

# Wetherby INDUSTRY BRIEF

## The Power of Persuasion: Amplifying Client Impact through Shareholder Engagement

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As financial advisors, we are always looking for additional ways to support our clients in getting the most out of their wealth. As shareholders – and in particular, as thoughtful, long-term investors – our clients have a powerful voice. Through active shareholder engagement, our clients can encourage public company action on social and environmental issues that can help businesses achieve better growth and cost savings, improve their brands and reputations and strengthen broader stakeholder relationships, in turn, improving their future financial performance.

The business case for incorporating sound strategic social and environmental practices has been well demonstrated; shareholders need not be motivated by impact values to see the benefit of shareholder engagement. For those impact-minded clients, however, this engagement can allow clients to find additional meaning and empowerment from their investment holdings.

By working with key organizations that are experts in the shareholder engagement field, Wetherby Asset Management has enhanced our shareholder engagement offering without adding significant internal resources, making it easy for our clients to use their voices as shareholders to support meaningful initiatives that promote positive and material change in corporate practices. The ease of participation and diversity of initiatives supported by our approach accommodates a wide range of client interests, allowing each individual or family to selectively participate in engagement activities without constraining their investment decisions.

In this industry brief, we provide a broad overview of shareholder engagement, distilled from the expertise of As You Sow and other industry experts. We also illustrate how our program works, highlight our results from 2016 and offer our insights to crafting a successful program.

### DEFINING SHAREHOLDER ENGAGEMENT

Shareholder engagement is the process through which investors in publicly traded companies use their investment positions to create a constructive dialogue in order to promote change in corporate practices. Engagement can be pursued through a variety of approaches including letter writing, meeting participation, coalition building, resolution filing and proxy voting at annual meetings. Done well, the process can be collaborative and productive as both corporate management and shareholders can find common ground in supporting best-in-class business practices and long-term financial success.

Historically, large institutional investors and a select group of nonprofit advocates have dominated this arena. These stakeholders often have resources to skillfully orchestrate various engagement approaches, navigating nuances to build productive and successful relationships with the companies they approach. Now, wealth advisory firms that have historically lacked the resources and internal specialists can find external support to offer these services to interested clients.

Shareholder engagement initiatives can range from complex multi-year campaigns to brief but significant conversations where shareholder advocates and managers come to a mutual agreement on best practices. Within the larger engagement process, there are key areas where our clients' involvement can be the most impactful. While our colleagues continue to move the needle on important issues in this complex arena, Wetherby's client offering specifically targets a crucial step in corporate dialogue: submitting shareholder resolutions for action at a company's annual meeting within the proxy process.

## WHAT IS THE PROXY PROCESS?

The cornerstone of the proxy process is a shareholder resolution, a brief 500-word proposal suggesting a change in corporate practices. Shareholder resolutions are listed on a company's annual proxy statement. To be included, resolutions must address a material concern for the company and meet guidelines set by the U.S. Securities and Exchange Commission (SEC). These resolutions are then formally presented and voted on by shareholders at the company's annual meeting.

Although nearly always non-binding, shareholder resolutions represent a powerful public platform to voice concern and propose changes to both management and other investors. The results are publicly reported and calculated as "votes for" divided by the total votes cast for and against the proposal; abstained votes are not counted. Typically, outcomes around or over 10% send a clear signal of shareholder support to a management team; those over 20% offer a strong message for change that many companies find impossible to ignore. Resolutions may be re-filed and voted on in subsequent years, allowing shareholder awareness and education to build around the issue over time.

Wetherby clients can be catalytic in this process. To submit a resolution, a shareholder must: 1) have held a minimum of \$2,000 worth of shares for at least one year and 2) continue to hold those shares until after the company's annual meeting (usually six months after the filing deadline). Our clients can use their investment positions to authorize As You Sow to file resolutions; As You Sow engages the company and then presents the resolution on behalf of the client at the annual meeting. Additionally, clients can support filed resolutions by voting their shares in favor and driving awareness of these initiatives.

