

2018

Canadian Board Composition Study



SIZE OF
CANADIAN
BOARDS

GOVERNANCE
ACTIVISM

COMPOSITION
OF CANADIAN
BOARDS

2018 BMO
Capital
Markets
Canadian
Board
Composition
Study

BOARD TRENDS
BY SECTOR

DIRECTOR
TENURE
TRENDS

PROXY
ADVISORY
FIRM TRENDS

OVER
BOARDING
TRENDS

TRENDS
IN ESG

DIVERSITY
LEVELS

GOVERNANCE
QUALITYSCORE
TRENDS

Canadian Public Company Board Statistics

	Number of Companies in Survey	Average Number of Directors	Average Director Tenure	Average Director Age	Average Independent Directors	Average Female Directors	Independent Chairman	Average Number of Boards ⁽¹⁾
	(#)	(#)	(years)	(years)	(%)	(%)	(%)	(#)
2018 Versus 2017								
Canadian Companies (2018)	721	7.8	7.6	61.2	68%	15%	50%	2.2
Canadian Companies (2017)	506	8.4	6.7	60.8	68%	14%	53%	2.4
S&P/TSX 60 (2018)	60	12.0	7.9	62.3	76%	27%	57%	2.3
S&P/TSX 60 (2017)	60	11.9	7.4	61.8	77%	23%	60%	2.4
By Company Size								
	(#)	(#)	(years)	(years)	(%)	(%)	(%)	(#)
Large Cap (>\$5 bn)	127	10.8	8.0	62.4	74%	25%	55%	2.2
Mid Cap (\$500 mm - \$5 bn)	242	7.9	7.8	61.1	69%	16%	52%	2.1
Small Cap (<\$500 mm)	352	6.7	6.8	60.6	65%	10%	47%	2.2
By Sector								
	(#)	(#)	(years)	(years)	(%)	(%)	(%)	(#)
Diversified	236	8.0	8.0	61.5	68%	17%	49%	2.0
Energy	74	7.6	6.6	61.8	72%	10%	60%	2.2
Financial	70	9.3	7.9	61.9	68%	18%	48%	2.2
Mining	189	7.3	7.1	60.6	66%	11%	48%	2.6
Real Estate	43	7.5	7.8	61.2	71%	18%	49%	2.1
Technology	88	7.2	8.7	60.2	66%	14%	50%	1.8
Utilities	21	8.2	6.4	61.0	74%	23%	67%	1.9

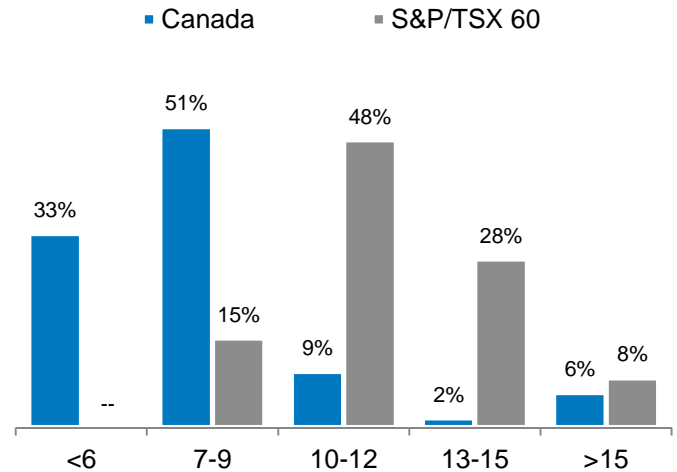
Source: FactSet

1. "Average Number of Boards": includes current public company boards only.

Canadian Board Composition in 2018

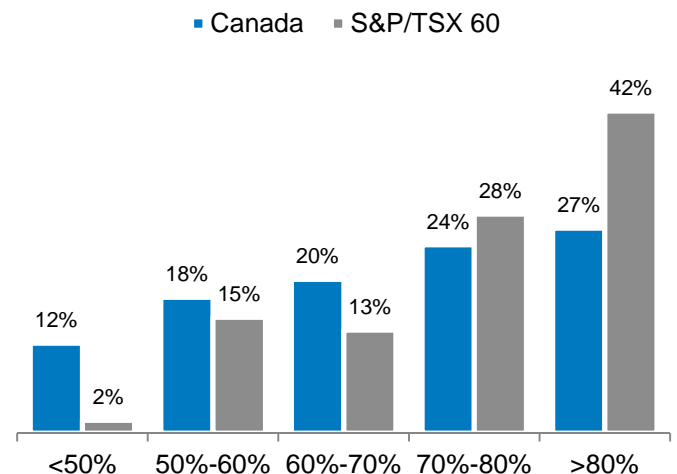
Average number of directors (#)

