

January 26, 2011

New Proxy Advisory Service to Meet the Needs of Foundations and Sustainable Investors

by Robert Kropp

Long-time shareowner advocate Michael Passoff launches Proxy Impact, a proxy advisory firm that seeks to align investment with mission for sustainable investors.

SocialFunds.com -- Proxy advisory services have come under increased scrutiny for several years, due to potential conflicts of interest. A policy briefing published last March by the Millstein Center for Corporate Governance and Performance noted, "The proxy voting system in the US and other markets is chronically subject to criticism that it is short on integrity," and recommended "a general ban on a vote advisor performing consulting work for any company on which it provides voting recommendations or ratings."

A prime example of such a potential conflict is RiskMetrics Group, whose ISS segment issues proxy and vote recommendations, and voted 7.6 million ballots representing over 1.3 trillion shares in 2009. At the same time, RiskMetrics derives revenue from governance services it provides to corporations that contract with the firm for advice on how to improve their environmental, social, and corporate governance (ESG) rankings.

Michael Passoff, who for 11 years has directed the Corporate Responsibility Program at **As You Sow**, told SocialFunds.com, "Both foundations and socially responsible investors (SRIs) have faced the dilemma of giving their money to RiskMetrics or someone else that mostly vote against them."

In order to provide foundations and sustainable investors with a proxy advisory firm that is aligned with their missions, Passoff recently launched Proxy Impact, which will provide both traditional proxy voting services on companies trading in the US and mission-based consulting. During 2011, while Passoff grows his new business, he will remain in a consulting position with **As You Sow**, where he has authored the organization's annual Proxy Preview since 2005.

"As a foundation itself, **As You Sow** has always been involved in promoting alignment of investing with mission at foundations," Passoff told SocialFunds.com. "I've always gotten positive feedback from foundations about our Proxy Preview and shareholder campaigns, but they also said they wanted an easy way to vote their proxies that was aligned with their missions."

"The proxy services out there will provide SRI guidelines, but they charge you extra for that," Passoff continued. "The information foundations were getting didn't mean much to them. There was no context."

According to Proxy Impact, "The overwhelming majority of votes made by other proxy services oppose the social and environmental shareholder resolutions that social investors support."

"I start with SRI guidelines as my basis," Passoff said. "I'm not providing any other financial management services. Proxy Impact will offer specialized mission-based consulting on how resolutions relate to mission. We're trying to give our clients information that is much more relevant for them."

Proxy Impact's consulting services will include mission-related shareholder resolutions and proxy voting, engagement with companies, and ESG profiles of companies in the investment portfolios of its clients.

Passoff is also taking several additional steps to ensure that the business operations of Proxy Impact are aligned with its mission on behalf of foundations and sustainable investors. It plans to be certified as a Certified B Corporation, a designation for companies that meet social and environmental performance standards.

Proxy Impact will also be headquartered at the Brower Center in Berkeley, which has received a LEED Platinum rating, the highest possible rating from the US Green Building Council (USGBC). The firm plans to become a signatory to the United Nations' Principles for Responsible Investment (PRI) this year as well.

A portion of Proxy Impact's fees will support nonprofits working to enhance the fields of philanthropy, sustainable investing, and corporate responsibility.

"We're starting out as a green business," Passoff said. "If we can provide the services, we think SRIs and foundations will rather give their money for proxy services to someone in their peer group."

Passoff observed that while Proxy Impact was originally designed to help foundations and mission-based investors align their investments and mission, it will meet the needs of sustainable investors as well.

"The original intent was to meet the needs of foundations, and I see them as the first wave of users. I'll have some clients this year," Passoff said, despite the fact that the launch of the firm is occurring with the 2011 proxy season already well underway. "After the service is around for a year or two, I think the SRIs will adopt it."

Meanwhile, Passoff will continue much of his work with **As You Sow**, including its Proxy Preview, scheduled for publication next month.

"This year's Proxy Preview will be co-sponsored by **As You Sow**, Proxy Impact, and the Sustainable Investment Institute (Si2)," Passoff said. Si2, co-founded by Heidi Welsh and Peter DeSimone of the Social Investment Forum (SIF), produces research to help investors make informed decisions on ESG-related shareholder proposals.

"It's challenging to launch a new business, but I think I'm responding to a need," Passoff said. "I can give foundations and mission-based investors information to help them identify the links between investment and mission. For all other social investors, I'm offering a service that's completely aligned with what they're trying to do."