

In ESG Measurement, the Proxy Vote Wins

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Due to an increasingly regulated environment, all asset management firms are striving to improve their overall transparency and measurement around their ESG strategies or risk being caught in regulatory crosshairs.

The environmental, social, and governance “ESG” terminology that began as a branding initiative led a revolution, embraced by many firms as a way to show clients that they care about larger issues. The problem is that ESG principles often vary from firm to firm. As firms grapple with this dilemma, there is one universal theme that is consistent across the asset management industry that firms can embrace: The one place that asset managers can show a measurable commitment to ESG – and appeal to investors that want to drive changes in corporate behavior and responsibility – is by providing a pass-through proxy voting experience. It elevates the G – governance – in ESG.

The role of pass-through voting as a cornerstone of ESG is increasingly important, and likely. While much

of the interest from investors is focused on the environmental and social issues, the governance solution is often lacking. Specifically, the role of proxy voting is an overlooked area that should be an ESG fundamental – because that’s what drives change.

The [INDEX Act](#) is being reviewed by Congress as a potential solution to providing mutual fund and ETF shareholders with a voice on proxy ballots. At its core, proxy votes are the language that direct shareholders use to speak to companies and tell them what they care about. Today, mutual fund and ETF shareholders do not have a right to proxy voting, because fund portfolio managers vote for them. Regardless of whether this bill passes, all signs point to pass-through voting coming to the asset management industry in the near future.



Today's proxy ballot voting representation is dominated by the money managers at three firms that also dominate the index-fund and ETF market – BlackRock, Vanguard, and State Street. [BlackRock](#) was the first of the group to announce they are devoting extensive resources to building a proprietary pass-through Voting Choice tool that gives their institutional investors the vote. As often happens with first-mover advantage, this will give BlackRock a leg up on providing an all-inclusive experience for investors while improving the ESG (and specifically Governance) accountability for the firm. The interest is growing in such pass-through voting tools as Morningstar recently highlighted technology solutions such as Civex, which has already signed on ten of the nation's largest shareholder advocacy organizations.

Although individual proxy voting participation is low, below are recent examples showing the growing power of the proxy vote when shareholders come together:

- In early June, gunmaker [Sturm Ruger & Co](#) saw the majority of its shareholders vote in favor of a gun policy shareholder resolution calling for a human rights impact report (HRIA). The shareholder proposal was led by a nonprofit Roman Catholic organization, [CommonSpirit Health](#), a member of [ICCR](#).
- Gretchen Carlson of [Lift Our Voices](#) brought the topic of concealment clauses front and center during the 2021 proxy season. These proposals ask boards to assess the potential risks to the company associated with the use of concealment clauses in employment agreements in the context of harassment, discrimination, and other unlawful acts. Thus

far in 2022, shareholders saw concealment clauses on five corporate ballots, including a win for shareholders as [64.7% of IBM shareholders](#) voted in favor for A Public Report on the Use of Concealment Clauses.

- Shareholders of computer chip company, Intel Corporation, [voted against an Executive Compensation package](#) worth \$178 million to their chief executive officer.
- Requests for Racial Equity Audits (efforts to remove systemic racism) were on nine corporate ballots this year, and the [SEIU-led shareholder proposal](#) at [Home Depot](#) was supported by 62.7% of shareholders, while [shareholder advocacy group IASJ](#) presented the same topic at [Chevron](#).

The asset management industry is under increasing scrutiny to prove their ESG strategies deliver on their stated objectives with measurable impact. Thanks to the rise of the individual investors and their growing interest in ESG topics; the INDEX Act's push for pass-through voting; and the new initiative by Blackrock that will undoubtedly fuel competition among other ESG leaders, momentum is building across the industry to adopt pass-through proxy solutions.

Whether an asset manager buys the pass-through voting tool, or builds it internally, the solution provides a powerful opportunity for managers that want to raise the voice of the individual investor while reinforcing their own ESG presence and reputation before advisors, investors, and regulators.



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