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Advocacy and Impact

First Affirmative
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Invest for a Sustainable Future

Reading the Tea Leaves for Proxy Season 2021

By Holly Testa

The spring crush of annual shareholder meetings is upon us, and this year promises welcome and much-needed change that reflects increasing investor focus and concern with regard to environmental, social, and governance issues. We may well see record-breaking support for shareholder proposals addressing such issues, particularly proposals related to climate. Recent developments also indicate that the days of large institutional investors rubberstamping the board's choice of board of director members are over, as more investors introduce policies to vote against board of directors' members failing to effectively oversee ESG performance in key areas such as climate and diversity.

Of course, it is not over until all of the votes are counted, but here are some of the recent developments that indicate investors concerned about ESG issues are rapidly gaining ground and being heard.

- The January change in administration has ushered in a new era at the SEC, with recent announcements by acting director Allison Herren Lee that include a directive to staff to review corporate compliance with existing disclosure requirements and work on a comprehensive ESG framework and a public comment period launched for investor expectations regarding mandated climate disclosure. Staff has also been directed to consider revising rule 14(a) 8, which governs the shareholder proposal process and was revised late last year to make it much harder to introduce proposals addressing ESG issues. The SEC has even added a webpage dedicated to ESG matters.
- Senate Democrats introduced a resolution to rescind the SEC rulemaking that restricted shareholder rights to file shareholder proposals that are set to take effect in 2022. We are writing to congressional members urging action.
- Proxy voting guidelines for major institutions such as Blackrock and State Street are finally catching up with their publicly stated commitments to ESG investing. Both firms have committed to vote for more shareholder proposals, particularly with regard to climate and diversity. With indications that other firms are also shifting their proxy voting policies, we are likely to see more majority votes this year. Blackrock and State Street have joined Carbon Action 100, a large and influential investor coalition that is advocating for aggressive GHG reduction goals at 167 companies that emit two thirds of all emissions. Both companies are also committing to vote against board members at companies making insufficient progress. Time will tell if they live up to these commitments.

- First Affirmative's shareholder proposal activity for this year to date demonstrates what may be another trend-that companies are being increasingly proactive in addressing issues before they end up on the ballot as a shareholder proposal. We filed fewer proposals this year, in part because our dialogues with companies have been productive, rendering a proposal unnecessary. Of the seven we did file, five were withdrawn early in the negotiation process.

How Will First Affirmative Vote?

First Affirmative's proxy voting guidelines have long reflected our belief that companies acting contrary to sound best practices with regard to ESG issues may contribute to systematic risks — these are risks that imperil the entire societies and economies — and have associated costs that can adversely impact our clients' portfolio performance. First Affirmative Proxy Voting Guidelines:

1) support the implementation of best corporate practices that are grounded in ESG principles
2) discourage corporate behavior that may result in financial gain for a company by the improper transfer of cost and risk to the detriment of society, the broad economy, and our client portfolios.

Our proxy voting record diverges dramatically from many other institutional investors, in part because our investment and engagement are often focused on this second point-evaluating not just how systemic risks impact a company, but on how the company impacts these same systemic risks.

Companies, policymakers and investors have been witness to numerous events in the last year that demonstrate our collective failure to and prioritize the assessment and mitigation of systemic risk. Covid-19 and unrest arising from racial and income inequality are obvious examples, but even the recent blocking of the 200-foot-wide Suez Canal by a 400-foot cargo carrier demonstrates that one seemingly small event can have staggering impacts that imperil all stakeholders. The impacts of the climate risk — the most pressing of systemic risks that we face — will, if unaddressed, far exceed what was witnessed from the events of 2020. ESG risks must be addressed by corporate leaders. Let's hope that 2021 is a turning point.

Keep up-to-date with First Affirmative Advocacy campaigns, including our recent success in expediting a meeting between a leading and lagging company to discuss how to transition from fossil fuel to renewable energy quickly and cost-effectively, on our news page.

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