2021 PROXY SEASON REVIEW: ESG-RELATED SHAREHOLDER ACTIVISM

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With an increased focus on climate change and corporate responsibility globally, Canadian companies have seen increasing pressure from shareholders to adopt environmental, social, and governance ("ESG") measures into their operating, governance and talent strategies.

Hugessen keeps an eye on shareholders' sentiment and growing trends, especially as it relates to executive compensation. Shareholder proposals are a good indicator of growing trends and interest amongst the community. **Again, this year, among the TSX60, we witnessed an increasing number of ESG-related shareholder proposals.** This article provides an overview of ESG-related shareholder activism from the most recent proxy season – notably a focus on **Environmental and Social factors**.

Environmental Factors

This year, nineteen shareholder proposals submitted to a shareholder vote at TSX60 companies were related to environmental concerns, up from six in the previous year. These proposals were primarily focused on climate-related topics – from disclosure to say-on-climate.

Though many of the environmental proposals submitted received single-digit support, we identified three instances where shareholder support was greater than 15%:

The majority of these proposals were put forward by The MEDAC Shareholder Education and Defence Movement (MEDAC). Historically, many of the proposals put forward by MEDAC, have taken a more avant-garde approach than most mainstream institutional shareholders; however, in some cases, their ideas have served as a "barometer" for future trends that have become widely accepted across the broader shareholder community.

Company	Proponent	Proposal Details *(Condensed)*	Results
RBC	SumOfUs	RBC to adopt company-wide, quantitative, time-bound targets for reducing greenhouse gas (GHG) emissions associated with underwriting and lending activities and issue an annual report, discussing its plans and progress towards achieving these targets.	31.1% FOR
CIBC	MEDAC	CIBC to produce a report on the loans it has made in recent years to support the circular economy.	22.5% FOR
BMO	Harrington Investments, Inc.	Board of Directors to issue a report describing a clear plan to make the greenhouse gas footprint of the company, including the portfolio on lending practices, carbon neutral. In doing so, it should describe the process of curtailing or transforming the bank's financing of the fossil fuels sector.	16.2% FOR

Say on Climate – *Gaining Momentum*

Say-on-climate is a non-binding advisory vote on the climate strategy of the organization gaining recent traction in Europe and North America

- Voluntary adopters in 2021: Both Canadian National Railway Company & Canadian Pacific Railway Ltd adopted say on climate practices after they were brought forward by shareholders
- Views on its efficacy differ – Glass Lewis generally recommends against, citing concerns around the adequacy of data and ability to analyse it, while large institutional shareholders such as CDPQ have expressed support for the advisory votes, viewing say on climate as a tool to foster the transition towards a sustainable economy

It is the view of some institutional investors that climate-related reporting is too new to implement say-on-climate. These investors prefer to voice their dissatisfaction by voting against the re-election of directors responsible for sustainability oversight, as discussed in a recent ICGN webinar

Behind the scenes, initiatives such as **Climate Action 100+**, are also working with management and investors to make progress in reducing greenhouse gas (GHG) emissions. In the case of **Teck Resources Limited**, Climate Action 100+ has partnered with organizations such as the **Shareholder Association for Research and Education (SHARE)**, to work with management in their approach to climate governance. In 2021, the company announced their commitment to net-zero by 2050 and set targets for the interim. The company has also enhanced their climate-related disclosure for both their current and proposed operations.

Beyond TSX-listed companies, global oil and gas companies are facing increased pressure from shareholders on environmental activities through a range of strategies:

- A shareholder proposal at Chevron Corporation requesting climate-related accounting to transition the company to clean energy, received 62% support. Following the proposal, in October 2021, the company announced that it would set a net zero emissions target for **2025**.

- Exxon Mobil Corporation recently gained three dissident directors, appointed by an activist investor, on a backstory of climate transition, governance, and director expertise.

- Royal Dutch Shell (RDS), a company that is illustrative of the ESG-related compensation debate, was ordered by a Dutch court to deepen carbon emissions cuts as part of their climate strategy, potentially creating momentum for legislators worldwide. *RDS has since announced that it will appeal the ruling* [1].

BlackRock – *Sustainability Accountability*

BlackRock is taking steps to use its ownership position to become an outspoken shareholder on ESG-related proposals. As set forth in its voting guidelines, BlackRock may vote against accountable directors if corporate disclosures are insufficient to make a thorough assessment or if a company has not provided a credible plan to transition its business model to a low-carbon economy. It may also support shareholder proposals that it believes address gaps in a company's approach to climate risk and the energy transition.

By the numbers:

- BlackRock voted in support of 64% of environment-related shareholder proposals in 2021

- The company voted in support of the RBC proposal to adopt GHG emissions targets stating, "…[we] believe that supporting the proposal may accelerate the company's progress on climate risk management and/or oversight."

- In 2021, BlackRock voted "AGAINST" 255 directors due to climate issues

Social Factors

The 2021 proxy season also saw an increase in proposals submitted to a shareholder vote, related to social concerns. Thirty-three proposals, up from nine in the previous year, were focused on topics such as living wage and diversity, equity and inclusion. Most proposal topics had to do with defining corporate purpose and COVID-related measures.

Company	Proponent	Proposal Details *(Condensed)*	Results
TMX	Atkinson Foundation	Report to shareholders on the extent to which the company's policies and practices regarding Indigenous community relations, recruitment and advancement of Indigenous employees, internal education on Indigenous reconciliation, and procurement from Indigenous-owned businesses compared to or are certified by external Indigenous-led standards of practice.	98% FOR

Note: The Board recommended FOR this proposal following engagement with the Atkinson Foundation

Contrary to this example, many proposals related to social measures were withdrawn following engagement between companies and their shareholders – suggesting that the parties may have reached some sort of agreement in relation to the proposal/issue.

How does this impact compensation?

Global investors and corporate affiliated organizations, respondents to the **2021 ISS Global Policy Survey**, agree that ESG metrics in compensation are an appropriate way to incentivize executives. Most believe that these metrics, financial or non-financial, need to be specific, measurable, and well-communicated to the market. The majority believe that short and long-term incentives are both effective vehicles for ESG metrics.

Looking forward, we expect increasing shareholder activism and engagement on ESG topics. Boards need to be prepared to discuss their ESG agenda, and how it integrates in performance (and sometimes in compensation).

ESG in compensation is a rapidly evolving practice and we understand it may be challenging for boards to navigate. Deciding which ESG metrics are important to the company and how to go about setting ESG targets requires boards to create new ways of setting targets and calibrating performance curves on new, non-financial metrics. Hugessen is experienced at guiding boards as they implement ESG in their compensation plans. Our work in ESG in compensation includes helping boards to determine which ESG metrics to focus on and how they should be implemented. This encompasses the decision of inclusion in the short-term and/or long-term incentive plan and the weight to place on achieving selected ESG metric(s).

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References

[1] To learn more about RDS's ESG-related compensation, **check out this case study**, written by Hugessen consultants.
