

# Shareowner Advocacy and Impact

A Publication of First Affirmative Financial Network  
June 2015



## Proxy Season 2015

By Holly Testa, Director, Shareowner Engagement

Late spring is “prime time” for investors to impact the governance of public companies. The majority of annual general meetings occur in May and June.

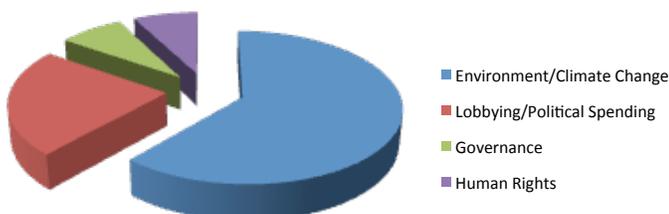
These legally mandated annual meetings focus on numerous governance topics including electing directors, sharing financial information, and presenting shareholders with material information on past activities and future plans. They also highlight the most visible aspect of shareowner advocacy—the filing of, and voting on, shareholder resolutions.

Investors can file resolutions requesting a company’s board to report, on or take action on, specific environmental, social, and/or governance (ESG) issues, in accordance with Securities and Exchange Commission (SEC) rules.

In total, about 950 shareholder proposals (also known as proxy resolutions) were filed with public companies domiciled in the U.S. in 2015, according to the [Harvard Law School Forum on Corporate Governance and Financial Regulation](#).

While general governance issues dominate, the number of resolutions focused on social and environmental concerns broke another record, with 433 resolutions [filed so far for 2015](#). Proposals related to climate change, energy, corporate sustainability, and related issues represented 40% of the 433 resolutions. Other notable topics include diversity and human rights concerns.

**First Affirmative Resolutions Filed / Co-Filed by Issue**



First Affirmative [filed or co-filed 13 shareholder resolutions](#) on behalf of clients, four of which were lead files.

Three of the thirteen were withdrawn after productive dialogue, with Cerner, Yum! Brands, and Kroger. Four garnered well over 20% support from shareholders, and two received over 30% support.

## The Real World of Proxy Voting

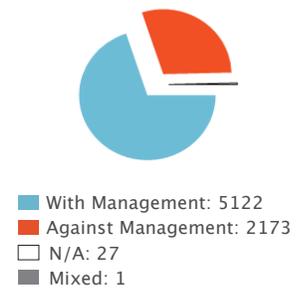
Investors make their voices heard in the board rooms of publicly owned companies by voting their proxies.

First Affirmative votes electronically, on behalf of clients, according to our comprehensive [Proxy Voting Guidelines](#).

As of late June, we had cast over 7,700 votes at over 600 meetings. Our evaluation process led us to vote against 30% of the proxy proposals from management; we primarily voted against excessive executive compensation packages, against boards that approve these pay packages, and against Nomination Committee members where a board lacks diversity.

In addition, First Affirmative voted against management on 70% of shareholder resolutions (proxy resolutions filed by shareowners). This is not surprising, given that it’s rare that management supports any resolution filed by a shareholder.

**Management Proposals: Votes vs. Management**



**Shareholder Proposals: Votes vs. Management**



## Advocacy Through Dialogue and Collective Action

First Affirmative participates in ongoing dialogues with companies on issues of concern that may not be related to proxy resolutions. Some of these discussions become known to the general public, while others are confidential. These engagements allow us to encourage companies to change policies, behaviors, and impacts; they also offer valuable insights into why companies make certain decisions, and what the obstacles are to positive change.

For example, a group of shareowners, including First Affirmative, has been in ongoing dialogue with Costco over several years to discuss issues surrounding seafood sustainability, and more [recently](#) regarding Costco's considerable efforts to root out slavery in their seafood supply chain.

We also sign and/or support selected letters, public statements, and op-ed pieces that seek to influence the actions of companies and public policy makers. Some recent actions of note:

- First Affirmative is now a signatory of the newly launched [Chemical Footprint Project](#), whose mission is to assess progress toward the use of safer chemicals and away from chemicals of high concern to human health or the environment.

- We [joined](#) a coalition of investors and major brand companies including PepsiCo and Procter & Gamble urging [Roundtable on Sustainable Palm Oil](#) to adopt more stringent certification standards.
- We [requested](#) that the SEC enforce existing disclosure rules on carbon asset risk.

