

Shareholder engagement: a way to enact change and create value

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Shareholder engagement is an increasingly hot topic. Though it originally may have seemed to be a token exercise, consisting of nothing more than delivering rote answers to questions on business performance, it has since become a key strategy for many institutional investors. In a 2017 survey of 475 institutional investors, 73% of respondents stated that shareholder engagement plays a critical role in their approach to responsible investing.¹ In the past decade, the use of shareholder engagement has risen sharply in the United States and Canada², prompting the question: Is this growing popularity justified? Does shareholder engagement work?

What is shareholder engagement?

Shareholder engagement refers to all of the ways that shareholders can influence the companies in their investment portfolios. Three main techniques are proxy voting, shareholder dialogue and shareholder proposals.

Through these techniques and others, shareholders are able to exercise their rights and privileges and have an impact on corporate policy. Their primary goal is to encourage the companies in their portfolios to adopt and maintain sustainable development practices, while simultaneously creating value and managing risks.

Proxy voting is a formal mechanism through which investors can express their concerns.

Dialogue takes place behind closed doors. It's a chance for investors to speak directly with company leaders about their concerns and discuss any expectations they have for change. As part of the dialogue, investors may visit facilities to gain a better understanding of the company's operations.

A shareholder proposal is a way to make a company and all of its shareholders aware of a specific ESG concern. It involves submitting a non-binding recommendation, meaning that it does not force management to take any action that would interfere with their ability to govern the company's affairs. This recommendation is then presented to all of the shareholders.



Dialoguing with companies to improve their ESG practices



Voting at shareholder meetings to influence ESG practices



Sending a team from Desjardins to visit a company's facilities

Source: DGAM, March 2019.

¹ StateStreet Global Advisors (2018). ESG Institutional Investor Survey. Source: <https://www.ssga.com/investment-topics/environmental-social-governance/2018/04/esg-institutional-investor-survey.pdf>

² Johnson and MacGregor (2017). Shareholder Engagement: An Evolving Landscape. Source: <https://corpgov.law.harvard.edu/2017/03/09/shareholder-engagement-an-evolving-landscape/>

The power of shareholder engagement

By investing in a company, we become a shareholder and a co-owner, which gives us a voice. Through shareholder engagement, we can use our voice to urge company leaders to take a long-term view and continually improve their practices. In other words, it's a way for us to fulfil our responsibilities as a shareholder.

Shareholder engagement relies heavily on communication and mutual trust between stakeholders. It helps the company's board of directors and senior management better understand investor expectations regarding environmental, social and governance issues,

as well as their effect on financial viability. At the same time, it allows the company's representatives to present their organizational culture to investors and explain the operational and commercial factors that influence their strategic long-term value creation goals.

Numerous studies have shown that shareholder engagement is an effective way to reduce risks, optimize returns and generate positive spinoffs for society and the environment.

A university study of publicly traded US companies between 1999 and 2009 shows that after successful engagement on social and environmental issues, **companies showed improved financial performance and governance.**³

According to statements from 225 institutional investors who participated in collaborative dialogues between 2007 and 2017, successful shareholder engagement leads to **improved profitability for target companies.**⁴

An analysis of activities carried out between 2005 and 2014 by a major European asset manager with 660 companies in its portfolio showed that **engagement attempts addressing social and environmental issues were successful in 60% and 53% of cases, respectively.**⁵

Shareholder engagement
means fulfilling your
responsibility as a shareholder:
Using your voice to
encourage companies to focus
on long-term issues.



³ Dimson, Karakas and Li. "Active Ownership," The Review of Financial Studies, Volume 28, Issue 12, 2015.

⁴ Dimson, Karakas and Li. "Local leads, backed by global scale: The drivers of successful engagement," Highlights from the Academic Network Conference and PRI in Person, 2017.

⁵ Barko, Cremers, and Renneboog. "Shareholder Engagement on Environmental, Social, and Governance Performance," CentER Discussion Paper Series No. 2017-040, 2017.

Shareholder engagement or divestment?

