



THE
DEFINITIVE
GUIDE TO
DIRECTOR-
SHAREHOLDER
ENGAGEMENT



KINGSDALE Advisors

WHEN YOU HEAR
*'SHAREHOLDER
ENGAGEMENT'*
THINK
*'SHAREHOLDER
TRUST'*

We hope you will find this publication useful as you consider how your board will respond to the new director-shareholder engagement paradigm.

As the circumstances of each issuer, its shareholder base and the situation it finds itself in will vary considerably, this publication is not meant to outline the specific actions a board should take in each circumstance.

It's a little like going to see a nutritionist. In general a nutritionist will tell a patient to eat a balanced diet, avoid sugary foods, and engage in physical activity, then customize their program based on their genetic makeup. Kingsdale's approach is similar: Our initial guidance here is to seek input from shareholders, have open and meaningful discussions and build long-term relationships, then we stand by ready to assist you in developing a customized board-level shareholder engagement program that works for you.

- What shareholders, by virtue of share position or other relevant metric, should directors be focused on?
- Are we building an ongoing outreach program or a reactive outreach program to respond to a known or anticipated issue?
- Will we be encountering long-term or activist shareholders?
- Where is the company in the maturity cycle for its industry?
- Is the focus on strategic issues, warranting meeting with a portfolio manager, or on governance issues, necessitating a meeting with the governance group?
- Will the topics discussed have a defined accountability set at the board level—such as the compensation committee chair for say-on-pay issues—that will dictate which director(s) should speak?

We hope you find this document useful and it leaves you a little more prepared to encounter the changing expectations of your shareholders.

Sincerely,



Wes Hall, ICD.D
Executive Chairman & Founder
Kingsdale Advisors

The State of Director-Shareholder Relations



When you hear the phrase *'shareholder engagement'* we want you to think *'shareholder trust'*. Gaining the trust of your shareholders doesn't happen overnight. It grows slowly through an ongoing commitment to transparency and openness.

As the elected representatives of shareholders, it is critical that independent directors not only participate in shareholder engagement but assume a leadership role.

Tone from the top is important and in today's complex governance environment the message needs to be sent that your company has a culture where shareholder voices matter. And not just when there is a problem. Year-round shareholders need to know there is a conduit to the board, should they need it.

Historically, the paradigm for shareholder communication has been set up backwards. Meaning it has been structured to *protect*—not *engage*—directors from shareholders by filtering request for contact through the buffer of management.

For too long the choices before shareholders about how to make their views known to directors have been limited. Withhold votes on directors and against votes on say-on-pay are ignored unless a significant number of shareholders happen to hold the same view. Within this context, shareholder activism then presents the only opportunity to make views known if one is not content to defer to management on all issues.

So what then is a shareholder who is not willing to launch an activist campaign to do? And, more importantly, how can directors be aware of shareholder sentiment and potential issues before they reach a boiling point?

There is a better way. One that flips the paradigm, enabling and equipping directors to draw out information and ideas from shareholders. As stewards of shareholder capital it is important for directors to receive an unfettered view.

Engaging directly with shareholders provides this opportunity and is an approach that requires an ongoing, give and take dialogue with shareholders and is designed to endure for the long term.

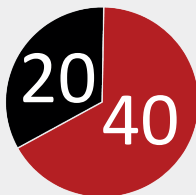
The engagement process at the board level should be viewed as an opportunity not to erect new barriers for fear of making a mistake or sending the wrong message, but for candour and an occasion to find common ground with shareholders.

At times this process may be uncomfortable for directors. They may be forced to confront some difficult truths about their company, its performance, management, and sometimes even about themselves personally. But as more and more companies are realizing, it is better to encounter these views privately than have them explode publicly.

That is not to say that director level shareholder engagement is solely about damage control or issues management. It's not. It's about taking the proactive steps today to ensure the company's relationship with shareholders is healthy and sustainable for the long term.

