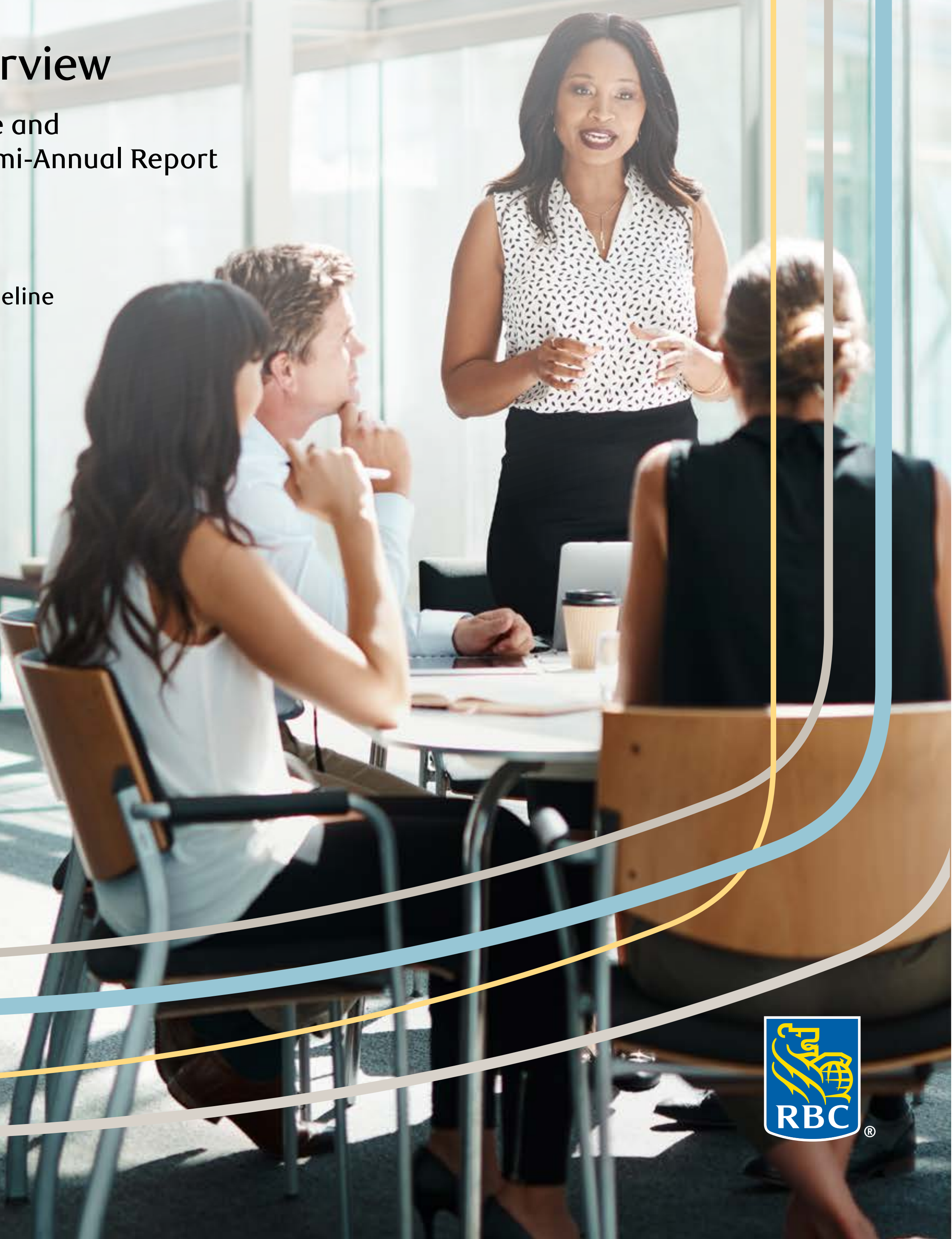
RBC Global Asset Management

Stewardship in action

Proxy season overview

2022 Corporate Governance and Responsible Investment Semi-Annual Report



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At RBC Global Asset Management (RBC GAM), we believe that proxy voting is a key part of our stewardship process, as it provides an important way for us to convey our views to the boards and management of our investee companies. Each year, many companies hold their annual shareholder meetings between April and June, a period know as proxy season. These meetings provide shareholders with the opportunity to vote on a range of issues – including the election of directors, executive compensation, and shareholder proposals focused on environmental, social, and governance (ESG) issues, among other items.

