Planet Tracker

ESG PROPOSALS at annual shareholding meetings:

WILL INVESTORS SUPPORT THEM?

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Key takeaways

- Over the last decade the number of proposals submitted globally at annual shareholder meetings increased by over 80%.
- Of the 12,492 proposals submitted globally in 2021, governance issues accounted for 93% of them while social factors amounted to only 5% and environmental the remaining 2%.
- Most resolutions are submitted by management and cover (governance) compliance matters such as approving minutes and auditors.
- Disturbingly, many important issues never or rarely make the annual shareholder meetings: over the last five years plastic issues have been raised only 8 times while 'biodiversity' has only once made the agenda. This excludes any ESG policies agreed before the annual meeting takes place.
- The top asset managers often struggle to present a unified approach, voting very differently by region.

BRIEFING PAPER
May 2022

The proxy season

The US proxy season is underway and will continue into June. Following a significant number of environmental, social and governance (ESG) proposals received by corporates in 2021,[i] the ongoing pandemic and the inflow of funds into ESG strategies has helped increase the number of sustainability-related proposals by more than 20% this year.[ii] However, if the past is a useful indicator of the future, then some of this optimism should be treated with caution. Planet Tracker expects that many important issues will not make proxy agendas, such as plastic pollution and declining biodiversity. And will major investors vote in favour of ESG proposals; they can struggle to an agreed corporate position? Making the proxy statement but does ensure success. We recognise that in some instances, an NGO will withdraw a proposal if management agree an acceptable strategy prior to the annual meeting.

The proxy ballot

Listed companies report to their shareholders at annual shareholder meetings. Companies send proxy statements to investors detailing the resolutions on which investors can vote as few attend in person. For fund investors, the investment management company will often vote on behalf of the retail and other fund investors, although direct voting is more likely in the future. We discuss this in more detail below.

Proxy ballots contain a number of predictable items which executives must submit to the shareholders for approval - e.g. the election of directors; election of an auditor; executive compensation approvals etc. In the U.S., the proxy rules are set by the Securities and Exchange Commission (SEC).[iii] The proxy materials accompanying the ballot give more detailed information on these items.

Company ballots can contain additional items which can be filed by investors. Such filings can cover a range of ESG issues, including lobbying disclosures, climate change and diversity requirements. We should note that if an item does not make the ballot - e.g. for insufficient minimum investment level, or time period holding, or failing micro-management, or relevance thresholds - it does not necessarily mean the resolution has failed. In some instances, the management may meet with the proposer and agree a line of action prior to the annual meeting, making the resolution unnecessary.

Global voting analysis

To determine voting patterns for this paper, Planet Tracker used Proxy Insight[iv] data on proposals submitted - whether by management or investors - and votes cast over the last decade, 2012-2021 inclusive. Planet Tracker grouped proposals submitted at the annual shareholder meeting under environmental, social and governance categories. Other proposals were excluded.

Proxy Insight provides six voting categories: for, against, abstain, did not vote (DNV), withheld and split. The difference between DNV and withheld is that no vote is submitted in the case of the former while a withheld vote is a voting instruction. A split vote occurs where the investment manager votes in more than one way on a particular resolution. For example, a portfolio manager of, say, an ESG fund may vote for a proposal while another portfolio manager of a different fund type, but at the same investment manager, votes against the same proposal.

Voting trends on ESG issues

The number of proposals submitted at annual shareholder meetings between 2012-2021 has demonstrated a rising trend, although a dip was seen last year. It rose from 6,822 ESG proposals to 12,492 over the decade. By far the dominant topic was governance, accounting for 93% of all proposals; social factors amounted to 5% and environmental the remaining 2% - see Figure 1.

