

Responsible Investing: The Importance of Proxy Voting

A Primer on the Proxy Voting Process



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Vancity Investment Management

Introduction to Proxy Voting



Proxy voting can make a difference

The voting process at a publicly traded company's Annual General Meeting (AGM) is referred to as proxy voting, as the ballots are usually cast by a firm or representative on behalf of a group of shareholders. Prior to a company's AGM, details of the planned votes are distributed in a document called the management information circular or proxy statement.

Proxy voting is an important part of owning a company's shares as it allows shareholders to express their position on issues fundamental to the company's business and performance, including ESG issues related to climate action or pay equity, for example.

Companies follow the results of these votes closely as they offer direct shareholder feedback. Strong votes – particularly a year-over-year increase in support for a recurring resolution – can spur companies to undertake the changes outlined in the proposals or negotiate an acceptable compromise with the shareholders that filed the resolution. A strong vote isn't necessarily a majority vote, even 10% support can be considered significant. The majority of investors often follow management's advice and vote against shareholder proposals so even seemingly low results get management's attention.

This is why it is important for investors to ensure they invest with an asset manager or in funds whose proxy voting policies align with their values. This is a key action that any individual can take to ensure they are using their ownership in these companies to push for positive change.

Proxy voting really can make a difference.



What is a shareholder proposal?

All publicly traded companies are required to hold an AGM and at this meeting shareholders are asked to vote on company business such as the election of board members, executive pay and proposals submitted by shareholders (sometimes referred to as shareholder resolutions).

Eligible shareholders can bring forward a shareholder proposal asking the company to undertake a specific action. Examples include requests for a company to report their carbon emissions, set net-zero targets or implement a living wage across the organization.

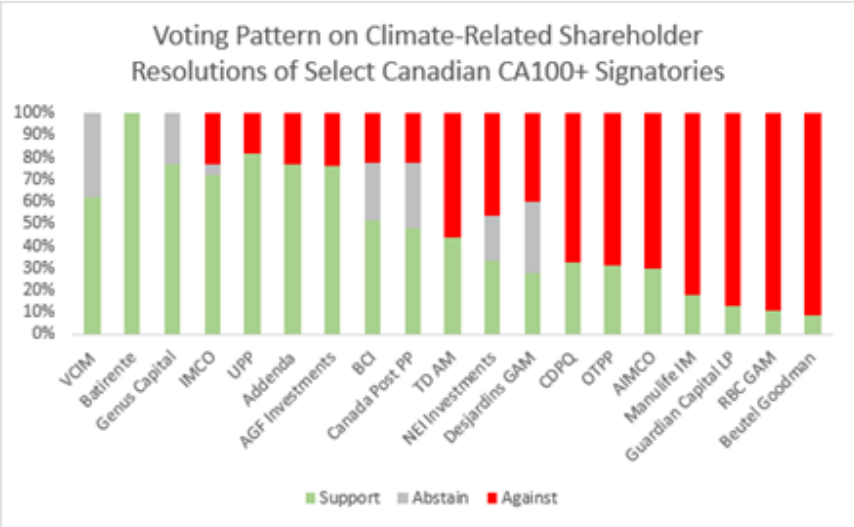
Any shareholder who holds eligible voting shares may exercise their voting rights to support, reject, or abstain from a proposal. We believe that shareholder proposal submissions and the subsequent voting process are fundamental elements of responsible and active share ownership.

Proxy Voting at VCIM



VCIM’s Proxy Voting Record

A recently published report by Investors for Paris Compliance (I4PC) analyzed the proxy voting records of 19 investment managers with climate commitments on 23 climate-related proposals filed in Canada and the US. I4PC is a Canadian group that works with investors to hold public companies accountable on their climate commitment towards limiting global warming to 1.5 degrees Celsius, in line with the Paris Agreement. The report showed that VCIM was one of only three investment managers amongst the 19 who consistently supported or abstained on climate-related proposals.



Reference: Investor for Paris Compliance Report on Canadian CA100+ Signatory 2022 Voting Record Published February 2023.
<https://www.investorsforparis.com/ca100report/>

Case Study: VCIM votes in favour of climate shareholder proposal with RBC

In 2022, VCIM voted for a proposal filed with Royal Bank of Canada (RBC) requesting that the bank update its criteria for “sustainable finance” to exclude fossil fuel activity and projects that face significant opposition from Indigenous Peoples.

RBC has voluntarily committed to a number of initiatives that could help guide it towards its target of providing \$500 billion in “sustainable finance” by 2025. However, none of the guidelines or frameworks RBC has committed to require the bank’s “sustainable financing” to be numerically consistent with its net-zero emissions reductions targets, nor do they preclude financing that supports activities connected to fossil fuels.

For instance, Enbridge obtained \$1.1 billion in “sustainability-linked” financing from RBC, yet the company later stated that it “does not intend to allocate the net proceeds specifically to projects or business activities meeting environmental or sustainability criteria”. Critics accused RBC of greenwashing in this case, which led to concerns that RBC’s sustainable finance criteria is not sufficient.

While we acknowledge some encouraging efforts RBC has made, we are concerned that the bank’s criteria for sustainable finance isn’t specific enough to ensure that funds are being directed towards truly sustainable projects. Therefore, we supported the proposal as it could further encourage the company to better align its activity and policies with its publicly acknowledged climate ambitions, thereby mitigating reputational and financial risks.