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An Assortment of Observations and Opinions on Shareholder Elections- Spanning Corporate Governance, Activism, M&A, & Executive Compensation

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You Don't Need a Weatherman to Know Which Way the Wind Blows

- Bob Dylan (Subterranean Homesick Blues)

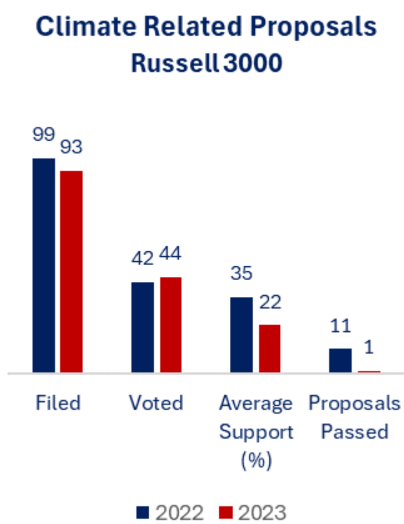
As Bob Dylan ominously exclaims in *Subterranean Homesick Blues*, "You don't need a weatherman to know which way the wind blows." In other words, sometimes the winds of change are so apparent, they're recognized without a meteorologist's forecast. Recent actions by leading institutional investors provide a great (and punny) example of the lyric's message and its relevance to shareholder elections.

Last week, State Street, JPMorgan, and Pimco withdrew from Climate Action 100+, a global investor coalition aimed at addressing climate-related issues among corporate America. A few weeks earlier, BlackRock significantly scaled back its involvement with the organization and Bank of America reversed a prior commitment to stop financing coal projects.

While these moves may have initially stunned the investment community, they should come as no surprise and, in fact, reflect what many have observed for some time: a growing backlash and resistance to the ESG movement.

A heightened focus on Environmental and Social issues at public companies in recent years has contributed to a spike in shareholder proposals, with 2023 seeing an all-time high in E&S proposals. Some perceive this dramatic uptick reflects an overly fervent commitment to these issues, lacking proper consideration for how they ultimately impact investment performance. As a result, despite the increase in proposal activity, support levels have declined sharply.

The chart below reveals that climate-related proposals at Russell 3000 companies saw average support rates decline by over 37% last year, with only 1 proposal passing (vs. 11 the prior year).



Source: ESGAUGE

In withdrawing from CA100+, institutions cited a variety of reasons- including inconsistency with their independent engagement and proxy voting approaches as well as the establishment of internal stewardship capabilities to enable their own meaningful dialogue on ESG issues. Tellingly, Vanguard and Fidelity were never members of CA100+.

ESG critics rattle off a litany of challenges when discussing ESG implementation- such as regulatory concerns, sector relevance, the financial burden on smaller companies, and a lack of standardized metrics. While these concerns have merit, has the tide turned?

The answer is nuanced. Although the pendulum has swung back to some degree, institutional investors remain appropriately aware of climate-related risks and their impact on performance. It is therefore reasonable to expect continued emphasis on adequate disclosure- regardless of institutional membership in CA100+. That said, decreased support levels signal that investors are savvy enough to scrutinize climate related proposals and make independent decisions on whether they are overreaching or effectively mitigate exposure and ensure sustainability of their portfolio companies.

Ultimately, this issue highlights a fundamental principle of proxy solicitation: All investors are NOT alike. While their common aim is to generate returns, they each have unique views on what factors drive performance and the degree to which they generate long-term shareholder value.

While some companies may view recent withdrawals from CA100+ as a welcome reprieve, ignoring the continued commitment to climate initiatives from institutional investors is a grave error. When engaging and establishing policies on these issues, companies should remain mindful of trending vote patterns and understanding each institution's specific voting guidelines.

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