GreenBiz

How to Engage Your Investors on ESG Issues in Proxy Season and Beyond

Mike Wallace and Sarah Corrigan | Apr. 08, 2015

Investor interest in ESG issues is increasing, which gives sustainability pros a chance to foster it.

Spring brings a new proxy voting season, as shareholders exercise their right to raise issues of importance to company management, the board of directors and fellow shareholders. In recent years, the number of shareholder proposals devoted to environmental, social and governance (ESG) issues have increased at a fast pace. While institutional investors may not be involved in the majority of these proposals, companies should note that institutional consideration of ESG practices has grown significantly.

Last month, the Sustainable Investments Institute, Proxy Impact and As You Sow teamed up to publish their annual guide to proxy season, Proxy Preview 2015. This preview reveals that shareholders have filed 433 resolutions regarding ESG issues (excluding traditional governance proposals) through the middle of February, a slight uptick since the same time last year.

Of those proposals, the greatest proportions pertain to the environment and corporate political activity, at 27 percent and 26 percent, respectively. Many shareholders have withdrawn proposals as the result of corporate action, typically aided by discussions between the filing shareholder and the company's investor relations team.

ESG can help everyone

High-profile changes to corporate sourcing, such as McDonald's decision to use only antibiotic-free chicken and Archer Daniels Midland's no-deforestation policy with regards to soybeans and palm oil, suggest the influence of related shareholder proposals.

Despite what some companies may believe, the attention paid to ESG issues is not limited to activist shareholders and fringe groups. Indeed, mainstream institutional investors have expanded their incorporation of ESG criteria in investments exponentially over the past two years.

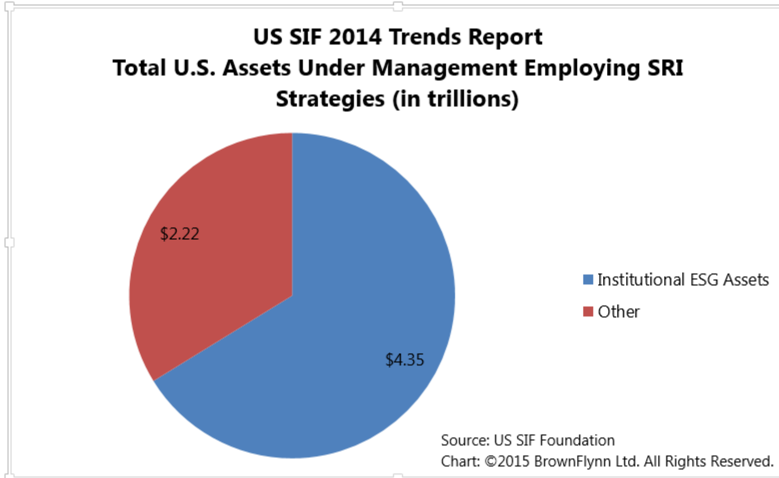
US SIF, the Forum for Sustainable and Responsible Investment, outlines this growing trend in its biennial report "U.S. Sustainable, Responsible and Impact Investing Trends," released in December. Within the report, US SIF explains that U.S.-domiciled assets under management that employ sustainable, responsible, and impact investing strategies have increased from $3.74 trillion in 2012 to $6.57 trillion in 2014. Institutional asset owners manage the majority — controlling $4.35 trillion of the $6.57 trillion under management.

By diving deeper into that $4.35 trillion, we learn that institutional investors prefer inclusion of ESG criteria in investment analysis and portfolio selection instead of filing shareholder resolutions. According to US SIF, "Institutional asset owners across the United States now consider environmental, social or corporate governance criteria in investment analysis and portfolio selection for aggregate assets of $4.04 trillion, a 77 percent increase since the start of 2012."

Why does this ESG incorporation figure matter?

Incorporating ESG criteria into investment analysis and portfolio selection is primarily a passive activity — analysts review publicly available information, such as your company's website, financial and sustainability reports and third-party sources in order to make their decisions. Your company typically is not contacted during this process.

Given the increasing amount of assets evaluated using this passive method, the time is ripe to reach out to institutional investors about ESG issues. Otherwise, they may make decisions about your company based on limited information.



Source: US SIF

Companies of all sectors and sizes benefit from proactively engaging their investors around their corporate ESG policies, goals and initiatives.

A plan to engage on ESG issues

For corporate investor relations professionals, there are many simple ways to get started. Begin by understanding which of your investors are engaged on ESG issues. Use your Bloomberg terminal to research which of your shareholders carry an SRI or ESG designation. Research your institutional shareholders to find which ones are signatories to the growing number of ESG-oriented investor coalitions.

Next, begin the direct engagement process. In coordination with your corporate sustainability team, plan a Fifth Investor Call (PDF) using resources such as the Sustainable Investment Research Analyst Network. For your investor roadshow presentations, include a robust section about your ESG goals and performance. Don't wait for a shareholder proposal — be proactive and start the conversation.

Your results likely will increase shared value for your company and your investors, reveal new ESG leadership opportunities for your sector and its related value chain and demonstrate greater transparency for all.

We recently co-hosted and moderated a webinar in conjunction with Nasdaq, Bloomberg and BlackRock, "Modern Due Diligence: How financial markets are analyzing and incorporating non-financial corporate performance data." BrownFlynn and Nasdaq will continue these conversations through a quarterly webinar series in 2015. You also can learn more at the upcoming National Investor Relations Institute annual conference about trends in non-financial reporting.