

# Enhancing shareholder value through active ownership



## Key areas of focus in our approach to shareholder engagement

At Russell Investments, we believe that an integrated approach to active ownership<sup>1</sup> is an important component of our responsibility to protect and enhance the value of our clients' assets.

Our objective, through our active ownership activities, is to provide an integrated and inclusive approach to promote changes that protect and enhance shareholder value. We find that corporate engagement is the first step to affecting positive change by allowing companies to address outstanding issues. Through our multi-faceted approach to investment management, we leverage our relationships to employ multiple levels of corporate engagement. This includes engaging with the sub-advisors we hire in our portfolios, our proxy vendor, market participants, as well as direct corporate engagements. We remain open and inclusive in our approach, combining both internal and external data and analysis, allowing us to make more informed and thoughtful voting decisions.

As a signatory to the UN-supported Principles for Responsible Investing ("PRI"), we place specific importance on integrating environmental, social and governance ("ESG") issues into both our overarching investment process, and specifically in our active ownership approach towards protecting shareholder value. We place high importance on corporate governance best practices, and the appropriate measures of risk mitigation, and seek to gather additional information regarding these topics from both investee companies and the sub-advisors we hire within our funds. In our engagements, we aim to have a consistent approach, with a clear direction for each discussion. We have designed this approach to enable

the Proxy Voting Committee to resolve any material conflicts of interest between clients, on the one hand, and Russell Investments or its affiliates on the other. This integrated process allows us to have a more comprehensive understanding of the impacts of the proposals upon which our Proxy Voting Committee is asked to vote.

To facilitate more meaningful engagements on topics with significant impact to shareholder value, we have identified key focus areas. These focus areas are utilized across our engagement efforts, providing a consistent and directed approach. These topics will be reviewed and adapted over time to account for changes in market interests.



<sup>1</sup> Active ownership is when investors utilize their ownership to vote on and engage corporate managers and boards of directors to address concerns of environmental, social and corporate governance (ESG) issues. Active ownership is utilized to address business strategy and decisions made by the corporation in an effort to reduce risk and enhance sustainable long-term shareholder value. [riacanada.ca](http://riacanada.ca).

## Independence / accountability

The board of directors is the focal point of corporate governance – directors represent the shareholders, and are charged with safeguarding investors' interests. Shareholder interests are best represented by an independent, accountable, responsive, and diverse board of directors. Independence is necessary to ensure that the board is able to effectively set company strategy and scrutinize company practices. Company directors must also be accountable to shareholders and companies should institute policies which promote this accountability. Specifically, companies should institute policies for majority independent directors, allow for shareholders to vote to remove directors for inadequate performance or attendance, and allow shareholders to nominate directors.

As demand for accountability has increased, alongside demands on time to effectively discharge board level responsibilities as well as an increase in the sufficient time devoted to board duties, we closely monitor these issues for potential engagements. Low attendance of board members at meetings signifies a level of low commitment - if a board member does not meet specific thresholds set out in our Proxy Voting Guidelines, we look for possible over-boarding issues. In our Guidelines, we also address the issue of directors who serve multiple boards and require a lower number of boards served by those that are Chief Executive Officers.

For proxy access proposals, we specifically look for proposals which are in line with industry standards (3% ownership for at least three years<sup>2</sup>). Although we view engagement as the most effective method of discourse, we may vote against directors to demonstrate our opposition to poor oversight.

## Compensation

Over the last five years, executive compensation has continued to be a topic of debate and concern for investors. Since we believe that aligning executive compensation with corporate performance is in shareholder best interests, this is a frequent topic of

engagement. Specifically, we seek to engage with companies that have a pay and performance disconnect, as identified using Glass Lewis' pay-for-performance proprietary metrics. Additional details as to our compensation valuation can be found in our Proxy Voting Guidelines<sup>3</sup>.

