ARJUNA CAPITAL

ENLIGHTENED INVESTING

SHAREHOLDER ENGAGEMENT

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CHANGE IS IN THE AIR

Spring is a time of renewal—out with the old, in with the new. I, for one, am clearing out my closets, physical and mental, and renewing my intentions for the year—how I show up for my family, my colleagues, and myself. Because change and renewal are a natural part of our evolution. It's no different in corporate America, as companies now gather for their annual meetings to elect new directors to their boards, approve new compensation schemes, and vote on the Environmental, Social, and Governance (ESG) matters proposed by their investors.

And this spring, change is in the air! We're happy to report that more ESG proposals than ever are going to a vote this season. This, after years of actions to block investors from bringing forth such issues of concern by the prior administration's Securities and Exchange Commission (SEC). In fact, the SEC prevented nearly 50% of the investor proposals that were challenged by companies from going to a vote last year. But this year, only 15% have been blocked. This change is squarely in favor of upholding the rights of investors to bring forward issues of Environmental, Social, and Governance concern. And perhaps more importantly, evolve the corporate landscape to recognize the financially material nature of issues like climate change, diversity, and human and civil rights.

Arjuna's clients have filed 13 shareholder proposals this season, three of which have already gone to a vote. They are on a wide range of issues, some very familiar to our clients, and some new.

CLIMATE CHANGE

Since Arjuna's founding, our clients have been active in voicing financial concerns when it comes to climate change. Namely, the inconvenient truth that we can't burn the $20 trillion in global fossil fuel reserves currently booked on the balance sheets of corporations without triggering catastrophic climate change. This physical constraint places those assets at risk of becoming unburnable, uneconomic, and therefore stranded. This year, we have filed a proposal at ExxonMobil asking the company to develop a low-carbon business plan. Specifically, we've asked the company how it could alter its business model to remain profitable while operating within the limits of a 1.5 degree Celsius global temperature rise. To do so, it would need to substantially reduce its dependence on fossil fuels. Similarly, we have co-filed a proposal at Chevron asking for targets to reduce the carbon emissions of not only the Company's operations, but also the oil and gas products it sells. Both proposals ask the energy giants to operate in a manner consistent with the goal of the Paris Climate Agreement. That is, operate in a way that does not contribute to more than 1.5 to 2-degree global temperature rise. Both proposals will go to a vote on May 25th.

RACIAL & GENDER PAY EQUITY

Arjuna's clients were the first investors to raise concerns with companies regarding racial and gender pay equity. We raised these concerns because it has been shown that attracting, retaining, and promoting diverse talent through fair pay and in service of greater diversity leads to higher return on equity and stock performance. Since 2015, we have successfully pressed 27 companies to publish pay-gap data and commit to close pay gaps. In March, our client's proposal went to a vote at Disney's annual meeting and garnered a historic majority vote! With 59% of Disney's investors throwing their support behind the issue, it was the highest vote on any shareholder proposal in Disney's history. It was also the strongest backing our clients' pay equity proposals have received. The proposal also went to a vote at Apple where over 1/3 of investors voted in favor. And it is set to go to a vote at both Amazon and Lowes in May. We are happy to report that we withdrew the proposal at Chipotle, Target, and Home Depot in exchange for agreements that the companies would publish the data requested and commit to change.

BOARD DIVERSITY

As with pay equity, there is a business case to improve the diversity of corporate boards. This year we have piloted a new proposal asking Alphabet (Google), Wells Fargo, and most recently Tesla to set policies and goals that will help their boards reflect racial and gender representation that is better aligned with the demographics of their customers and/or the regions in which they operate. That is, we are looking for boards to more fully reflect our societal demographics—51% women, 42% minorities. This is a far cry from the current best practice of adding a few women or minorities and calling it good enough. We think it's time to evolve our thinking and our goals. The proposal went to a vote on April 26th at Wells Fargo and garnered 12% support, a good showing for a first-of-its-kind proposal. And after an unsuccessful attempt by Google to block it at the SEC, the proposal is set to go to a vote of shareholders on June 1st.

