COMPLIANCE WEEK

Pssst: Socially Responsible Investors Are Racking Up Wins This Year

Stephen Davis and Jon Lukomnik | Apr. 07, 2015

Relax and enjoy! You can soon have that morning donut without worrying about the nanotech particles that had been sprinkled atop as a whitening agent for the powdered sugar.

That's because Dunkin' Donuts agreed to cease using titanium dioxide after the not-for-profit group As You Sow engaged with the restaurant chain. In a year when the twin stories of activism and the growth of proxy access dominate corporate governance headlines, another phenomenon is going largely unnoticed: the increasing effectiveness of socially and environmentally conscious investors.

That's a mistake. It's still early in the proxy season, and there are already noteworthy developments. Perhaps the biggest was the decision by both BP and Royal Dutch Shell to endorse shareowner proposals on climate change. The two petroleum giants agreed to a coalition of investors' requests that they report on greenhouse gas emissions, their research and development efforts on low-carbon alternative energy sources, executive compensation incentives, and public policy positions relating to climate change issues.

That is a major change in the energy industry's public position on how it should react to global warming issues. And soon after, BP moved to drop membership in ALEC, the business-backed group that drafts proposed state legislation on a variety of issues. ALEC has been criticized for backing climate-change skeptics.

> Maybe it's time for the mainstream to get over its prejudices. The socially responsible and religious investing communities' dedication to long-term issues and oft-compelling arguments clearly are having an effect, from issues as small as nanotech particles to those as large as the size of the rainforest.

We should not be surprised. This year's successes build on last year's efforts. In 2014, at least partially as a result of shareowner engagement, many U.S. companies announced changes to corporate environmental policies:

13 major companies (including ConocoPhillips and Colgate-Palmolive) set targets for greenhouse gas emissions;
Six companies (including Kellogg and ConAgra) agreed to use only responsibly sourced palm oil to help deter deforestation;
15 companies agreed to issue sustainability reports;
Five corporations agreed to try to persuade their key suppliers to start publishing sustainability reports; and
Seven companies agreed to improve energy efficiency at their operations.
CERES, the not-for-profit that has been coordinating shareowner campaigns related to sustainability for a quarter century, notes that those achievements came after investors proposed approximately 150 environmental resolutions. And support for those resolutions has been growing for years.

EY research in 2013 noted that support for environmental and social proposals going to a vote doubled from about 10 percent in 2005 to more than 20 percent in 2011. Nor was that a small sample. Environmental and social proposals now represent about 40 percent of all shareowner proposals brought to a ballot count. Given the recent results, that trend has continued. And it doesn't take into account proposals filed with companies but then negotiated away when boards choose to make concessions instead of facing a contentious vote.

This year, as of mid-February, shareowners had filed 433 environmental or social proposals, according to As You Sow's annual Proxy Preview. That included nearly 120 environmental requests. Not all will come to votes; a few will be

successfully challenged at the Securities and Exchange Commission, and many others will be withdrawn following talks with proponents. By mid-March, the Sustainable Investments Institute observed, that list of pending resolutions had been pared down to 255—still a record number.

There are some new wrinkles to the proposals this year. While traditional climate change proposals (such as reporting on greenhouse gas emissions) continue to be the most common, the boom in drilling through hydraulic fracturing has added a focus on methane gas reduction at 10 fracking companies. And the drop in the price of oil has given proponents more ammunition to question the level of capital expenditures to find and produce oil that, in the proponents' opinions, can never be burned. Overall, the As You Sow report cites 31 proposals that connect the dots between climate change and business sustainability risks.

Given the level of activity, and the change resulting from many of the corporate-shareowner engagements, why don't we hear more about the phenomenon?

One reason may be that environmental and social proposals are a victim of their own success. It's not news anymore when a company agrees to modify operations to improve environmental sustainability or energy efficiency, or to rethink its long-term business plan. It's important, and maybe even vital for business sustainability, but it's not news.

That's a good thing. Conflicts get headlines; these types of engagements get results, often in relative silence.

There's a second reason for the lack of attention, however. Aside from a few public pension funds such as the New York City and New York State pension funds, and the California Public Employees' Retirement System (CalPERS), the major proponents of such sustainability-related shareowner proposals have been socially responsible investors and religious investors. This year, for instance, other than the two New York funds, the most frequent filers of environmental and social resolutions are Calvert Investments, Walden Asset Management, Trillium Asset Management, and Mercy Investment Services.

Mainstream commentators (and many mainstream investors) have long discounted such shareowners as marginal players in the capital marketplace. In terms of size, Calvert, Walden, Trillium, and Mercy have combined assets under management of less than $25 billion, or about one-twelfth as much as CalPERS. But it's not by size alone that some try to marginalize these investors. Their concerns are often dismissed as "social," a form of name-calling designed to trivialize the concerns of SRI and religious investors, compared to the rapid-fire traders who are the focus of all-too-many investor relations offices and breathless news reports.

That's somewhat ironic, as well as short-sighted. The long-term focus of the shareowner proponents resonates with the majority of senior managements and boards, particularly when contrasted with the day-to-day short-term market pressures faced by corporations. One recent IRRC Institute/Sustainable Investments Institute report found that the boards of directors of 499 of the S&P 500 companies disclose direct oversight of some environmental or social issue beyond that required by law. In other words, these are issues that the senior leaders of our major companies believe to be serious, long-term, and value-affecting. Indeed, late last year the National Association of Corporate Directors issued guidance on how boards of directors can effectively oversee broadly defined sustainability matters.

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