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Introduction

In 2005, CCGG published its *Statement of Principles Regarding Member Activism* outlining principles and best practices for shareholder involvement with Canadian companies in which they are invested. The purpose of this document is to update those principles and to provide guidance to institutional investors on active share ownership and its benefits.

We encourage all institutional investors to carefully consider these principles in relation to their investments (recognizing that there may be practical considerations which limit active ownership activities to Canadian investments) and the best interests of their beneficiaries or clients.

Increasingly, institutional investors are integrating governance considerations into their investment process. Enhanced monitoring and engagement by shareholders as a part of that process should be welcomed by companies as it will assist them in improving their governance practices, lowering their risk and attracting institutional investors.

In this document, “institutional investors” refers to pension plans, mutual and other fund managers and similar organizations that invest on behalf of others and strive for long term, sustainable value for shareholders in their investee companies.

The Value of “Good Governance”

CCGG believes that companies that follow well-accepted principles of “good governance” have less risk and generate greater long term value for their shareholders than comparable companies with less robust governance practices. “Governance” includes how the board is structured and how it operates, the board’s approach to executive compensation and shareholder engagement and the board’s oversight of the company’s risk management policies, including its environmental and social risks. (See www.ccg.ca for CCGG’s policies on good governance such as our *2010 Building High Performance Boards*).

Engagement

Collaborative engagement, either through CCGG or with other institutional investors on a particular issue, can be an effective and efficient way to monitor the governance practices of companies. For example, engagements undertaken by CCGG have proven to be an efficient way to provide members with the information they need to individually vote their shares and to communicate the views of members to boards, and vice versa. Collaborative engagement may also be more effective as it is often more compelling for a company to implement governance improvements sought by a group of its institutional investors as opposed to those sought by one investor. (See CCGG’s policies on board engagement for additional details).

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CCGG recognizes that its members, as institutional investors, always have the right to engage individually with a company and may determine that it is in the best interests of their beneficiaries or clients to do so.

Principle 1 - Monitoring of Investee Companies

Monitoring the governance practices of its investee companies can assist an institutional investor in:

- satisfying itself, to the extent possible, that a company's board and management have appropriate structures and controls in place to achieve the company's objectives, while minimizing unintended risks and maximizing shareholder value
- identifying problems at an early stage to minimize any loss of shareholder value, and
- exercising its voting rights effectively and in the best interests of its beneficiaries.

Effective monitoring can include:

- reviewing annual reports, management information circulars and other public disclosure (including meeting resolutions)
- obtaining research and/or analysis from third party sources
- sharing research and information with other investors or investor groups, and
- attending or monitoring formal company meetings where questions may be raised, as necessary, about the company's affairs.

Principle 2 - Exercising Voting Rights

Institutional investors generally should vote all the shares they own in a company where it is in the best interests of their beneficiaries or clients to do so. Institutional investors should use their best efforts to ensure that their voting decisions are made in light of the particular circumstances of each company and should avoid a 'check the box' approach. Accordingly, institutional investors should not automatically support management or directors and should cast their votes only after carefully considering all relevant information.

If an institutional investor uses outside service providers to assist it in arriving at its voting decisions, the institutional investor should assess the advice it receives rather than automatically following it.

Principle 3 - Engaging with Investee Companies on Governance Matters

When monitoring reveals significant governance concerns or uncertainty in a company in which an institutional investor has a material interest, the institutional investor should consider whether actively engaging with the board of the company, either individually or collaboratively, is appropriate and in the best interests of its beneficiaries or clients.

In general, the purpose of engagement on governance matters is to improve the effectiveness of the board, its committees and its directors in minimizing risk and maximizing the long-term value of the company. When institutional investors engage with boards and directors they do not want to receive any material non-public information about a company.

Issues that might lead to active engagement include concerns about:

- the quality of a company's disclosure
- the company's approach to governance, including the rights afforded to shareholders and the board's approach to executive compensation, and/or
- the board's oversight of risk, including environmental and social risks.

Where concerns exist, a wide range of engagement activities can be considered, including:

- correspondence with a board
- confidential discussions and/or meetings with board members
- use of voting rights
- making public statements
- submitting shareholder resolutions or proposals, and/or
- requisitioning special meetings to address specific concerns and/or replace board members.

Institutional investors expect boards to react positively to engagement activities. In cases where an institutional investor is of the view that a board's response to issues raised in the engagement process has been unsatisfactory, that investor should carefully consider an appropriate response.

Principle 4 – Monitoring and Engaging with Regulators and Policy Makers

Institutional investors' ability to protect the long term value of their investments depends, in part, on the existence of laws and regulations that properly protect shareholders' rights and allow them to satisfy their fiduciary obligation to ensure the efficient use of the capital they provide. Where possible, institutional investors should engage with regulators and other policy makers to improve the existing regulatory environment and to ensure that the perspectives of shareholders are considered when new laws and policies are being developed. In this area, given that institutional shareholders often have common interests and perspectives, collaborative engagement with regulators can be a particularly efficient and effective way for them to improve the laws and regulations that affect their interests.

Principle 5 – Providing Transparency of Voting and Engagement Practices

Institutional investors should strive to be as transparent as possible with respect to their approach to voting and engagement, recognizing that at times confidentiality may be crucial to achieving a positive result. Institutional investors may consider one or more of the following:

- establishing proxy voting policies or guidelines and making them publicly available
- whether it would be appropriate to advise a company in advance of an intention to vote against or abstain from voting on a particular matter
- making their voting record publicly available within a reasonable period of time following a shareholder meeting or as required by law, and
- establishing policies on how they intend to engage with investee companies, individually or collaboratively, including the various circumstances that may give rise to engagement and the different methods of engagement that may be used, and making those policies publicly available.

Note: This document replaces the CCGG's 2005 *Statement of Principles Regarding Member Activism*

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