In the next three years we expect virtually all of the S&P/TSX 60 and a significant portion of the TSX will have an active shareholder engagement program involving their directors. Already some 40 issuers in the S&P/TSX 60 discuss their engagement with shareholders in their information circular and we expect that number increases when you consider those who have not disclosed.

S&P/TSX 60: Director-Shareholder Engagement



This momentum toward director level engagement reflects the practices we have been advocating for our clients since our inception. In fact, many of the approaches we have pioneered have now become mainstream such as governance roadshows.

Unfortunately, too many directors still nod their heads and say ‘good idea’ when it comes to shareholder engagement without actually putting the time in to making it happen. Gone are the days when a board could expect to fly under the radar and leave shareholder relations to management alone. If boards are to oversee management and ultimately be accountable to shareholders, they need a firsthand dose of reality and be seen as actively engaged.

We are rapidly approaching a tipping point where shareholders who are not getting the access and information they expect will soon hold directors accountable. Companies that are slow to move toward board level shareholder engagement will find that the bar is being set for them by the companies who are and their shareholders will judge them accordingly.



At worst, they will seek to replace directors who they deem responsible for the gap in communication. At best, they will not give the board the benefit of the doubt when a period of adversity, like an activist, confronts the company.

We have observed that an established dialogue between directors and shareholders can empower and embolden boards to make the tough but necessary calls, notably during a strategic review process, hostile takeover bid or when an activist emerges. Undoubtedly, shareholders who understand your strategy and see their input manifested in it will support it.

The choice then for those directors who currently sit on the sideline of shareholder engagement is clear: *Will you lead the wave of change or get caught under it?*

What Shareholders Want

Institutional investors have become increasingly clear in public comments and directly to issuers that they expect access to independent directors and a clear process for regular interaction. Their frustration stems from the fact that too often corporate communications becomes a routine exercise of checking regulatory boxes and issuing obligatory press releases, leaving companies with the mistaken impression they have ‘communicated’. There is a big difference between disclosure and engagement.

There are a number of reasons why shareholders want to meet with directors. Some topics they wish to discuss may concern board responsibility and the oversight of committees regarding executive compensation, audit and risk. Sometimes they think management has not adequately responded to their concerns or they feel management is in fact part of the problem. Often there is the concern that information is being filtered on its way to the board via the IR department or management.

Long-term shareholders are looking to provide their point of view as owners of your company. They want to share their perspectives with directors and feel like something is actually being done to address their concerns. Other times, they are lacking confidence in the long-term strategic direction of the company or want to discuss company performance, key risks in the sector or governance concerns.

SAMPLE BOARD LEVEL ENGAGEMENT

- ❏ **Eldorado Gold:** Disclosed that board and management engaged ~30% of shareholder base
- ❏ **Crescent Point Energy:** Disclosed that executives and the IR team engaged within top 25 shareholders
- ❏ **Kinross Gold Corp:** Disclosed that board and senior management engaged over one-third of shareholder base and the two proxy advisory firms
- ❏ **TransCanada Corp:** Disclosed that the board, executive and senior management, and IR team engaged more than 50% of shareholder base
- ❏ **Yamana Gold Inc:** Disclosed that the Compensation Committee engaged with ~40% of shareholder base

"IN AN INCREASINGLY VOLATILE WORLD WITH THE FREQUENCY AND SPEED OF CRITICAL MOMENTS OR RISKS RISING, THE GREATEST RISK A BOARD CAN TAKE IS TO NOT TAKE THE MEASURED RISK OF DIRECTLY ENGAGING THEIR SHAREHOLDERS. THIS IS NOT A TRIVIAL EXERCISE. SIGNIFICANT PLANNING AND EXPERT ADVICE SHOULD GO INTO THE CONSIDERATION OF UNDERTAKING THIS TYPE OF ENGAGEMENT."

THE RETENTION OF SOPHISTICATED, EXPERIENCED AND PROVEN STREET SMART ADVISORS IS ESSENTIAL TO PLAN AND NAVIGATE THIS PROCESS."

