

# Statement of Principles Regarding Member Activism

## A DOCUMENT OUTLINING RECOMMENDED BEST PRACTICES FOR SHAREHOLDER INVOLVEMENT

### 1. Introduction and Scope

This is a Statement of Principles for members of the Canadian Coalition for Good Governance and sets out best practices for members in relation to their responsibilities in respect of a company in which the members invest.

In this statement, the term:

“Member” means a member of the Canadian Coalition for Good Governance, and  
“Company” means a company, trust, etc. in which a Member invests.

In order to ensure transparency, a Member should:

- set out in writing how the Member intends to deal with Companies - clarifying priority issues and when they may take action;
- monitor the performance of a Company;
- take steps to intervene where, in the considered judgment of the Member, it is necessary and in the best interest the Company and the beneficiaries of the Member;
- evaluate the impact of the Member’s activism; and,
- provide reports to the Member’s clients/beneficial owners, on the actions taken in respect of the Company and the results thereof.

A Member’s activism does not constitute either an intent by a Member, or an obligation of a Member, to attempt to manage the affairs of a Company, rather it is to ensure that a Company is appropriately governed and that the shareholders of the Company optimize the long-term value of their investments.

A Member who decides it is in the best interests of their beneficiaries to take on actions in respect of a Company should devote appropriate resources to these activities, but these should be commensurate with the benefits for beneficiaries. The primary duty of a Member, in all matters including dealings with a Company, is to their beneficiaries and not to the wider public. It is understood that a Member may have mutually-exclusive groups of beneficiaries whose interests may differ.

## **2. Setting out their guidelines on how they will discharge their responsibilities**

A Member should establish and maintain guidelines outlining how they will discharge the responsibilities they may assume in relation to Companies. A Member's level of activism is likely to evolve and change over time and the guidelines should be updated as necessary.

The guidelines should include:

- how Companies will be monitored by the Member, which may require the Member to make direct contact with a Company board and/or senior management;
- how situations where a Member has a conflict of interest will be addressed;
- if applicable, situations where intervention may be taken and the courses of action that may be followed; and
- a policy on proxy voting.

A Member should clearly indicate who in the Member organization is responsible for discharging these guidelines and arranging for reporting. A Member's proxy voting policy should be transparent and available to all stakeholders and Companies, and should be available on the Member's website.

## **3. Monitoring performance**

A Member, either directly or through contracted research providers, can monitor performance through the following avenues:

- review of annual reports, management information circulars, and other public documents (including meeting resolutions) of the Company;
- attendance at Company meetings, where they may raise questions about Company affairs;
- participation in active dialogue with the Company's board and/or senior management; and
- research and information sharing among investors or investor groups.

This monitoring needs to be regular, and the process needs to be clearly communicable and assessed periodically for its effectiveness.

Effective monitoring will assist a Member in:

- satisfying themselves, to the extent possible, that the Company's board and management have appropriate strategies, structures and controls in place to maximize shareholder value;
- identifying problems at an early stage to minimize any loss of shareholder value; and
- where necessary for the best interests of the beneficiaries and in keeping with the Members policies, exercising its proxies effectively and intervening objectively and in an informed way.

#### 4. Intervening when necessary

Many issues could give rise to concerns about shareholder value. Members should set out the circumstances when they may actively intervene, and how they propose to measure the effectiveness of doing so. Intervention may be considered regardless of whether an active or passive investment policy is followed. In addition, having an underweight position is not, of itself, a reason for not intervening.

Instances where Members may deem it appropriate to intervene include when they have significant concerns about a Company's:

- strategy;
- operational performance;
- apparent failure of directors in holding management accountable;
- apparent failure of internal controls;
- succession planning;
- evidence of failure to comply with the requirements of corporate and/or securities legislation and or/regulation;
- remuneration levels, incentive packages, perquisites, or severance packages, which are not consistent with the relevant environment; and
- approach to corporate social responsibility.

Members should vote all shares held directly or on behalf of clients. They should not automatically support the Company's board. If a Member has been unable to reach a satisfactory outcome to concerns raised in active dialogue with a Company, then the Member should consider on a case-by-case basis whether to escalate their action, for example, by:

- voting against management resolutions;
- holding additional meetings with management specifically to discuss concerns;
- expressing concern through the Company's advisers;
- meeting with the board chair, lead director, or all independent directors;
- intervening jointly with other Members or institutions on particular issues;
- making a public statement in advance of a Company shareholder meeting;
- submitting resolutions at Company shareholders' meetings; and
- requisitioning a special meeting, possibly to change the board.

When a Member intends to engage in any of the above actions, the Member should determine if the Company should be informed in advance and be provided with the reasons of the Member's action. Where it would make intervention more effective, the Member should communicate with other shareholders.

## **5. Evaluating and reporting**

A Member which is actively involved with Companies should maintain a clear audit trail, for example, of records of private meetings held with a Company, of votes cast, and of reasons for voting against the Company's management, for abstaining, or for voting with management. A Member that acts as an agent should use this information to provide a regular report to the Member's clients in respect of how the Member has discharged its responsibilities. Such a report should also include a self assessment on the impact and effectiveness of the Member's activism.

Transparency is an important feature of effective shareholder activism. A Member should not, however, make disclosures that would be counterproductive. Confidentiality, in specific situations, may be crucial to achieving positive outcomes.

## **6. Conclusion**

The Canadian Coalition for Good Governance believes that adoption of these principles will enhance how effectively Members carry out their responsibilities in relation to the companies in which they invest. To ensure that this is the case, the Canadian Coalition for Good Governance will monitor industry developments with a view to reviewing and revising this statement of principles as required.