated *The Definitive Guide to Director-Shareholder Engagement* can be downloaded [here](#).

SAMPLE INVESTOR APPROACHES TO DIRECTOR ENGAGEMENT

BlackRock (CEO Larry Fink):

"In these engagements, we do not focus on your day-to-day operations, but instead seek to understand your strategy for achieving long-term growth. And as I said last year, for engagements to be productive, they cannot occur only during proxy season when the discussion is about an up-or-down vote on proxy proposals. The best outcomes come from a robust, year-round dialogue."

Fidelity Investments:

"Fidelity, through the implementation of these [proxy voting] guidelines, puts this belief in action through consistent engagement with portfolio companies on matters contained in these guidelines." Fidelity normally conducts shareholder engagement efforts together with the governance team and the portfolio managers only – no intermediaries.

State Street Global Advisors:

"SSGA conducts issuer specific engagements with companies to discuss our principles, including sustainability related risks. In addition, we encourage issuers to find ways of increasing the amount of direct communication board members have with shareholders... We believe direct communication with executive board members and independent non-executive directors is critical to helping companies understand shareholder concerns. Conversely, where

appropriate, we conduct collaborative engagement activities with multiple shareholders and communicate with company representatives about common concerns."

The Vanguard Group:

"What is Vanguard interested in hearing from companies? As near-permanent owners of the companies in which we invest, we like to focus our discussions on the long term. In most situations, we are more interested in understanding the board's oversight of matters that will affect the company over the next decade than over the next quarter."

Being the best in our field means reliably delivering the results our clients want—no matter the challenge.

Our track record of success is backed by our unparalleled expertise and culture of 24/7 client service.

Regardless of what your needs are—from governance advisory, corporate communications, shareholder identification, depositary, to full proxy solicitation for any type of voting matter—Kingsdale has the complete solution for you.

There's a reason why we're engaged on more proxy contests than all others combined:

We win.

Our Services Include:

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