RBC GAM proxy voting guidelines updates for 2022

Throughout the year, our Corporate Governance & Responsible Investment (CGRI) team monitors ongoing developments in corporate governance and proxy voting. The CGRI team's observations serve as a starting point for our annual updates to the RBC GAM Proxy Voting Guidelines[1] (the "Guidelines") and incorporate the views of our investment teams. This regular review process ensures that our Guidelines reflect current best practices and emerging trends. Some of the most notable updates made for 2022 are summarized below.

Board diversity

In our view, a diverse board is better positioned to effectively manage material risks and opportunities due to members' different experiences, backgrounds, specializations, and skills. This year, we updated our Guidelines to include a recommendation for boards to adopt policies, goals, and timelines to improve the diversity of boards and senior management, with a specific focus on underrepresented groups. Our Guidelines now encourage companies to also disclose information on the diversity of their executive and/or senior management teams, and wider workforce.

For consistency, we encourage disclosure to be, at a minimum, aligned with that of the company's local jurisdictions, such as the EEO-1 Report in the United States, which calls for the disclosure of a workforce's demographic data, or as defined in the Canada Business Corporations Act in Canada. Accordingly, we may vote against the election of board members in the future if there is no adequate board diversity policy and/or no board nominees from racially or ethnically underrepresented groups based on self-identification.

Climate change

This year, we made updates to our climate-related Guidelines in order to capture our new climate-related commitments outlined in Our Approach to Climate Change and Our Net-Zero Ambition statement.

In 2021, we saw an increase in the number of investee companies submitting their own proposals seeking shareholders' approval of their emissions reductions and climate transition plans – typically referred to as management "say-on-climate" proposals. As a result, we updated our Guidelines to reflect the nature of these proposals. These updates include the standard elements that we generally require in order to support a company's climate transition plan – such as the adoption of net-zero and interim targets where climate-related risks are financially material – as well as the adoption of reasonable timelines.

Given the rise in popularity of management-proposed say-on-climate proposals, shareholders have used shareholder proposals to request that companies adopt this practice. We evaluate these proposals on a case-by-case basis, considering factors including, but not limited to: the industry in which the company operates and the materiality of the requested disclosure in that industry; the company's existing climate-related targets, commitments, and initiatives; and the company's existing publicly available information on the potential impacts of climate change on its operations, strategy, and financial performance.

Board tenure

We consider board renewal as an important component of overall board effectiveness, and a useful mechanism to enhance board diversity. In order to facilitate the board renewal process, we strongly encourage boards to consider the tenure of individual directors, as well as the range of tenures on the board, as part of the annual board assessment. This year, we updated our Guidelines to communicate that we will generally vote against the chair of the nominating committee where more than one-third of the board has a tenure greater than 15 years. Our new Guidelines focus on boards tilted toward directors with excessive lengths of tenure, as compared to market averages. Importantly, this does not necessitate the removal of longer-tenured directors, as these directors can be often be the most effective due to their institutional knowledge. Instead, it encourages board refreshment in order to include new perspectives to complement the perspectives of longer-tenured, effective directors.

[1] The Guidelines are applied in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. In all other markets, RBC GAM utilizes the local proxy voting guidelines of Institutional Shareholder Services. For more information, please see the RBC GAM Proxy Voting Guidelines.

Proxy voting record

We take an active and thoughtful approach to our proxy voting activities, and we exercise the voting rights of the portfolios we manage in the best interests of our clients and with a view to enhancing the long-term value of the securities held.

The tables below detail our overall voting record as compared to management's recommendations. The first table provides details across key markets from January 1 to June 30, 2022, while the second provides a historical view of our votes against management's recommendations in key markets over the past three years.

Summary of voting statistics – January 1 to June 30, 2022 [2, 3]

	Canada	U.S.	Overseas	Total
Proposals	3,145	10,147	16,635	29,927
Votes WITH management	2,795	8,017	15,094	25,906
Votes AGAINST management	350	2,130	1,541	4,021
% of votes AGAINST management	11.1%	21.0%	9.3%	13.4%

Historical % votes against management as of June 30

	2019	2020	2021	2022
Canada	13.6%	12.1%	13.2%	11.1%
U.S.	16.1%	19.7%	21.7%	21.0%
Overseas	9.9%	8.9%	9.6%	9.3%
Total	12.6%	13.4%	14.0%	13.4%

[2] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed subadvised funds, and specific institutional accounts.