-Don Lowry
Chairman
Capital Power
Corporation

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"DIRECT SHAREHOLDER ENGAGEMENT ALLOWS DIRECTORS TO BUILD LONG-TERM RELATIONSHIPS WITH KEY STAKEHOLDERS. IT'S ALSO A GREAT WAY TO GAIN INSIGHTS INTO HOW SHAREHOLDERS EVALUATE THE COMPANY'S PERFORMANCE, A PERSPECTIVE THAT MAY BE DIFFERENT FROM THAT OF MANAGEMENT.

DIRECTORS CAN HAVE A DIFFERENT KIND OF CONVERSATION WITH SHAREHOLDERS, ONE MORE FOCUSED ON LONG-TERM DRIVERS AND RISKS TO THE BUSINESS. THIS ULTIMATELY REINFORCES THE SHAREHOLDER-ISSUER RELATIONSHIP."

***-Jean-Frédéric Bérard
Head of Relationship
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For example, shareholders will often want details regarding governance that won't necessarily be in an issuer's circular – like how compensation decisions were made and what level of discretion was exercised, scorecard metrics, evaluation process and consideration of non-financial KPIs like safety.

They will also want to verify and ensure they are comfortable with a board's statements around issues like succession planning, tenure and director education. Too many companies mistake a passive investment style for a passive approach to governance. In reality, if a shareholder is going to be with you in the long term, then good governance is critical to ensuring returns.

What activists want

Activist investors have also become increasingly vocal, criticizing many companies and working groups on the subject of shareholder engagement for overthinking something as straightforward as communications between a company and its owners. In their mind, presumably directors, by virtue of the position they occupy, have the ability and skill set necessary to decide who to communicate with.

Activists have hypothesized the effort to put together an elaborate communications protocol is simply an attempt to insulate directors and companies from inquisitive shareholders. They warn that approaches that are primarily designed to help a company spread its message and are absent of meaningful attempts to gather input will fall short. They want an understanding of how their input, as owners, will influence corporate strategy and decisions, and if it does not, transparency as to why.

What the proxy advisors are looking for

Broadly speaking, ISS and Glass Lewis' benchmark guidelines currently describe situations that require board engagement and responsiveness, mainly in reactive circumstances.

One of ISS' fundamental principles when determining votes on director nominees is "board responsiveness" which outlines constructive shareholder engagement. Within ISS' benchmark guidelines, they outline specific cases where board communications and responsiveness are expected.

ISS clearly outlines what it considers appropriate board responses which may include "disclosure of engagement efforts regarding the issues that contributed to the low level of support, specific actions taken to address the issues that contributed to the low level of support, and more rationale on pay practices" among other things. ISS will also expect shareholder engagement and board responsiveness where there has been a majority supported shareholder proposal or for management proposals receiving less than majority support.

Similarly, Glass Lewis believes that any time 25% or more of shareholders vote contrary to the recommendation of management, the board should demonstrate some level of engagement and responsiveness to address the shareholder concerns. Particularly to compensation issues, Glass Lewis believes "the compensation committee should provide some level of response to a significant vote against, including engaging with large shareholders to identify their concerns." Glass Lewis seeks evidence that the Compensation Committee is actively engaging shareholders on compensation issues and they may recommend holding Compensation Committee members accountable for failing to adequately respond to shareholder opposition.

Typically, issuers can demonstrate responsiveness by engaging shareholders and soliciting their feedback on concern items, enact and adopt changes and modifications, and then disclose such changes publicly via their information circular. Engagement efforts should also be described in depth within the circular including who was involved, aggregate level details on shareholders engaged and changes made as a result.