- **Key Findings:** Majority of Canadian boards range between 7 and 12 members. TSX 60 companies typically have larger boards.
- **ISS View:** Generally, boards should not have fewer than six members or more than 15 members. A board of between 9 and 12 board members is considered ideal.
- **Glass Lewis View:** Generally, boards should have a minimum of 5 directors to ensure sufficient diversity of views; boards with more than 20 directors will have difficulty reaching consensus and making timely decisions.



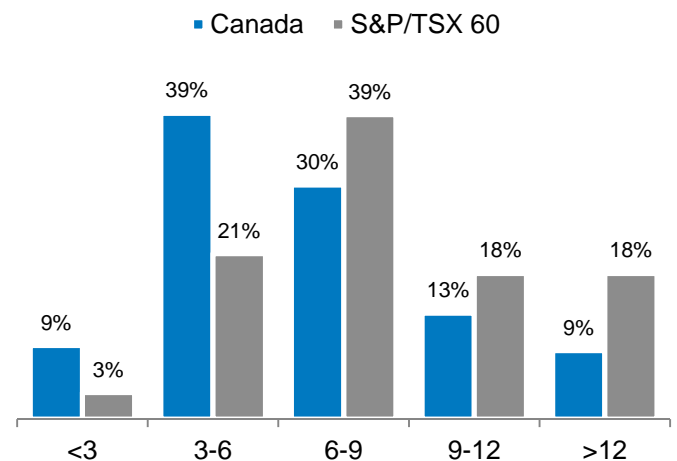
Average percentage independent (%)

- **Key Findings:** Most Canadian boards are comprised of a majority of independent directors. Only 12% of Canadian boards have less than a majority of independent directors.
- **ISS View:** A board lacking a majority of independent members will raise significant concerns.
- **Glass Lewis View:** In general, at least a majority of a board should consist of independent directors.
 - Companies in the S&P/TSX Composite Index should have a greater level of independence; Glass Lewis expects such companies' boards to be at least two-thirds independent.

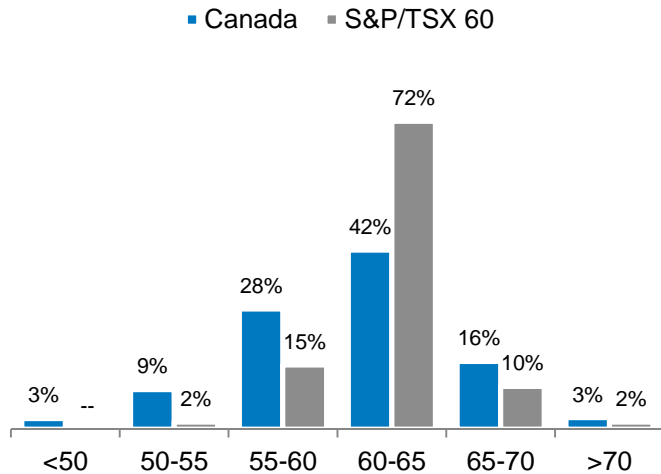


Average tenure (years)

- **Key Findings:** Majority of Canadian directors have held their board seats for 3 to 9 years.
- **ISS View:** A tenure of more than 9 years is considered to potentially compromise a director's independence and as such a company's ISS rating may be adversely affected if the tenure of any of its non-executive directors exceeds 9 years.
- **Glass Lewis View:** Supports periodic board refreshment
 - Does not recommend specific term limits.
 - However, if a board adopts term limits, it should follow through and not waive such limits.