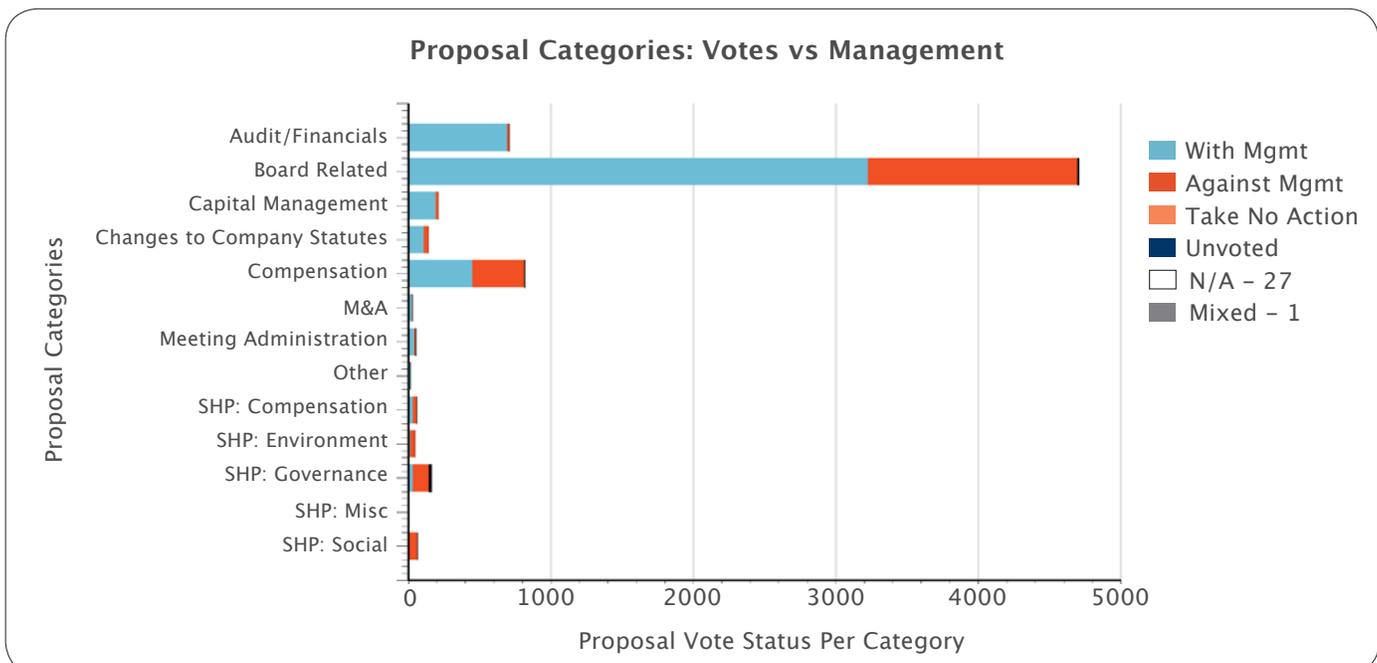
A summary of these actions can be found [here](#).

## Setting the Stage for 2016

Planning is already well underway for the 2016 proxy season. We are meeting with our advocacy partners to review this season's progress and setbacks, evaluate emerging issues, and set priorities for future actions.

Climate change will no doubt continue to take center stage as governments and corporations prepare to both influence and respond to the outcome of the Conference of the Parties to the United Nations Framework (COP21) to be held in Paris in November. Momentum continues to build for a global, universally binding agreement to reduce greenhouse gas emissions in order to limit global warming to less than 2°C. Companies that respond to the challenge and work with all of their stakeholders to respond to the challenge will be better positioned for long-term, sustainable success.

Look for updates on the [advocacy page](#) of our website and on our [leadership blog](#). If you have questions about First Affirmative's advocacy program, please contact your network advisor.



## Advocacy Spotlight: The Stories behind the Numbers

First Affirmative’s advocacy efforts are best understood by telling the stories behind the numbers. The role of the lead filer is a substantial commitment, taking on a responsibility that can last months, or even years.

The role includes coordinating dialogue and negotiations with both the company and with filing partners, developing and submitting the final resolution, and ensuring that the resolution is properly presented at the annual meeting.

### Cerner Corporation—Political Spending Policies

*OUTCOME: Withdrawn after productive dialogue.*

Cerner’s management approached us soon after we filed asking for a dialogue. Our conversation, in partnership with the [Center for Political Accountability](#), led to the company exploring the issue, and subsequently developing and posting a more robust policy that conforms to the Center for Political Accountability guidelines. Cerner now reports information about trade association contributions on its website.

### Kinder Morgan—Carbon Asset Risk

*OUTCOME: 22.25% support.*

For the second year in a row, we asked Kinder Morgan to report on the risks to the company posed by “[carbon asset risk](#)” and their plans to address global concerns regarding fossil fuels and their contribution to climate change. Although the company chose not to discuss these issues, several stakeholders worked together to make sure the company heard our message. This made for an unusually eventful meeting, which you can read more about [here](#).

### Chubb Corporation—Sustainability Reporting

*OUTCOME: 28% support.*

We have filed a sustainability reporting resolution at Chubb for three years in a row. Although our conversations with the company have not resulted in as much progress as we would like, there have been some notable outcomes. For example, the company posted its first explicit [climate change statement](#) and provided more disclosure on their website about innovative products for “clean tech” companies—

including the fact that Chubb now insures more than half of the Global Cleantech 100. Most importantly, the company [created](#) an environment steering committee and environment task force in 2014 to lead their efforts.