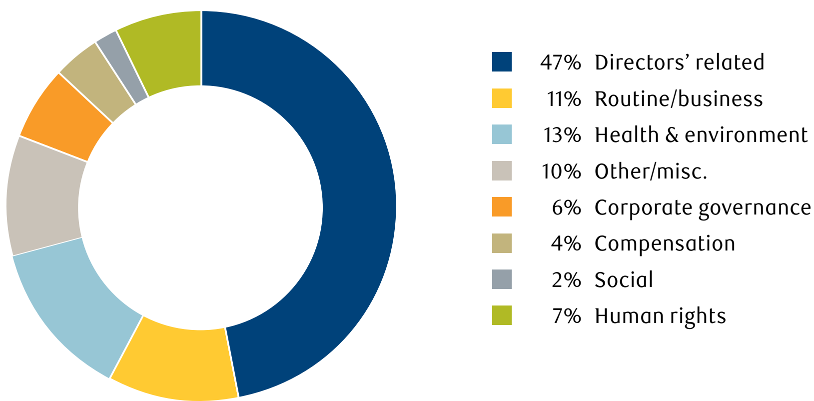
[3] Voting statistics account for proxy votes submitted by RBC GAM and may include instances where RBC GAM's proxy votes were rejected at the time of meeting, which may occur due to proxy voting administration issues. Voting statistics exclude instances where RBC GAM intentionally did not vote due to shareblocking restrictions or other logistical impediments.

Shareholder proposals

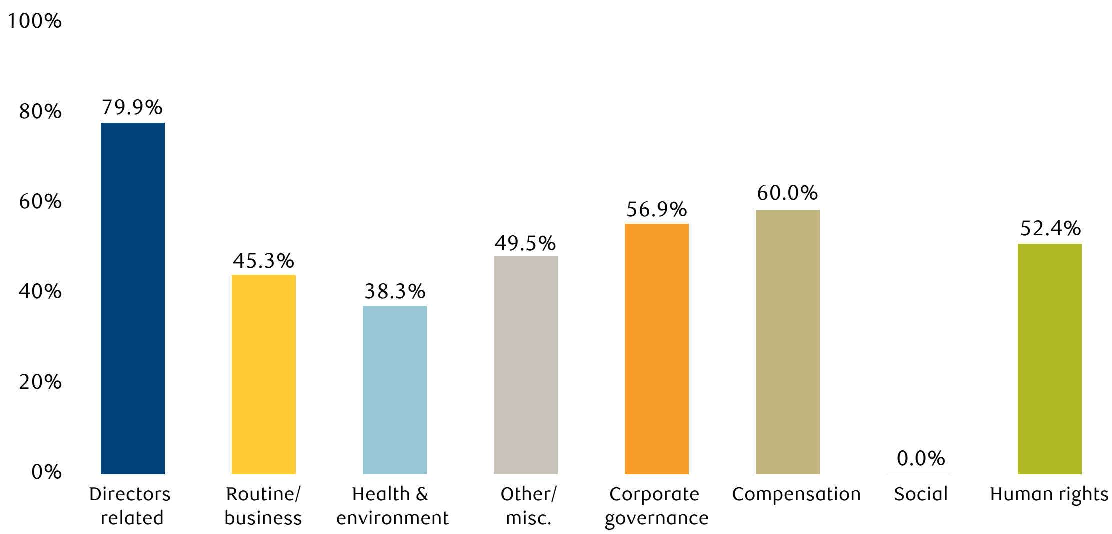
In the first half of 2022, out of a total 29,927 management and shareholder proposals, 916 were shareholder proposals.

While shareholder proposals represent a small percentage of the overall ballot items, they are extremely important, as they provide a mechanism for shareholders to request that an investee company take action on material and trending issues. The following charts provide an overview of the types of shareholder proposals we reviewed and those we supported this proxy voting season.