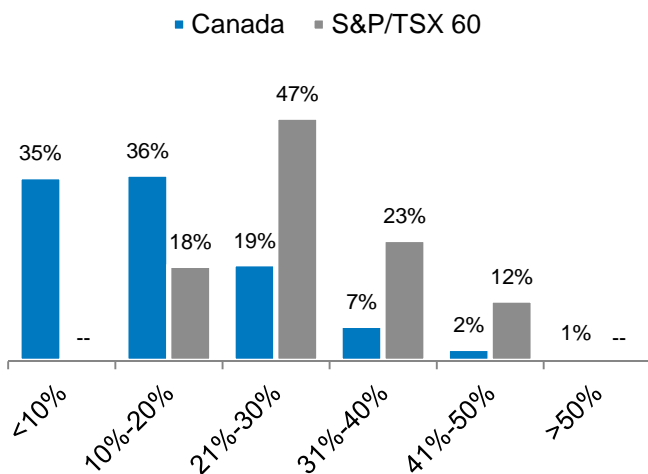


Source: FactSet, ISS, Glass Lewis
 Note: Ranges include lower end, and exclude higher end of select range sizes.



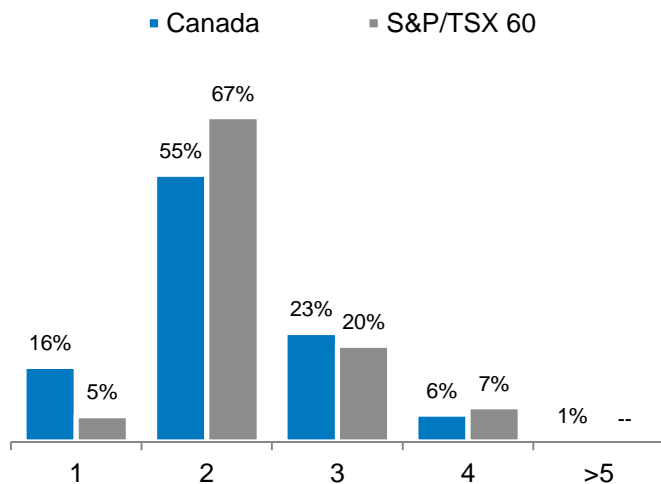
Average age (years)

- **Key Findings:** Majority of Canadian directors are between 55 and 65 years old. Very few directors are younger than 50 or older than 65.
- **ISS View:** No policy.
- **Glass Lewis View:** Supports periodic board refreshment.
 - Age limits arbitrarily restrict experienced and potentially valuable board members from service.
 - However, if a board adopts age limits, it should follow through and not waive such limits.



Average percentage female (%)

- **Key Findings:** Diversity levels have increased over the last few years and the majority of TSX 60 boards now have more than 25% female directors.
- **ISS View:** Evaluates the number or proportion of women on the board.
 - Beginning Feb. 2019 for all TSX companies⁽¹⁾, ISS will recommend withholding the vote for chairs of nominating committee if there are no female members, or the company has not adopted a formal written gender diversity policy.
- **Glass Lewis View:** Beginning in 2019, will generally recommend voting against nominating committee chair of a board that has no female members, or that has not adopted a formal written gender diversity policy.



Average number of boards (#)⁽²⁾

- **Key Findings:** Majority of Canadian directors sit on 2 or less company boards. There are very few “over-boarded” directors in Canada.
- **ISS View:** Beginning Feb. 2019, “over-boarded” is defined as (i) a CEO of a public company who sits on more than 2 outside public company boards or (ii) a non-CEO director who sits on more than 5 public company boards in total.
- **Glass Lewis View:** Recommends that shareholders vote against a director who serves as an executive officer of any public company while serving on more than 2 public company boards and any other director who serves on more than 5 public company boards.

Source: FactSet, ISS, Glass Lewis

Note: Ranges include lower end, and exclude higher end of select range sizes.

1. This policy current applies only to S&P/TSX Composite Index companies.

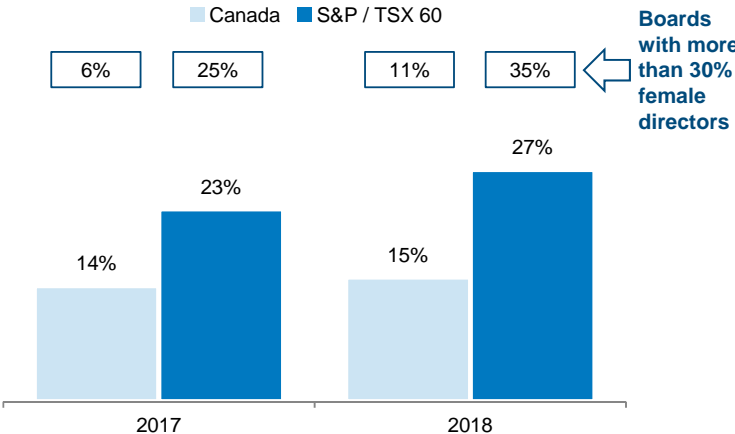
2. Average number of boards includes current public company boards only.