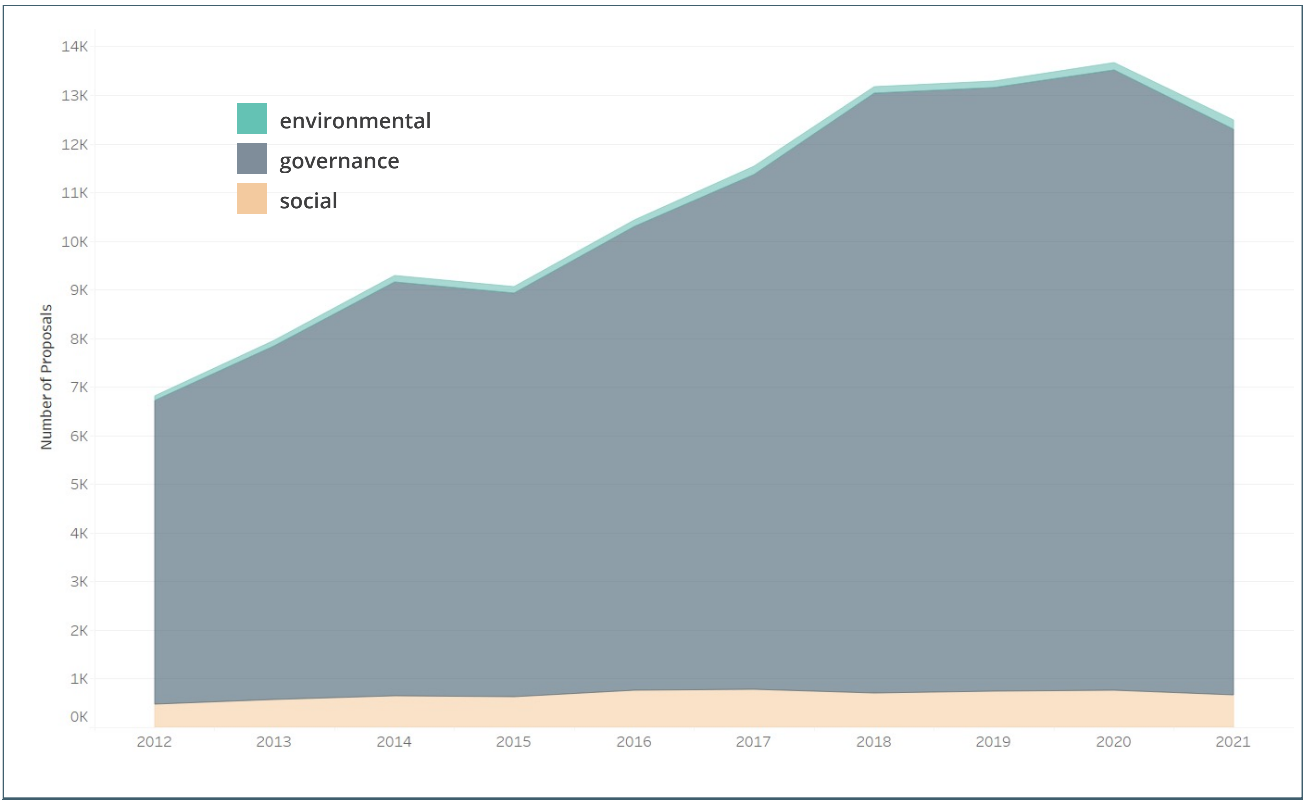

Figure 1: Number of ESG proposals submitted globally at annual shareholder meetings.

Although the overall trend in ESG proposals voted on appears to justify an optimistic approach for the 2022 proxy season, a closer examination of this trend shows that only governance proposals, most of which are regulatory requirements, have shown a rise, with social and environmental issues largely static over the last decade. The most significant 'governance' issues are to approve the agenda minutes, adjourn or close a meeting and an authorisation of legal formalities, excluding the broad category of 'other'. We discuss this in more detail below.

Breaking down the investor voting

Planet Tracker's analysis of voting patterns on **environmental** proposals demonstrates that the cumulative number of votes cast peaked in 2017 and subsequently declined by 11% last year to a similar level last observed in 2015. However, the good news is that votes in favour of the environmental resolution surpassed those against in 2021, for the first time in the last decade - see Figure 2.

