CASE STUDY: Corporate donations to Canadian think tanks

Advocating against defined-benefit pension plans

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This paper is the third in a series of case studies to be released as part of a three-year project to encourage dialogue among capital market participants about how Canadian corporations' influence on public policy debates and decision-making affects the interests of long-horizon investors.

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Introduction

Should a publicly-traded company contribute to organizations that persistently attack some of the company's own shareholders?

That's a question defined-benefit pension plans might reasonably ask when companies in their investment portfolios sponsor think tanks that advocate for the demise of their own plans.

The Fraser Institute, for example, has recently been advocating for the elimination of Canada Post's defined benefit pension plan. **At the same time, more than $750 million of Canada Post pension plan dollars are invested in companies that have contributed to the Fraser Institute.**

What is the Fraser Institute's position with regard to Canada Post's pension plan?

"**Canada Post should not be in the retirement business to begin with,**" says Fergus Hodgson, Economic Consultant at the Fraser Institute. The Canadian Union of Postal Workers should be "facilitating tailor-made annuity services for their members," he says. "Better still, they could arrange different options for members to choose from…" [1]

The Institute's view more generally: "It's time to privatize Canada Post."[2]

The Fraser Institute doesn't just dislike the defined-benefit pension plan at Canada Post. It has advocated for a change to defined-benefit public sector plans in general.

"Without substantial reform," writes then-Senior Fellow Mark Milke, "status quo defined benefit plans for government employees are akin to a blank cheque, awarded by governments decades in advance but signed by taxpayers every year." [3]

Hodgson writes, "There's growing recognition that these plans are simply unsustainable: employees should receive what their invested dollars earn, and not numbers dreamt up in collective-bargaining agreements." [4]

The Fraser Institute has also been an outspoken critic of expansion of the Canada Pension Plan, arguing that it will merely replace RRSP contributions and deny Canadians the "choice and flexibility" of private savings plans.[5]

It is therefore safe to say that the Fraser Institute is not a fan of defined-benefit public sector plans in general. And they're not alone.

THE TAKE-AWAY:
Some think tank research can create reputational risks for the companies that support the organization, with potentially negative effects on the company's stakeholders – including its shareholders. For this reason, any corporate contribution to organizations engaged in public policy debates needs to be managed thoughtfully and overseen by senior officials with a view to careful alignment with company value and sound risk management.

Canadian think tanks and pension policy

Many Canadian think tanks – tax-exempt institutions that develop research and commentary on policy issues – play an active role in public debates about retirement security, amongst other issues. With a number of policy options for retirement security being debated in recent years, sound research and analysis of potential solutions and effects can contribute positively to policy formulation and help develop consensus around best practices.

The debate about retirement security has generated thoughtful and well-researched studies aimed at improving our retirement system. At the same time, it has engendered denunciations of defined-benefit pension plans in general, particularly those in the public sector, and not just by the Fraser Institute. Other organizations have also taken aim at public sector plans, fueling what experts have called "pension envy".[6] Pointing to the decline in pension coverage for private sector workers, they advocate for removal of pension benefits in the public sector.

The **Montreal Economic Institute**, for example, has argued that "government should consider the possibility of reviewing provisions in its employee retirement plan to bring down its costs and to make it more comparable to retirement plans provided by the private sector"[7] and that municipal defined-benefit plans be "abandoned altogether" and converted to defined-contribution plans going forward.[8]

The **Macdonald-Laurier Institute**, another Canadian think tank, favours conversion of public-sector defined benefit pension plans to defined contribution plans, noting that "one bright spot, at least at the federal level, is that the government can change its pension benefits at any time without negotiating with its unions, which are indifferent to the public's interest." [9]

Does this represent shareholder interests?

Many Canadian think tanks, including the above, receive donations or sponsorships from publicly-traded corporations that count Canada's large defined-benefit public sector plans amongst their most important shareholders.

Corporate contributors to the Fraser Institute, the Montreal Economic Institute and the Macdonald Laurier Institute, for example, have benefitted from at least $40 billion[10] in long-term investment from public sector defined-benefit pension funds like the Ontario Teachers' Pension Plan (OTPP), Ontario Municipal Employees Retirement System (OMERS), and from investments made by the Canada Pension Plan Investment Board. (*See Appendix A*).

In other words, some companies have provided funding to organizations that advocate against the interests of some of their own shareholders.

What does this mean for corporate donors?

Corporate donors, of course, are under no obligation to stop contributing to public policy think tanks just because their shareholders include the public pension funds under attack by these organizations.