SHAREHOLDERS' HOT TOPICS

- Value creation
- Response to changing market conditions
- Company performance
- Operational issues
- Long-term strategy
- Board refreshment
- Management performance
- Capital allocation
- Safety
- Succession planning
- Executive compensation
- Diversity
- Cybersecurity
- Environmental issues
- Political and social issues

The Importance of Director Level Interaction and Benefits to the Board

"ANY OPPORTUNITY A BOARD HAS TO IMPROVE ITS AWARENESS AND KNOWLEDGE ABOUT THE MARKET'S VIEW OF THE FIRM'S INVESTMENT THESIS AND GOVERNANCE PRACTICES, IS TIME WELL INVESTED. FROM AN ENTERPRISE RISK ASSESSMENT AND STRATEGIC PLAN DUE DILIGENCE RESPONSIBILITY IT IS AN ESSENTIAL BOARD PRACTISE. IF BOARDS ARE TO PROVIDE MEANINGFUL OVERSIGHT, INSIGHT AND FORESIGHT TO THE PRESERVATION AND CREATION OF SHAREHOLDER VALUE THEY CANNOT LIMIT THEIR LISTENING AND LEARNING TO THE ANNUAL RITUALIZED AND HEAVILY SCRIPTED SHAREHOLDER MEETING."

-Don Lowry
Chairman
Capital Power
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Many boards insist they 'know' what their investors think, but too often this is based on anecdotal evidence vs. empirical data gathered from their shareholder base (especially by directors personally or an objective third party).

While many shareholders will cast votes 'for' a board or agenda item and a few will vote 'against', the fact is that even fewer are 100% with you or 100% against you. A shareholder's view of your company is not black and white. There are many views in between and, as the representatives of shareholders, it is the responsibility of directors to identify them.

In our line of business we often meet with boards in the midst of a crisis or activist attack who say they wish they had a better relationship with their shareholders and knew what they were thinking in advance. Improved communication is a cross-cutting theme that, if acted on, will make a lot of the other problems currently facing boards disappear. In fact, effective shareholder engagement is becoming a pre-requisite for high shareholder support.

Issues such as a lack of support for say-on-pay and preference for short-term fixes at the expense of the long-term strategy are symptoms of the underlying illness of an inability or unwillingness to communicate.

Here are some of the key benefits of director level engagement with shareholders:

Socializes shareholders. No one likes to be surprised, especially the owners of your company. Laying down track ahead of them well in advance is invaluable. Whether it is good news like a share buyback, bad news like a write-down of certain assets or an acquisition that could be misunderstood, making sure shareholders clearly understand those decisions within the framework of your overall strategy is important.

Showcases board expertise. Meeting with shareholders allows you to showcase the expertise, skillsets, and diversity of your board in a way disclosure in your circular can't. It provides a firsthand opportunity to demonstrate how those characteristics relate to the needs and challenges of the company.

Creates board self-awareness and increases understanding of expectations. Just as more boards are conducting board and director evaluations, it is important to understand how your largest shareholders view you. Talking to shareholders can give directors an unvarnished view of their performance in relation to shareholder expectations.

A SAMPLING OF SHAREHOLDER EXPECTATIONS

CPPIB: "Boards should encourage shareholder engagement and provide opportunities for shareholders to communicate directly with the board." (2016 Proxy Voting Principles and Guidelines)

bciMC: "As a large-scale investor, it is our responsibility to interact and, where appropriate, challenge companies about their policies and activities [...] our engagement focus is driven by the management of long-term risks and we pursue activities that are expected to have the greatest impact. bciMC may engage directly with companies on our own or collaboratively in partnership with other like-minded investors and organizations." (2016 ESG Engagement: Public Equities Priorities and Process)

AIMCo: "AIMCo champions a voice over exit approach- we prefer to engage with select companies to promote best practices and effect positive changes, where possible, rather than divesting of applicable holdings." (www.aimco.alberta.ca)

OTPP: "As a public company shareholder: [...] We use tools of engagement and proxy voting to instill good governance practices." (Responsible Investing Principles in Practice)

"THERE'S NO SUBSTITUTE FOR HEARING THE PERSPECTIVES OF KEY SHAREHOLDERS DIRECTLY, ESPECIALLY IF A COMPANY IS FACING SOME CHALLENGES OR IS AT A STRATEGIC INFLECTION POINT. THE BOARD'S DELIBERATIONS ARE ENHANCED WITH THE ADDITIONAL PERSPECTIVE WHICH CAN COME FROM THESE KINDS OF CONVERSATIONS."

