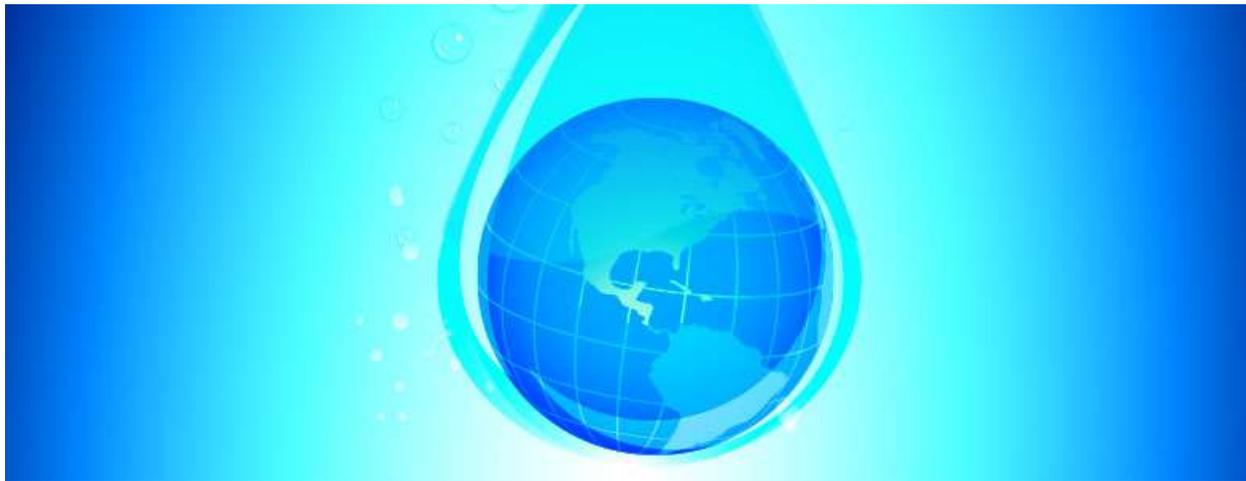


Trends in ESG / Sustainability Shareholder Proposals

By Pam Styles | 9/23/16



Environmental and social-related shareholder proposals and investor support appear to be growing.

Activist investors who use the annual proxy proposal process to push their ESG agenda have historically concentrated on Governance (G)-related issues. More recently, they have been turning their attention to Environmental, Energy (E) and Social Responsibility (S)-related issues in their shareholder proxy proposals. ^{[1][2]} As of the latest reports, the 2016 proxy season had:

- 474 G-related proxy proposals submitted, of which 54% were voted on and over 33% received majority votes. ^[3]
- 404 of shareholder proposal submissions were E- and / or S-related, within which there was a record-breaking 172 climate-related resolutions. Roughly half were voted, and 8 received majority votes. ^{[1][3]}
- Average support edged up across most environmental issues versus 2015 and the 8 majority votes marked a clear uptick from just one majority vote in 2015. ^[3]
- Average support for proposals on climate risk jumped from 7% in 2011 to 28%, as of June 2016. ^[1]

As described in a Deloitte August 2016 proxy season debrief, “In recent years, proposals on many of these matters — particularly Governance and Environmental and Social matters — have been submitted to larger companies; mid- and small-cap companies have been overlooked as empowered investors have focused on their larger counterparts... it stands to reason that small- and mid-cap companies may see increased investor pressure in these areas...” ^[4]

Now that the 2016 proxy season has come and gone, and there is a body of published retrospective research, I decided to research certain key E-related references and shareholder proposals in this year's proxy filings using AlphaSense.

Takeaway

My findings seem to validate the proxy season debrief observations made by Deloitte.

It looks to me like small- and mid-cap companies may still have a window of time to learn from the experience of their large cap sector counterparts with respect to E-related shareholder proposals.

This blog post will give every executive team something to contemplate for improving their company's ESG / Sustainability-related communications positioning in preparation for the 2017 proxy season — regardless of the company cap size.

Findings

33 shareholder proposals were found in AlphaSense using the query “shareholder proposals” + individual E-related keywords.

- 27 were against large-cap companies and 6 against small- to mid-cap companies.
- 36% of shareholder proposals were requesting company management produce annual sustainability reports. Just under half were against small cap companies.

Two companies that stood out among the results were:

- Nabors Industries Inc (\$NBR) – to whom we have to give high marks for responsive shareholder communications.

