



Greater Support for Shareholder Proposals on E&S Issues

By Ted Allen on June 20, 2011 5:01 PM

The average investor support for shareholder resolutions on environmental and social (E&S) issues continues to rise.

During the 2011 spring proxy season, there was 20.5 percent average approval (as of June 8) for these proposals, the first time this support level had reached the 20 percent mark. This average compares with 18.2 percent at the same time a year ago, according to ISS data. By contrast, the average support for E&S proposals was just 8.7 percent a decade ago.

This year's vote average includes four investor proposals that received majority support (based on "for" and "against" votes), a new record for E&S issues. These proposals include:

- KBR: a request to include sexual orientation in the company's nondiscrimination policy (61.7 percent approval);
- Tesoro: a request for a report on refinery safety (54.3 percent);
- Sprint Nextel: a request for a report on political contributions (53.3 percent); and
- Ameren: a request for a report on coal combustion waste (52.7 percent).

Additionally, a proposal at Energen requesting a report on the environmental impacts of the hydraulic fracturing method increasingly used in natural gas production won 49.5 percent approval, barely missing receiving majority support, while three proposals requesting a report on political contributions (at Halliburton, R.R. Donnelley, and Lorillard) earned more than 45 percent support.

Political Spending

As in recent years, political contribution-related proposals accounted for just under a quarter of the proposals filed, and just under a third of the resolutions voted on. What was notable this year was the much greater variety of approaches to this issue following the U.S. Supreme Court's *Citizens United* (2010) decision, which removed caps on independent corporate spending in federal elections.

As in earlier proxy seasons, though, the largest part of the political contributions campaign were the resolutions from a seven-year-old effort coordinated by the Center for Political Accountability (CPA), which ask for reports on corporate political spending and policies, including spending funneled through trade associations. Thirty-two resolutions in the CPA campaign came to votes this year.

This year, the average support for political contributions proposals was 32.5 percent, up from 30.4 percent for similar proposals in 2010. This average doesn't include a low vote of 5 percent at Sears, which is a controlled company, proposals from several long-running initiatives by activist investor Evelyn Y. Davis, which are different in scope, and a proposal at Home Depot asking for an annual advisory vote on "corporate electioneering."

Among the new variations in proposals were the resolutions coordinated by Walden Asset Management that were directed at companies that serve on the board of the U.S. Chamber of Commerce. In addition to requesting reports on political spending, those proposals asked the companies to discuss the risks and responsibilities associated with serving on boards of and paying dues to trade organizations when positions of the association contradict the company's own positions; the proponents were particularly concerned about the U.S. Chamber's opposition to legislation to mitigate climate change. The resolution was initially filed at seven companies, but after a mix of withdrawals and technical issues, it came to votes only at IBM and PepsiCo, receiving 31.4 and 11 percent support, respectively. In addition to the-

se proposals, Walden also raised the issue from the floor at several other annual meetings this year and plans to continue pressing this matter in 2012.

Other proposals targeted corporate support for ballot initiatives during the 2010 elections. A proposal asking for a report on political contributions in light of the reputational risks arising from corporate contributions given to a group that supported an openly anti-gay gubernatorial candidate in Minnesota was filed at Best Buy, Pentair, Target, and 3M. Withdrawal agreements were reached at all but 3M, where the proposal received 35.8 percent support. Another proposal voted on at Occidental Petroleum and Valero focused on the companies' corporate support for Proposition 23, the campaign in California that would have suspended a state law to regulate carbon emissions. These proposals received 30.6 and 34.8 percent support, respectively.

By contrast, a new proposal at Home Depot (mentioned above) from NorthStar Asset Management that sought an annual shareholder vote to ratify political expenditures anticipated in the next fiscal year received only 5 percent support. The CPA has specifically opposed that approach.

In addition to the standard CPA proposal, AFSCME filed a new proposal that requested a report on "grassroots lobbying" and corporate funds given to trade associations and other third parties that are used for political purposes. These proposals averaged 24.2 percent support at five companies (the average was lowered by the 8 percent vote at Prudential Financial, the only vote below 25 percent).

Environmental Issues

Environmental proposals were about as prominent during this year's E&S proxy season as political contribution resolutions and even more varied.

The most eye-catching results involved the second year of a campaign coordinated by the Investors Environmental Health Network to ask companies to report on the implications of their use of hydraulic fracturing to tap natural gas reserves. These proposals went to a vote at five companies--Energen, Chevron, ExxonMobil, Ultra Petroleum, and Carri- zo Oil & Gas--and averaged 40.7 percent support, up more than 10 points from 2010. The votes came in the wake of increasing regulatory and public attention to an issue many investors were barely familiar with 18 months ago.

