November 2022

Advocacy and Impact

Preparing for the Next Advocacy Chapter: An Update from the ESG for Impact! Conference

By Holly Testa/Kaitlyn Mitchell

First Affirmative Financial Network hosted the 2022 ESG for Impact! Conference, an advisor focused summit that attracts advisors and managers from across the country and Canada. Our audience has a common goal: to serve clients who want to use Environmental, Social & Governance factors to construct quality investment portfolios while also supporting a sustainable and just society. The conference is a golden opportunity to share our collective experience and expertise to further the goals of our community and to plan for the future.

This year we had much to celebrate, as several of our advocacy partners celebrated their 50th anniversary of shareholder advocacy — giving our community the opportunity to take stock of our progress and look forward to the challenges ahead. Advocacy was touched on in almost every session regardless of topic-including risk management, practice management, public policy, and client service.

Advocacy and Impact usually focuses on our company engagements. This quarter, we give you a behind-the-scenes look at how we collaborate with industry partners to maximize our impact with insights from the conference's advocacy focused sessions. First Affirmative participated on three of five panels along with other experts from the advisor, manager, and NGO community.

How is G Stalling Progress on E and S? Can We Fix It?

A company's ability to respond to systemic issues like climate change and biodiversity loss requires effective governance, and effective governance requires expertise and the right set of rules. Our panel explored what sustainable governance looks like and how investors advocate for practices that lead to a better decision-making process at the board level. We covered emerging trends in sustainable governance, identified significant gaps between current and effective governance oversight of ESG issues, and explored the different policies and skillsets required to address systemic long-term risks.

The emergence of ESG oversight shareholder proposals, proxy contests like the one that led to three new Exxon directors chosen by investors concerned about climate action, and vote no campaigns for board oversight failures all exemplify the future direction of our engagement efforts.

How We Can and Must Curb Climate Change: Inspiring Stories from the Field

Our panel discussed current and upcoming climate advocacy campaigns that leverage the power of investor networks to maximize impact. For example, CERES coordinates the engagement efforts of an extensive network of investor members, including First Affirmative.

Many engagement campaigns are tailored to the issues faced by specific sectors. This includes a campaign directed at banks, with investors asking banks to commit to a net zero pathway and align their lending and investment portfolios with a 1.5° climate scenario, and a campaign focused specifically on the "Food 50", a collection of companies involved in food production and distribution with a unique range of climate issues and impacts that include deforestation, agriculture impacts, and food waste. By working together, investors can positively influence collective corporate climate action.

Engagement from a Fixed Income Perspective

For decades, the focus of advocacy efforts has been equity markets, not fixed income markets.
This is changing rapidly as fixed income investors ask questions of ESG relevance to issuers and their banking partners. A powerful tool of engagement that is unique to bonds is that buyers of the initial issuance can influence the terms of that bond- increasing the positive impact by determining what projects get funded and the conditions placed on the funding that are designed to reduce project impacts on communities and the environment.

A unique perspective was provided by speaker Heike Reichelt of the World Bank Treasury, who manages relationships with bond investors. Her team develops bond issuances in which our community is likely to invest — including those that support the Sustainable Development Goals (SDGs) and climate change mitigation and adaptation.

Walking the Talk on Proxy Voting, Engagement and Advocacy for Impact

Investment advisors are tasked with choosing the most appropriate managers and mutual funds to develop client portfolios that meet both financial and impact objectives. What do you ask, and how do you ask it? This session was a lively interactive discussion to share best practices for assessing the proxy voting and engagement policies, practices and impact of the expanding investment universe claiming some level of ESG integration. Ensuring that managers are "walking the talk" can set a minimum baseline for managers to be considered for inclusion in client portfolios.

Advisors considered the importance of client impact goals in manager selection. Many clients want investment managers to engage, and even advocate for transformative change, on their priority ESG issues. Resources were shared to help advisors assess the focus, extent, and effectiveness of advocacy programs so that they can choose managers that are the best fit for a given client.

Can Third-Party Audits Light the Way Towards a Just and Equitable Economy?

Since 2020 there has been an abundance of shareholder proposals asking for corporate reports that assess impacts of company policies and practices on racial equity, civil rights, and environmental justice. At First Affirmative this has been among top priorities, and we know advisors and clients are asking the same questions. What will move the needle forward to hold companies accountable? And where do we start? Third Party Audits have emerged gaining strong, often majority support. These audits can cover a wide range of sectors and industries and we are beginning to see how these audits can be used as a springboard to begin engagement and accountability.

Panelist discussed their stories of engagement and success, and all agreed that while companies are more willing to engage in dialogue, they are still dealing with major pushback. Third Party Audits are the first step in long-term engagement and are many steps away from the community feeling a difference. As information on implementation is available from Third Party Audits the data can be used in decision-making to best understand risk/opportunities, foresee regulatory changes and litigation risk, and provide better due diligence.

First Affirmative Financial Network

5475 Mark Dabling Boulevard, Suite 108, Colorado Springs, Colorado 80918719-478-7036 | www.firstaffirmative.com

Registered Investment Advisor (SEC File #801-56587)

Advisor Inquiries

phone: 719-478-7036
businessdevelopment@firstaffirmative.com

Business Development, Marketing, and Media Inquiries

phone: 719-478-7036
businessdevelopment@firstaffirmative.com

Service Inquiries

phone: 719-478-7036
service@firstaffirmative.com

General Inquiries

service@firstaffirmative.com