

# Deeper Thinking

A Comprehensive Report from  
First Affirmative Financial Network



## Shareowner Advocacy: A Behind-The-Scenes Tour

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First Affirmative's advocacy efforts ebb and flow according to the "proxy season," an annual springtime occurrence when most companies have their annual meetings. Planning begins in mid-summer for a flurry of filing deadlines that occur each fall. Once resolutions are filed, companies are often in the mood to talk, and a great deal of productive dialogue occurs from late fall until resolutions are presented at the springtime annual meetings. The cycle then begins again.

Although we publish the [proxy voting guidelines](#) used to vote all client stock and mutual fund proxies, and report extensively on our activities in our [Advocacy and Impact](#) and [Resolution](#) publications, these updates do not reflect the depth, feel, and inner workings of a pretty complicated process. In this issue of Deeper Thinking, we go behind the scenes and talk to participants—our clients who allow us to file on their behalf, and our network advisors who present resolutions at annual meetings.

### Your Investment Dollars at Work

A few stalwart individual investors engage directly with companies, but most shareowner advocacy efforts are channeled through institutional investors. If your investment portfolio is managed by First Affirmative, you can be assured that at least some of your investment dollars are engaged in proactive advocacy through the coordinated efforts of First Affirmative and some of the money managers we engage. Collectively, we represent a significant investor voice. In addition to our own advocacy publications, several of our sub-advisors, including [Trillium Asset Management](#), [Domini Social Investments](#), and [Calvert Investments](#), publish updates.

### The Client's Role in Direct Engagement

Most clients are satisfied knowing that their money is "doing well while doing good" because First Affirmative invests their money in a manner that meets both financial and social advocacy goals.

Some clients wish to be more personally or directly involved. First Affirmative facilitates this process by filing shareowner resolutions on behalf of these clients on select priority issues which allows us to effectively represent the views of the majority of our clients when we engage with companies.

In fact, these few clients are crucial to our advocacy program. As First Affirmative does not own shares of stock directly (only through client accounts), a client who owns [qualifying shares](#) is required to participate in order for us to engage in the resolution process. We may be filing on behalf of a single client owning just a few shares, but in practice, the number of shares is less important than the simple fact that those shares allow us to effectively represent the views of many, if not most or all, of our clients when we engage with companies.

Eric Smith, founder of [Goodfunds Wealth Management](#), uses First Affirmative investment management services for his clients—and for himself. In his role as client, he filed a resolution at Chubb Corporation asking for a [GRI compliant](#) sustainability report. Eric [blogged about his experience](#), reflecting his dual role as an advisor and client:



"Between the staff at First Affirmative and my staff managing the paperwork and process, it's fairly straightforward. As an investor I review a copy of the resolution and sign a letter to the company authorizing First Affirmative to file the resolution on my behalf. Then First Affirmative sets aside my designated shares and submits all of the resolution paperwork."

First Affirmative takes it from there—usually partnering with other institutions to engage the company in dialogue. If insufficient progress is made, the resolution goes to a vote of shareowners. Eric believes that "...one

of the greatest leverage points we have as shareowners is direct constructive dialogue with the companies that we own. It's a good way to keep corporate management behavior in check and an excellent way to leverage your assets to create the kind of world we want to live in."

**Madeline Moore** is another First Affirmative advisor and client who files resolutions. She says that "advocacy is an essential ingredient of responsible investing. We often just think about the screening process, but we have to let companies know where and how they can improve."

Madeline was exposed to a potential downside of filing when she filed at IBM—the client's name sometimes appears on the company proxy. Although this happens rarely, other shareowners may contact a filer to express their own opinions. Madeline said she was "...surprised by the funny, and frankly not very nice, letter I received as a result of being a lead filer."

Both Eric and Madeline's resolutions earned about 25% support, sending a clear signal to management that these issues are of concern to a broad swath of shareholders.

Eric and Madeleine also work with their First Affirmative clients who wish to participate in the process. As Eric explains: "We so easily take for granted the fact that we are actual owners of the companies in our portfolios. With this power comes responsibility to push these companies to improve their sustainability, human rights, and social justice practices."