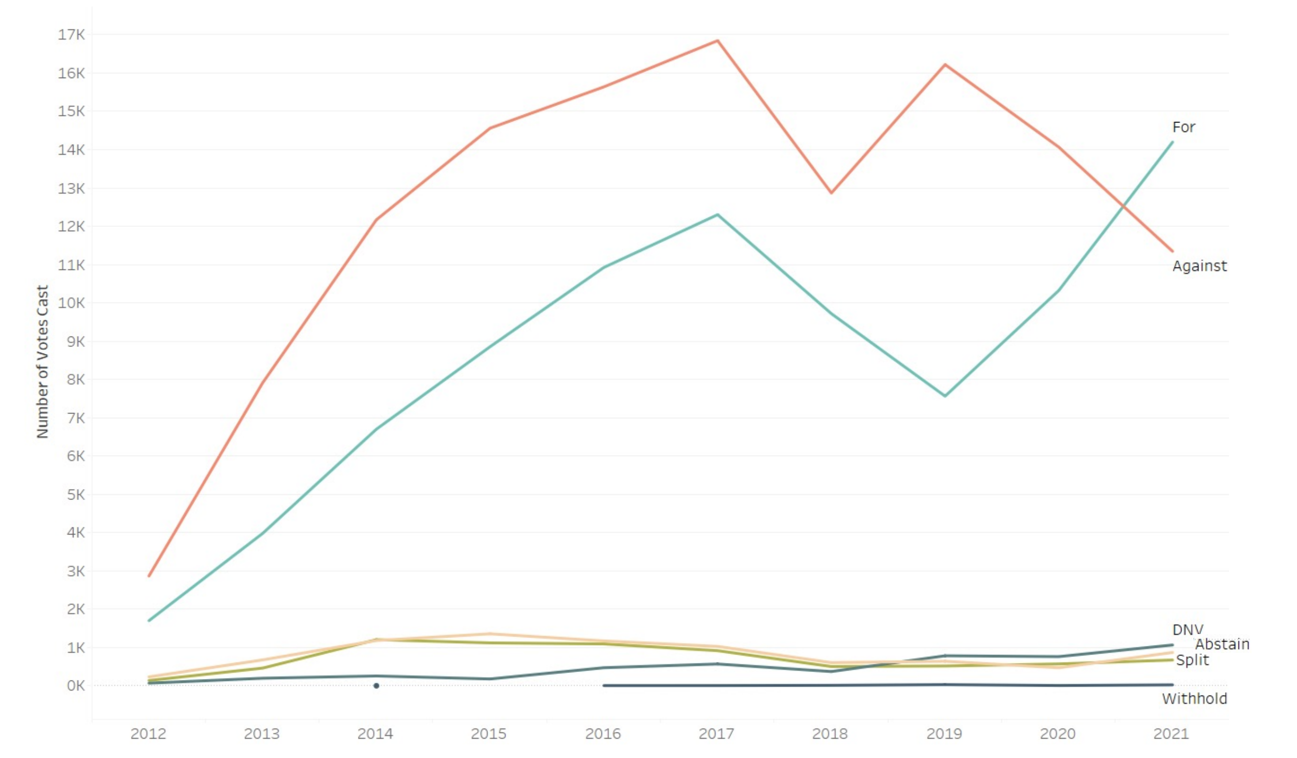

Figure 2: Investor votes cast for environmental proposals.

Below we show the top environmental proposals submitted over the last decade and where they rank among all ESG proposals. So, although creating a climate change report was the most popular environmental proposal, it ranked fifth among all ESG proposals submitted at annual shareholder meetings. Note that all three are investor proposals rather than management.

1. **Create Climate Change report** (5th overall)
2. **Adopt/Amend Nuclear Policy** (6th overall)
3. **Adopt/Amend Environmental Policy** (9th overall)

For 2022, according to Proxy Preview 2022,[v] the top three shareholder resolutions on environmental, social and related sustainable governance issues are:

1. **Climate Change** - e.g. plans for carbon neutrality
2. **Corporate political influence** - e.g. lobbying
3. **Human rights** - e.g. racial justice

What is disturbing is the lack of proposals making it onto the meeting's agenda despite their environmental profile. For example, an analysis of proposals over the last five years demonstrates that plastic has only been raised 8 times, twice at the same company - DuPont, in 2019 and 2021 - see Table 1. Furthermore, a resolution referencing the word 'biodiversity' first made it to the agenda of the annual shareholder meeting this year.

Table 1: Investor voting record on environmental proposals containing the word plastic (2018-2022).		
Proposal Text Summary	**Company**	**Year**
Report on Plastic Straws	McDonald's Corporation	2018
Report on Plastic Pollution	Phillips 66	2019
Report on Efforts to Reduce Plastic Pellet Pollution	DuPont de Nemours, Inc.	2019
Preparation of a Report on Plastic Pollution	ST Dupont	2019
Report on Comprehensive Policy on Plastic Pollution and Sustainable Packaging	Restaurant Brands International Inc	2020
Report on Impacts of Single-Use Plastic Bags	Walmart Inc	2020
Report on Plastic Pollution	DuPont de Nemours, Inc.	2021
Report on the Impacts of Plastic Packaging	Amazon.com Inc.	2021
Propose an Action Plan to Achieve Zero Plastic Waste by 2030	Metro Inc.	2022

Sources: Proxy Insight, Planet Tracker analysis

In 2022, As You Sow withdrew a resolution on reducing plastic waste at Coca-Cola after management agreed to increase its share of returnable/refillable containers. It also had a similar success with Church & Dwight to reduce plastic packaging.[1]

For **social** proposals, a peak in the number of institutions submitting votes (81,754) was reached in 2017 compared to a total of 61,572 last year. However, the number of votes in favour of social proposals has always been greater than those cast against with the differential between the two growing since 2016, although there was a slight narrowing in 2021 - see Figure 3.