There is no such thing as a perfect company. Different investors may have different standards, and perceptions also shift over time. Seen through the rear-view mirror, today's common practices may be considered unacceptable—maybe even sooner than we think. Unexpected incidents might also occur, marring a company's reputation. These factors demonstrate the importance for the investors to exercise their rights as shareholders, instead of immediately divesting from the company. In this way, investors can adopt a responsible strategy that takes a company's current practices into account, but also gives them the option to seize opportunities and enact positive change.

If an investor divests from a company, they no longer have a seat at the table—they have no say over that company's policies. By holding on to their investments, they have the ability to influence the company through shareholder engagement.

However, this doesn't mean that investors should hold onto every investment. In some cases, the wisest course can be divestment, for example if dialogues have not been fruitful and the company remains firmly committed to its current practices, despite shareholder objections.



DGAM and shareholder engagement

Desjardins Global Asset Management (DGAM) is a responsible investment leader. To us, responsible investment is more than just including ESG criteria in our security selection process. We believe in shareholder engagement as a lever for positive change. We engage in constructive dialogue with companies when a problematic situation arises, if context and degree of complexity allow for it. We also use our influence to mobilize other shareholders, a proven technique that in many cases yields beneficial results for all stakeholders.⁶

Proxy voting

Exercising our right to vote allows us to express our point of view on the issues discussed at annual general meetings and special general meetings with shareholders. We believe that this right is particularly important, and in return we're committed to forming a clear, consistent position on each proposal submitted to a vote, in accordance with Desjardins values as well as those of our partners and clients.

Here are some key data and statistics on the voting rights exercised by DGAM during the period from January 1 to December 31, 2019⁷:



DGAM reviewed **3,919** corporate meetings and **42,646** proposals submitted to a shareholders' vote.

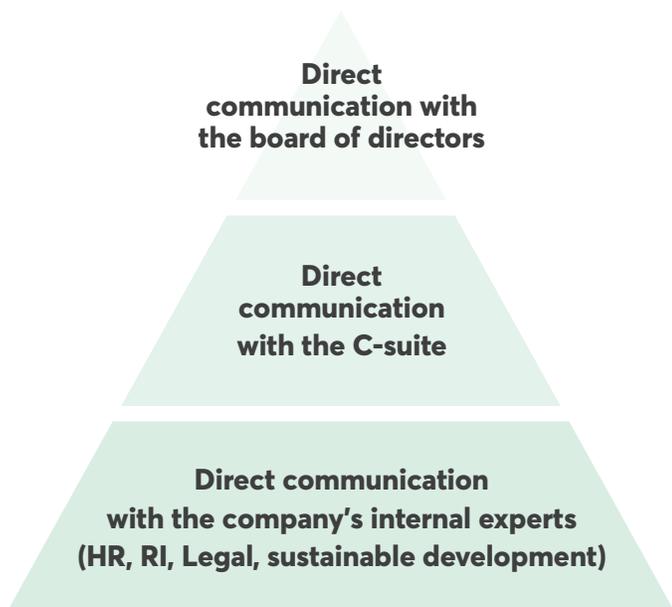
⁶ Dimson, Karakas and Li. "Active Ownership," The Review of Financial Studies, Volume 28, Issue 12, 2015.

⁷ DGAM, information from December 31, 2019.

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Shareholder dialogue

Shareholder dialogue is an integral part of DGAM's responsible investment strategy. This approach has a twofold objective. First, it enables the RI team to enhance their knowledge of each company's business model and strategies, so that they can make informed investment decisions. Second, it allows them to recommend ways to improve risk management practices and to identify opportunities unique to each organization.



DGAM has an innovative approach whereby the RI team and portfolio managers meet jointly with the board of directors and senior management of corporations. While we also engage in dialogue with sustainable development teams, having access to senior management and the board is an effective way for DGAM to speak directly with decision-makers about issues that can impact the company's value. This approach follows our responsible investment guidelines. It also encompasses ESG integration based on sector-specific risk factors in accordance with the *Sustainability Accounting Standards Board (SASB)* guidelines and DGAM's priority issues.