-Shan Atkins
Director
SunOpta,
Darden Restaurants,
SpartanNash,
True Value
Hardware Company

We often see management try to soften the blow when delivering bad news, especially if it is with regard to a specific director. As Vanguard has pointed out, "We've observed that the best boards work hard to develop 'self-awareness,' and seek feedback and perspectives independent of management."

Builds trust and personal capital. Business decisions do not come down to the information on the page but how much you trust the information. Meeting with shareholders and building a relationship on an individual director basis helps to build personal capital, which serves to deepen shareholder support and investment and will work in your favour when issues arise. If you have a trusting relationship with your key shareholders, they are less likely to assume you are downplaying the severity of a problem or spinning the truth to make yourself look good.

Why Common Objections Don't Hold Water

Despite increasing pressure to improve shareholder engagement at the board level, many companies still continue to drag their heels. Here are some of the most common objections we hear and why they don't hold water:

How common is this? The vast majority of the large companies we worked with have already moved in this direction with the mid-size ones quickly following suit. But regardless of how common this is now, this is the overwhelming direction shareholders are pushing in. Boards shouldn't worry about being outliers, they should be focused on being leaders.

I haven't heard from my shareholders, do they want this? Overwhelmingly yes. There's always a chance that you will reach out to a shareholder who doesn't want to speak with you, but just the fact that you have offered will leave a memorable impact. While a shareholder may have a position that is significant to your company, it may not be a significant investment to them.

Similarly, if directors start meeting with shareholders but can't attend every meeting, this won't signal there is a problem. Shareholders understand directors can't be at every meeting but they do want to know they have the option to speak with them.

Isn't this the job of management? Won't directors talking directly to shareholders undercut my management team? Directors engage shareholders at a different level than management can. Shareholders aren't out to undermine management or drive a wedge. In fact, directors engaging shareholders and demonstrating alignment and oversight can serve to reinforce management's position.

What if a director says something they shouldn't or reveals inside information? The majority of shareholders aren't out to get inside information from you, usually they want to give you their perspective and gain a deeper understanding. The best way to avoid this concern is to prepare directors properly for these meetings, something we talk more about on page 11.

We do have issues, but isn't it better to let sleeping dogs lie? Companies who think they can avoid an issue by not talking about it or not discovering it are usually mistaken. If you have identified a tough question you are worried about answering chances are your shareholders have as well. If a question or issue arises from meeting with a shareholder when would you prefer to deal with it? Before your circular is mailed so you can address and solve it, or after when the only option may be to vote against you? We are big believers that proactive crisis prevention is a much better approach than reactive crisis response.

This seems like a lot of time and our board is already very busy. Not all directors need to be at every shareholder meeting but a signal should be sent there is a culture of transparency and directors are willing to meet when needed. We would submit that the cost in terms of time and effort of dealing with the problems caused by not adequately engaging your shareholders is exponentially greater than the cost of communicating with them in the first place. The fact is companies are already engaging shareholders at the management level so the infrastructure and planning is already there. An easy first step is for directors to piggyback on what management is already doing such as planning additional board level meetings at investor days.

"FOR ISSUERS WHO MAY BE HESITANT, THE BEST WAY IS TO TRY IT. YOU WILL NOT REGRET IT. USE TWO DIRECTORS TO BEST CAPTURE THE NUANCES OF THE MESSAGES FROM THE SHAREHOLDERS. GO TO LISTEN, AND EXPLAIN, NOT TO PREACH OR DEFEND. IT SHOULD NOT BE TOO TIME CONSUMING, AND IF IT DOES TAKE A LOT OF TIME THEN IT DEMONSTRATES THAT THERE ARE LATENT ISSUES THAT ARE BEST SURFACED AND ADDRESSED."

