

Getting ESG-FIT for AGM Season

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Brunswick ESG

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Foresight – Insight – Timeliness

Are you ESG FIT for AGM Season?

Investor support for shareholder-proposed ESG resolutions is growing, driven in part by an expanding array of investor coalitions and public interest groups. Beyond the demonstrations, sit-ins and controversies that have characterized AGM season 2022, there have been important developments of which companies should take note as they develop their corporate strategies, investor relations agendas and communications plans.

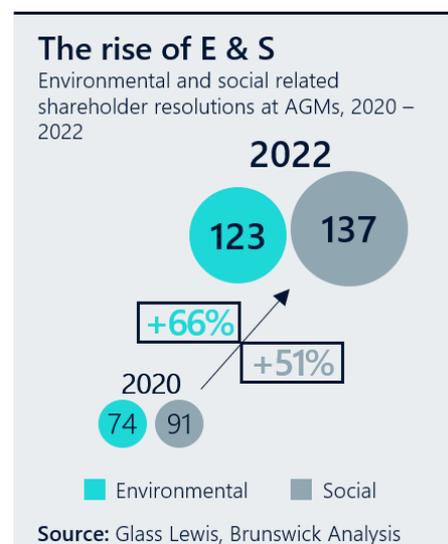
Investor appetite for ESG is still growing

Research undertaken by Brunswick on shareholder-proposed ESG resolutions over the past few years shows that investor appetite for ESG resolutions continues to grow, despite political pushback in various regions. Brunswick works with listed companies to get them ESG-FIT for the AGM season – not last minute as the proxy season heats up, but months ahead, deploying **foresight**, **insight** and **timeliness** to deliver “win-win” outcomes for clients and their stakeholders.

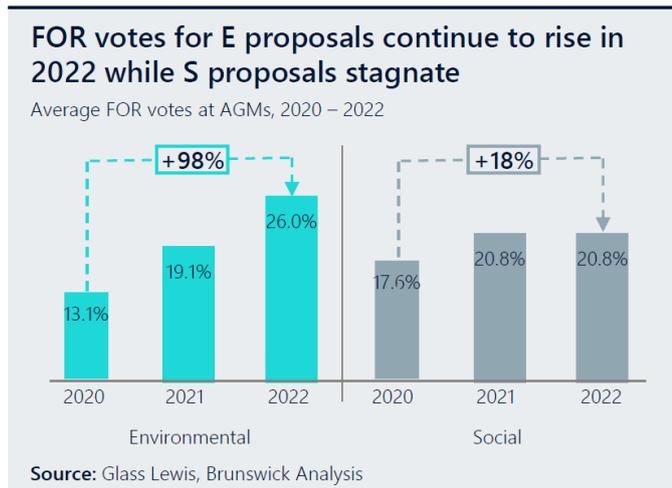
Shareholders are demanding more accountability and transparency on ESG issues as poor management of such issues can lead to poor financial returns. Companies that communicate effectively to their unique stakeholder universe will receive support for their share price, and in turn, lower the cost of capital. Companies that fail to articulate their ESG credentials increasingly face tangible reputational and financial risk, creating a significant distraction for boards and senior leadership teams.

AGM season 2022: what we saw

Brunswick research shows that shareholder-proposed environmental and social resolutions increased significantly between 2020 and 2022. According to the proxy voting data for AGMs held in North America, the UK, Europe and Japan, a record **260 resolutions focusing on environmental and social issues were filed** for the first six months of 2022, compared to 187 in 2021 and 176 in 2020. This increase in resolutions is pronounced in the US, the market with the highest number of resolutions. Japan also saw a significant increase in shareholder proposed E&S resolutions.

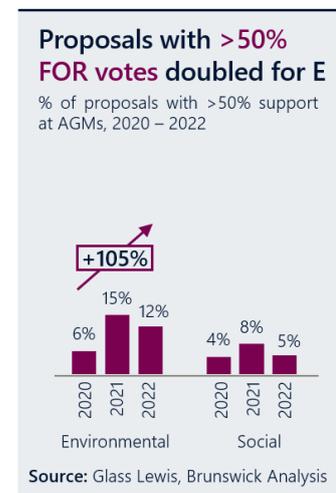
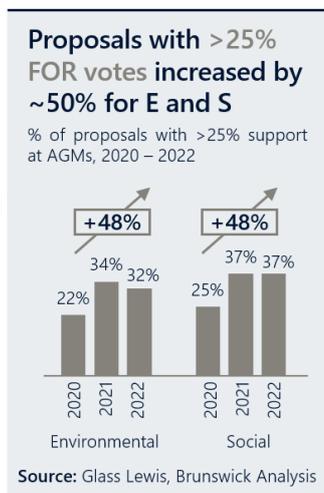


In addition to a significant increase in the number of E&S shareholder proposals from 2020 to 2022, there has been a significant increase in the average support for these proposals from 2020 to 2021. The average level of support for E-focused proposals doubled from 13% in 2020 to 26% in 2022. While the support for S focused proposals increased by 18% and leveled out in 2022.



The actual number of proposals receiving majority support, while still low in total, is increasing. In addition, the number of proposals receiving 25% or more support have increased by around 48% for both E and S focused proposals.

More than 25% support for a shareholder proposal should ring an alarm for boards. This could lead to negative media coverage and reputational damage and requires a board-level response.



