

Sustainable Investing

ADDENDA

CAPITAL

December 2016

Enhancing Long-Term Value through Voting and Engagement

In a few weeks, many people will be focused on keeping up with their new year's resolutions. It will also be the start of an important season in the financial industry: voting season. Indeed, the majority of annual meetings take place during the first half of the calendar year. For example, in 2016, Addenda Capital voted at 227 meetings and of these over 90% took place between January and June.

Voting: A Key Component of Sustainable Stewardship

The right to vote at annual and special meetings is one of a shareholder's most important rights. By voting at shareholder meetings, Addenda Capital aims to affect governance, communicate preferences and signal confidence or lack of confidence in a company's management and oversight.

Evidence shows that companies that have good corporate governance are likely to sustainably generate more long-term value for their shareholders and other stakeholders.

Proxy Voting: The Process

Addenda usually votes "by proxy" by instructing someone to vote our clients' shares in accordance with our instructions which are based on our Proxy Voting Guidelines. We will, if necessary, attend a meeting to vote in person.

All year long, we monitor the environmental, social and governance ("ESG") practices of the entities in which we invest. During voting season, we also enlist the help of Glass, Lewis, & Co., an independent investment research firm that provides global proxy advisory and voting services.

We consider each ballot item and determine how to vote in a manner consistent with the guidelines outlined in Figure 1 (see next page).

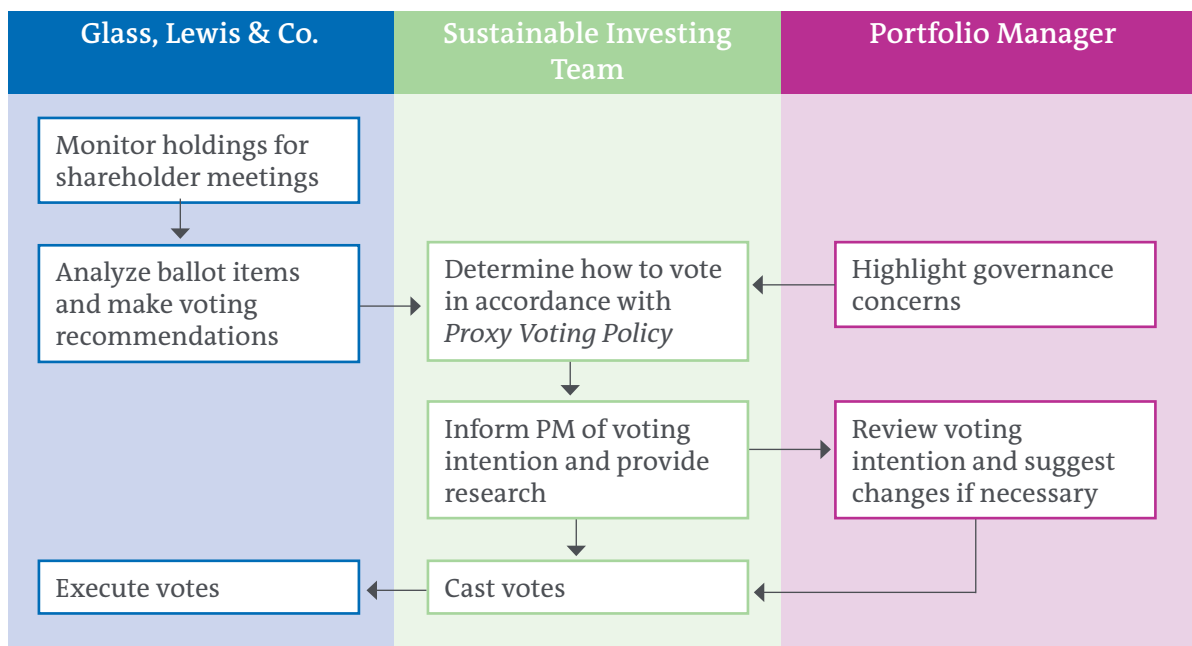
Companies that have **good corporate governance** are likely to sustainably generate **more long-term value** for their shareholders and other stakeholders.

