MarketWatch

Opinion: 3 ways investors can make their views heard on environmental issues

By Meredith Jones
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Investigate your mutual fund's voting policies — or write your own shareholder resolution

AFP/Getty Images

Protesters from Stand.earth call on Starbucks to use sustainable packaging outside its 2018 shareholders meeting.

During a recent dinner with my sister, she expressed her dismay with corporations in general and Wall Street in particular. "Why were executives so greedy?" she asked. "Why aren't there more women and people of color in power at corporations?" she wondered. "Why do CEOs make so much money, even with they screw things up?" she lamented. "And what," she demanded, "is my industry (investing) doing to solve any of these issues, anyway?"

Her solution to these issues, which I talked her out of over dinner, was to start a coalition that would, en masse, remove all of their assets from the stock markets, leading Wall Street and corporate boards to both take notice during what she was sure would be an ensuing stock-market plunge. Instead, I suggested some ways she could effect change and still get a return on her investment.

The best, and potentially most successful, way to address environmental, social and corporate governance (ESG) issues is through shareholder engagement. While historically not wildly successful, recent research by The Conference Board and Rutgers Center for Corporate Law and Governance suggests that ESG shareholder initiatives may be gaining in popularity.

Although these proposals still don't garner majority support during general meetings (25.7% on average according to the study), backing for these initiatives is growing. For example, support for resolutions on human rights increased from 10.7% in 2017 to 17.5% in 2018, while health-related resolutions jumped from 6.1% support levels in 2015 to 21.4% in 2018. Issues such as political contributions and lobbying, gender pay gaps, and genocide have all been debated in recent months as part of shareholder campaigns.

And while the percentages above may not be inspiring to those wanting action now, rest assured they don't tell the entire tale. For example, investors were able to influence Starbucks' SBUX, +0.16% parental leave policy through a shareholder resolution after Zevin Asset Management, a small investor in the company, filed a resolution asking the coffee giant to "evaluate the risk of employment discrimination that may result from Starbucks' approach to paid family leave."

While the resolution was never put up for a vote, it ultimately didn't need to win majority support to be effective. Starbucks opted to create a paid-leave policy in January 2018, before the matter came up for a vote, perhaps leery of potential negative PR. The Conference Board study found such "voluntary withdrawals" of shareholder proposals due to proactive corporate actions had also increased, from 5.9% in 2012 to 11.1% in 2018.

If the shareholder activism approach sounds appealing, there are a few ways to get engaged:

1. File your own shareholder resolution. Anyone who owns $2,000 worth of stock (or 1% of a company even if the amount is less than $2,000) for at least a year, who writes a 500-word resolution and who submits it at least 120 days prior to the annual meeting can file a shareholder resolution. The Securities and Exchange Commission does require that resolutions not be prescriptive (you can't dictate a specific employee policy), retaliatory against a specific employee or executive, and that any resolution should focus on matters that impact at least 5% of the company.

Read: Helping refugees in the U.S. turns out to be good for business

2. Investigate the shareholder voting policies of your mutual funds and ETFs. To discover the shareholder engagement policies of your favorite mutual fund or ETF, you often need look no further than the closest internet browser.

If ESG issues are high on your personal agenda, you should determine whether a fund manager's policies align with your ideals, since they'll be voting (and making proposals) essentially on your behalf. If you generally agree with the fund's engagement parameters, all may be well. If you don't, then decide whether fund performance trumps your ideals, or whether there are investment options that would leave you equally or more satisfied for both performance and engagement.

You can find the shareholder engagement policy of major ESG players like the Pax World Funds and its $2 billion Pax Balanced Fund PAXWX, +0.51% the Parnassus Funds and its $15 billion Parnassus Core Equity Fund PRBLX, +0.69% the PIMCO Total Return ESG Fund PTSAX, +0.00% and Nuveen's NuShares ESG Large-Cap Value Fund NULV, +0.35% using nothing more than a search engine.

But big mutual-fund companies that aren't big players in ESG publish their own guidelines for proxy votes as well as reports summarizing their engagement with companies over the past year. This includes BlackRock BLK, +0.83% (proxy guidelines and its latest report), Vanguard (guidelines and stewardship report), Fidelity (guidelines and voting activity) and State Street STT, +2.27% guidelines and report).

It's important to look at and evaluate how the firms who manage your assets have assessed ESG's impact on corporate performance and whether they plan to (and actually do) vote accordingly.

Of course, as with almost anything on Wall Street, money talks, and funds will adopt policies that attract assets. If you don't like what you see, you do have the option to vote with your feet to a degree.

3. Don't let your passive index providers off the hook. It can be tempting to give passive index investment providers a pass on ESG issues. After all, they can't sell a stock if it is a constituent of an index the fund tracks, so their ability to engage is therefore limited, right? Wrong. Passive index investment providers can still participate in shareholder engagement activities, from proposing resolutions to proxy voting, as evidenced by regional differences in voting activity.