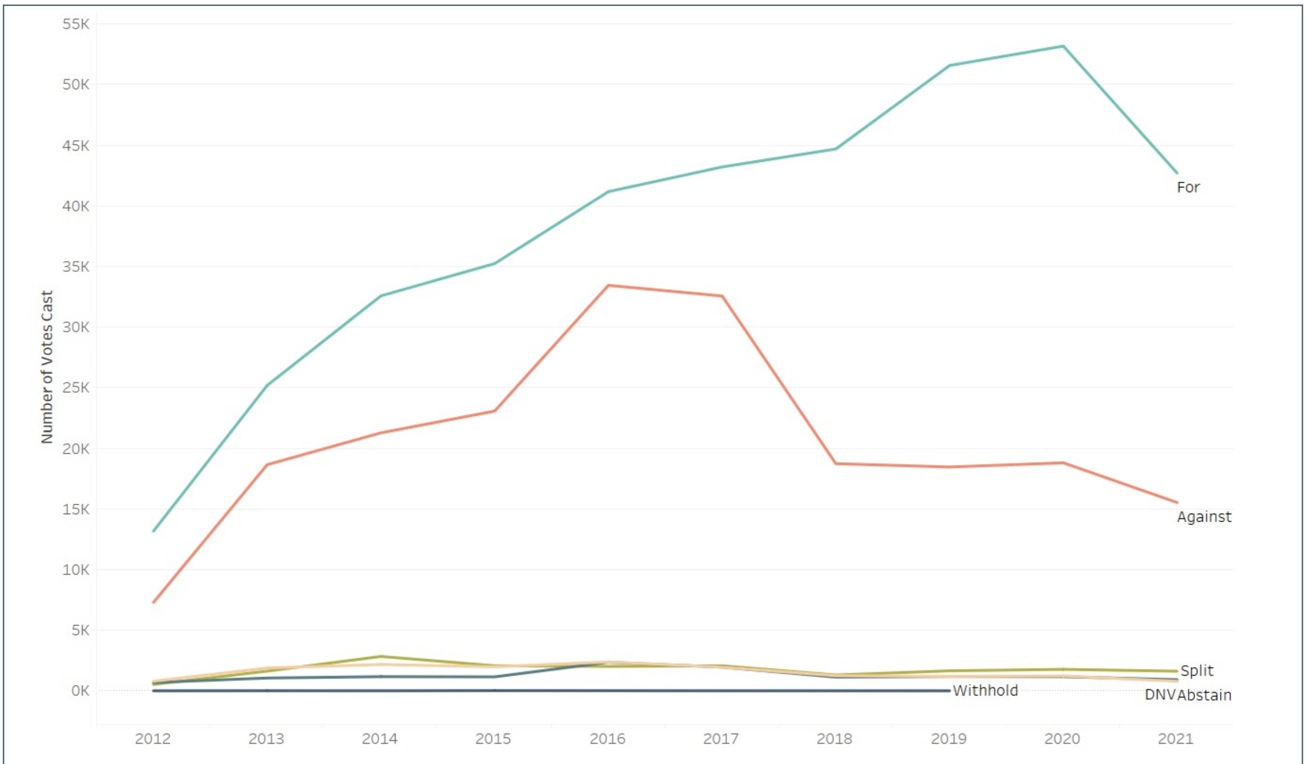

Figure 3: Investor votes cast for social proposals.

[1] As You Sow press release - https://www.asyousow.org/press-releases/2022/2/10/coca-cola-increase-sales-refillable-bottles
As You Sow resolution tracker - https://www.asyousow.org/press-releases/2022/3/30/church-dwight-virgin-plastic-reduction-goal

The top three proposals on social issues in 2021 were probably not those that many ESG investors would expect, such as working conditions and benefits. They were:

1. **Approve Charitable Contributions**
2. **Approve Political Contributions**
3. **Create a Political/Lobbying Contributions Report**

Of these proposals 79% were submitted by management rather than shareholders.

Finally, **governance** proposals, as we mentioned earlier, have seen a notable increase over the last decade, demonstrating an 87% increase between 2012 and 2021. Votes in favour overwhelm those against - see Figure 4.