Shareholder proposals by category



Votes "FOR" by shareholder proposal category



Throughout the 2022 Proxy Season, we saw an increase in what are often referred to as "anti-ESG" shareholder proposals. These proposals tend to have supporting statements with political or ideological content, and, in our view, often request actions or disclosures counter to the consideration of material ESG issues. Of the 23 "Social" proposals RBC GAM voted on this year, 16 (70%) can be categorized as "anti-ESG." In 2022, these proposals focused on topics such as diversity & inclusion and the ideological diversity of boards. We evaluate each shareholder proposal on a case-by-case basis, with a view to enhancing the long-term value of securities, and this approach also applies to proposals that may be categorized as "anti-ESG

Proxy season observations

The table on the following page provides an overview of key topics seen this past voting season and how we voted compared to management's recommendation. Management will generally recommend that shareholders vote "FOR" proposals the company has placed on the ballot, referred to as management proposals. As a result, a vote "AGAINST" a management proposal typically equates to a vote "against management" (i.e., a vote against the recommendations of management). For example, the table below indicates that we voted against management recommendations 97.9% of the time when voting to Amend or Approve Omnibus Stock Plans. This indicates that we generally disagreed with management on these equity compensation plans and did not vote in favour unless specific criteria were met (e.g., appropriate option expiration, no excessive dilution, etc.).

However, when it comes to shareholder proposals (i.e., proposals put forth by shareholders), management typically recommends that shareholders vote "AGAINST" the proposal. Therefore, a vote "FOR" a shareholder proposal typically equates to a vote "against management." For example, as noted in the table on the following page, we voted against management's recommendations 91.4% of the time on 35 shareholder proposals to Require Independent Board Chairman. These shareholder proposals were directed at companies where the chair of the board was non-independent. We believe it is a matter of good governance practice that an independent director be appointed to the position of chair of the board of directors as it is one of the primary mechanisms by which board independence is maintained. Therefore, we generally disagree with management on these shareholder proposals and vote "FOR" proposals requiring an independent board chair.

Interestingly, this year there were a number of cases where management supported shareholder proposals, especially on topics related to greenhouse gas emissions and climate change. For example, The Boeing Company received a shareholder proposal requesting information on Boeing's alignment with the Paris Agreement relating to Indicator 1 of the Climate Action 100+'s Net Zero Company Benchmark. Management stated that it considers climate change to be an urgent issue both for itself and the aviation industry, and that it is devoting significant resources in support of achieving net-zero emissions in the company's operations. Therefore, the board unanimously supported the proposal and recommended that shareholders vote in favour. After further review, RBC GAM also supported this proposal. This vote is reflected in the table below under Report on Climate Change or Green House Gas (GHG) Emissions in the U.S. where we voted "with management," which indicates that both RBC GAM and management supported this proposal.

Votes compared to management on key topics[4]

	Canada			U.S.			Overseas			Total		
	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt
Management proposals												
Amend or approve omnibus stock plan	0	18	100.0%	4	161	97.6%	0	9	100.0%	4	188	97.9%
Elect director	2159	245	10.2%	5832	1570	21.2%	3935	384	8.9%	11926	2199	15.6%
Approve remuneration of executives	168	11	6.1%	760	99	11.5%	498	124	19.9%	1426	234	14.1%
Management Climate-Related Proposal	2	0	0.0%	0	0	0.0%	16	2	11.1%	18	2	10.0%
Approve remuneration of directors	0	0	0.0%	1	0	0.0%	638	49	7.1%	639	49	7.1%
Ratify or approve auditors and their remuneration	262	4	1.5%	941	1	0.1%	662	9	1.3%	1865	14	0.7%
Shareholder proposals												
Require independent board chairman	0	0	0.0%	3	32	91.4%	0	0	0.0%	3	32	91.4%
Provide right to act by written consent or amend articles to call special meetings	0	0	0.0%	9	70	88.6%	0	0	0.0%	9	70	88.6%
Racial Equity and/or Civil Rights Audit[5]	0	0	0.0%	5	16	76.2%	0	0	0.0%	5	16	76.2%
Report on Equal Employment Opportunity	2	2	50.0%	1	5	83.3%	0	0	0.0%	3	7	70.0%
Political Contributions and/or Lobbying Disclosure	0	0	0.0%	15	25	62.5%	0	0	0.0%	15	25	62.5%
Gender Pay Gap	0	0	0.0%	2	3	60.0%	0	0	0.0%	2	3	60.0%
Human Rights Risk Assessment or Improve Human Rights Standards	3	1	25.0%	7	12	63.2%	0	0	0.0%	10	13	56.5%
Report on Climate Change or Green House Gas (GHG) Emissions[6]	2	0	0.0%	25	15	37.5%	15	4	21.1%	42	19	31.1%
Proposals Requesting Non-Binding Advisory Vote On Climate Action Plan[7]	6	0	0.0%	0	0	0.0%	0	0	0.0%	6	0	0.0%