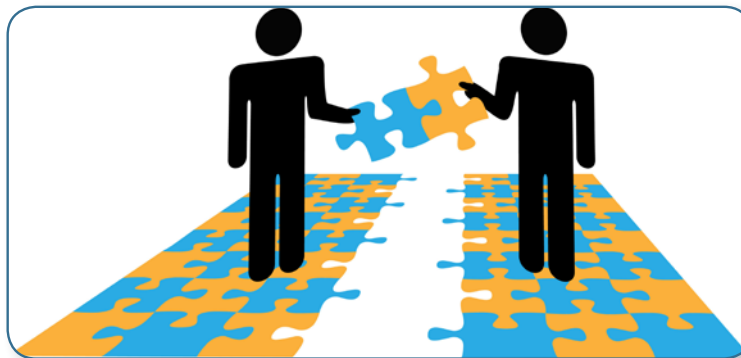
### Advisors Give Voice to Investor Concerns

First Affirmative Network Advisors all play an active role to ensure that their client's values are integrated within the investment process. They educate clients about environmental, social, and governance (ESG) issues, choose appropriate sub-advisors that meet financial and

values-based goals, and expedite the process of direct shareowner engagement.

Sometimes our advisors are called on to do more. When First Affirmative or one of our advocacy partners needs a representative to present a resolution, our nationwide network of Advisors is a powerful resource.

New York-based advisor **Gary Matthews** attended his first meeting almost a decade ago at Honeywell, presenting a compensation disparity resolution for an order of Catholic nuns. He has been hooked ever since. "I made my presentation, and got a standing ovation from the 200+ people present. I was astounded. Some meetings are heavily packed with employees, but this one had many shareholders—and the resolution apparently resonated with them."



Gary has since presented several resolutions, including this year's Chubb resolution on behalf of fellow advisor Eric Smith. Gary says that his advocacy work "... lends a richness to what I do day-to-day. I like having the opportunity to look the CEO in the eye and say why I am there and why what I am saying is

important." It also benefits his clients. "It is one thing to talk about these issues in intellectual theoretical terms, but presenting resolutions allows me to share stories that let them visualize why it really matters."

Although Gary has not had another standing ovation—yet, he has endured an adventure or two, including a [suspense-filled trip](#) to Exxon's annual meeting.

Kansas-based **Jim Horlacher** thought that his Midwest location would limit his opportunities for presenting resolutions, until Walden Asset Management asked him to present a sustainability reporting resolution at Layne Christensen a few years back. "Layne is a smaller company, and they had never seen a resolution. They did not know what to do with us! Much to their surprise, the support for the resolution was extremely high—over 50%

by our count. Walden made a strong case that the report was necessary and many mainstream institutions voted in favor.”

“The company did not respond, and so we re-filed. Imagine our pleasant surprise when we discovered that they issued a sustainability report right before the annual meeting. Instead of presenting the resolution again, I was able to thank them.”

### Institutionalizing Success via Collaboration

When an issue goes far beyond a single company, it can take years of persistence to transform a national

or global marketplace. Shareowners collaborate to file similar resolutions on the same issue in conjunction with public policy advocacy in their efforts to institutionalize change. Climate change and political spending are two such systemic issues.

Climate Change is an overriding concern of our times. Dozens—if not hundreds—of dialogues and resolutions are being utilized by large groups of institutional investors, including CERES, all working to address climate change impacts. For example, the [CERES campaign](#) targets a wide range of issues and is tailored

### Amplifying the Investor Voice

Bruce Herbert and Larry Dohrs of Seattle-based [Newground Social Investment](#) have taken direct participation to another level. According to Bruce, “When Newground was founded in 1994, shareowner advocacy was already a core ingredient, but we were approached by organizations seeking shareowner engagement services, without the money management. We created [Investor Voice](#) as a nonprofit, but later became one of Washington State’s first [social purpose corporations](#). The decoupling of money management from advocacy is an indication of the growth and strength of advocacy as a key component of SRI—it is strong enough to stand alone.”