To that end, DGAM's RI team reviews its shareholder engagement priorities and reexamines its dialogue objectives on an annual basis. The criteria taken into account when companies are selected for the dialogue program include:

- Geographic locations
- Relative severity of ESG challenges associated with the companies
- Weighting of the securities in DGAM's managed portfolios
- Status of the relationship with the company's leadership
- DGAM's stance in past key votes
- Company's performance and proactivity when handling ESG issues
- Continuity in ongoing dialogues

When deploying the dialogue program, DGAM targets five major categories of actions to bring up to companies:



CERES (2019). The role of investors in supporting better corporate ESG performance. https://www.ceres.org/sites/default/files/reports/2019-04/Investor_Influence_report.pdf.

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The information gathered in these dialogues becomes part of DGAM's ESG analysis of the company and informs our decision on whether or not to invest. For example, a company that hasn't yet set up an official ESG disclosure program could still be considered for investment if it has implemented a strategy to adopt ESG standards. Conversely, a company may be removed from a responsible investment portfolio if shareholder dialogue is not productive.

Highlights from 2019⁸

199
interactions

Meetings with
127
companies

Most frequently discussed topics:

27%
Disclosure of
ESG factors

16%
Diversity

16%
Climate change and the energy transition

⁸ DGAM, information from December 31, 2019.

⁹ DGAM, information gathered during discussions with the company in 2020. To see their sustainable development report: <https://www.agnicoeagle.com/English/sustainability/sd-reports-archive/default.aspx>



Success grounded in respect for Indigenous communities⁹

Agnico Eagle Mines is a Canadian company that has produced precious metals since the mid-20th century. It currently operates mines in Canada, Finland and Mexico. After holding several meetings with Agnico Eagle directors and analyzing the company's situation, DGAM, the manager of the Desjardins SocieTerra Canadian Equity Fund, could see that the company has built respectful relationships with representatives of Indigenous communities by implementing and following best practices. To this end, Agnico Eagle supports the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and applies its principles in all of its areas of operation. In Nunavut, Agnico's ongoing collaboration with Indigenous communities has been particularly commendable. In partnership with the community, Agnico has developed a career training program and has committed \$3.6 million yearly to the plan—an amount they have more than doubled already. A bilateral cultural education program has also been set up to give all employees more insight into each others' lives, with the goal of fostering a safer work environment. The company significantly reduced its turnover rate by partnering with Indigenous communities to adapt its operations to the hunting seasons and other local traditions. The company's decontamination services and transportation of its hazardous waste away from the local Indigenous community are just two of the many initiatives that demonstrate Agnico Eagle's exemplary practices. DGAM has every intention of continuing its dialogue with Agnico in 2020. It will also initiate discussions with other companies in the materials sector on building better relationships with Indigenous communities.

When proxy voting leads to productive dialogue: our experience with a Canadian bank¹⁰

The board of directors and senior management at a Canadian bank recognize the importance of maintaining strong, consistent dialogue with shareholders. Since 2017, the board has taken measures to improve its approach to investors, initiating dialogue with shareholders and organizing meetings with investors. DGAM met with this bank in 2019, during which time it reaffirmed its commitment to the process.

After DGAM voted against an executive compensation plan, the bank contacted us to hear more about our position on executive compensation disclosure. Acting on the recommendations of Desjardins and other investors, the bank made several changes to its compensation structure to bring it in line with industry best practices.

This dialogue also gave us the chance to make other recommendations, including one that led to the adoption of a diversity and inclusion policy. Today, this bank aims to have a board of directors that is more than 30% female. It has also committed to adopting practices that adequately reflect the ESG factors that apply to its industry.

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Development opportunities

Research and our own experiences have both shown that shareholder engagement is an effective tool that deserves even more attention. A growing number of investors worldwide have made shareholder engagement an integral part of their strategy to implement value-added change.

DGAM is no exception. We believe that our responsibilities as an institutional investor are not limited to questioning corporate practices; instead, we believe it's our duty to help companies implement the best practices to deal with the issues we face today. Furthermore, given the strong results we've achieved so far, we plan to broaden the scope of our dialogue program to include US companies and collaborate more frequently with other shareholders.



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¹⁰ DGAM, internal data as at December 2019.