

May 8, 2017

Caisse to withhold vote for Beaudoin as Bombardier chairman

NICOLAS VAN PRAET

Caisse de dépôt et placement du Québec is opposing Bombardier Inc.'s executive compensation plan and withholding its vote for chairman Pierre Beaudoin, setting up a tug of war between the family that has controlled the transportation manufacturer for decades and investors who want the family to loosen their grip on the company.

The Caisse, Bombardier's biggest outside shareholder, will not support the candidacy of Mr. Beaudoin as the plane maker's executive chairman, the pension fund manager indicated in a preview of its voting intentions published on its website.

It also said it would vote against Bombardier's proposed executive compensation package in an advisory say-on-pay vote.

[Related: Quebecers decry Bombardier chairman Pierre Beaudoin's pay hike](#)

The development increases the pressure on Mr. Beaudoin and his family, which founded Bombardier, ahead of a potentially fractious annual shareholders meeting Thursday.

The Caisse had won some modest power to influence governance reform at Bombardier when it bought into its train business in late 2015, including the right to be consulted on the candidacy of new independent director nominees.

But it is now flexing its muscle further in the wake of what it sees as Bombardier's missteps in the executive pay controversy.

"It's a fairly bold move" for the Caisse, said Karl Moore, a corporate strategy specialist at McGill University's business school. "This is putting the controlling family and the Caisse at loggerheads in a public way. And that is a bit of a surprise."

The Caisse says that while Bombardier is showing good early progress in a turnaround led by chief executive officer Alain Bellemare, who has its "full support and confidence," it also needs to take on a parallel effort to improve its governance and has failed in that respect.

"In our view, a key component of the mandate of a board is to act as the steward of a company's relationship with its stakeholders – the steward of its standing with investors, governments, communities and, in conjunction with management, its employees," the pension fund wrote in a letter to Bombardier dated Monday. "The board's recent decisions regarding executive compensation fall short of the necessary standard of stewardship."

The Caisse acknowledges that Bombardier made adjustments to the pay following substantial public criticism. But it said it is worried about the thinking that led to the pay increases at the outset. "Our

concern is that the initial decisions were made in the first place and what that reflects about the governance of the company. This is especially true for the compensation the board plans to pay the executive chair.”

Bombardier should be chaired by a fully independent director to improve its governance, the Caisse said. That’s why it is withdrawing its support for Mr. Beaudoin.

At least one other institutional investor also opposes Bombardier’s pay plan. British Columbia Investment Management Corp. (BCIMC) signalled it is withholding votes for the proposed election of the three returning directors on Bombardier’s compensation board committee. It says the three individuals must be held “accountable for ratifying what we believe to be problematic compensation issues.”

Bombardier directors August Henningsen, Patrick Pichette and Carlos Represas failed to garner BCIMC support. A fourth director, Jean Monty, who led the committee, is not standing for re-election. The fund manager said it would also cast a ballot against Bombardier’s 2016 executive pay plan.

Montreal-based Bombardier last month triggered widespread outrage in Quebec over its plan to boost the 2016 remuneration for its top executives by nearly 50 per cent at the same time it benefits from more than \$1-billion (U.S.) in taxpayer aid and executes plans to cut more than 14,000 jobs. In response, Mr. Beaudoin gave up his proposed pay increase and the company decided to defer more than half the planned compensation for its six top-paid executives by one year to 2020, saying it will only be payable if management achieves specific performance objectives.

Mr. Beaudoin, whose family controls Bombardier through a special class of shares, has come under particular scrutiny in the controversy. Observers argued that while there was some logic in Bombardier needing to pay well to retain the outside talent it recruited to fix the business, that logic applied far less to him. During his seven years as CEO to February, 2015, Bombardier’s market value sank significantly as the company grappled with cost overruns for its C Series jet and debt grew.

Investor discontent could come into full view at Bombardier’s annual meeting Thursday. Despite holding only a 13-per-cent equity stake, the family controls 53 per cent of the voting power, meaning all board-recommended proposals before shareholders will almost certainly pass. Still, a significant number of rejection votes could prove embarrassing for the board and force the company to make changes including further board renewal.

“This could be the tipping point where things do start to change at the company,” said **Dan Fong**, an analyst at **Veritas Investment Research** in Toronto. “[It could bring] a broader revamp of corporate governance where you actually have more transparency, more independence.”

Bombardier’s founding family has repeatedly rejected any suggestions that it relinquish control over the company, saying the dual-class share structure that protects its interest shields the manufacturer from an unwanted takeover. It won’t lightly give up the executive chairman position, Mr. Moore said.

Simon Letendre, a Bombardier spokesman, said the company’s board acknowledges the positions expressed by the Caisse and by BCIMC. He noted the election of directors and Bombardier’s approach to compensation are on the agenda of Thursday’s meeting and will be discussed at that time.

Follow Nicolas Van Praet on Twitter: [@NickVanPraet](https://twitter.com/NickVanPraet)