

What we have provided is a market signal—and an early one at that—to try and shift the course of a company run exclusively by a college dropout who wanted to rate girls on their respective "hotness."

WHEN CAN I GET A PHONE, MOM?

Fall is in the air, the kids are back in school, and Facebook is back in front of Congress—so, we're kinda back to normal, yes? The problem is that what we have for so long considered "normal"—a civil society, a functioning democracy, and pro-social behavior—is on the decline. And social media is more than a little to blame. As a mom of two boys, and a millennial who grew up with an analog childhood, I am trying my hardest to manage this new normal by delaying the inevitable—i.e. giving my kids a cell phone and everything that comes with it. Because opening their eyes to the world of social media will no doubt have unintended negative consequences on their developing brains. Much as it has inflicted damage on the minds of adults. But are these consequences truly unintended or are they built into the code? As investors, we have been asking these questions for the last five years.

When Facebook whistleblower, Frances Haugen, testified before Congress, I was humbled to provide real-time commentary for CNBC. And wow, that testimony was damning. Haugen described a company that knew full well the consequences of an algorithm designed to amplify negativity, as evidenced by its own research. That is, an algorithm promoting the most provocative and therefore attention-getting content, including conspiracy theories, hate speech, and violence. Unfortunately, for our children forming nascent identities on Instagram, that includes content that promotes negative body images, eating disorders, anxiety, depression, and suicide. God forbid they launch Instagram kids—which has since been put on "pause." So why hasn't Facebook changed the code? Saving parents, and investors, the heartburn.

THE CURRENCY OF EYEBALLS.

The simplest explanation for why Facebook has turned a blind eye is that it is paid in the currency of eyeballs. The more eyeballs, the more advertising dollars. And so, as Haugen contends, the company has time and time again

made decisions that promote growth over safety, despite legal, regulatory, and brand risks—risks Arjuna has been ringing the alarm bells on for years. To stave off such criticism, CEO, Chair, founder, and super-voting-shareholder, Mark Zuckerberg has espoused that Facebook is "not the arbiter of truth." He argues that moderating the content on the platform puts free speech at risk—playing squarely into the narrative of those using the platform to spread disinformation. But as Haugen so articulately noted, Zuckerberg presents a false choice. The choice is not between free speech and safety, but an algorithm that amplifies negativity.

And it is a choice. In the lead up to the 2020 presidential election, Facebook changed the algorithm—to curb the spread of the disinformation and misinformation that plagued the 2016 election. But come November 4th, they re-opened the flood gates. The result? An insurrection. And we all know that story.

SO WHERE DO INVESTORS COME IN?

As stewards of our clients' capital, we are constantly navigating this morally complex world we all live in—divesting from some companies, investing in others, and engaging those where we believe we can have an impact. At companies' annual meetings, we cast our clients' proxy ballots in favor of better environmental outcomes, social policies, and governance practices—all of which we believe are in the enlightened self-interest of the companies themselves and their investors. But we also work to set the agenda at those meetings—proposing changes to business as usual.

Facebook is one of those companies, where year in year out, we have chosen to use the power of our clients' share ownership to engage, ringing the bell on issues of disinformation, election interference, hate speech, racism, sexism, and violence, whether or not other investors were paying attention.

When our first investor proposal went to a vote in the spring of 2017, most investors ignored us and barely 2% voted in favor of transparency into why false news

stories outperformed mainstream news during the 2016 election. But six months later, Facebook testified before Congress that 126 million Americans viewed Russian propaganda on the platform during that time. The following spring of 2018, our proposal on content governance received 30% of the independent investor vote, and Facebook, along with Google, made progress on disclosing online abuse through “transparency reports.”

Policy makers also took notice. In the spring of 2018, at Davos, Theresa May commended Arjuna Capital’s work pressing social media companies to address the abuse on their platforms.¹ That was the same spring Facebook’s now-ex-head of public policy, Elliot Schrage, called me “not nice” when I questioned why the company was ignoring investors’ concerns at the annual meeting (he resigned a week later when that exchange was made public in the *Financial Times*).² And in 2019, U.S. lawmakers began questioning the power of Facebook through the lens of anti-trust.

Advertisers, the lifeblood of Facebook, also stepped up. In 2020, a #stophateforprofit campaign made its debut, and advertisers temporarily boycotted the platform. But to no real avail.

SO WHY BOTHER?

Why not just divest of Facebook and be done with it? Because Facebook is impacting our society and economy whether we own shares or not. And if we think the platform in the United States is a dumpster fire, imagine what it looks like for the rest of the world. Only about 20% of Facebook’s 3 billion “users” are in the U.S., but 80% of the people hired to moderate content are U.S. based. So for the 80% of users outside the U.S., there is very little enforcement of Facebook’s own policies. As we learned from the Wall Street Journal’s Facebook Files, if you are in Mexico, you are most likely seeing beheadings from the drug cartels at the top of your feed. Nice.

That’s why most recently we have been pushing for better governance on the board, including directors with

human and civil rights expertise who can address the root cause of these issues. Because at the end of the day, the success or failure of this social media experiment lies with the board—and it’s pretty clear they are failing.

IS IT TIME FOR THE NUCLEAR OPTION?

There’s no question our persistence at Facebook has been harrowing. But what we have provided is a market signal—and an early one at that—to try and shift the course of a company run exclusively by a college dropout who wanted to rate girls on their respective “hotness.” And it is his choices alone that are seriously and fundamentally degrading our social fabric. There are two prevailing theories on how to deal with a meteor heading toward earth. You can hit it with a nuclear bomb and experience radioactive fallout, or you can launch a satellite into orbit to provide a subtle but powerful pull to change the trajectory. Our clients’ voice has been that satellite, pressing the company to self-correct and change course to stave off the nuclear option—asking the company to act in its own enlightened self-interest. Unfortunately, Zuckerberg has ignored the signals and it appears inevitable that we will witness the nuclear option. That is, the regulators will step in, in possibly the most bi-partisan way we have seen in decades. And hopefully before I have to give my kids cell phones.

Natasha Lamb, Director of Equity Research & Shareholder Engagement

The opinions expressed herein are those of Arjuna Capital, LLC (“Arjuna Capital”) and are subject to change without notice. This material is not financial advice or an offer to sell any product. Arjuna Capital reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. This is not a recommendation to buy or sell a particular security. Arjuna Capital is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Arjuna Capital including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request. AJC-21-26

¹ Clare Dickinson, ‘May urges investors to press tech companies over ‘illegal’ content,’ *Financial News*, 25 January 2018, <https://www.fn.london.com/articles/may-urges-investors-to-press-tech-companies-over-illegal-content-20180125>.

² Natasha Lamb, ‘Investor: Facebook dismissed my concerns because I’m ‘not nice,’ *Financial Times*, 11 June 2018, <https://www.ft.com/content/53b139de-6c00-11e8-8863-a9bb262c5f53>.