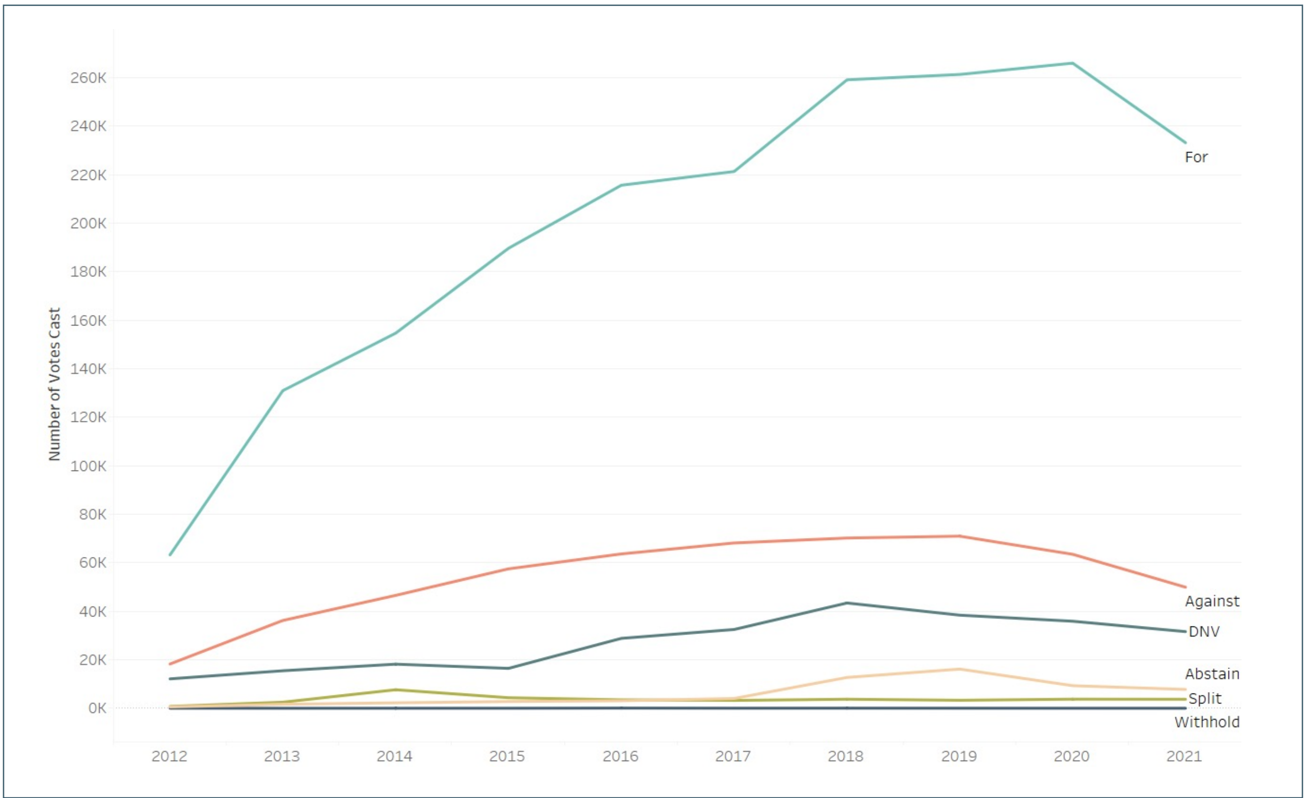

Figure 4: Investor votes cast for governance proposals.

But these governance issues are largely to meet regulatory requirements - see Figure 5. The top five governance issues in 2021 were:

1. **Approve Agenda Minutes**
2. **Other Business**
3. **Adjourn/Close Meeting**
4. **Authorisation of Legal Formalities**
5. **Elect Chairman of Meeting**

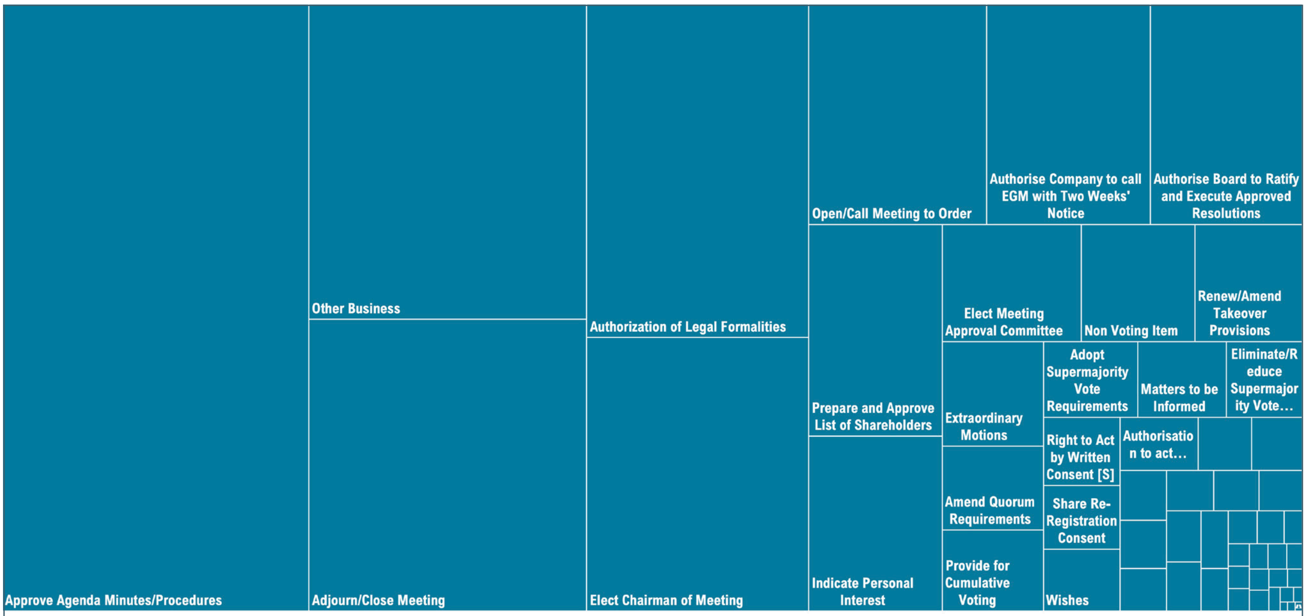

Figure 5: Major categories of governance proposals in 2021.

By examining the **governance** resolutions more closely we can note that the most significant ones are proposed by management - see Figure 6. This is reasonable as there are certain items that shareholders need to vote on at annual shareholder meetings to comply with regulations. We do not view them as part of a shareholder push for improved ESG transparency.