Trends in Canadian Board Composition

Canadian Board Gender Diversity

- TSX 60 companies continued to outpace other Canadian Companies on board gender diversity
 - The percent of female directors for TSX 60 companies increased from 23% to 27% in 2018
 - ~1/3 of TSX 60 companies now have at least 30% of their board seats filled by female directors
- Non-TSX 60 companies also saw increased levels of board gender diversity in 2018, but at significantly lower levels than TSX 60 companies

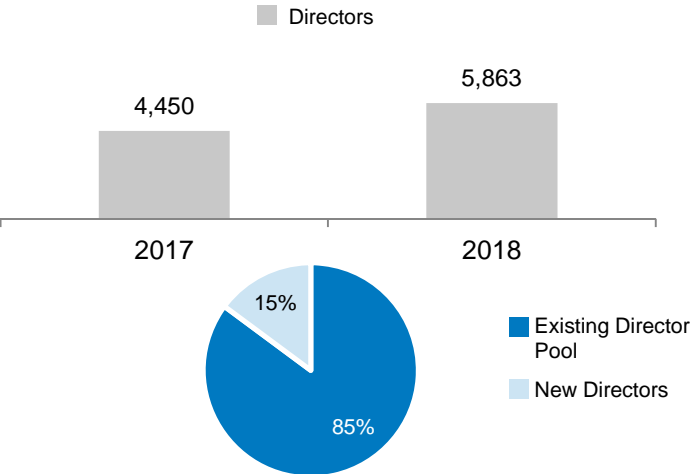
Percentage of Board Seats Held by Female Directors



Canadian Director Pool Refreshment

- The number of directors in Canada grew significantly in 2018 given the emergence of a number of new companies in new sectors (e.g., cannabis, cryptocurrency, etc.)
- ~15% of the newly created board seats were filled by directors that were not previously a director of a S&P / TSX index company
 - ~24% of these were filled by female candidates

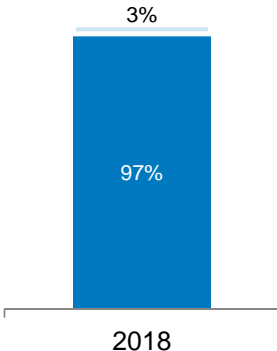
Number of Canadian Directors & Composition



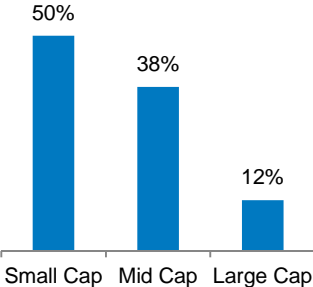
Directors appointed outside of AGM / Vote

- Although the majority of Directors are appointed at annual general meetings, Canadian companies still have to manage the composition of their boards throughout the year
 - ~3% of Canadian Directors were elected outside the 2018 AGM season due to
 - Director retirements
 - Director resignations
 - Board refreshment
 - M&A activity
 - ◆ e.g., merger, strategic investment, etc.
 - Shareholder activism activity

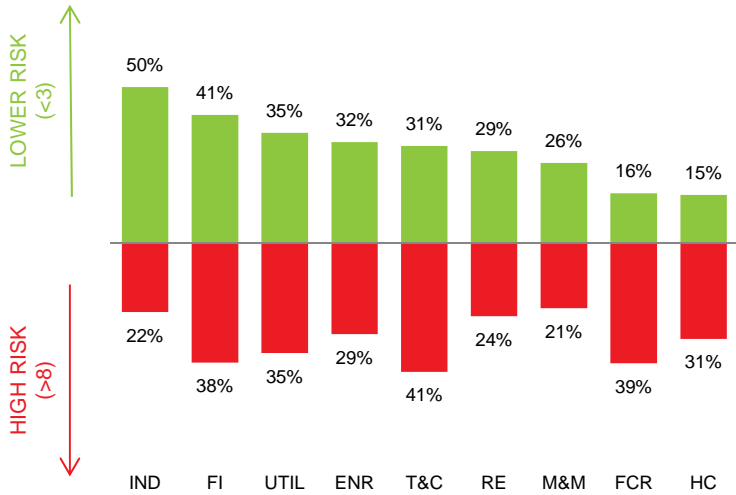
Elected / Appointed Inside of AGM / Vote