-David Richardson
Chairman
Air Canada

"ISSUERS WEIGHING THE POSSIBILITY OF PUTTING THEIR DIRECTORS IN FRONT OF SHAREHOLDERS SHOULD THINK CAREFULLY ABOUT WHICH DIRECTORS WOULD BE PRESENTED, AND TO WHOM. AS A RULE, DIRECT ENGAGEMENT BY DIRECTORS SHOULD FOCUS ON LONG-TERM INVESTORS INTERESTED IN HAVING A CONSTRUCTIVE DIALOGUE."

-Jean-Frédéric Bérard
Head of Relationship
Investing for Caisse de
dépôt et placement du
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How to Build Your Director-Shareholder Engagement Program

Boards often ask specifically what *effective* engagement looks like. While investors expect a new approach to engagement—one that is proactive in answering tough questions and provides access to independent directors—there is no cookie cutter approach that will work for all companies and all shareholders. Here are the principles on which we recommend building your engagement foundation:

1. Know How Your Largest Shareholders Think and Vote

More and more companies are telling us they're frustrated by the growing gap they have with their largest investors when it comes to understanding their voting policies, especially those that are different or stricter than the proxy advisors. Shareholder votes are now viewed by investors as a powerful tool that they are willing to use to influence companies, especially where no avenue for engagement exists. Most institutional investors have developed internal voting policies that reflect their investment approaches. It is critical to understand if there is a governance voice outside of the portfolio manager.

While many issuers feel ill-equipped to meet the expectations of their shareholders because they don't know basic facts like how they voted in the past, even more are at a loss when it comes to understanding what their internal policies and procedures are to determine a vote. Limitations of the current proxy system can make it very challenging for issuers to answer simple questions such as who voted against our say-on-pay resolution at this year's AGM or why have our support levels dropped consecutively over the last two years?

In order to form the basis of a targeted shareholder engagement program, it is important to not only identify the shareholders you want to meet with based on criteria like share position, but to understand their policies and practices. The accuracy of your information and precision in outreach can help you receive the required support level at your AGM or represent a key competitive advantage in a transaction or proxy fight.

Companies are encouraged to develop detailed institutional investor profiles that include governance knowledge, patterns and flexibility. This is not only useful in understanding impacts on shareholder votes but in designing efficient proxy proposals. Directors shouldn't be afraid to challenge "one size fits all" policies. Explain to your shareholders why their policy doesn't apply to you and how you are dealing with the specific issues their policy was designed for. We have seen many directors make their case successfully and change shareholders' minds—but only when they have previously taken the time to build a relationship.

2. Pick the Right Forum

Director level engagement has to be convenient otherwise boards and shareholders aren't going to keep up with the expectations that have been set. Engaging shareholders does not necessarily mean traveling to their offices and sitting down for an hour or two. Ideally boards engage face-to-face annually, perhaps on the back of board meetings or institutional investor days but follow up may occur over the phone.

One of the most convenient set ups we have seen is to have directors invite shareholders in the day after a board meeting when they are already prepared and gathered for a series of back to back meetings.

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NOT ALL DIRECTORS WANT TO DO THIS, NOR ARE THEY ALL EQUALLY WELL SUITED. AND HAVE TWO DIRECTORS IN EACH ENCOUNTER; SENDING JUST ONE ISN'T OPTIMAL.*

-Shan Atkins
Director
SunOpta,
Darden Restaurants,
SpartanNash,
True Value
Hardware Company

We recommend invitations to shareholders for director level meetings come from the corporate secretary not the IRO. This will signal shareholder engagement is a board level priority and the meeting will not cover the same topics that may have been previously covered with management.

Engagement should take place well before proxy season, not simply because there is time but because you will have plenty of runway to address any governance issues that come up.

3. Right People, Right Task

Traditionally it has been common for a company's investor relations team to engage with investors, involving management as appropriate and occasionally the board. Now that we are advising more director involvement it is important to understand who will be doing what. Not just between management and the board but between directors.