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Insightful research: the key to our expertise

Figure 1. Addenda Capital's Proxy Voting Process

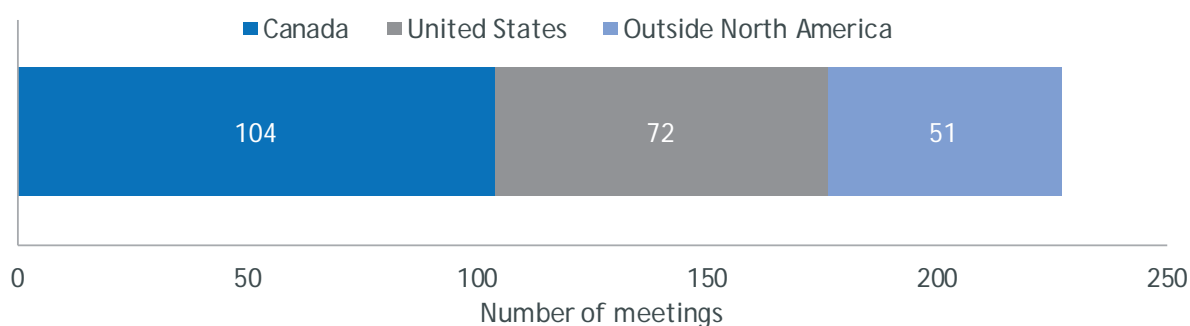


Source: Addenda Capital

Highlights from the 2016 Season

During the 12 months ending June 30, 2016, Addenda Capital voted at 227 meetings. 77% of those meetings were held in North America, including 45% in Canada (see Figure 2).

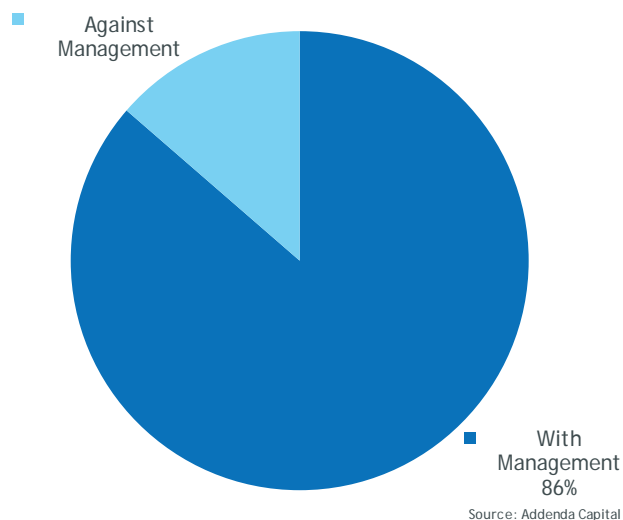
Figure 2. Proxy voting at annual and special meetings during the year ending June 30, 2016



Source: Addenda Capital

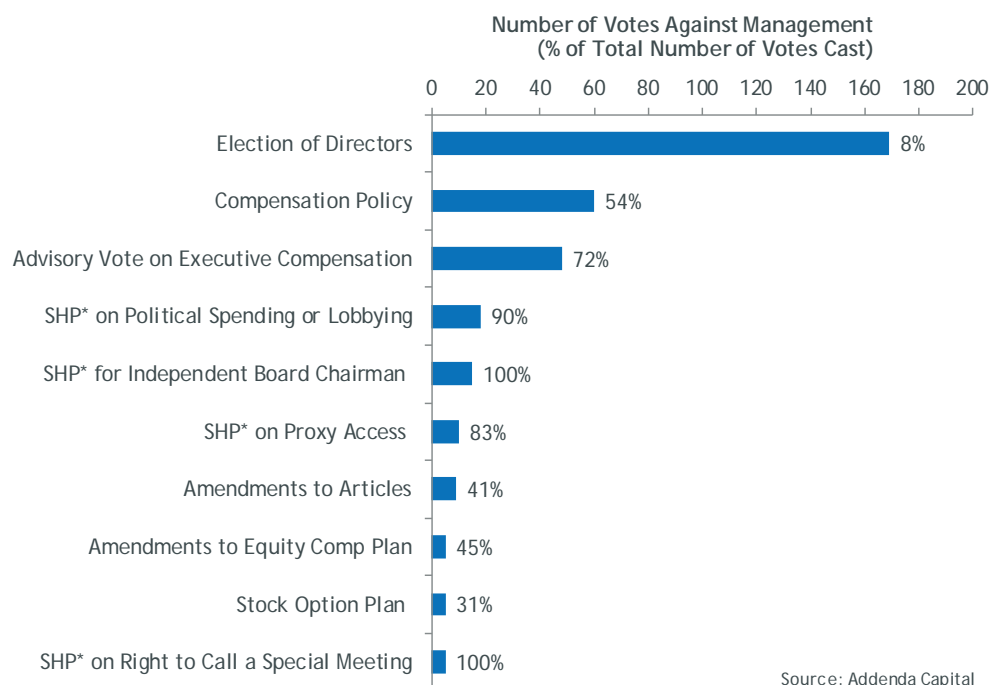
In total, we were presented with 2,709 proposals. On about 14% of all ballot items, we voted against management or board recommendations (see Figure 3). Voting against management recommendations is not in itself an effective measure of our voting process. But it does highlight our willingness to vote in the best interest of our clients and our ability to effectively and critically analyze each ballot item.

