ENGAGEMENT ACTION

FIRST QUARTER, 2021 SUPPLEMENTARY PUBLIC REPORT

SHARE
SHAREHOLDER ASSOCIATION *for* RESEARCH & EDUCATION

HEALTH ACCESS & EQUITY

Pharmaceutical industry governance needs shot in the arm

Warning bells go off when a major pharmaceutical firm like Johnson & Johnson has to pay out more than US $9 billion in opioid- and asbestos-related settlements, yet still rewards the CEO with 17% more pay than the previous year (now topping $29.6 million in salary and bonuses for 2020) using some clever accounting moves that effectively insulated the CEO from accountability for those big legal payouts.

When there is little accountability for damaging behaviour that happened under a CEO's watch, we look closely at the board's structure. In the case of Johnson & Johnson, the challenge in holding the CEO accountable for the opioid-related issues the company has faced is in part due to the fact that the Chair of the Johnson & Johnson board – the CEO's effective boss – is also the CEO.

Having the company CEO also sit as Chair of the board is an all too common set-up at many of the pharmaceutical firms that face opioid and competition or marketing-related lawsuits in the U.S. The CEOs at Eli Lilly, AbbVie, Bristol Myers Squibb and Gilead are all Chairs of their respective boards.

While the CEO does not get to set their own pay (thanks to listing requirements set by the New York Stock Exchange), a combined Chair/CEO position still has an outsized influence on overall board decision-making, culture, agenda-setting and strategy, including the critical oversight role in risk management.

Done poorly, a lack of effective risk management on matters like opioid marketing is what leads to the kinds of massive legal settlements we're now seeing in the pharmaceutical industry – and it gets done poorly when dissenting voices find it hard to speak out. Not surprisingly, according to a 2019 survey of over 700 directors by PWC, 57% of directors surveyed who sit on a board with a combined Chair/CEO say it is difficult to voice dissent – a 37% higher result than on boards with an independent Chair.

In March, SHARE's CEO Kevin Thomas was appointed as co-Chair for the Investors for Opioid and Pharmaceutical Accountability (IOPA), an investor coalition that includes 64 state treasurers; publicly elected comptrollers; asset managers; and faith-based, public and labour funds with more than US $4.4 trillion in investments.

SHARE's IOPA engagements have already achieved independent board chairs at three large pharmaceutical sector firms. This spring, the coalition, along with SHARE clients, has filed proposals at Johnson & Johnson, Eli Lilly, AbbVie, Bristol Myers Squibb and Gilead, proposing to change the board's structure so that the CEO is accountable to an independent boss; and the board's decision-making and risk management is less vulnerable to outsized influenced by the CEO. To support those proposals, SHARE met with seven large asset managers, including State Street, Blackrock and Vanguard, as well as the two largest proxy advisory firms, to explain these proposals and our desired outcomes, and encourage positive votes.

SHARE CEO Kevin Thomas said, in describing these engagements, "We want corporate boards to firmly establish accountability for the decisions the CEO makes, not to dole out massive bonuses even when historic legal payouts get booked. We want boards to work diligently and carefully to make sure the CEO puts the interests of patients first, and their paycheque last."

As the shareholder votes come up this spring, the group is optimistic that other shareholders will join in voting for change.

CLIMATE TRANSITION

Turning up the pressure to turn down the heat: investing in climate action

On February 18, during SHARE's annual Investor Summit, a coalition of Canadian university endowments and pension plans announced their commitment to leverage their investments to seek action by investee companies to reduce climate risk. The University Network for Investor Engagement, or UNIE, is comprised of 11 universities so far: Carleton, Concordia, Dalhousie, McGill, McMaster, Mount Allison, Université de Montreal, St. Michael's College, University of Toronto Asset Management, Victoria and York.

On behalf of the network, SHARE will engage with North American public companies held in endowment and pension portfolios, in key sectors where advocacy can make the biggest difference, including finance, transportation, energy and utilities, and manufacturing.

The initiative will focus on both reducing greenhouse gas emissions and accelerating the transition to a low-carbon economy.

This announcement coincides with a number of other significant developments in the area of active ownership and climate change.