Not all proposed resolutions make it to the annual meeting. Often, companies are motivated to satisfy a resolution in advance of the proxy vote, based on the merit of the proposal and the desire to avoid public exposure on poor practices. Some companies may also challenge a proposal based on SEC standards in an effort to disqualify it from inclusion on the proxy statement. Sophisticated shareholder engagement programs maintain a continuous and constructive dialogue to reach consensus between investors and management on their shared interest: improving the long-term financial performance of the company.

## HOW OUR PROGRAM WORKS

Our firm relies on As You Sow and Aperio Group to enable us to offer impact engagement opportunities to our clients, maintaining the highest professional standards in the various campaigns that our clients choose to support.

As You Sow's Shareholder Engagement Program pursues engagement activities focused on energy, environmental health, waste, human rights and executive compensation issues. As You Sow identifies strategic engagement opportunities to support progress in these areas and launches customized engagement approaches for each company and initiative. For some engagements, As You Sow will choose to draft a shareholder resolution which requires shareholders, such as our clients, to authorize them to file on the client's behalf and to vote in support of the resolution. Aperio Group supports the operational process by ensuring that clients meet the appropriate account criteria throughout the proxy process.

Wetherby is notified of As You Sow's shareholder resolution intentions twice a year; the majority of shareholder resolutions are filed in November and December. We research holdings across all client accounts to determine which clients may be eligible and selectively present As You Sow's proposals to interested clients to participate, who choose to support the resolutions as lead filers or co-filers, or decide not to take any action. We then alert Aperio of each client's decision in order to confirm share ownership and ensure that the client's share position is held until after the company's annual meeting.



AS YOU SOW

As You Sow is a non-profit organization that promotes environmental and social responsibility through shareholder advocacy, coalition building and innovative legal strategies. Their Shareholder Engagement Program focuses on energy, environmental health and waste initiatives.

aperio

Aperio Group is an investment manager that designs and manages customized portfolios for ultra high net worth and institutional investors. They facilitate client shareholder resolutions by maintaining important account criteria during the process.

As You Sow provides Wetherby with periodic updates on the progress and outcome of the resolution which Wetherby then includes in our regular impact reporting and communication to clients. A high level overview of the shareholder engagement process is included below:

**Figure 1: Our Shareholder Engagement Process**



## OVERVIEW OF RECENT INITIATIVES

In 2016, our clients supported nine different shareholder resolutions. Four of these resolutions attracted over 20% of voter support (including one that was a first-time filing); three attracted over 5% of shareholder votes, and two were successfully contested by the company at the SEC and not brought to vote. Some examples of the As You Sow initiatives supported by Wetherby clients in 2016 include:

- **Consumer Packaging:** When Dr. Pepper Snapple Group released their recycling goals – a 60% beverage recycling rate by 2030 – shareholders reacted negatively to this slow 14-year implementation. One active Wetherby client supported As You Sow’s filing of a resolution several years in a row to encourage more stringent goals and deadlines. The 2016 resolution was supported by 38% of shares (valued at more than \$13 billion of assets), up from 31% in the prior year.
- **Climate Change:** Southern Company, the Southeast’s largest gas and electric company, has chosen to invest in carbon capture and storage and coal gasification strategies as a way to prepare for anticipated changes in emissions regulations. With some major projects delayed and significantly over budget, shareholders questioned the company’s exposure to regulatory risk despite their efforts. As You Sow’s 2016 resolution calling for quantification of potential financial losses associated with stranded coal assets under various climate change regulation scenarios and the total investment in these alternative projects won 30% of votes, representing \$7.4 billion in shareholder value.
- **Pharmaceutical Disposal:** Without convenient disposal programs, many unused pharmaceuticals can end up polluting our water and ecosystems or contributing to illicit drug use and addiction. Wetherby clients joined a coalition of 23 shareholder groups representing more than \$50 billion in assets to encourage pharmaceutical companies to develop policies regarding takeback programs for unused and expired drugs.

