

MEDIA RELEASE

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Voting season 2019: environmental and social proposals increasingly important for shareholders

- **Success ratio of ESG-related shareholder resolutions at annual general meetings on the rise**
- **First "bankruptcy due to climate change"**

Environmental, social, and governance (ESG) factors are becoming increasingly important for shareholders, as illustrated by data analysed by International Shareholder Services (ISS) on the ongoing reporting season of companies in the Russel 3000 index: environmental and social resolutions were passed at a rate of 30% (median), while governance resolutions were even passed at a median rate of 39%.

"It also has to be noted that many resolutions were withdrawn again because the companies voluntarily committed to topics such as climate warming or diversity due to the high pressure that had been building," says Stefanie Schock, senior ESG analyst with Erste Asset Management (Erste AM). According to analyses by ISS, from January to March 2019 a total of 50% of planned resolutions in the environmental and social fields were not submitted as an agreement had been reached beforehand.

Environment – climate and plastic are important to shareholders

As far as the issue of climate is concerned, where 60 resolutions were proposed until the middle of July in the USA, investors demand a stronger focus on a more concrete assessment and consideration of risks caused by climate change and engagement with the economic and social risks caused by it. "The Californian energy utility company PG&E Corp. had to file for bankruptcy earlier this year due to the extensive damage caused by forest fires last year," as Schock points out. Future company research could therefore increasingly include the ability of companies to adequately assess environmental and social risks. PG&E has been called one of the first "climate-induced cases of bankruptcy".

Other environmentally relevant shareholder resolutions (N.B. 30 of them) deal largely with the issue of plastic. "Companies such as Pepsico or Starbucks are confronted with demands to implement amended goals and improved guidelines for sustainable packaging systems and recycling," as Shock explains. That resolution is the second one of this kind to have been filed; the first one last year was approved by a respectable 29.2%.

Governance: board of directors, remunerations, and political donations on the checklist

In the area of corporate governance, almost 5% of the resolutions for the elections of board of directors in the USA achieved less than 80% approval which was a new nine-year low. Remunerations were on the agenda as well, and from January to May 2019, resolutions on board member's remunerations achieved lower approval rates than in previous years. At the same time, shareholder demands for the publication of political donations by companies were up. At almost 100 AGM resolutions in the USA, this topic set a new high: "Political un-

certainties on a national scale and the quickly approaching presidential elections in the USA would have supported this trend,” says Schock.

Much like in earlier years, ESG resolutions were mainly filed at annual general meetings in the USA. The research done by ISS suggests that this was due to legal as well as cultural differences. “Whereas in the USA shares in a company worth USD 2,000 are sufficient to file a resolution at a shareholder meeting, this threshold is much higher in Europe,” Schock explains. For example, in Luxembourg and Austria, the investor has to hold 5% of shares in a company; in Germany, the threshold is 5% or EUR 500,000. In Denmark, Finland, or Sweden, one share is enough. Also, in Europe the general approach is to file a shareholder resolution only in the wake of a failed engagement attempt, whereas in the USA the two often go hand in hand.

INFO:

As a sustainable investor, Erste Asset Management sees its responsibility in the exercise of the voting rights it holds, which it uses to support ESG shareholder resolutions. By the end of August, voting rights had already been exercised at general meetings of more than 320 companies and around 140 shareholder resolutions had been supported.

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About:

Erste Asset Management (Erste AM) coordinates and is responsible for the asset management activities within Erste Group. At our locations in Austria, Croatia, Czech Republic, Germany, Hungary, Romania, and Slovakia we manage assets of about EUR 61,7 (as of 31 July 2019).

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