Figure 3. Votes against management recommendations during the year ending June 30, 2016



Most often, when we voted against management recommendations, the proposal was about the election of directors (see Figure 4). For this type of ballot item, we cast 169 votes against management recommendations, which corresponds to 8% of a total of 2,011 nominees that we voted on. We opposed the nominees for various reasons including a lack of independence on a board, a nominee’s apparent lack of effective oversight on another board or the appearance of too many commitments to fulfill their duties as a director.

Figure 4. Top 10 ballot items for which Addenda voted against management recommendations during the year ending June 30, 2016



*SHP: Shareholder Proposal

Vote Examples

Below are two examples of real votes from this past voting season.

Table 1

Approval of Executive Compensation (Management Proposal)	
Company	US software company (name withheld)
Addenda's Proxy Voting Policy	<p>Oppose executive compensation that contains any of the following major issues:</p> <ul style="list-style-type: none"> + Overuse of absolute metrics because they may reflect economic or industry factors beyond the control of executives + The use of a single performance metric for incentive programs + Short-term and long-term incentive plans that are based on similar metrics + Performance targets that are not sufficiently challenging or are lowered without justification + Target long-term incentive awards that are not based significantly on performance measures + No limits on incentive payments + Performance measures for long-term incentive awards that are measured over less than three consecutive years
Addenda's Vote	Vote AGAINST
Rationale	<p>It is not clear that executive compensation sufficiently ties pay with performance in a manner that aligns executives with the long-term interests of the company. For example:</p> <ul style="list-style-type: none"> + The company's long-term incentive program only uses one year of performance. Performance conditions should be measured over at least three consecutive years. + The use of absolute metrics for incentive programs may not be appropriate. Performance conditions should include relative targets. + The short-term and long-term incentive programs are based on similar financial metrics which allows for a high level of pay-out (or lack thereof) for hitting similar targets rather than considering a variety of financial and operational metrics.
Result	4% of votes cast were cast against this advisory resolution.

Table 2

Lobbying Disclosure (Shareholder Proposal)	
Company	US software company (name withheld)
Shareholder Proposal	Shareholder proposal requesting lobbying report.
Addenda's Proxy Voting Policy	Support reasonable requests to improve disclosure of political contributions and trade association spending and the company's related policies and practices.
Addenda's Vote	Vote FOR
Rationale	<p>Improved disclosure of political contributions, lobbying expenditures and trade association spending and the company's related policies and practices could help with the evaluation of related risks and opportunities.</p> <p>Shareholders would benefit from learning more about the policies and procedures employed by the Company in making its expenditures, as well as the role of the board in approving such policies and procedures.</p>
Result	40% of votes cast were cast for this shareholder proposal.

Policy Improvements

In a continued effort to formalize our sustainable investing practices, we made the following changes in 2016:

New Stewardship Policy

Addenda introduced a new policy that includes sections on conflicts of interest, monitoring, and engagement. If Addenda has concerns about a company's strategy, performance, governance, compensation or approach to risks, including those that may arise from social and environmental matters, Addenda will engage with the company in order to protect and enhance the shareholder value for our clients. If the company is unresponsive to engagement, Addenda may file a shareholder proposal or sell the securities issued by that company.

Addenda will also engage in dialogues with regulators and policy makers to promote sustainable development and the consideration of investor views.

New section on disclosure in our Sustainable Investing Policy

We will report on our sustainable investing activities to our stakeholders at least annually, including voting and engagement activities and applicable policies. We also streamlined the principles in our policy partly to align with the framework provided by the United Nations-sponsored Principles for Responsible Investment.

New additions to our Proxy Voting Guidelines

Our Proxy Voting Guidelines have also been expanded to include more issues and more stringent requirements. For instance, we increased our stringency on the payment of non-audit fees to independent auditors, clarified our support for shareholder rights like the right to call a special meeting or the ability to nominate director candidates and added additional guidance for environmental and social shareholder proposals. We also clarified our views on a number of executive compensation issues.

Conclusion

Our stewardship activities help us protect and enhance the long-term interests of shareholders and other stakeholders. Through voting and engagement, we are able to affect governance practices, communicate preferences and signal confidence or lack of confidence in a company's management and oversight.

Links

[Sustainable Investing Policy](#)

[Proxy Voting Policy](#)

Always in pursuit of
added value

Addenda Capital is an investment management firm providing solutions for institutional and high net worth clients. We offer our clients expert services in a broad range of asset classes. Our mission is to add value through innovation, discipline and integrity, and to nurture genuine partnerships with our clients.

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