Banks commit to carbon accounting principals

In the past few months, all five of Canada's major banks have announced their commitment to the Partnership for Carbon Accounting Financials (PCAF), which will require them to measure and disclose financed emissions. In addition, three banks have also announced their membership in the Rocky Mountain Institute's Centre for Climate Aligned Finance. On their own, each of these initiatives does not change the fact that the Canadian banking sector has lagged well behind international peers on climate action. Given that it's impossible for investors, on their own, to measure or compare any commitments to reducing they emissions that banks finance, financial institutions' commitments to these measurement tools and processes is a small, but significant, step in the right direction.

Read more about SHARE's take on Canadian banks' recent commitments at share.ca/banks-commit-to-pcaf/

New climate benchmark sets the bar for net-zero commitments

A dizzying number of companies have made announcements in the past few months, committing to reduce GHG emissions to net-zero by 2050. While this seems like promising news, it has left many investors asking themselves how meaningful these commitments really are; and how, as active owners, they might further their engagement with companies to ensure these announcements mean actual short- and medium-term emissions reductions.

Enter the Climate Action 100+ (CA100+) recent released Net-Zero Benchmark. CA100+ is a global network of 575 investors and investor networks, including SHARE. Together, the investors represent $54 trillion in assets. SHARE is an active participant in the CA100+, and as such, represents all of its clients as coalition participants.

The benchmark evaluates companies against 10 criteria: net-zero ambition; long-term GHG reduction targets; medium-term targets; short-term targets; decarbonization strategy; capital allocation alignment; climate policy engagement; climate governance; just transition (parameters still under development); and TCFD disclosure. Each indicator has multiple sub-indicators, each with its own metrics.

This benchmark will be essential for SHARE, asset managers and asset owners to set the bar on what a meaningful commitment to the Paris targets really needs to look like if we're to stop the worst impacts of climate change and start to really turn down the heat.

Investors hoping to send strong message to Phillips 66

As part of its work with CA100+, SHARE has been engaging with Texas-based oil and gas company Phillips 66 for some time now. The company lags behind both investor expectations and the performance of its peers in numerous ways. For starters, it has not yet expressed a clear position on the Paris Agreement or the need to limit temperature rise to below 1.5 to 2 degrees. Additionally, public documents also show that the company spends millions annually for its memberships in a long list of trade associations widely reputed for being hostile to climate policy and the transition to green energy generation, methane emission regulations and carbon taxes.

According to Sarah Couturier-Tanoh, Senior Shareholder Engagement and Policy Analyst, “The company is a climate laggard, and has not been responsive to investor concerns. That’s why we returned this year with a shareholder proposal.”

In response to the company’s lack of responsiveness to shareholder concerns about climate risk, SHARE, (on behalf of the Fonds de solidarité du Québec), the California State Teachers Retirement Service (CalSTRS) and others have filed a shareholder proposal to address these issues. The resolution will go forward to the Annual Meeting scheduled for May 6, 2021. The proposal argues, among other things, that Phillips 66’s refusal to provide investors with adequate information on how its lobbying activities are consistent with Paris goals prevents investors from performing their due diligence in accordance with their fiduciary duty.

POLICY ADVOCACY

Rebalancing corporate stakeholder interests

In 2018, SHARE met with federal government officials to discuss options to protect workers’ retirement savings in light of the high-profile Sears Canada insolvency, which left pensioners without incomes while executives and private equity investors ran off with the company’s assets.

To help address that risk at other firms, SHARE proposed measures to extend clawback provisions to allow the recovery of dividends, executive compensation and other payments made while a company has underfunded its pension obligations. We urged the government to establish early warning signals that would help investors and lenders identify pension underfunding problems before they became dangerous for their beneficiaries. And we asked that corporate directors be legislated to consider the interests of a broad range of stakeholders – including the workforce, retirees and the environment – and not just the interests of shareholders.

In the subsequent 2019 federal budget, some of these measures were adopted through amendments to the *Canada Business Corporations Act*, along with other long-standing SHARE proposals, such as making “say on pay” votes mandatory for issuers in Canada.

Since then, some of those new requirements were held back by the lack of implementing regulations.

Early this year, however, the government finally asked for commentary on a set of proposed regulations; and SHARE has once again offered comments intended to support a proper balance between the rights of workers, retirees, management and shareholders, so that no one’s success comes at the expense of others.

