



Environmental and social shareholder proposals on the rise

Proxy voting season

For the investment industry, the arrival of April means it is proxy season. Most public companies have their annual meetings within a two- to three-month window, starting at the beginning of April.

Proxy voting is a key part of how RBC Global Asset Management (RBC GAM) engages with the companies in which it invests, as this provides a means of conveying its views on a range of important issues to boards and management. RBC GAM participates by voting in more than 2,500 of the approximately 3,500 shareholder meetings that take place in proxy season. Voting responsibly is part of RBC GAM's fiduciary duty and voting decisions are based on its customized Proxy Voting Guidelines. Preparing for the 2018 proxy voting season involves anticipating shareholder proposals RBC GAM expects to be filed in the upcoming season.

Shareholder proposals

The ability to put forth proposals at company meetings is an important right and tool for shareholders looking to improve company performance; however, shareholder proposals vary widely in terms of motivation, feasibility, rationale and materiality. In addition, each company's circumstances are unique. Accordingly, RBC GAM reviews all shareholder proposals on a case-by-case basis, but generally supports proposals that are reasonable and related to improved disclosure of a real risk or opportunity for the corporation. RBC GAM generally opposes proposals that mandate a specific course of action, based on the belief that management and the board are in the best position to make decisions on specific company operations.

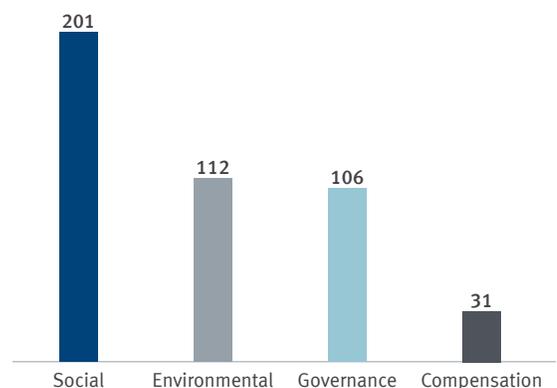
Trends in shareholder proposals

With increasing acknowledgement that environmental and social (E&S) issues are material to stock performance, RBC GAM is seeing an increased number of filed E&S

shareholder proposals. Bloomberg recently reported that E&S issues are becoming more frequent and, in fact, 2017 saw E&S proposals filed more frequently than corporate governance-related proposals.¹ This trend seems to be continuing for the 2018 proxy voting season, given data on the proposals that have been filed for upcoming meetings.

Exhibit 1: Social and environmental issues top the agenda

Number of Russell 3000 shareholder proposals filed for 2018



Source: Institutional Shareholder Services Inc., 2018

Environmental and social shareholder proposals

But which E&S issues are investors prioritizing in 2018? With respect to environmental issues, a recent survey, published by Ernst & Young, found that 64% of investors are asking companies to address climate risks and environmental sustainability concerns.² Notably the percentage of investors citing climate change as a priority has tripled since 2016.³ Specifically, investors are seeking improved disclosure, effective board oversight, and commitments to address company-specific risks and opportunities that relate to climate change.⁴

On the social side, the same survey also found that 82% of investors believe board composition should be a priority, with a specific focus on board diversity.⁵ This heightened interest

¹Bloomberg Briefs, "Proxy Season Preview 2018."

²Ernst & Young LLP, EY Center for Board Matters, "2018 Proxy Season Preview."

³Ibid.

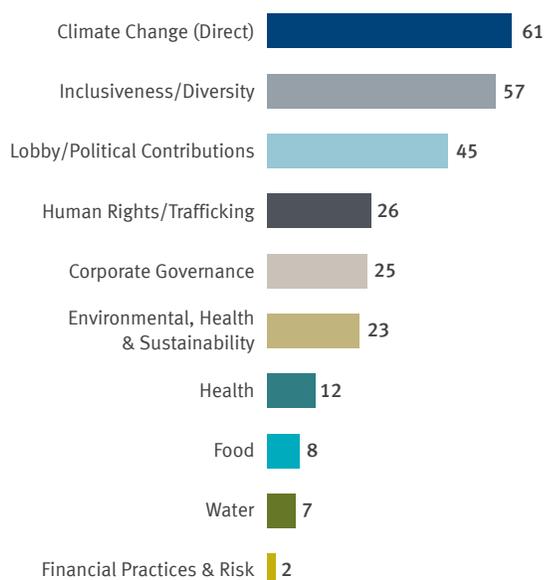
⁴Ibid.

⁵Ibid.

in diversity on boards is credited to numerous studies that demonstrate a link between company performance and board diversity, particularly with respect to an improved ability to identify issues and solve problems.⁶

Investors' increased interest in E&S is reflected in the resolutions filed for the 2018 proxy season – when looking at a breakdown of resolutions by issue (see below), the most frequently filed resolutions are on the issues of climate change and diversity.⁷

Exhibit 2: Resolutions by issue



Source: Interfaith Center on Corporate Responsibility

Voting E&S shareholder proposals at RBC GAM

What does this mean for RBC GAM in the 2018 proxy voting season? As mentioned, RBC GAM evaluates all shareholder proposals on a case-by-case basis. When evaluating E&S shareholder proposals, it is extremely important to identify material risks and opportunities associated with the issues at hand. There is careful consideration of the proponent's request in order to decide whether it is reasonable to expect the company to implement the proposal. Typically, RBC GAM supports shareholder proposals that ask for enhanced disclosure of a material issue that will not impose an unreasonable financial burden and will not require the disclosure of confidential information. RBC GAM also considers how the company's existing disclosure compares against industry practices and whether industry-disclosure practices sufficiently inform shareholders. As a result, a shareholder

proposal requesting enhanced disclosure of a material issue would likely warrant support if the company's existing disclosure lags far behind the majority of its peers.

A good example of an environmental shareholder proposal that is common and generally supported is one calling on companies to assess the impact of policies adopted to meet a "2oC scenario" target. 2oC shareholder proposals ask companies to consider the likelihood that laws and regulations designed to keep global temperature change to below 2oC will be adopted. These laws and regulations could affect future revenue and the economic viability of assets. Typically, shareholder proposals are supported when a company does not provide adequate disclosure on how it identifies and manages these risks. When disclosure of this information would allow investors to better assess the company's exposure to climate-related risk and thus risk to shareholder value, the proposal is usually supported.

Common shareholder proposals to address social issues typically involve asking companies to report on gender-pay disparities when their existing disclosure is insufficient and practices lag behind peers. In most cases, companies failing to investigate this issue and address any existing gaps could put themselves at a competitive disadvantage in terms of the recruitment and retention of skilled workers as well as the potential for litigation and repercussions on brand and reputation. RBC GAM expects an increased number of these proposals in the 2018 proxy voting season and, if the circumstances surrounding them are similar, RBC GAM will likely support them again.

Expectations for 2018 proxy season

Looking ahead to the 2018 proxy voting season, RBC GAM expects to see proposals on a range of E&S issues, including those requesting enhanced disclosure on climate change, particularly on planning for a 2oC scenario, setting targets to reduce greenhouse gas emissions and enhancing disclosure on board oversight of climate-change policies. Similarly, as shareholders increasingly focus on the risks and opportunities associated with social issues, RBC GAM anticipates an increase in the number of proposals on board diversity, paid family leave and gender-pay gaps. As always, RBC GAM remains committed to voting in the best interests of its unitholders and believes that a thoughtful and informed approach to these proposals is an important way to add value for unitholders.

⁶Ibid.

⁷Interfaith Center on Corporate Responsibility, "2018 Proxy Resolutions and Voting Guide."

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Publication date: April 16, 2018