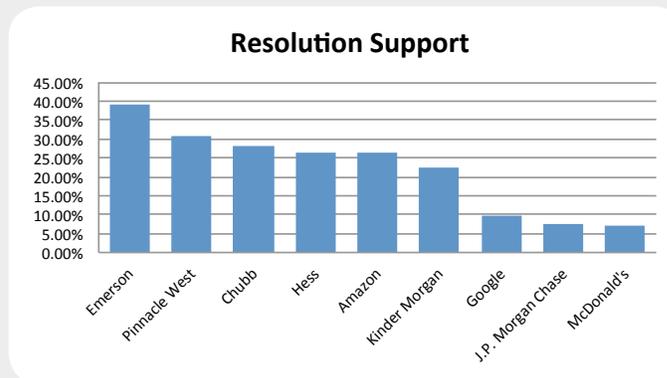
### Pinnacle West—Lobbying Spending Policies

*OUTCOME: 30.75% support.*

While First Affirmative was the lead filer, [As You Sow](#) spearheaded the campaign requesting that Pinnacle improve disclosure of lobbying practices and expenditures after concerns arose over the company’s controversial [support of anti-solar campaigns in Arizona](#). As Amelia Timbers, Energy Program Manager at As You Sow pointed out, “Investors don’t understand how these activities are helping the company and would like more transparency of what they are doing and how they are spending shareholder dollars that appear to undermine renewable energy policy in the state.”

### Dealing with Setbacks

We are, of course, disappointed when our resolutions receive few votes or when the SEC allows companies to exclude our resolutions. But we don’t just walk away; instead we learn from experience and look for a better approach. In fact, for the first time in 2015, First Affirmative re-filed a resolution after withdrawing it in a previous year because the company did not live up to its commitments.



*Continued on Page 4*

Continued from Page 3

## PPG—Remove All Lead from Products

*OUTCOME: Omitted from proxy after SEC challenge.*

PPG successfully **challenged** this resolution at the SEC under a provision that allows companies to omit resolutions that deal with “ordinary business.” The SEC decision is of deep concern as it represents a precedent-setting policy shift. From our perspective, the **extreme health, financial, and environmental impacts** of lead is a significant public policy issue and not just ordinary business. A **previous ruling** by the SEC should have supported this resolution.

Next steps include continuing dialogue with PPG, reformatting the resolution to reduce the possibility of another exclusion, formally expressing our concerns to the SEC through a coalition of investors, and supporting other organizations that continue to exert influence on the company.

## McDonald’s—Disclose Impacts of Palm Oil Supply Chain

*OUTCOME: 7% support.*

First Affirmative co-filed a resolution with Green Century Capital Management to address McDonald’s weak palm oil policy. This evolved into a wider governance issue regarding how the company responds to shareholder concerns. While McDonald’s did **announce** its intention to curb deforestation across its global supply chains, commitments specific to palm oil were not disclosed. In addition, the self-imposed deadline for achieving their vision of no deforestation was 2030—a

decade beyond most other industry leaders. However, McDonalds would only agree to further talks if investors signed a confidentiality agreement—a highly unusual move. As Green Century’s President, Leslie Samuelrich, **pointed out**, “Without transparency or specifics, the company has left investors little choice but to voice our concerns publicly.” We will be watching carefully for further detailed information on McDonald’s palm oil policy to determine how it compares to stronger **commitments** made by others in the industry.

## Amazon, Sustainability Reporting

*OUTCOME: 26.22% support.*

After withdrawing a sustainability resolution two years ago, given substantial commitments made by the company, we co-filed again with Calvert Investments in 2015 because Amazon did not live up to its commitments. The company has made progress, but it continues to lag behind its peers, and we are keen to understand whether the problem is a lack of disclosure or a lack of commitment.

Amazon’s customers are increasingly verbal about their concerns. In a recent **letter**, customers of Amazon Web Services, including HootSuite and Tumblr, complemented Amazon’s goal of being 40% renewable powered by the end of 2016, but express frustration by the lack of disclosure: “...it is currently difficult for us to measure our energy footprints or progress toward sustainability goals, or to know what sources of energy are powering our operations, since AWS does not publish that data or provide it to us for public use.”

*Shareowner Advocacy and Impact* is a publication of First Affirmative Financial Network, LLC, an independent Registered Investment Advisor (SEC File #801-56587). Steve Schueth, President, serves as editor of this publication.

The views expressed herein are those of First Affirmative and may not be consistent with the views of individual investment advisors or Broker-Dealers or RIA firms doing business with First Affirmative. The opinions and concepts presented are based on data believed to be reliable; however, no assurance can be made as to their accuracy.

Mention of specific companies or securities in this newsletter is not a recommendation to buy or sell that security. Past performance is never a guarantee of future results.

Network Advisors may offer securities through various registered broker-dealers and RIA firms. These affiliations and all fees charged to clients are clearly disclosed. For information regarding the suitability of any investment for your portfolio, please contact your financial advisor.



First Affirmative Financial Network, LLC  
5475 Mark Dabling Boulevard, Suite 108  
Colorado Springs, Colorado 80918  
800.422.7284 • fax: 719.636.1943

[www.firstaffirmative.com](http://www.firstaffirmative.com)

20% FSC fiber ♻️ 80% PCR fiber  
July © 2015