[4] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed subadvised funds, and specific institutional account

[5] In the case of a proxy contest, shareholders are often able to vote on either a management card or dissident card. For the period under review, RBC GAM voted on the management card of a proxy contest that included shareholder proposals. As a result, our instructions of "Do Not Vote" on the dissident card were calculated as one vote AGAINST management under the following proposal categories: "Approve Remuneration of Executives", "Ratify or Approve Auditors and their Remuneration", "Provide Right to Act by Written Consent or Amend Articles to Call Special Meetings", "Racial Equity and/or Civil Rights Audit". The following categories received two proposals on the dissident card, as a result, our instructions of "Do Not Vote" on the dissident card were calculated as two votes AGAINST management under the following categories: "Political Contributions and/or Lobbying Disclosure".

[6] Eight proposals were supported by management teams in the "Report on Climate Change or Greenhouse Gas (GHG) Emissions" item category. After review, RBC GAM voted WITH management on all eight proposals.

[7] Management supported one proposal in the "Proposals Requesting Non-Binding Advisory Vote on Climate Action Plan" category. After review, RBC GAM voted WITH management on the proposal.

Management say-on-climate

The impacts of climate change are already apparent, and the quality of disclosure on how companies are understanding, assessing, and managing material climate-related risks and opportunities is being heavily scrutinized by investors. Many companies are now seeking advisory votes from shareholders on their climate transition or action plans and progress made on these plans. Borrowing terminology from shareholder votes on executive compensation, this new type of vote is referred to as a "say-on-climate."

To date, most companies where management has put forth a say-on-climate proposal have been larger firms where climate is considered a highly material risk. In fact, several have been focus companies of the Climate Action 100+ initiative[8], such as Shell, BP, and TotalEnergies. However, in 2022, management say-on-climate proposals were also filed at companies outside the Climate Action 100+ focus list and outside the energy sector, including financial companies Barclays and UBS Group.

We evaluate say-on-climate management proposals on a case-by-case basis. First, we consider the appropriateness of the plan, and whether it is in the best interests of shareholders. Second, we generally will not support proposals where the climate-related plans have:

- a lack of clear and appropriately detailed disclosure of the company's GHG emissions governance, strategy, risk mitigation efforts, and metrics and targets (using TCFD guidelines, for example);
- a lack of improvement on disclosure and performance;
- a lack of targets and emissions reductions at least in line with industry peers; and
- a lack of reporting showing that the company's corporate and trade association lobbying activities are in alignment (or are not in contradiction) with limiting global warming in line with Paris Agreement goals, where material.

When evaluating say-on-climate management proposals, we will give consideration to newly disclosed climate transition plans that do not meet this minimum criteria if there is demonstrable evidence and commitments indicating the minimum criteria will be met in the near future. As a new practice, the effectiveness and implications of say-on-climate votes are not yet clear. There are reasonable arguments both for and against the adoption of say-on-climate votes. In certain instances, we believe such proposals warrant support, as a vote on the company's climate strategy may be a useful way to convey approval or concern to management on this systemic issue. We believe this tool may be particularly useful at companies where policies and practices on managing climate-related risks and opportunities are inadequate and climate change presents a material risk. In addition, these proposals can also serve as an engagement tool, leading to meaningful engagements with the board or management. However, we do have several concerns regarding say-on-climate votes.

Management proposals generally receive more than 90% support from shareholders due to a combination of insider ownership, many investors routinely voting with management recommendations on all proposals, and other factors. Management teams with insufficient climate transition plans may point to high shareholder support, or even support above 50%, to indicate plans are sufficient, paving the way for inaction. That said, this is an issue we face on all proposals, whether it be director elections or executive compensation, so it is not an entirely novel challenge.