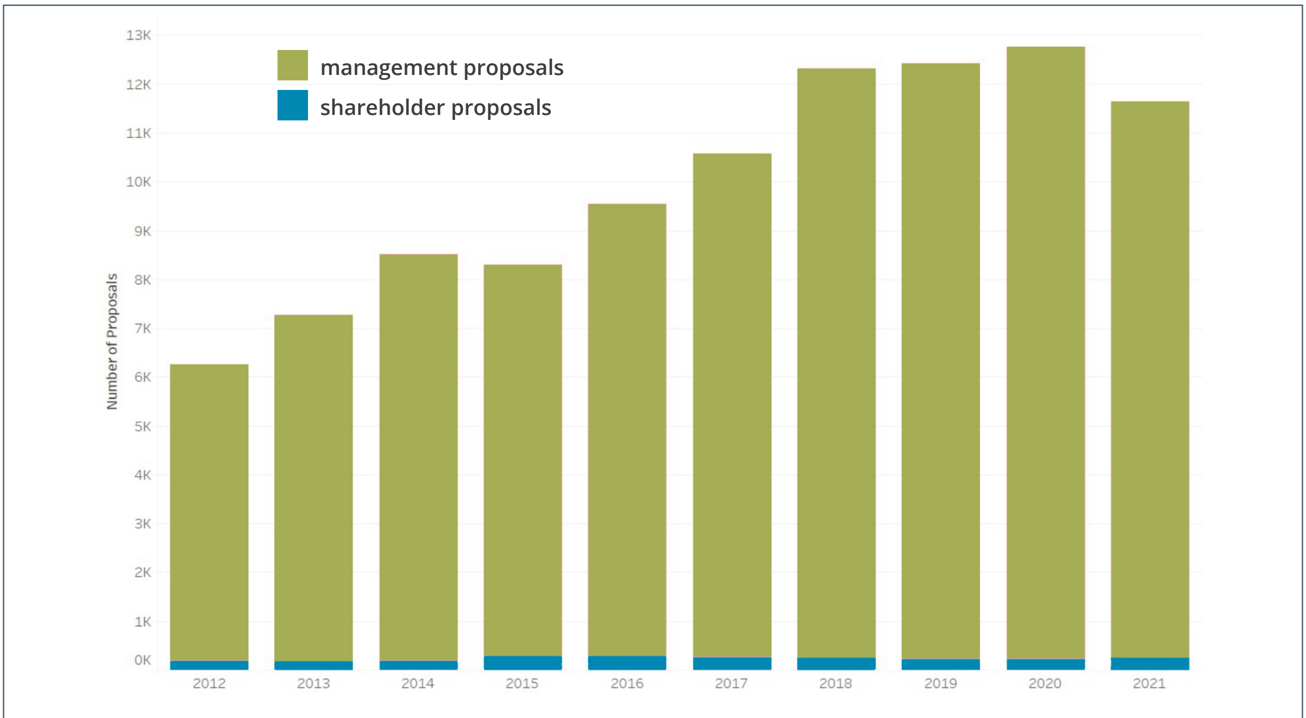

Figure 6: Major categories of governance proposals in 2021.

As these proposals are listed on the proxy forms in order to meet regulatory requirements in our view, these proposals should not be viewed as part of a growing ESG movement by asset managers and investors.

Sectors in the spotlight

Leaving aside the obligatory governance proposals and votes, Planet Tracker can observe that on social issues, financial services, consumer cyclicals and the industrials are the sectors under the most pressure. These three sectors accounted for 52% of the proposals submitted in 2021. For environmental issues, utilities are in the spotlight joined unsurprisingly by energy and industrials. Together they accounted for 56% of proposals submitted - see Figure 7.