Distribution of Directors Elected Outside of AGM / Vote by Market Cap



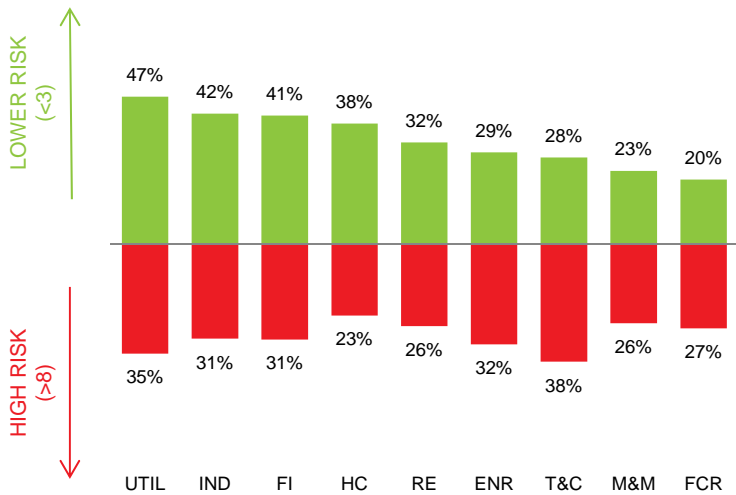
Source: FactSet



ISS Governance QualityScore

- Based on ISS's Governance QualityScore, Canadian Industrial companies have the lowest risk for governance concerns, whereas Financial Institutions, Technology and Communications, and Utilities have the largest variability between lower risk and high risk

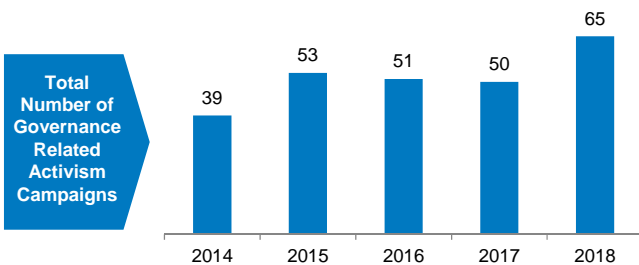
ENR – Energy
 FCR – Food, Consumer Retail
 FI – Financial Institutions
 HC – Health Care
 IND – Industrials
 M&M – Metals and Mining
 RE – Real Estate
 T&C – Technology and Communications
 UTIL - Utilities



ISS Board Structure Sub-score

- Based on ISS's Board Structure sub-score, Canadian Utilities companies have the lowest risk for board structure concerns; however, utilities have the greatest variability as they have the 2nd most common occurrence of high risk boards

ENR – Energy
 FCR – Food, Consumer Retail
 FI – Financial Institutions
 HC – Health Care
 IND – Industrials
 M&M – Metals and Mining
 RE – Real Estate
 T&C – Technology and Communications
 UTIL - Utilities



Governance Focused Activism

- Governance related shareholder activism activity continues to rise in Canada
- Common themes for these campaigns have included:
 - Director independence / entrenchment
 - Director skills
 - Director and management compensation
- Activists frequently use these types of governance attacks to catalyze other strategic goals (e.g., review of strategic alternatives, return of capital, sale of assets, etc.)