2023 AGMs and beyond

Environmental issues, in particular greenhouse gas emission (GHG) targets, continue to be a key focus for shareholders and NGOs. So far in 2022, there have been 123 environmental-related shareholder resolutions. In certain cases, shareholders have voted against management by supporting requests for the adoption of short-, medium- and long-term targets, inclusive of Scope 3 emissions, and pushed for greater transparency on the climate impacts of financial services activities. As GHG emissions targets become standard disclosure for listed companies, due in part to new statutory reporting obligations and investor pressure, investor focus will shift to evidence of progress toward achievement of targets and debate about the role of tools such as carbon offsets. A decline in Say on Climate resolutions in favor of annual climate strategy reporting and ongoing engagement with shareholders is also expected.

Furthermore, there will likely be significant growth in social-related resolutions in coming years. In 2022, the number of resolutions related to racial and civil rights audits more than doubled from 2021. A particular area of focus in the UK has been the racial pay gap and the living wage. In the US, there have been calls for racial equity audits and challenges to reproductive healthcare restrictions.

Many of those NGO-supported resolutions don't receive majority support yet. However, there are a number of well-organized and well-funded NGOs who are receiving, on average, greater shareholder support than other activists. We reviewed the voting statistics for proposals put forward by activists including The Australasian Centre for Corporate Responsibility; As You Sow; The Children's Investment Fund; and Market Forces.

Most of these groups are adept at generating media coverage for their causes and resolutions during the weeks and months leading up to an AGM and beyond, creating reputational risk for the companies involved that should not be ignored. These organizations engage with institutional investors to get their backing, and as a result, the level of support for resolutions put forward is higher when compared to other proponents. It is critical that companies seek to understand the expectations of these and other activist groups and constructively engage with them to mitigate material concerns wherever possible.

In the US, the adoption of the universal proxy rule by the SEC as of September 1, 2022, may signal an opportunity for ESG proponents to nominate one or more directors to boards rather than submit a shareholder proposal. The rule change makes it much cheaper and easier for an activist group to run an effective change campaign at the board level given that U.S. companies will now be required to include the names of dissident nominees on their proxy card. This will allow shareholders to more easily pick and choose between management and dissident nominees and potentially give more leverage to a wider range of ESG activists. Shareholders who have previously supported a range of ESG proposals may be willing to vote in support of a qualified candidate or two who would bring complementary skills and perspectives to the board. In 2021, shareholders of an S&P100 company elected two directors that were nominated by a climate activist shareholder that resulted in two external nominees being elected to the board.

Don't wait to react

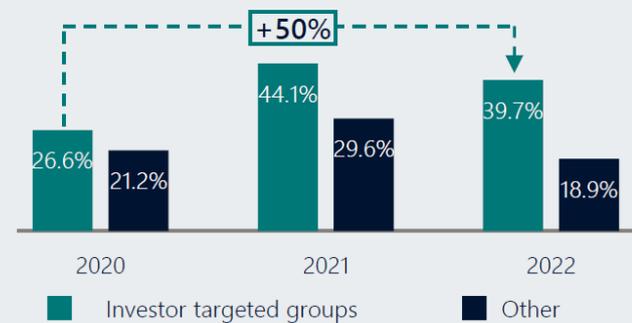
It is essential for companies to understand the key issues that are the focus of shareholder-proposed resolutions and ensure that they are not a target for such resolutions. Receiving a shareholder-proposed resolution just before the AGM will force them into a reactive stance which can be time consuming, distracting and expensive. Brunswick helps companies to get on the front foot by providing proactive shareholder and stakeholder advisory support to clients.

A focus of Brunswick's ESG practice is helping clients get **ESG FIT** for AGM season. Our approach is based on three central pillars:

- **Foresight:** We work with clients to review sector trends and developments in leading markets in order to anticipate and respond to likely shareholder questions and resolutions. We expect a wider environmental focus over the coming years, above and beyond greenhouse gas emissions,

FOR votes from investor targeted groups increased by 50% over past two years

Average FOR vote from investor targeted groups vs. others at AGMs, 2020 – 2022



Source: Glass Lewis, Brunswick Analysis

to include deforestation and biodiversity loss, water intensity, plastic pollution, waste management and the circular economy. We also anticipate a steadily growing interest in social issues, especially in diversity, equity and inclusion and human rights in the supply chain.

- **Insight:** We work with clients to build effective investor and stakeholder engagement strategies in order to address ESG concerns. It is often the case that companies contact “friends” for advice, but we counsel clients that in ESG matters, they need to understand the concerns of their harshest critics and ensure that they address them. In addition to heading off the threat of unwelcome shareholder-proposed resolutions, effective and proactive engagement can lead to better management of ESG risks and the identification of opportunities which are aligned with corporate strategies.
- **Timeliness:** We encourage clients to commence preparations for AGM season six months or more in advance of AGM meetings in order to ensure effective internal and external engagement. This is particularly important in continental Europe, where the two-tier board structure in some of those markets can slow internal policy work. We encourage European clients to put the topic of 2023 AGM issues scanning and response on the October 2022 board agenda. While Brunswick can often support clients at short notice ahead of an AGM, it is always preferable to work with companies several months before an AGM to build robust policy and program responses to potential E and S concerns and develop proactive stakeholder engagement strategies.

Brunswick’s Global ESG Practice

Brunswick advises the world’s leading companies on how to navigate critical ESG issues and engage with their critical stakeholders. Our unique offering recognizes the importance of social value and financial risk, leverages deep sectoral and regional knowledge and is fully integrated across our practice groups and sectors. We enable clients to understand the global ESG conversation and emerging trends, to define their ESG ambition, and to communicate and engage effectively with ESG stakeholders.

From financial situations to capital markets, regulatory and public affairs, climate and environmental action, social issues, crisis, cyber, litigation and employee engagement, clients rely on Brunswick for ESG insight, advice, preparedness and campaigns.

Covering all regions, our ESG experts are based in major offices across the globe.

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