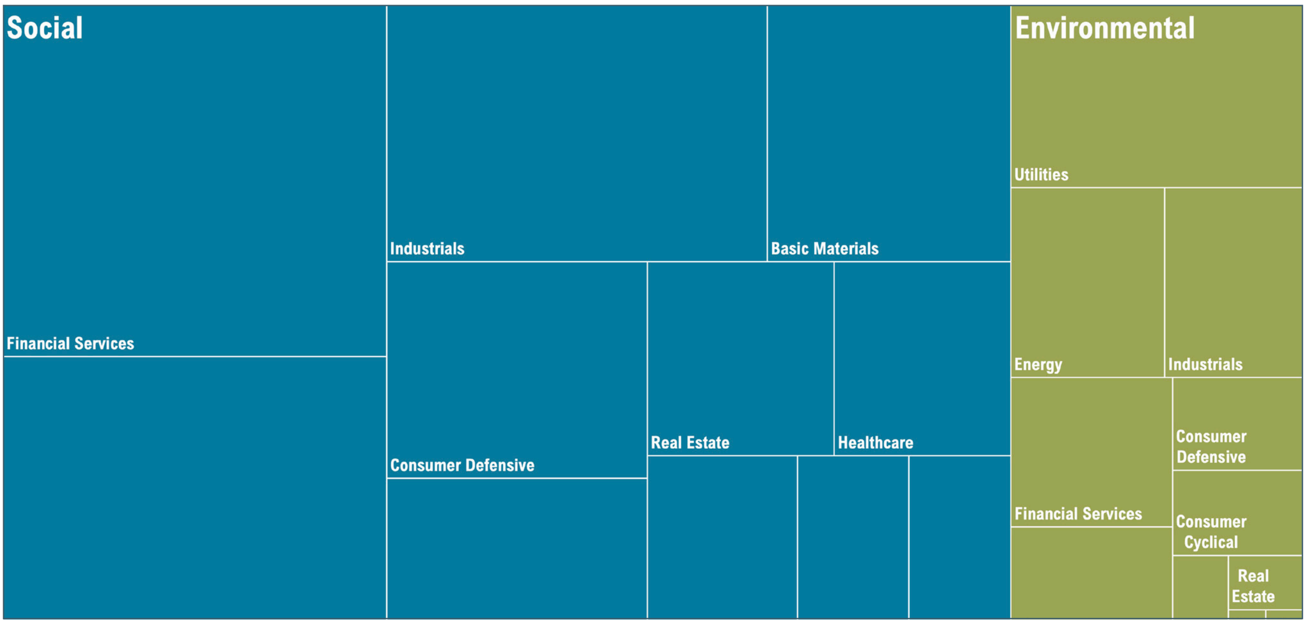

Figure 7: Proposals submitted by sector in 2021.

Investors deserve more choice

As mentioned above, it is the large investment managers which hold considerable sway over the approval or otherwise of proposals at these annual meetings. Because of the size of the funds under their management, they carry significant numbers of votes. They appear committed to responsible ownership/ investor stewardship, ensuring that companies are sustainable and run for the long-term benefit of all stakeholders.

Cyrus Taraporevala, president and chief executive officer of **State Street Global Advisors**, stated in his *'CEO's letter on our 2022 proxy voting agenda'* that ***'we view the use of our voice and our vote as central to our fiduciary responsibility to our clients to maximize long-term risk-adjusted returns.'***[vi]

Vanguard, another of the asset manager giants states its ***'role as an asset manager is to steward the assets of 30 million individuals who have entrusted us with their money and have asked us to help it to grow to achieve their long-term financial goals. As practically permanent owners of the companies in which our funds invest, we use our voice and our vote to improve governance practices and drive long-term value for investors.'***[vii]

The **UBS Asset Management** global stewardship policy states, ***'As an investment manager, is [sic] our fiduciary duty to monitor companies' ESG performance, engage with management on identified risks and opportunities and vote consistently at shareholder meetings.'*** [viii]

All their messages are clear. Will they adhere to these statements? In Table 2 we show the top 20 asset managers globally which manage assets of USD 63 trillion.

Table 2: The largest global asset managers ranked by Assets Under Management.

Rank	Company	Country	AUM, USD billion	Balance Sheet
1	BlackRock	US	9,464	09/30/21
2	Vanguard Group	US	8,400	10/31/21
3	UBS Group*	Switzerland	4,432	09/30/21
4	Fidelity Investments	US	4,230	09/30/21
5	State Street Global Advisors	US	3,860	09/30/21
6	Morgan Stanley	US	3,274	09/30/21
7	JPMorgan Chase	US	2,996	09/30/21
8	Allianz Group**	Germany	2,953	09/30/21
9	Capital Group	US	2,600	09/30/21
10	Goldman Sachs	US	2,372	09/30/21
11	Bank of New York Mellon	US	2,310	09/30/21
12	PIMCO***	US	2,200	09/30/21
13	Amundi****	France	2,099	09/30/21
14	Legal & General	UK	1,794	06/30/21
15	Credit Suisse	Switzerland	1,742	09/30/21
16	Prudential Financial	US	1,727	09/30/21
17	Edward Jones Investments	US	1,714	06/30/21
18	Deutsche Bank	Germany	1,663	09/30/21
19	T.Rowe Price	US	1,610	09/30/21
20	Bank of America	US	1,579	09/30/21

** The total AUM comprises USD 1.154 trillion in asset management and USD 3.2 trillion in global wealth management.*

*** Allianz's total assets under management include AUM of PIMCO and AUM of Allianz Global Investors (AllianzGI).*

**** Pacific Investment Management Company (PIMCO), an autonomous susidiary of Allianz Group, is a gloabl investment manager based in Newport Beach, California.*

***** Amundi is a division of Credit Agricole Group.*

Source: https://www.advratings.com/top-asset-management-firms

Planet Tracker expects institutions which outsource the management of their assets and retail investors to be able to choose how their holdings are voted. This year, **BlackRock** indicated such a change could be imminent. In the company's 2022 CEO's letter, Larry Fink stated that Blackrock was ***'pursuing an initiative to use technology to give more of our clients the option to have a say in how proxy votes are cast at companies their money is invested in.'*** [ix] The opportunity for retail investors to be able to direct the investment managers to vote in a certain way was one of our predictions for 2022. Please see *Planet Tracker's Seven Capital Market Trends to Watch in 2022*.

In turn, this would likely result in more split voting by the major investment houses. In 2021, on environmental and social proposals (combined), split votes represented only 2.6% of all votes cast.