Nor do the relatively small known sponsorships of Fraser institute events by these corporations imply endorsement of the Institute's entire political agenda.

However, donors to think tanks, especially publicly-traded corporations, need to be attuned to the risk of negative attention from what can be seen as political activity. Although companies may wish to support organizations that contribute research to public policy discussions, companies that provide funding to these organizations should be clear about the purpose of this funding and how it aligns with the company's interests – and that of their shareholders.

Some shareholders have reacted negatively to news that the companies in which they invest are funding controversial policy-oriented third-party organizations. For example, US companies like Google and Facebook were challenged by investors after it was revealed that they supported the American Legislative Exchange Council (ALEC), a group that drafts and promotes controversial legislation. ALEC has advocated the expansion of "right-to-work" laws[12] and "stand-your-ground" laws,[13] and has been accused of climate-change denial.[14] A large number of companies have withdrawn support for the organization after re-assessing their involvement.[15]

In such cases companies and their shareholders face reputational risks, and investors will want assurance that donations are carefully overseen and managed.

Questions investors are asking include: What board oversight exists regarding spending by management on influencing public policymaking? How does the board ensure that political spending is in the interests of the company, its shareholders, and its stakeholders? What risks does political spending create for investors, and how is the board managing those risks?

Further, how is this spending (and its related risks) disclosed to the company's shareholders?

"Legitimate corporate political activities are those that are conducted legally and transparently, are clearly linked to a company's business purposes and strategic intent and carry the support of its shareholders. Such activities serve the interests of the company as a whole, not interests specific to individual managers or shareholders. Legitimacy is enhanced when corporate political activities occur within a clear policy framework that is overseen by the company's board and carries investor support."

– International Corporate Governance Network[11]

Appropriate disclosure and oversight

The type of disclosure of companies' financial contributions to third party organizations that is appropriate depends in part on the company and its particular contributions. Canadian institutional investors working with the Shareholder Association for Research & Education (SHARE) have asked companies to disclose not only their own political contributions and lobbying activities, but also the company's membership in and/or payments to any tax-exempt organization in Canada or elsewhere that writes and endorses model legislation or advocates for policy change. Most companies to date have limited this disclosure to contributions in excess of $50,000 annually. SHARE has also asked companies to establish clear decision-making processes and oversight by management and the board for political activity, including memberships in trade associations and contributions to other organizations that engage in policy advocacy.[16]

What does this mean for defined-benefit pension plans?

How can plan trustees address corporate sponsorships or contributions to organizations that directly advocate against the shareholder's own interests (e.g. an organization that advocates for conversion of defined-benefit plans to defined contributions)?

Screening out companies from the portfolio based on relatively small contributions to think tanks is not a practical way of addressing the issue of political spending. Furthermore, these sponsorships are not necessarily material to the investment results themselves. The issue of political activity by corporations in the portfolio is rather one of establishing accountability.

Plan trustees can engage as shareholders with the board and management of their investee companies if they believe a particular corporate activity may be risky, damaging or misaligned with long-term value. They can ask that corporate funding for policy activities be restricted to activity that is clearly aligned with creating value for the company and does not create conflict with the company's stakeholders. They can also ask for improved disclosure and oversight by the board and management of the company to ensure accountability and transparency.

An American Federation of Teachers "Ranking Asset Managers" report identified asset managers that were backing groups lobbying against US public sector plans. Some asset managers disavowed involvement in lobby groups following the publication of the report, some funds have asked their managers about lobby activity, and at least one public plan has developed criteria in RFPs for managers or consultants that require disclosure of support for non-profits related to education.[17]

Lastly, trustees can sponsor their own research and advocacy about the substantial benefits that defined-benefit pension plans provide to their beneficiaries, to the Canadian economy and to the success of employer sponsors. Efforts towards this have been undertaken by plans like the Healthcare of Ontario Pension Plan (HOOPP), Ontario Municipal Employees Retirement System (OMERS), OPSEU Pension Trust (OPTrust), and Ontario Teachers' Pension Plan (OTPP), which together commissioned a study by the Boston Consulting Group enumerating how pension investments and payouts support the economy as a whole, and by the B.C Municipal Pension Plan which sponsored a similar report by the Conference Board of Canada.[18]

Conclusions

Think tanks can contribute valuable information to public policy debates in Canada, and corporations may want to support the development of sound, non-partisan public policy research as a way of contributing to policy solutions for issues that affect their operations and their stakeholders.