If more than one director will be playing a role in shareholder engagement, it is important each understand not only that their job is to represent the board but what issues they should speak to as compared to management or another participating director who may have more expertise in one area such as compensation design. Typically investors want to see an independent member from the compensation or governance committees.

It is also important to recognize who you will be meeting with as it may be different than who management is accustomed to. While your IR team and the CEO may speak regularly with the portfolio managers, it is the in-house governance teams who will make the decisions on key proxy items. As such, a more holistic approach to engagement is needed. They will be concerned less with the company's quarterly numbers and more with governance issues and oversight.

One idea we have seen raised that we agree with is for boards to consider adding investor-savvy talent to the board. Having someone on the board who has a deep understanding of the investor viewpoint and who can help train boards how to respond will be an invaluable tool going forward. A director who knows how investors think will be able to offer a fresh take on issues you may have not even considered.

4. Preparation

It is important that directors are well prepared before engaging with shareholders and responding to the tough questions they will undoubtedly have. Despite all the objections we hear about why directors should not engage, the only downside we have seen is when an unprepared team encounters a sophisticated investor and the meeting backfires because the board representatives are not ready.

At the board level, if this is a concern the response should not be to avoid communicating but to seek out additional board education and training to ensure all directors are able to effectively engage shareholders, should the need arise.

At the individual director level, this means that while one director may have expertise in a given area, the directors who are participating should be able to demonstrate knowledge on key issues like long-term strategy, compensation and company performance. Management should make sure directors have been briefed on the individual shareholders they will be meeting with, including their past concerns, any other relevant background on their investment strategy, and the specific roles of the individuals in the meeting – like who makes the voting decisions and who makes the trading decisions.

It is important to set an agenda and ask questions of the shareholder in advance. What are the issues to be addressed? If this is not the first meeting, what plans are there in place to deal with their issues and what progress has been made since they were brought up? Based on what they want to know, of the team available, who are the right directors for this specific meeting?

Have responses prepared for the tough questions you anticipate from shareholders and practice these with those who will be participating. We recommend going so far as to role-play and coach directors on the best way to answer the most uncomfortable questions. Remember, it's not just the content of the answers you give but how you look when you give them. Shareholders will read a lot into your body language when you are on the hot seat so it is important to remain cool and confident.

"A BOARD SHOULD MAKE EVERY EFFORT TO MITIGATE NOT BEING SURPRISED BY SHAREHOLDERS AND ENGAGING THEM IS AN IMPORTANT ROLE FOR HIGH PERFORMANCE BOARDS.

THE CHAIRMAN HAS AN ESSENTIAL LEADERSHIP ROLE TO PLAY IN TERMS OF ENGAGING NOT ONLY FELLOW DIRECTORS BUT THE CEO TO ENSURE A CONSTRUCTIVE CLIMATE AS TO THE PURPOSE AND PROCESS TO BE FOLLOWED.

THERE WILL BE MISCONCEPTIONS AND SKEPTICISM. WHEN TO ENGAGE, WHO, AND HOW, ARE ALL CRITICAL PARTS OF THE PLAN INCLUDING EXTENSIVE COVERAGE OF THE RISK OF SELECTIVE DISCLOSURE AND HOW TO PREVENT ITS OCCURRENCE OR DEAL WITH IT SHOULD IT OCCUR."

**-Don Lowry
Chairman
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5. What Should We Say About Strategy?

For the shareholders directors will be meeting with most will have an interest in understanding the company's long-term strategy and how the company is progressing along its stated path. Whereas in past years governance issues may have been of greater interest, most companies have cleaned up common governance concerns. Directors now have the opportunity to educate shareholders about their vision for the company, how they evaluate the viability of that strategy and at what intervals, and risk mitigation along the way. If there are issues that have come up and are emerging as a thematic amongst shareholders, such as capital allocation, directors should proactively frame those shareholder priorities within the overall strategy.

