

STREETWISE

Granite shakeup a 'wake-up call' for boards

The industrial landlord's nasty battle with directors may have helped fuel a revival of Canadian shareholder democracy, one CEO says

TIM SHUFELT

The fight for control of Canada's largest industrial landlord was a nasty, public ordeal, the likes of which is much more common south of the border.

But in successfully shaking up the board of **Granite Real Estate Investment Trust**, a group of dissident investors may have helped fuel a revival of Canadian shareholder democracy, said Samir Manji, chief executive officer of Vancouver-based Sandpiper Group.

"I think it has provided a wake-up call," Mr. Manji said. "My hope is that it will have incumbent boards looking in the mirror and asking, 'Are we doing right by shareholders?'"

Mr. Manji, a real estate veteran who founded and led Amica Mature Lifestyles until it was sold to the Ontario Teachers' Pension Plan in 2015, partnered up with Connecticut-based activist investor FrontFour Capital Group in May to advocate for change at Granite, which the partners viewed as materially undervalued.

As talks with the company fell apart, the investors proposed an alternative slate of directors, including Mr. Manji. The existing board was excessively compensated and had promoted a culture of entitlement, the group of dissidents said. And they claimed that Granite had failed to use its balance sheet as effectively as its peers.

The company defended its own performance and its disciplined approach to leverage, while raising questions about the professional histories and intentions of the activist group.

Granite's board relented last week, however, when it became clear the case for change had sufficient support among unitholders, as well as the major proxy advisory firms. And in the wake of that victory, activist campaigns have targeted Liquor Stores N.A., and, most recently, Hudson's Bay Co.

Mr. Manji spoke with The Globe



Sandpiper Group CEO Samir Manji is part of a group of investors who spearheaded talks to change governance at Granite REIT. KYRANI KANAVAROS

and Mail about shareholder democracy in Canada, and about the path forward for Granite.

Would you consider yourself an activist investor?

No. Most of our investments are passive in nature. We're not looking to get aggressive and be hostile. But we are going to look to dialogue with the board and management, as any investor can do. We hope our ideas will be taken into consideration. And when our positions are more meaningful, we can be a participant in helping create value, including at the governance level.

What were you initially pushing for with Granite?

Moderate change. We were looking for representation. We proposed three nominees. Would we have settled for less than three? Possibly. But the settlement scenario didn't materialize.

Did you expect to see many of the research analysts who follow Granite side with management?

Many of the analysts that issued that research I used to work with in my Amica days. I was disappointed in what they came out with. They were entitled to describe our position as aggressive. But some of those analysts made no reference to some of the facts we presented, which represented opportunities for shareholder value creation. It felt one-sided at times.

How important was getting the support of the two big proxy advisory firms?

Very important. Most institutions will at least look at what they have to say. Some will take what they say and lock in their votes accordingly. It would have been difficult if they had gone the other way. If they say the incumbents have the stronger case, one wouldn't have blamed institutions and other investors for voting accordingly.

How do you go from fighting the board to working together?

We had our disagreements on the journey, but the owners spoke, and we're now focused on the responsibility of representing all stakeholders. We're on one team. Within the group of eight on that board today, you have a tremendous amount of horsepower in terms of real estate background and experience. Working together, we're going to be able to take this company to another level.

Does shareholder activism in Canada in general get a boost from this victory?

I suspect we will see a wave of efforts in the next while – situations that provide for material shareholder value creation that can be achieved through improvements in governance. In the case of Liquor Stores, dissidents came out successfully to gain full

control of the board. And now you have the HBC situation.

As an HBC shareholder, do you support the argument that the company should reassess its real estate holdings?

One can't help but question whether it's time to step back and be open to the fact that maybe the strategy that management and the board has been pursuing is not the best strategy for shareholders. The whole market has known for a long time, and the company itself has even suggested, that its real estate is worth \$35 a share. And yet, the market has seen the share price collapse to single digits.

Now, you have an advocate who ... is going to require the buy-in of controlling shareholders. ... I hope they do the right thing.

This interview has been edited and condensed.

ON THE WEB

LEXPERT

The twirling carousel that has characterized the first few months of Donald Trump's tenure as U.S. President appears to have left the future of cross-border trade hanging in the air, with Mr. Trump calling the North American free-trade agreement the "worst trade deal ever."

Yet, while the United States may hold the stronger cards in the NAFTA negotiating deck, there is an emerging trend toward unified political action and lobbying by businesses on both sides of the border. Leading cross-border trade organizations in the United States and Canada have formed a united front in their efforts to reach the hearts and minds of governments and legislators in support of cross-border trade.

Lexpert contributor Julius Melnitzer reports at lexpert.ca/globe.

Follow us on Twitter: @Lexpert