But some think tank research can also create reputational risks for the companies that support them, with potentially negative effects on the company's stakeholders – including its shareholders. For this reason, any corporate contribution to organizations engaged in public policy debates needs to be managed thoughtfully and overseen by senior officials with a view to careful alignment with company value and sound risk management.

Further, as a matter of transparency in public policy development, companies should adopt current best practices in disclosure to shareholders and the public to clarify their contribution to, and rationale for, public policy development.

Pension funds, for their part, may want to assess the contributions their investee companies (as well as their consultants and asset managers – *see Appendix B*), are making to policy development, particularly where it affects the interests and reputation of their own fund and its members and beneficiaries.

They may also want to engage with the management of portfolio companies to ensure that risks related to public policy interventions are addressed and adequate transparency and accountability measures are in place.

Lastly, they can contribute their own research and add their voice to the debate about sound retirement options for Canadians.

SHARE's work on political spending

The Shareholder Association for Research and Education (SHARE) is engaged in a three-year project to encourage dialogue among capital market participants about how Canadian corporations' influence on public policy debates and decision-making affects the interests of long-horizon investors.

This is the fourth in a series of publications analyzing Canadian corporate political spending and legal and policy options to promote a balanced role for corporations, from an investor perspective. The first case study, published in October 2014, examined spending by Canadian publicly-traded corporations in the US 2014 mid-term elections.[19] The second was an overview and discussion paper examining the relevance of and options for political spending disclosure in the Canadian context.[20] The third was a case study of trade association policy work related to climate change.[21]

Appendix A

Corporate contributions and disclosure

Neither Canadian charitable think tanks, nor the corporations themselves, are required under Canadian laws and regulations to disclose contributions given or received. Therefore this study relies on the limited voluntary disclosures made by the institutions themselves.

The Fraser Institute: In 2015 the Fraser Institute had an annual budget of $10.7 million, and 42% of its revenues came from "organizations" (not including foundations, which are counted separately). It is registered as a charity and is not obligated to disclose its donors to the public, so little more is known about the sources of the Institute's revenues. The Fraser Institute has been rated as "highly opaque" by the international organization Transparify, which rates global think tanks on their transparency.[22]

However the organization has disclosed some of the sponsors for its public events, which have included the following publicly-traded corporations:

- Bank of Nova Scotia
- BCE Inc.
- BMO Capital Markets
- Brookfield Asset Management
- Canadian Imperial Bank of Commerce
- Canadian Natural Resources Limited
- Cannacord Genuity Capital
- Credit Suisse
- HSBC
- IamGold
- National Bank
- Onex
- Pembina Pipeline Corporation
- Royal Bank of Canada
- Teck
- Toronto Dominion Bank
- Transforce

Sponsorships of the Fraser Institute's public events are a small part of the organization's revenues. The degree to which the organization receives general or project funding from these or other publicly-traded corporations is not known.

The Montreal Economic Institute (MEI): The MEI is also a charity and does not disclose its donors, but its board[23] includes representatives from Alimentation Couche-Tard, Garda World Security Corporation and Schiff Nutrition International, and its Board of Governors[24] includes the President of Reitmans (Canada) Limited. Twenty-seven percent of its $2.3 million annual revenue comes from corporations.[25]

The MacDonald Laurier Institute: Twenty-six percent of the MacDonald Laurier Institute's (MLI) funding comes from corporations directly. It is more forthcoming about funders, listing them in its annual report, which sets it apart from the more secretive Fraser Institute and Montreal Economic Institute.

Amongst the companies that have provided funding and sponsorships are:

- ARC Resources
- Bank of Montreal
- Google Canada
- Imperial Oil
- Johnson & Johnson
- Martinrea International
- Merck
- Shaw Communications
- Spectra Energy
- Toronto Dominion Bank

The Chair of Aecon Group sits on the Advisory Council of the MLI and the Executive Chairman of Martinrea International is the organization's Board Chair. The CEO of Mainstreet Equity Corporation also sits on the board.

Appendix B

Asset managers, consultants, and private equity firms

Some asset managers, advisors and consultants either play a role on the boards of think tanks or have sponsored events. At the same time, these firms may include public sector defined-benefit pension funds as clients.

Fraser Institute

Both **EY** and **Deloitte** have sponsored Fraser Institute events, as has **Torys LLP**. The Vice Chairman of Deloitte is on the board of the Fraser Institute.