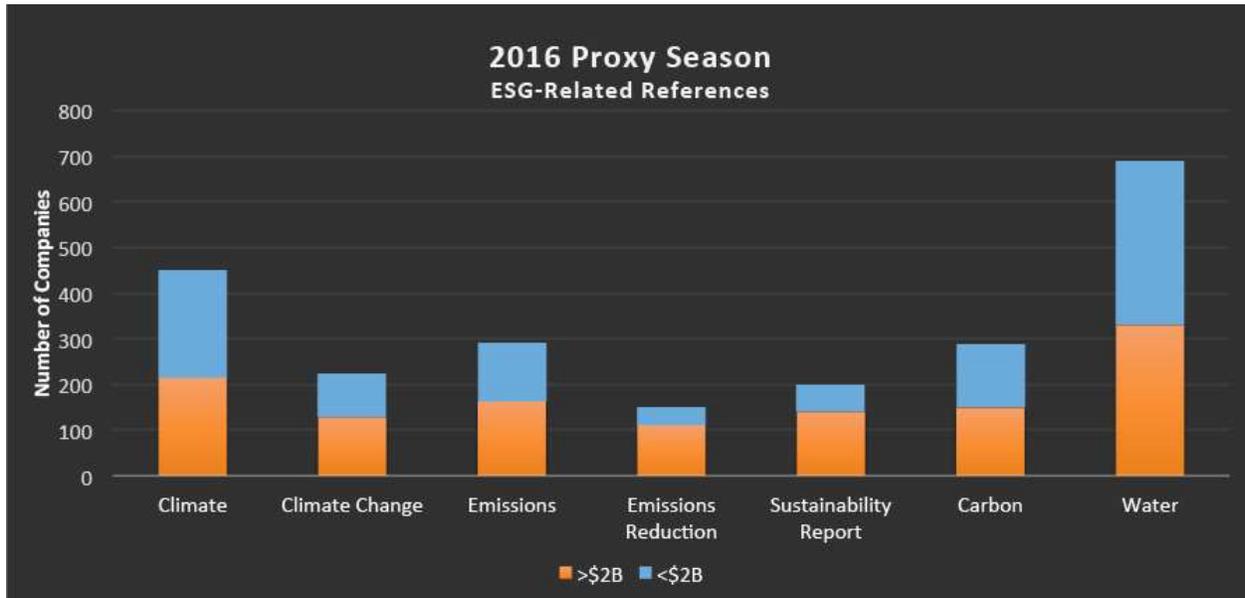
“While shareholder support remained low at the 2015 meeting, the Company undertook to publish its inaugural corporate sustainability report in order to enhance its existing disclosure on environmental, social and governance practices. A copy of our 2014 Corporate Sustainability Report can be found in the “Corporate Responsibility” section of our website.”

- Tyson Foods Inc (\$TSN) – because their E-related shareholder proposal involves the company's supply chain.

“Shareholders request the Board of Directors adopt and implement a water stewardship policy designed to reduce risks of water contamination at Tyson-owned facilities, facilities under contract to Tyson and Tyson's suppliers.”

Keywords: **climate**, **emissions**, **carbon**, **water** and **sustainability report** were referenced slightly less by small- and mid-cap companies in their proxies than by large cap companies. It is fair to generalize

that references found using AlphaSense occurred in a 42% small- and mid- cap to 58% large cap company ratio.



Whether ESG-related management commentary or shareholder proposals, both large cap (>\$2bn) and small- and mid-cap (<\$2bn) companies had E-related issues across a similar number of sectors:

- | | | |
|------------------------|------------|------------------------|
| Energy* | Utilities* | |
| Consumer Staples | Financial | Industrial |
| Information Technology | Healthcare | Consumer Discretionary |

**Energy and Utilities sectors attract attention across nearly all the key E-words in my search.*

“The Fastest-Growing Cause for Shareholders is Sustainability... [and] ... the largest number of shareholder resolutions filed by investors — the method through which activists work — now concern social and environmental issues... The number of these resolutions has increased dramatically over the past five years. Political spending, climate change, diversity, and human rights are now some of the most frequent resolutions that investors file.” – by George Serafaim, HBR, July 12, 2016^[2]

“A question to ask is ... Can small- to mid- cap companies get ahead of the curve to avoid the same E-related shareholder proposal challenges that large cap companies have endured in recent years?”

Given mounting evidence that the trends across sub-areas of ESG / Sustainability are converging to show much of the field discussion is going “mainstream,”^{[5][6][7]} there is simply no reason for companies today to set themselves up or be hostage to this new wave of activist shareholder proposals. Mounting evidence suggests benefits are rapidly outweighing risks for companies to thoughtfully engage in ESG / Sustainability strategic planning and communications.^{[1][3]}

Approach

I kept my search limited to Environmental (E) issues for U.S. companies only, over the last 12 months and filtered by proxy statements. Since terminology can vary across proxies, I ran queries two ways.

First, I searched on each key word shown along the x-axis in the chart above and paired these keywords with the words “proposal,” “item,” and “against” (recommended), in an attempt to locate shareholder proposals. Next, I reversed the search to start with “shareholder proposal,” followed by the keywords. I ran these searches three times for all cap sizes, >\$2bn, <\$2bn.

Sources:

1. EY Center for Board Matters: Four takeaways from proxy season 2016
2. Harvard Business Review: The Fastest-Growing Cause for Shareholders Is Sustainability
3. Alliance Advisors: 2016 Proxy Season Review
4. Deloitte: The results are in — A review of the 2016 proxy season
5. The Wall Street Journal: ‘Sustainable Investing’ Goes Mainstream
6. Next Level Investor Relations LLC: Sustainability Investing Shift to Inclusive Strategies
7. IR Magazine: ESG: the growing impact on investors and IROs

Pamela Styles is principal of Next Level Investor Relations LLC, an Investor Relations consultancy with dual IR and ESG / Sustainability specialties.

www.NextLevelInvestorRelations.com | info@NextLevelInvestorRelations.com

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