THE METAVERSE

Our clients have been critical of the mismanagement of social media for the last six years, but now we have a new issue to contend with—the potential mismanagement of the *metaverse*. In February, shares of Meta (formerly Facebook) fell $232 billion—the largest market capitalization decline in stock market history—after the company reported negative earnings growth. That's in large part because Meta is pumping $10 billion a year into developing the "metaverse"—a virtual world where people can interact—and going so far as to change the company name to Meta. Of note, this makeover came just a week after whistleblower testimony publicly called into question the ethics of Facebook's business practices and decision making. So, the question is: Can Meta successfully manage the "metaverse" when it can barely manage its current platform? To that end, we are asking for a third-party assessment of the potential psychological, civil and human rights harms to users that may be caused by the use and abuse of the platform, and whether harms can be mitigated or avoided, or are simply unavoidable risks inherent in the technology. After an unsuccessful attempt to block the proposal at the SEC, shareholders will weigh in on May 25th.

HUMAN & CIVIL RIGHT BOARD EXPERTISE

You may have noticed Elon Musk's unsolicited bid to take over the social media platform, Twitter. While he is doing so under the guise of upholding free speech, it's unclear what Musk's intentions are and whether he's the man for the job. For one, if Twitter is indeed the "town square," than should it be fully controlled by another social media emperor who can dictate its policies, practices, and ethical bearings? (Mark Zuckerberg, who maintains nearly full control of Meta as CEO, Chairman, and controlling shareholder, is an example of why that might not be a good idea). And second, the issue is not so black and white. Myriad human and civil rights issues need to be addressed by Twitter—free speech chief among them, but also including election interference, disinformation, voter suppression, violence, and the proliferation of hate speech. For the second year, our clients' have filed a proposal at Twitter asking for a candidate with human and civil rights expertise to be added to the company's board. That's because a band-aid approach of inconsistent and unenforceable policies is not working. Social media companies need to rethink strategy from the ground up with human and civil rights at the forefront of product design. If they can't, it won't just be Elon Musk they have to contend with, it will be regulators. Our client's proposal will go to a vote on May 25th—the same time shareholders will vote on whether to approve Musk's offer.

SEXUAL HARASSMENT

Last quarter I wrote about the unprecedented, majority support received by our clients' proposal at Microsoft. With 78% backing, our proposal asking the company to address issues of sexual harassment garnered support from a $2 trillion share block at the second largest company in the world. And in the wake of this support, Microsoft immediately responded with a commitment to conduct an independent investigation, commence transparent reporting, and implement best practice policies. That is, they committed to address the issue head-on rather than maintain a culture of secrecy that can damage the company's brand and ability to attract and retain talent. But Microsoft is not the only company where sexual harassment issues are rife—far from it. For the third year in a row, our clients are putting forward a proposal at Comcast/NBC asking for the same. This after a series of high-profile scandals have tarnished the company's brand. The Comcast proposal will go to a vote this spring.

INSURING RACIST POLICE BRUTALITY

Last, but certainly not least, we are proud to report our clients' proposal at Travelers Insurance will be going to a vote this spring. After a multi-year battle at the SEC to bring this issue forward, we are asking the insurance giant to address its possible roles in reducing or exacerbating racist police brutality at the municipal police departments it insures. In the wake of the murder of George Floyd and other Black Americans at the hands of police, the Black Lives Matter movement has amplified calls for police reform. Insurance companies play a unique role, as they can exert pressure on police departments to reduce the use of force that may result in large settlements or court-ordered damages that insurance companies must then pay out. Through lower premiums and deductibles, private insurance can encourage departments to engage in better training, use of force policies, screening in the hiring process, and even the firing of bad cops. Specifically, we are asking Travelers to report on current company policies and practices, and options for changes to such policies, to help ensure its insurance offerings reduce and do not increase the potential for racist police brutality, nor associate the brand with police violations of civil rights and liberties.

EVOLVING THE CORPORATE LANDSCAPE

We look forward to a productive season of shareholder activism, cognizant that change is in the air in more ways than one. Not only is the SEC upholding investors' right to address significant issues of social and environmental concern, institutional investors are showing up in numbers previously unimaginable, voting their shares on ESG issues, and increasing the likelihood of majority support. These changes are in service to greater transparency, and to the social and environmental progress that is necessary to evolve our corporate ecosystem toward a more sustainable and equitable future.

Natasha Lamb, Managing Partner