During our discussions with these companies, we state any concerns that we have with their current compensation structure and provide context regarding our evaluation criteria. Concerns with compensation include, but are not limited to, single metrics used in determining performance levels and pay, excessive incentives or rewards, lack of claw back provisions and compensation above peer averages. If a company does not improve in these areas on an ongoing basis, we will consider voting against members of the compensation committee at subsequent shareholder meetings.

## Diversity

We believe that shareholder interests are best served when a company focuses on diversity and inclusion, both in terms of board membership and in corporate practices. There is increased recognition that a diverse team leads to greater successes than a non-diverse team, with benefits including better task performance and greater organizational stability. With that in mind, we focus our engagement efforts in this area on increased awareness of the impact of diversity on firms' investment performance and culture. We focus our engagement efforts on this topic with companies that: have low diversity amongst board members; do not have/have limited discrimination policies; and have inadequate disclosure surrounding company diversity practices. Due to the significant reputational risk involved with inadequate disclosure or action in this area, we want to ensure that companies are effectively managing this risk and its potential negative impact to shareholder value. We seek companies without a material number of team members that represent dissimilar perspectives such as gender, ethnicity, nationality, and/or language ability. In these conversations, we also take into consideration the diversity of experience and knowledge that inspire

<sup>2</sup> Source: Glass Lewis "In-depth: Proxy Access" March 2016

<sup>3</sup> Russell Investments Proxy Voting Guidelines. [russellinvestments.com/-/media/files/us/legal/russell-investments-proxy-voting-guidelines.pdf](https://www.russellinvestments.com/-/media/files/us/legal/russell-investments-proxy-voting-guidelines.pdf)

various perspectives, while still highlighting the importance of continued improvements in this area.

We understand that improvements in this area take time to implement, and look for companies to make changes over time. However, if a company does not appear to improve in this area, we will consider withholding votes from director nominees.

## Sustainability

Scrutiny regarding improper oversight of various issues (bribery, corruption, compensation, human rights, environmental risks and diversity to name a few) have caused the necessity and demand for corporate engagement to increase. Since there is the potential for both significant financial and reputational risks resulting from a company's sustainability practices, it is important that companies provide adequate disclosure regarding the steps being taken to mitigate these risks to their shareholders. As PRI signatories, we encourage the appropriate disclosure on ESG issues, identifying areas in which a company lags behind peers or is lacking disclosure. For companies which may not have the awareness or resources to provide sustainability reporting, we endeavor to bring greater understanding of the importance of these reports and the metrics utilized by investors.

To this end, we generally support measures to increase transparency and reporting surrounding environmental and social risks where there is the potential for material impact to shareholder value. Companies with which we typically engage on this topic are either being asked to evaluate new levels of disclosure more specific to their given industry, or do not have adequate disclosures to provide this kind of information to shareholders. If a company does not appear to make improvements to their disclosure in

this area, we may vote against director nominees in opposition to poor oversight and/or unresponsiveness.

## AREA OF EMPHASIS IN EACH ENGAGEMENT DISCUSSION

### Shareholder outreach

Corporate engagement allows for an open dialogue between a company's management and investors, bringing awareness to issues of interest to shareholders. We strongly believe that companies should make themselves available for discussion with shareholders, and remain responsive to concerns expressed within the market. In our view, before a shareholder proposal is put on the ballot for a shareholder meeting, the company should have met with the proponent in order to understand their perspective, and address the concerns being brought forth. Inaction on the part of the company in regard to engaging with shareholders could pose significant reputational and financial risk, which could negatively impact shareholder value. In our engagement discussions, we look to recognize the efforts companies have made to address investor/proponent concerns, gain a deeper understanding of the barriers companies face in their efforts to meet investor demands, and to demonstrate our support of this corporate governance best practice.

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Find our more.

➤ To find out more about our approach to stewardship and active ownership, please contact us by phone or visit our website.

Call 866-737-2228 or visit [russellinvestments.com/ca/about-us/responsible-investing](https://russellinvestments.com/ca/about-us/responsible-investing)

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