We’re asking the government to:

- Broaden the terms of clawback policies that allow boards to take back CEO compensation following misconduct;
- Require disclosures regarding the deferral of incentive compensation, which makes it easier to collect claw backs when they’re required;

- Require companies to disclose the ways non-GAAP performance metrics distort executive pay (something we'll be sure to take up as shareholders when those promised "say on pay" votes arise); and
- Disclose key human capital metrics, so investors can discern whether a company is truly respecting other stakeholders like workers and retirees.

We hope that these submissions will help Canada improve its framework for corporate governance and give real meaning to the broader fiduciary duties enshrined in that 2019 law, requiring corporate directors to take workers, retirees and the environment into account in their decision-making.

DECENT WORK

Amid pandemic death toll, SHARE seeks improvements to workforce and care standards at Chartwell

In 2021, the oldest of the baby boom generation – those born in 1946 – begin turning 75 years old, marking the first wave of the so-called "grey tsunami" lapping at the shores of Canada's system of seniors care.

The long-term care sector has seen enormous growth over the past 20 years, partly due to regulatory changes allowing for more market access; and partly owing to Canada's changing demographics and an aging population.

While the sector is highly unionized, standards of work are widely considered to be relatively poor, with gruelling care work performed by a workforce that is disproportionately made up of women, many of whom are racialized and first-generation immigrants to Canada.

Advocates have often linked inadequate working conditions with standards of care, noting that higher workloads mean less time to provide support to residents. And a high rate of turnover and reliance on a part-time workforce correlate with inadequate staff training and poor care outcomes.

These circumstances formed the basis for the engagement SHARE had planned with Chartwell Retirement Residences REIT at the start of 2020, before the reality of the COVID-19 pandemic hit. Over the course of 2020 and early 2021, freelance journalist Nora Loreto linked more than 70 per cent of Canada's 23,000 COVID-19 deaths to congregate care settings, most of them long-term care homes.

In late 2020, SHARE filed a shareholder proposal, on behalf of the IBVM Foundation, asking the company to improve board-level oversight of human capital management; and provide additional reporting to investors on key workforce metrics, such as training and rates of retention.

SHARE held a series of meetings with the company, but found that Chartwell was unwilling to make sufficient commitments to satisfy the objectives set out in IBVM's proposal. As a result, the proposal will be voted on at the company's AGM in May, 2021.

In addition, SHARE will also recommend that investors vote against (withhold) their votes from the Board Chair, Michael D. Harris. Harris, the former premier of Ontario, has served on the board since 2003. "Mr. Harris' long tenure on the board does not allow him to credibly present himself as an independent chair," said Anthony Schein, Director of Shareholder Advocacy. "Furthermore, accountability is needed for the appalling treatment of residents in long-term care facilities over the course of the pandemic. As shareholders, that accountability flows through the board. That is why we are recommending shareholders withhold their votes from Mr. Harris."

McDonald's addresses sexual harassment policies and training in franchises and corporate stores

McDonald's has been rocked by dozens of accusations of sexual harassment and sexual assault in its stores across the United States. The accusations and lawsuits have added to the scandal created by the departure of former CEO Steve Easterbrook amid allegations of sexual misconduct. Easterbrook was paid more than US $40 million in severance when he departed the company.

SHARE began engagement with the company in 2019, and, following discussions, the company made changes to its audit committee charter to provide a formal role for board oversight of the workforce. "Board oversight of the workforce is a crucial step, but the company's commitment needed to go further," said Sarah Couturier-Tanoh, Senior Engagement and Policy Analyst.

In late 2020, SHARE filed a proposal, on behalf of the IBVM foundation, asking the company to take action to address the issues of sexual harassment in its stores – including both franchise and corporate operations.

The company was initially reticent to make commitments that would apply to franchise stores – where the vast majority of employees work – citing a risk of "joint employer liability." But, a commitment to training or policies that only addresses corporate employees would be wholly insufficient – since it would not protect the vast majority of employees, or address the risk to shareholders from reputational damage and dozens of lawsuits filed by employees.

SHARE pushed the company on its commitments, while preparing to have the proposal go to a vote by shareholders. In the end, the company made important commitments, and SHARE and the IBVM Foundation agreed to withdraw the proposal. The company has committed to implementing new sexual harassment policies and training in all of its stores, including in North America and abroad, in both franchise and corporate stores.