For the 2017 annual meeting season, Wetherby clients authorized As You Sow to file and co-file 20 shareholder resolutions with 16 companies focused on issues related to coal, genetically modified organisms, pharmaceutical waste, consumer packaging and nanomaterials in food. Several of the proposals are part of multi-year engagement processes to encourage positive change in such companies’ corporate practices.

## LESSONS LEARNED FOR BUILDING AN ENGAGEMENT OFFERING

In building out a collaborative shareholder engagement service offering, we identified some important themes that we thought would be helpful to share with firms considering a similar program:

- **Expertise is key:** Managing a shareholder engagement initiative is no small task. Experts must adeptly build productive relationships between the two parties, and be both sensitive and strategic with how they approach companies. For firms who lack this internal capacity and expertise, trusted third-parties provide an effective alternative to support interested clients with high quality initiatives backed by research and led by experts. While As You Sow is our primary and longest-standing relationship, we have also worked with other experts including Proxy Impact and the Thirty Percent Coalition to provide us with potential initiatives to offer to clients.

- **Keep it simple:** Our clients are often pleasantly surprised by how simple it is to become involved in shareholder resolution initiatives. By focusing on the proxy process, our clients are able to follow a few relatively simple steps at a key point in the process where their engagement is the most impactful. Clients engage at different levels – some prefer to anonymously vote their shares while others choose to publicly file and lead resolutions, using both their shares and their names to exert influence. Our clients often engage at a simpler level initially and then choose to build their involvement over time based on their interest.
- **Education and communication enrich the process:** Periodic reporting and communications can maintain client interest and support, or help build confidence for clients who are interested but want to learn more prior to participating. The education component truly enriches the client experience, building awareness and empowering clients to generate greater impact.
- **Maintain expectations:** Shareholder engagement initiatives are not always successful, and some take years to produce material results. As clients grow more passionate about a cause, it may be disappointing to receive limited support for a measure or to have a company ignore shareholder recommendations. Maintaining open communication with clients and supporting them through both the highs and lows of the proxy process is an important part of delivering a positive and sustainable shareholder engagement experience.

## CONCLUDING REMARKS

As shareholders, our clients occupy a powerful position to effect positive change in corporate practices that can improve long-term financial performance. As a firm, we are in a unique position to facilitate client involvement in shareholder engagement initiatives by enabling and simplifying the process. The benefit is shared by all: our clients are able to derive true value – intangible and tangible – from their wealth, and our firm is able to expand our service offering and support our clients through what matters most to them. By working with As You Sow and Aperio to enhance our shareholder engagement program with impact offerings, our staff and clients can work together to curate a truly customized engagement strategy, allowing clients to participate in initiatives that address social and environmental challenges that are most important to them.

## ACKNOWLEDGEMENTS AND ADDITIONAL RESOURCES

We would like to thank Sarah Milne and Austin Wilson from As You Sow for their review and invaluable contributions to this brief. For additional resources, we recommend the following:

1. As You Sow. (2015). 2015 Annual Report: As You Sow. <<http://www.asyousow.org/wp-content/uploads/2016/07/20160719-Annual-Report.pdf>>
2. Blackrock and Ceres. (2015). 21st Century Engagement: Investor Strategies for Incorporating ESG Considerations into Corporate Actions. <<https://www.blackrock.com/corporate/en-us/literature/publication/blk-ceres-engagementguide2015.pdf>>
3. Khan, Mozaffar, Serafeim, George, Yoon Aaron S. (2015). Corporate Sustainability: First Evidence on Materiality. <<https://ssrn.com/abstract=2575912>>
4. Welsh, Heidi, Passoff Michael. (2017). Proxy Preview 2017. As You Sow Foundation. <<http://www.proxypreview.org/>>

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