A further examination of split voting shows that the large asset managers struggle to find an agreed corporate-wide view, depending on the regions in which they operate. In Figure 10, we show the voting by **BlackRock** only. It shows that in Northern Europe, 87% of the time the investment manager voted in favour of environmental and social proposals, while in North America, it voted against them 84% of the time (since 2017). In Western Asia, it abstained or did not vote 27% of the time while in Eastern Asia it voted overwhelmingly against proposals, 72% of the time. Split votes can represent the wishes of the larger institutional clients which have the opportunity to vote their own way, but even BlackRock itself will struggle to agree a common engagement position. For example, a BlackRock portfolio manager of an ESG fund will likely be keen to support ESG resolutions when compared to his/her counterpart of an income fund, which may prefer to limit any ESG proposals which could hinder the ability of oil & gas companies to pay out large dividends - see Figure 8.

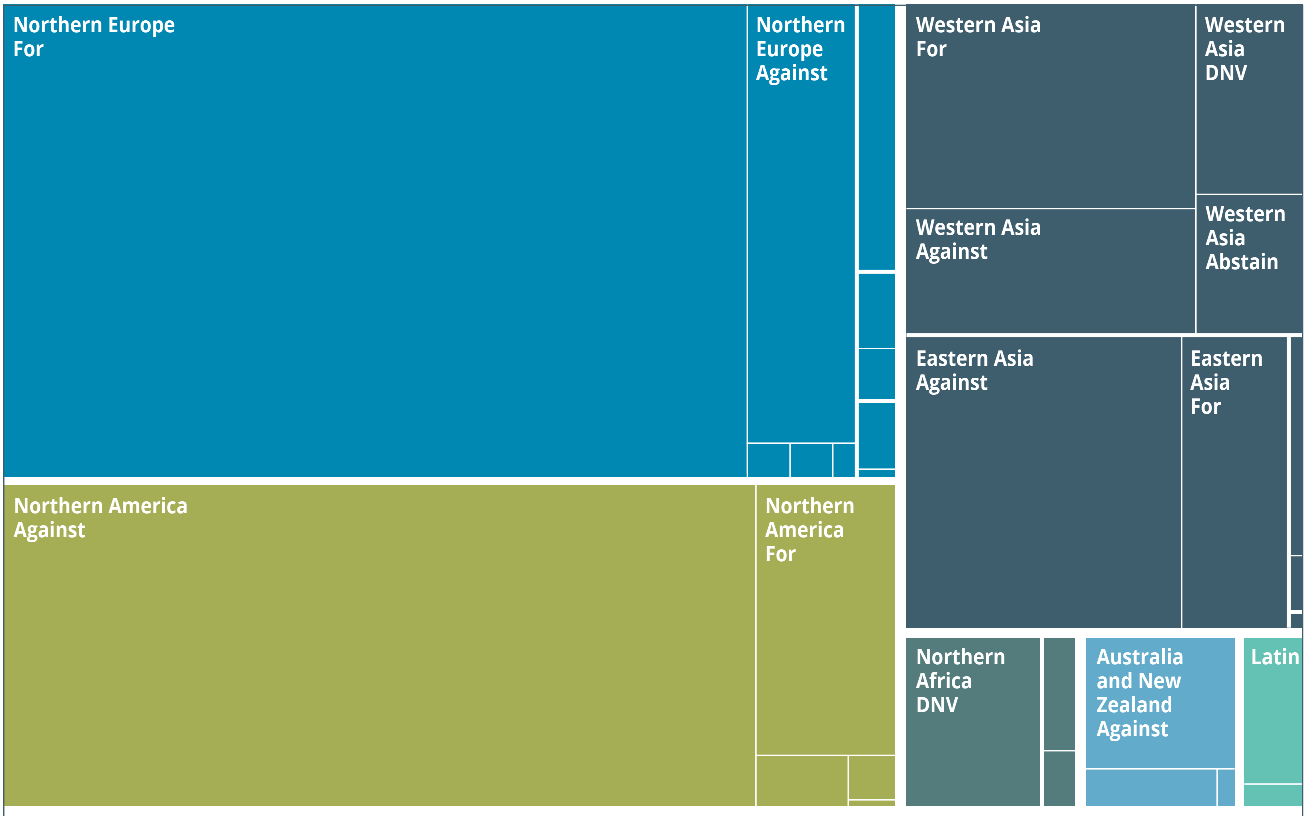

Figure 8: Blackrock votes differently by region from 2017 to present day.

Looking ahead

Planet Tracker welcomes the growing importance of ESG proposals at shareholder meetings. However, the ESG headline figures for these annual meetings over the past decade can deceive. Hopefully, this year we will witness a new momentum on an assortment of ESG issues, not least on environmental topics where many CEOs have made public statements on net zero targets.

But we note the scarcity of proposals on a number of important global issues. If the investment giants are unprepared to engage with corporates on these topics, they should promptly introduce direct voting for the many investors they represent.

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