Bruce and Larry are proud to say that their “... hallmark is that we serve as interpreters... We speak the language of both the board as investors who understand financial impacts and also of advocates. The advocates may have a longer-term view on issues, but often those issues impact the company and we can bring the parties together.”

Bruce and Larry have attended many shareholder meetings, enough to know that how companies respond to advocacy can be an indicator of the quality of management. They use the striking contrast of Costco and Chevron as an example:



“At the Costco meeting, management respectfully answers questions until there are no more questions left on the floor. One is left with a complete sense of confidence that management is happy to share information with shareowners without reservation. Chevron, on the other hand, requires shareholders to go through six levels of security and they take your cell phone. Some companies establish an us-versus-them paradigm that is not in keeping with what should be the spirit of cooperation between management and their shareholders. When management fears the point of view of their own shareholders, there is a problem.”

Involving future generations may be part of an evolution of the advocacy process. This year, a Kenyan student of Wartburg College presented a greenhouse gas reduction resolution on behalf of Investor Voice at [Berkshire Hathaway](#), and supporting class members asked questions of specific board members. This is no ordinary meeting—it draws over 35,000 shareholders to Omaha, Nebraska to be in the presence of famed investor Warren Buffett.

Bruce and Larry believe that student engagement is transformative. A Wartburg business professor reports: “The students’ view of capitalism has been changed forever. They now believe they have a role to play.”

### A Few Shares... and A LOT of Patience

How do “David” shareowners have an impact on “Goliath” companies? Share ownership gives investors a seat at the table. Here are two examples of how a few shares can make a big difference.

#### Goldman Sachs

Sometimes it only takes a single share to make a difference—that’s all it takes to gain admittance to a shareholder meeting. In this case, clients of First Affirmative advisors [Eric Smith](#) and [Kathy Stearns](#) designated Native American tribal leaders to use their shares to attend the 2013 Goldman Sachs shareholder meeting. The tribal leaders addressed the Goldman Sachs Board directly about their concerns regarding coal terminals planned on tribal property, financed in part by the bank.

#### McDonalds

[Newground Social Investment](#) reached a [groundbreaking agreement](#) with McDonald’s in 2009 to curb pesticide use in their potato supply chain. [Bruce Herbert](#) points out that “this particular

resolution was brought by a client who owned a mere \$7, 000 of McDonald’s stock, and yet in four years the company transformed their supply chain and became an industry advocate for integrated pest management. The power of the idea presented through the resolution process was the key, not the size of the holding. You don’t need to line up 50.1% of the vote.”

Change can happen rapidly when a company realizes that shareowners can bring valuable resources to the table as collaborators, rather than adversaries. In this case, investors brought in Rich Liroff of [Investors Environmental Health Network](#), to provide expertise on chemical exposure issues.

Bruce Herbert of Newground, noticed a substantial change in how the lead McDonald’s representative was approaching the engagement and asked him, “When did this project stop being a long checklist of to do items and become something you were genuinely excited about?” His answer speaks to the future: “What we are working on here and now will make a difference to my grandchildren.”

to the industry-specific risks presented by climate change, including carbon emissions reductions goals, water scarcity impacts, and the so-called [carbon bubble](#). A total of 110 resolutions were filed on this issue in 2013.

About 125 resolutions asking for transparency on how corporate dollars get spent on political campaigning and lobbying were filed in 2013 by coalitions led by the [Center for Political Accountability](#) and the [Interfaith Center on Corporate Responsibility](#).

As these filings have become more prevalent and as shareholder support for them has increased over the years, the issue has attracted increased regulatory scrutiny. The SEC is considering a draft rule requiring listed companies to disclose political spending. Such a rule, properly implemented and enforced, would make

future resolutions unnecessary—a true success story. The fact that 60% of the companies in the S&P 100 Index already disclose political spending is due in substantial part to this institutional engagement.

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