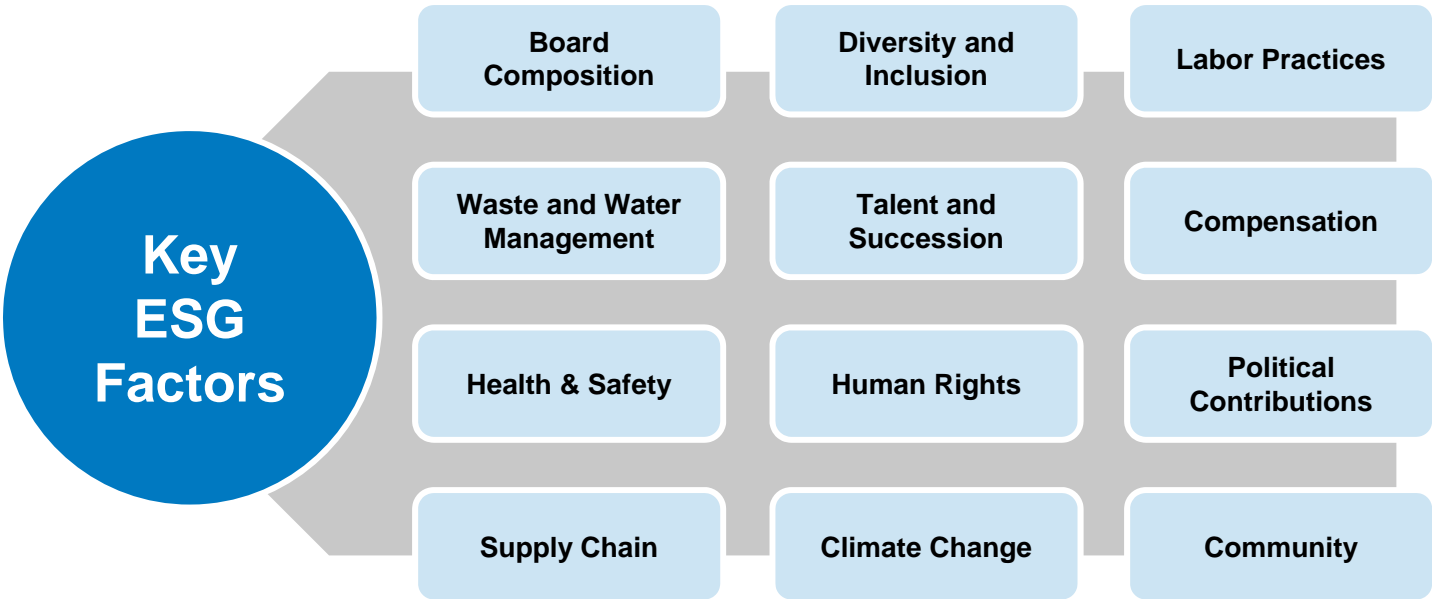
Activist Objectives	2014	2015	2016	2017	2018
Gain Board Representation	26	39	39	31	45
Removal of CEO / Board Member	11	13	7	19	18
Other	2	1	5	--	2

Source: FactSet, ISS, Glass Lewis

Note: Small, Mid, and Large Cap companies defined as companies less than C\$500 mm EV, between C\$500 mm and C\$5 bn EV, and greater than \$5 bn EV, respectively.

The Increasing Focus on ESG

Canadian boards continue to see an increasing focus on corporate Environmental, Social and Governance (“ESG”) strategies from their key stakeholders (shareholders, customers, creditors, employees, etc.).



ESG has now transitioned from a discrete investing style to a key performance metric for many investors that is fully integrated into their investment decisions and performance evaluation criteria. Globally, ESG assets under management grew by 25% from 2014 through 2016 to US\$22.9 trillion¹. Given these developments ESG management has become an even more important consideration for Canadian boards as:



ISS, Glass Lewis, and some of the world’s largest asset managers, pension plans and activist shareholders have publically advocated for a greater focus on ESG on the basis that it will improve long term returns and sustainability.

Proxy Advisory Firm Perspective

ISS	Glass Lewis
<ul style="list-style-type: none"> ISS considers environmental and social shareholder proposals on a case-by-case basis In May 2018, ISS announced expansion of its Environmental & Social QualityScore to 3,200 additional companies, bringing total coverage to 4,700 companies across the Americas, Europe and Asia The E&S QualityScore measures the quality of corporate disclosures on environmental and social issues, including on sustainability governance, and to identify key disclosure omissions 	<ul style="list-style-type: none"> The identification, mitigation and management of environmental and social risks are integral components when evaluating a company’s overall risk exposure In cases where the board or management has failed to sufficiently identify and manage a material environmental or social risk that did or could negatively impact shareholder value, we will recommend shareholders vote against directors responsible for risk oversight

Source: Global Sustainable Investment Review (2016)
 1. Represents Global Sustainable, Responsible, and Impact-Investing (SRI) investment disciplines which adheres to ESG criteria.