"This is an important commitment," Couturier-Tanoh continued. "There is a clear responsibility for the workforce at a corporate level. Corporate offices set the standards and training for how often the bathrooms are cleaned and for what uniforms are worn – not to mention how long the fries are in the oil. That's why customers know what to expect in any store. There's no reason that commitment shouldn't extend to the workforce."

This engagement is part of SHARE's ongoing work related to Valuing Decent Work, which has focused on elevating board oversight and disclosure of workforce issues.

INVESTING IN THE INDIGENOUS ECONOMY

Commitments to procurement from Indigenous-owned businesses at the centre of SHARE engagements

Through the Reconciliation and Responsible Investment Initiative (RRII), a partnership with the National Aboriginal Trust Officers Association, SHARE has prioritized engagements with companies to address call to action 92 of the Truth and Reconciliation's final report.

SHARE has tracked progress on disclosure of Indigenous representation through a report first published in 2017, and re-released with updated data in 2021. Despite some progress, Canada's corporate sector has much work to do in accelerating representation and participation of Indigenous peoples on corporate boards, in management and across companies' operations, including as employees, suppliers and business partners.

Of the 78 companies reviewed, 28 per cent provided data on Indigenous representation on boards. The study also found that since 2016, there has been a significant 28-per cent increase in companies that reference Indigenous heritage or identity in board of director diversity policies, and 22 per cent in senior management policies. However, none of those companies disclosed having Indigenous board members.

In this context, SHARE's current engagement priorities include improving corporate practices on the hiring and advancement of Indigenous people, and promoting procurement from Indigenous-owned businesses.

SHARE identified that, within the financial services sector, leading firms have set positive standards that should be emulated more broadly. For instance, Bank of Montreal achieved Gold-level certification under the Canadian Council for Aboriginal Business's Progressive Aboriginal Relations Program.

In 2021, SHARE engaged with both Sun Life Financial and Great-West Life, both of which have made positive steps in terms of reconciliation. At Sun Life, where SHARE initially filed a shareholder proposal seeking further commitments and disclosure, the company agreed to substantially implement the proposal, including beginning the PAR certification process.

SHARE filed a similar proposal at the TMX Group Inc, on behalf of the Atkinson Foundation. The parties met repeatedly in March and April. Following a series of discussions, the proposal was included on the proxy when it was initially released, with management recommending a vote "against" the proposal.

SHARE and TMX re-engaged in mid-April, and talks are ongoing. As a result, the proposal is scheduled to be voted on at the company's May 12, 2020 AGM.

Our proposal is straightforward; it asks companies to commit to disclosing information, and setting targets on Indigenous employment and procurement. We aren't prescriptive, but we do know that further progress is needed, and this starts with disclosure." said Katherine Wheatley, Program Manager of the Reconciliation and Responsible Investment Initiative.

JOINT INVESTOR LETTERS

SHARE regularly signs joint investor letters or statements on behalf of our network of responsible investors. What follows is a round-up of recent initiatives:

To: Amazon.com

Re: urging company to take measures to uphold its commitments to ILO labour standards and UN Guiding Principals on Business and Human Rights

Date: 29/01/2021

The letter was prompted by a pending certification vote to form a union at an Alabama plant where there have been reports that the company is interfering in the certification process.

To: Hannaford's Supermarket (subsidiary Ahold Delhaize)

Re: Share signed a joint investor letter urging Hannaford's to join the "Milk with Dignity" initiative

Date: 03/03/2021

The initiative sets a code of conduct for dairy companies, following an in-depth survey that documented the top workplace and housing issues for the sector's predominantly migrant workers.

To: Pay Your Workers Campaign

Re: Share endorsed the "Pay Your Workers" pledge, organized by the Clean Clothes campaign

Date: 22/02/2021

The campaign urges apparel brands to ensure that garment workers receive full wages and severance during the pandemic, and that their right to unionize is respected.

To: Long term care operators

Re: SHARE signed a joint investor statement setting out the principles for operation in the long-term care and "nursing home" sector. The letter is organized by UNI Global Union.

Date: 23/01/2021

Covid-19 deaths among nursing home residents comprise an average of 41% of all deaths across 22 countries as of February 2021. These deaths shine a spotlight on the direct link between standards of care and decent work practices in the sector.

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