Our second concern is regarding the role of shareholders in strategic decisions of management, and whether or not a vote by shareholders on this strategic decision is limiting the role of the board. As owners of the company, we have elected the board to oversee management and be accountable for the company's strategies, and to hire the management team to make these decisions. Adopting a say-on-climate vote may be placing too much onus on shareholders, and absolving management and the board from duties related to managing climate-related risks.

[8] Climate Action 100+ is a voluntary initiative that brings together – and builds on – a number of pre-existing, investor-led, engagement initiatives that had been operating in different regions of the world. In signing up to Climate Action 100+, investors commit to engaging with at least one of 166 focus companies that are strategically important to the net-zero emissions transition.

It is also worth considering whether or not a company's shareholders have sufficient information to fully assess a company's proposed plan. Climate change is an incredibly complex and systemic issue, and shareholders may not have all of the information or tools, or the knowledge base to effectively evaluate the plan.

This proxy season, we saw a substantial increase in say-on-climate management proposals. **Between January 1 and June 30, 2021, we voted on 11 management say-on-climate proposals. In comparison, between January 1 and June 30, 2022, we voted on 20 management say-on-climate proposals.** Moving forward, we will continuously assess our approach to say-on-climate as this issue evolves.

Votes on management say-on-climate proposals.

January 1 – June 30, 2021: 11

January 1 – June 30, 2022: 20

Assessing board tenure

The concept of director tenure is a divisive issue in corporate governance circles. While some argue that long-tenured directors know the business best and are most valuable to the board, others argue that too long a tenure on the board compromises independence and the board becomes entrenched. It is our view that both of these instances can be true.

We generally believe that when a board member has a tenure of longer than 10 years, shareholders should carefully consider whether the individual is still independent of management. Although tenure is one factor we use when considering the overall board makeup, we are also looking for a diverse board with a mix of experience – new directors with new perspectives, directors with a few years of experience, and longer-tenured directors with deep institutional knowledge.

Excessive average board tenure, as compared to market norms, without evidence of consistent board refreshment, is considered as part of our overall assessment of an issuer's corporate governance practices. Board refreshment continues to be a key concern facing nominating and governance committees as pressures mount to change the face of the boardroom in relation to director tenure, experience, performance, and diversity, with gender and ethnic diversity at the forefront.

In Focus:

ESG shareholder proposals hit new records this proxy season

This proxy season saw another increase in the number of shareholder proposals that were tabled at companies' annual general meetings.[9] During the 2022 proxy voting season, RBC GAM voted on 916 individual shareholder proposals – a 23% increase from the previous year. The shareholder proposals we reviewed this proxy season covered a broad array of different topics, including some new topics that have not previously been subject to shareholder proposals. These included asking a clothes manufacturer to report on the animal slaughter methods used for sourcing animal-based materials, and asking for reports on business with conflict-complicit governments. Shareholders continue to leverage these proposals to both seek more information on how companies are operating, and to try and influence changes in their behaviour.

Despite the increase in the number of shareholder proposals, we observed a decrease in the level of support these shareholder proposals received from investors.[10] As proposals venture into new areas and become more prescriptive in a nature, they become more onerous for management to comply with, and support from other investors may wane. RBC GAM believes that proposals should generally refrain from specifying how corporations should achieve the desired objectives.

This decrease in support levels may also have been in part due to updates from the Securities and Exchange Commission (SEC) in November 2021 regarding its review of shareholder proposals. Companies are able to submit no-action requests to the SEC to omit shareholder proposals from the ballot. For instance, proposals can be excluded where the request is determined to be insignificant for the company, or where the proposal seeks to micromanage the company. In its update, the SEC clarified that proposals where the proponent has not demonstrated the issue is significant to the company, but where that issue has a significant societal impact, could still be permissible. In addition, the SEC further refined what it may consider to be a proposal seeking to micromanage a company.

According to PricewaterhouseCoopers, the number of no-action requests granted by the SEC dropped by 40% during the 2022 proxy season.[11] These numbers, as well as our own observations, indicate that more prescriptive proposals made their way onto ballots, which may have resulted in overall lower levels of support.