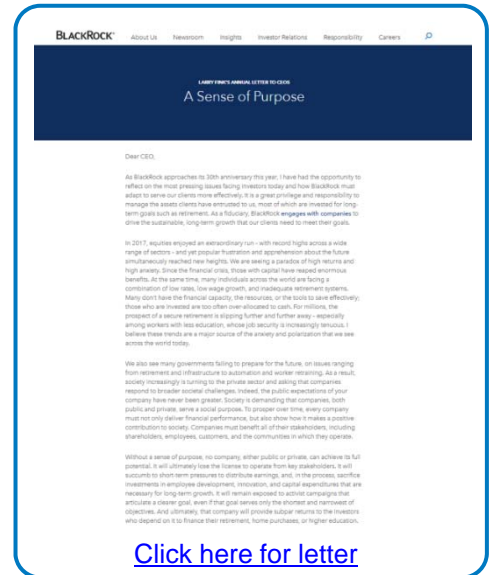
Asset Manager Perspective – BlackRock

In January of 2018, Larry Fink the Chairman and CEO of BlackRock, one of the world's largest asset managers issued his annual letter to CEOs that stated:

- “Public expectations of companies have never been greater”
- “Society is demanding that companies serve a social purpose”
- “Without a sense of purpose, no company can achieve its full potential”

In the letter, Fink stated that:

- “In managing index funds, BlackRock cannot express its disapproval by selling the company’s securities as long as that company remains in the relevant index.”
- “Index investors are the ultimate long-term investors – providing patient capital for companies to grow and prosper.”
- “As a result, our [responsibility to engage and vote is more important than ever.](#)”



Shareholder Activist Perspective – Jana Partners

In January of 2018, Jana Partners and CalSTRS issued a joint letter to Apple Inc. challenging Apple to provide families more options to guide how children use Apple devices.

The letter was viewed as precedent-setting event as Jana Partners, a notable shareholder activist, leveraged its holdings in Apple to advocate for an “ESG” initiative versus a traditional activist strategy (M&A, strategy, return of capital, etc.)

The letter resulted in Apple announcing new parental controls features for its devices in June.

In conjunction with this letter, Jana Partners announced the [formation of a new impact investing fund that will focus on socially responsible investing with an activist approach.](#)

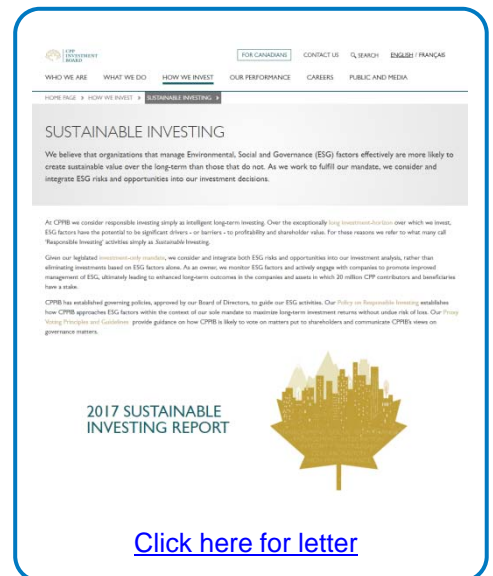


Pension Fund Perspective – Canada Pension Plan Investment Board (“CPPIB”)

In its 2017 Report on Sustainable Investing report, CPPIB states ESG factors are integral components to their investment process. They are considered “when evaluating opportunities, making investment decisions, managing our investments and engaging with companies to seek improvements in business practices and disclosures.”

In addition, [CPPIB also recently demonstrated its commitment to playing a leading role in the development of the emerging Canadian Green Bond markets with its C\\$1.5 billion inaugural Green Bond issuance in June 2018.](#)

- Green Bonds are a key component of the ESG investable landscape
- Green Bonds are debt securities whose proceeds are directed towards eligible green investments
- CPPIB earmarked their Green Bond proceeds towards financing and refinancing investments in renewable energy, water/water treatment and low carbon buildings



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- Commodity products
- Money markets
- Trade finance
- Cash management
- Foreign exchange

