

QV UPDATE

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Trending Now

Most public companies hold their annual shareholder meetings in the spring. It's an important opportunity for shareholders to exercise their voting rights and participate in the corporate governance process. Here are some of the key themes we see heading into the 2018 proxy season.

Board composition – Strong boards enhance corporate performance. More than ever, investors are re-examining whether their boards have the ideal blend of skills and perspectives. They are requesting that companies outline detailed recruiting and evaluation practices, with an emphasis on addressing diversity. While ethnicity, race, professional backgrounds and tenure are all relevant components of diversity, gender remains the primary focus today.

Only 14% of board seats at TSX-listed companies are held by women and 39% of companies have no female directors. For the majority of companies that do, it is in the form of a single female director.¹ To address this issue, some countries have introduced legislated quotas. However, given the limited pool of female directors, a sustainable improvement will require the development of a stronger pipeline of female candidates. Since senior management experience is typically an essential qualification for directors, an adequate pool of female director candidates hinges on improved gender diversity within senior management teams. This proxy season, we expect to see more shareholder resolutions calling for formalized disclosure on the way companies are evaluating and building more effective boards.

Social and environmental risks – Renewed emphasis on social and environmental factors is redefining the way investment decisions are made. Investors are increasingly questioning corporate practices and demanding more information to better understand the impacts of their portfolios.

The corporate actions taken since the mass school shooting in Florida are examples of the increasing pressure on business leaders to take a stand on major issues. In the days after the tragedy, Dick's Sporting Goods, the largest US sporting goods retailer, said it would raise its minimum age for gun buyers and stop

selling assault-style weapons and high-capacity magazines. Actions were also taken north of the border – although Canadian retail co-op MEC does not sell guns, intense pushback from its members caused the company to cut ties with Vista Outdoor Inc., a maker of assault rifles. Vista also owns brands such as CamelBak, a popular line of water bottles sold in MEC stores.

Climate change is a particularly important issue for investors. The demand for more detailed information from companies has led to initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD). This voluntary set of recommendations created by the international Financial Stability Board aims to establish a consistent framework through which companies can communicate climate-related risks and opportunities. In the months ahead, we expect investors will continue to scrutinize the social and environmental consequences of their investments.

Effective compensation structures – Compensation plans for senior executives have become extremely complex. As the overall level of executive pay continues to rise, investors are spending more time analyzing incentive structures. Effective plans must align incentives with long-term corporate strategy and correlate closely with performance.

A recent report by Ontario Teachers' Pension Plan and the CPP Investment Board highlights increased use of one-off discretionary awards, including retention and severance payments, and signing bonuses. Although these tools should only be used in unique and exceptional circumstances, the data suggests they have become a regular source of additional rewards for executives. When used on a regular basis or for retention purposes, investors are right to question the effectiveness of the compensation structure in place and the quality of succession planning. With the majority of TSX companies now offering a Say on Pay vote to shareholders, investors can ensure their voices are heard. When casting our vote, we will assess whether plans incentivize the achievement of long-term strategy.

The common theme across each of these issues is increased scrutiny by investors. This proxy season, we and other investors will be looking for clear, detailed and thoughtful disclosure as we consider our long-term investment opportunities.

¹ More work must be done to boost gender diversity in Canada's boardrooms – Ekta Mendi & Beatrix Dart; G&M Feb 18/18