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Special meeting requests

An essential route through which shareholders can hold management accountable or to request further information is by requesting a "special meeting." If a request gathers enough support from shareholders, the company must hold a special meeting of shareholders, at which shareholders can submit and vote on proposals. This gives an opportunity for shareholders to act, if necessary, outside of the usual annual general meeting cycle.

To make sure that this practice is not overused, and that the request for a special meeting has support from a large base of investors, a proportion of shareholder ownership is set that must be exceeded in order to call a special meeting. If that threshold level is set too high, it becomes unfeasible for a request to gather enough support to call a special meeting. On the other hand, set the bar too low, and only one or two major shareholders may be required to request a meeting.

This proxy voting season, we saw a threefold increase in the number of shareholder proposals requesting a decrease in the threshold at which a special meeting may be called at large U.S. companies where RBC GAM was eligible to vote. These requests were generally seeking to reduce the level of ownership required from around 25% down to 15% or 10%.

At RBC GAM, we believe that the right to call a special meeting enhances shareholder rights, and is a useful mechanism to raise material issues outside of the general meeting cycle. However, we are also supportive of appropriate safeguards. Therefore, we review shareholder proposals requesting that a company install or change the percentage of shares required in order to call a special meeting on a case-by-case basis.

9 Boardroom recap: The 2022 proxy season, PricewaterhouseCoopers.
10 Ibid
11 Ibid

Generally speaking, a minimum level of 10% of ownership will require multiple institutional investors to support the call for a special meeting in order for a request to be successful. As a result, this year, RBC GAM was generally supportive of shareholder proposals requesting that the ownership threshold for shareholders to call a special meeting is reduced.

Racial equity audits

Investors continue to demand that companies have robust diversity and inclusion policies and procedures in place while also ensuring those guidelines are consistently applied across the business.

Continuing with the trend we saw last year, a series of shareholder proposals were filed at large U.S. financial institutions requesting that the board oversee third-party racial equity audits. Racial equity audits are intended to analyze any adverse impacts of the company on visible minority stakeholders and communities. Importantly, they typically ask companies to undergo an independent assessment of these impacts, covering both how employees are treated, and the impacts the organization may have in the communities in which they operate. This past proxy voting season saw these requests expand to include large U.S. health care, fast food, and technology companies, such as Johnson & Johnson, McDonald's, and Alphabet.

At RBC GAM, we believe that companies with strong diversity and inclusion policies and procedures will perform better over the long term because they promote a culture of creative and innovative development, which can lead to lower turnover, higher employee morale, and the ability to attract and retain talent. Furthermore, we believe companies with inadequate policies may face reputational, operational, litigation, and other risks that may adversely impact their long-term value. As a result, this year RBC GAM generally supported shareholder proposals requesting reports on racial equity audits at companies where it was deemed that sufficient information was not already publicly available.

Human rights in the supply chain

We live in an increasingly globalized world where companies located in one country operate within the borders of others. These operations may occur in jurisdictions with weak rule of law and insufficient protection of basic human rights. It is important that an organization can ensure that human rights are being safeguarded throughout the entire supply chain connected to their products. In some industries, companies rely on a large number of individual suppliers. This issue can be seen in many sectors but is particularly pronounced in food and fashion retailing, where a company may source a similar product – for example, fruit – from a broad range of suppliers in order to fulfil demand throughout the year. Agriculture, for both food and textiles, is more exposed to child or forced labour, and companies with links to the industry via their supply chains will also have a higher risk exposure.

Due to the significant risks associated with human rights violations, we believe high-performing organizations will undertake audits on each of their suppliers to check that their employees are being well treated.

This proxy season a Canadian grocer had a shareholder proposal submitted requesting that it publish a summary of the company's supplier audit results annually. The company has already been undertaking audits of its suppliers, with the number of audits undertaken increasing by 40% over the past five years. Although the company is ahead of its peers in the amount of information it already publishes addressing human rights in its supply chain, because the company is already conducting audits on its suppliers, it would not be too burdensome for the company to publish the findings of its supplier audits. As such, we supported this proposal since the disclosure of this further information would allow us to conduct a better assessment of the human rights risks faced by the company and its suppliers.

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For more information on RBC GAM's approach to corporate governance and responsible invesment, visit rbcgam.com/ri.

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