Research

- Economics
- Commodities
- Debt
- Corporate

Our locations

Americas

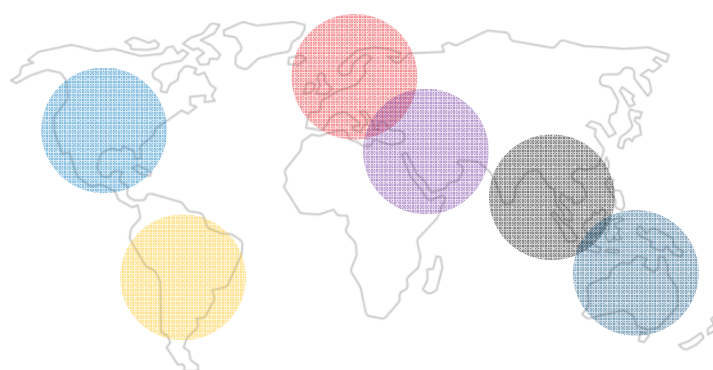
Atlanta
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Calgary
Chicago
Denver
Houston
Mexico City
Milwaukee
Minneapolis
Montreal
New York
Rio de Janeiro
San Francisco
Seattle
Toronto
Vancouver
Washington, D.C

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Melbourne
Guangzhou
Hong Kong
Shanghai
Singapore
Taipei



2,500+
professionals

30
locations

5
continents

Recent Highlights

 <p>C\$5.13 billion</p> <p>Equity Recapitalization by BC Partners </p> <p>Financial Advisor May 2018</p>	 <p>C\$4.5 billion</p> <p>Acquisition of The Jean Coutu Group</p> <p>Financial Advisor April 2018</p>	<p>Brookfield Infrastructure Partners C\$4.3 billion C\$850 million</p> <p>Acquisition and take-private financing of:</p>  <p>Financial Advisor / Joint Lead Arranger Pending</p>	<p>Brookfield</p> <p>\$3.9 billion</p> <p>Acquisition of</p>  <p>Financial Advisor Pending</p>	 <p>US\$3.0 billion</p> <p>Acquisition of a package of assets in the UK North Sea from Royal Dutch Shell</p> <p>Financial Advisor November 2017</p>
 <p>C\$3.5 billion</p> <p>Exclusive Financial Advisor to PIRET on sale to</p>  <p>May 2018</p>	 <p>C\$3.2 billion</p> <p>Acquisition of MedReleaf Corp.</p> <p>Sole Financial Advisor July 2018</p>	<p>ASSOCIATION MEDICALE CANADIENNE  CANADIAN MEDICAL ASSOCIATION</p> <p>C\$2.585 billion</p> <p>Sale of</p>  <p>MD Financial Management <small>QMC Corporation</small></p> <p>to</p>  <p>Exclusive Financial Advisor Pending</p>	<p>tc • TRANSCONTINENTAL</p> <p>\$1.7 billion</p> <p>Acquisition of</p>  <p>Financial Advisor May 2018</p>	 <p>US\$221 million</p> <p>Advisor on Strategic Investment in The Kessler Group</p>  <p>Financial Advisor May 2018</p>
 <p>C\$1.61 billion</p> <p>Advisor on Disposition of Access Pipeline and Stonefell Terminal</p> <p>March 2018</p>	 <p>US \$1.2 billion</p>  <p>Exclusive Financial Advisor April 2018</p>	 <p>C\$1.4 billion</p> <p>Sale of 49% of Hunter Valley Operations joint venture to Glencore</p> <p>Financial Advisor May 2018</p>	 <p>C\$1.13 billion</p> <p>Acquisition of portfolio of 74 royalties, streams and precious metal offtakes from Orion Mine Finance Group</p> <p>Financial Advisor July 2017</p>	<p>INNERGEX Renewable Energy. Sustainable Development.</p> <p>C\$1.1 billion</p> <p>Acquisition of</p>  <p>Exclusive Financial Advisor February 2018</p>
 <p>US\$690 million</p> <p>Sale of a stream of 75% of cobalt produced from Voisey's Bay Mine to Wheaton Precious Metals and Cobalt 27</p> <p>Financial Advisor June 2018</p>	 <p>C\$875 million</p> <p>Privatization by Dutil Family and American Industrial Partners</p> <p>Exclusive Financial Advisor to the Special Committee of the Board of Directors June 2017</p>	<p>Invesque</p> <p>US\$425 million</p> <p>Exclusive Financial Advisor to Invesque on its Acquisition of Care Investment Trust</p>  <p>February 2018</p>	 <p>C\$525 million</p> <p>Restructuring of the silver purchase agreement on the San Dimas mine</p> <p>Financial Advisor May 2018</p>	 <p>C\$512 million</p> <p>Sole Advisor on Disposition of Suffield Assets</p> <p>January 2018</p>



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