Another notable aspect of this proxy season was the increased shareholder attention to the risks related to the use of coal, which is now going beyond concerns about climate change. Activists filed a new resolution asking utilities to report on the financial risks of coal reliance, which ultimately came to votes at four companies. Only one of those resolutions got better than 10 percent support--a 31.4 percent vote at FirstEnergy-- as investors appeared to conclude that some of the targets were already implementing this resolution by providing considerable information on the issue, even if the underlying concern remained. In a related campaign, three resolutions that asked utilities to disclose more about how they are approaching the issue of coal combustion waste fared better, winning majority support at Ameren.

Additionally, the Sierra Club filed a new resolution at Dominion Resources asking for a report on mountain-top coal mining that received 9.3 percent support.

The number of resolutions specifically focusing on climate change fell this year, from 37 to 30 filed. After many withdrawal agreements, 11 had come to votes by June 14, down from 17 voted on the year before. Seven of those voted on by June 8 were part of the now familiar campaign requesting companies to adopt quantifiable metrics for greenhouse gas (GHG) emissions. Those votes averaged 20.1 percent support. Among the other climate change proposals that came to votes were second-year resolutions asking for reports from Chevron and ConocoPhillips on the financial risks of climate change; those votes remained low, at under 8 percent. Overall, climate change-related proposals averaged 16.2 percent support--as compared with 21.1 percent in all of 2010.

In addition to the 11 proposals voted on from climate change activists, shareholders considered four from conservative groups that are skeptical about the severity of the issue. These resolutions averaged only 3.7 percent approval; the best showing was 6.5 percent support for a resolution on climate-related lobbying at Duke Power.

Among other environmental issues, support for resolutions asking companies to report on oil sands development remained strong at ConocoPhillips and ExxonMobil, averaging 27.5 percent.

Sustainability Questions

The number of resolutions proposed requesting reports on sustainability fell by about half, to 22, and a large batch of withdrawals left only six to go to a vote. In addition to a proposal at Layne Christensen in mid-June, which management supported in its proxy statement, and a vote result still pending at MGM, the four other proposals averaged a solid 31.3 percent approval. However, a new proposal from the Laborers' International Union asking companies to link sustainability metrics to executive compensation got off to a slow start. Three of the four resolutions have come to votes; the best showing was 6.9 percent support at Sempra Energy. The boards at two of the targets, Chevron and Equity Residential, argued in their proxy statements that they had already tied their compensation to sustainability.

Sexual Orientation Nondiscrimination

The campaign to get companies to amend their nondiscrimination statements to include sexual orientation and gender identity continued at about the same pace as in recent years (28 proposals filed), as always with a high number of withdrawals. For the nine resolutions that came to votes, the average support was 30.2 percent, three points below the average support in 2009 and 2010, despite this year's 61.7 percent vote at KBR, the highest social issues vote ever.

Health and Safety Proposals

A new AFL-CIO campaign this year asking oil companies to report on their actions to reduce the risk of workplace accidents received varied levels of support. At Tesoro, where a recent refinery accident had resulted in fatalities, and Valero, where disclosure was limited, the proposals received 54.3 and 43.3 percent approval, respectively. At Conoco and Marathon, the proposals received much lower support of 7.8 and 7.4 percent, respectively. At Chevron, an individual investor filed a proposal that asked for a report on offshore oil wells and safety measures; this resolution received 8.6 percent support.

Recycling

So far this year, investors have voted on three proposals that deal with different aspects of corporate recycling. A repeat proposal at Starbucks, which asked for beverage container recycling goals and a report, received 8.1 percent support. A new proposal at McDonald's--that asked for a report on beverage container recycling and information on the company's use of polystyrene beverage containers--received 29.3 percent support. Another new proposal was filed at Target; this proposal asked for a report on minimizing the environmental impact of electronics recycling and earned 30.8 percent support. Proponents affiliated with the **As You Sow foundation** have promised several more recycling resolutions in the fall proxy season; proposals are pending at Procter & Gamble and General Mills.

Several issues received notably low votes this spring. A revived church-led campaign to get four drug companies to implement a pharmaceutical price restraint policy averaged only 3.4 percent support. Animal welfare-related proposals continue to draw limited support, with just 5.4 percent average approval, as did resolutions on tobacco issues, which averaged 2.4 percent support.

Comparisons With 2010

So far, ISS has tracked 346 E&S proposals proposed for 2011 meetings, and while a few more will undoubtedly surface, it is unlikely that the totals will hit the 384 filed in all of 2010. (At this point, ISS has information on just only 11 E&S resolutions pending after June.) At 119, the number of negotiated withdrawal agreements is also well below the full-year record of 143 in 2010. However, the SEC has allowed companies to omit 51 resolutions so far, which already has surpassed last year's total of 50. --Erik Mell and Carolyn Mathiasen, *ESG Proxy Research*

Editor's Note: Unless otherwise stated, the vote results reported in this blog posting are based on the votes cast "for" and "against," and do not include abstentions or broker votes.