Dundee Wealth Management, Canaccord Financial, BMO Capital Markets, Arrow Capital Management, CAI Capital Management, Tricor Pacific Capital Inc., Canderel Management and other asset managers and private equity firms have either sponsored Fraser Institute events or have representatives on its board.

Montreal Economic Institute

Claret Asset Managers, BCA Investment Research, Lombard Odier, and Champlain Financial Corporation have sponsored Montreal Economic Institute events, and the chairman and CEO of **Fiera Capital** is on its board.

MacDonald Laurier Institute

Casgrain & Company Limited's Corporate Secretary sits on the board of the MacDonald Laurier Institute.

Endnotes

[1] https://www.fraserinstitute.org/blogs/as-lockout-looms-canada-post-should-not-be-in-the-retirement-business

[2] https://www.fraserinstitute.org/article/solution-canada-post-strike-privatization

[3] https://www.fraserinstitute.org/article/status-quo-defined-benefit-pension-plans-government-sector-employees-are-akin-blank-cheque

[4] https://www.fraserinstitute.org/blogs/as-lockout-looms-canada-post-should-not-be-in-the-retirement-business

[5] https://www.fraserinstitute.org/blogs/pension-expert-fuels-misunderstanding-about-benefits-of-cpp-expansion

[6] https://www.thestar.com/business/personal_finance/retirement/2014/10/16/a_closer_look_at_pension_envy_mayers.html

[7] Montreal Economic Institute. Are public sector plans too generous? March 2010. Available at: http://www.iedm.org/main/show_publications_en.php?publications_id=254

[8] http://www.iedm.org/50882-the-mei-proposes-defined-contribution-plans-and-indexing-the-retirement-age

[9] http://www.macdonaldlaurier.ca/cpp-expansion-skimming-our-savings-for-unfunded-public-pensions-philip-cross-in-the-financial-post

[10] Based on publicly available data on significant public equities investments by: BCIMC, AIMCo, CPPIB, OTPP, ATRF, OMERS, MTRAF, and Canada Post Pension Plan. Does not include investments in fixed income instruments such as corporate bonds.

[11] International Corporate Governance Network. ICGN Statement and Guidance on Political Lobbying and Donations. 2012. p.11 Available at: https://www.icgn.org/images/ICGN/files/icgn_main/Publications/best_practice/PLD/icgn_pld_mar2012_long.pdf

[12] http://alecexposed.org/w/images/c/c8/1R10-Right_to_Work_Act_Exposed.pdf

[13] http://blogs.lawyers.com/2013/08/alec-pushed-stand-your-ground

[14] http://www.theguardian.com/environment/2014/sep/23/google-to-cut-ties-with-rightwing-lobby-group-over-climate-change-lies

[15] https://www.theguardian.com/us-news/2016/feb/17/ford-quits-alec-lobby-conservative-environment

[16] For more information on SHARE's work on disclosure of political spending by publicly-traded corporations, see Dollars, Democracy and Disclosure, at http://share.ca/documents/investor_briefs/Governance/2014/Dollars_Democracy_Disclosure.pdf. SHARE is also undertaking regular engagement with companies on behalf of institutional investors to encourage full disclosure and oversight of political spending and lobbying.

[17] http://www.aft.org/sites/default/files/rankingassetmanagers0115.pdf

[18] https://www.otpp.com/news/article/-/article/701993 and https://www.pensionsbc.ca/portal/page/portal/pencorpcontent/mpppage/publications/municipal_education_and_outreach/mpp_econ_impact_bcpp.pdf

[19] Thomas, Kevin. Are Canadian corporations spending to influence the US political process? SHARE, October 2014. Available at: http://www.share.ca/files/SHARE-US_Political_Spending_by_Canadian_Corporations_web.pdf

[20] Thomas, Kevin. Dollars, Democracy and Disclosure: Should investors demand better disclosure from Canadian corporations on political spending? SHARE, January 2015. Available at: http://share.ca/files/Dollars_Democracy_Disclosure-SHARE.pdf

[21] Thomas, Kevin. Attacking the Clean Power Plan: How Canadian corporations are indirectly supporting action against US climate regulations. SHARE, March 2016. Available at: http://share.ca/documents/investor_briefs/Social/2016/Trade_Association_Lobbying.pdf

[22] https://onthinktanks.org/initiatives/transparify/transparify-2016-report

[23] http://www.iedm.org/fr/1242-conseil-dadministration

[24] http://www.iedm.org/1248-board-of-governors

[25] http://www.iedm.org/31147-who-are-we

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