With a lot of shareholders having been burned since 2008, investors are especially skeptical of company performance and will seek to substantiate what they are seeing from directors. Shareholders are looking for confidence the Board is involved in the strategy's development and review and that there is oversight when it comes to implementation. They like to know the Board is willing to challenge the strategy in order to defend shareholder interests.

6. Talk 'With' Not 'At' Shareholders

Shareholder engagement cannot be a one-way, one-and-done communication. It is crucial there is a relationship that is formed that provides the opportunity for the company to follow up on actions that have been taken to address concerns and, if they haven't, the reasons as to why. Shareholders want to know their opinion matters and voices are being heard. Without this important report-back step, a trusting relationship cannot flourish.

Any shareholder communications program that simply absorbs shareholders' views but does not reflect them and the action taken on them back to shareholders is destined to fail. It is no mistake that the issuers who have been awarded best governance practices have an active outreach strategy year round and describe it fully in their circular. Specifically, they articulate the timing of the engagement, the number or percentage of shareholders engaged, which directors participated, how the meetings took place, what was heard and what was done about it. But the circular should be the end, not the start, of the feedback cycle.

Communications to shareholders should not just be another box checked as part of the management information circular at proxy time, but something conducted regularly and well in advance of proxy season.

Examples we have seen work well include direct feedback from directors to the shareholders they engaged or initiatives like a letter from the lead director to shareholders outlining what has been heard and the response actions taken. We're big on the point about ongoing communications because we have had too many companies come to us that have waited until proxy season or a transaction to share their actions with shareholders. The problem is by then it's been too late. You don't want to have started counting the ballots only to realize you have a problem—especially if it is something you have addressed that your shareholders just don't know about.

All of this is not to say that a clear, defined channel or process is not needed—it is and ensures one-off requests are not lost, ignored or handled in an unnecessarily reactive or defensive manner. While there are many approaches to consider, we will rule out the en vogue suggestion in the industry right now: Striking a Shareholder Relations Committee that would be responsible for conducting a program to meet with investors and gather their input.

The problem with this innocent enough sounding suggestion is that the shareholders who are demanding access will see this as nothing more than an added level of bureaucracy and insulation.

Shareholders we talk to don't see engaging them as a 'special project' to be taken on or an issue to be managed, but a duty of all directors that needs to be ingrained in the culture of the organization. In our view, this is a responsibility the lead director should own in order to signal priority, engaging other directors and the corporate secretary as needed. Something as simple as providing the contact information of the lead director to key shareholders can send a powerful signal that there is a philosophical shift occurring where investor voices matter.

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OTHER WAY AROUND.

Principles for Building A Director-Shareholder Engagement Program

1. Identify how your shareholders make their decisions, including who within the fund, and their voting history.
2. Design your outreach strategy by stratifying your shareholder base by level of ownership or other relevant metric.
3. Send an invitation from the corporate secretary to top shareholders, acknowledging not all will take you up on your offer.
4. Use all channels available and the ones that are most convenient. Not all engagement needs to take place after a six hour plane ride, consider video conferencing. What matters most is that you are available.
5. Engage ahead of proxy season when everyone is less busy, but more importantly before decisions have been solidified.
6. Make sure directors understand their roles vis-à-vis management and have been briefed on the unique details of the shareholder they are meeting.
7. Prepare and practice for the meeting, including having a clear narrative for the company's strategy.
8. Close the feedback loop. Let shareholders know what follow up actions have been taken and, if they haven't, the reasons as to why.
9. Make sure you get credit for your efforts by fully describing them in your circular.

A Final Thought

The advice often given to boards seeking to be proactive on shareholder issues is to 'think and act like an activist'. We think the advice should be to 'think and act like an independent director representing shareholders to management, not the other way around'.

In our experience there is a strong correlation between the relationship a board has with its shareholders and their likelihood of success when faced with adversity: the more frequent and closer the contact, the greater the chance of success.

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Being the best in our field means reliably delivering the results our clients want—no matter the challenge.

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