As this table shows, a 2017 study by Morningstar found that European asset managers (and increasingly those in Japan as well) tended to vote against management more often than asset managers in the U.S., where Vanguard, the firm credited with inventing index funds, sided with management 94% of the time and BlackRock, the owner of the iShares ETF family, and Fidelity did so 91% of the time.

Exhibit 8 Voting Statistics

Asset Manager	2014 / 2015 # Votes	2014 / 2015 % For	2014 / 2015 % Against	2015 / 2016 # Votes	2015 / 2016 % For	2015 / 2016 % Against	2016 / 2017 # Votes	2016 / 2017 % For	2016 / 2017 % Against
Amundi	31,237	83	17	32,396	82	18	32,771	83	17
BlackRock	147,400	92	8	158,965	92	8	163,461	91	9
Deutsche AM	4,984	83	17	5,754	79	21	7,735	77	23
Geode (Fidelity)	74,484	91	9	78,184	91	9	77,039	91	9
LGIM	42,631	89	11	44,823	89	11	44,332	88	12
Lyxor	0	0	0	0	0	0	461	81	19
Nikko AM	23,117	91	9	23,657	91	9	22,956	83	17
Nomura AM	8,816	87	13	8,819	82	18	7,709	78	22
SSGA	130,840	89	11	143,540	88	12	158,053	86	14
Schwab	81,811	84	16	83,838	84	16	86,925	85	15
UBS AM	74,655	93	7	87,348	91	9	97,670	90	10
Vanguard	119,130	92	8	153,768	93	7	170,974	94	6

Source: Asset managers. Data as of Dec. 31, 2016, except for BlackRock, Vanguard, Schwab, and Nikko, for which data is as of June 30, 2017. Geode is Fidelity's index subadvisor. Deutsche AM data is for funds of legal entities domiciled in Europe only. Nomura and Nikko d[illegible] equity-related proposals only. "Against" votes include "Abstain" and "Withhold" votes.

Morningstar

In fact, since passive investments represent more than a quarter of all investing dollars, it is perhaps more imperative to encourage these large shops to adopt transparent ESG engagement policies, rather than just general voting guidelines. This is an issue Vanguard founder Jack Bogle highlighted last month, but one which transparent ESG voting policies that don't rubber-stamp management could mitigate.

My sister ultimately decided to look for investment options that better mirrored her personal convictions. But however you decide to pursue your dreams of corporate change, directly, through active management or by pushing your passive provider, it does make sense to try engage before throwing in the towel on environmental, social and governance issues. There's not much to lose and recent history indicates there may be potential ESG gains in it for shareholders and employees.

More on ESG investing:

- As Vanguard launches a sustainable-investing ETF, its low fees are only one of the factors to consider
- This is what millennials care about when they invest
- New report expected to boost push to make company climate-risk disclosures mandatory

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Today's Highest Yield Savings Accounts

Ask a Financial

Initial Deposit

$ 25,000

Location

New York, NY

Account Type

Savings & MM...

INSTITUTION	APY	Min. Balance for APY	
Ally Bank - Savings	2.00%	$0	Sponsored Get Details
Barclays - Savings	2.20%	$0	Sponsored Get Details
BBVA Compass - Money Market	2.25%	$25	Sponsored Get Details
American Express National Bank - Savings	2.10%	$1	Sponsored Get Details

Ally Bank: Consistently Competitive Rates. 24/7 Customer Care. Rate: 1.98% • Fees: N/A • FDIC Insured

Barclays: An award-winning account with rates 23x the national average. Rate: 2.18% • Fees: N/A • FDIC Insured

BBVA Compass: Reach your goals faster with a 2.25% APY Money Market account from BBVA Compass. Available in New York only. Rate: 2.23% • Fees: N/A • FDIC Insured

American Express: Personal Savings

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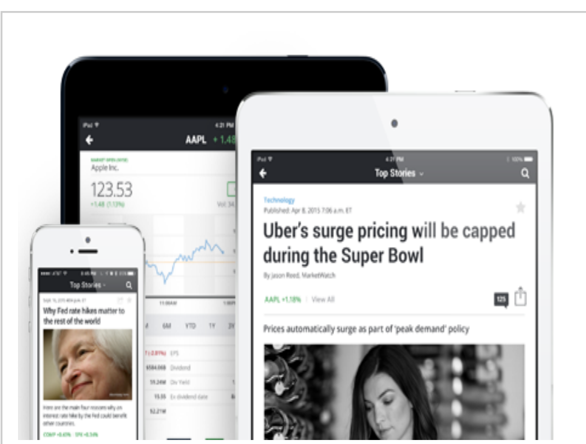

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