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PROXY IMPACT

Following our 2018 activism season, we would like to share some highlights on how the power of our clients' share ownership is changing policy at some of the country's largest corporations. It was a productive proxy season and Arjuna filed 21 shareholder proposals on behalf of our clients on issues from election interference and pay equity to climate change. As always, our impact as investors comes in many forms including company commitments and action, continued investor pressure, and greater public attention on these critical issues. And in the absence of a functional public policy environment, investor engagement has proven an effective leverage point for meaningful change.

FACEBOOK

One of the most unexpected engagements this season came on the heels of Facebook's annual meeting at the end of May. Arjuna presented two proposals to Facebook's board and fellow shareholders—one on closing the gender pay gap, which has now gone to a vote 3 times without substantive action by the company, and a proposal on "content governance," which encompasses election interference, fake news, hate speech, and sexual harassment propagated over Facebook's platform. We filed the first-of-its-kind fake news proposal at Facebook at the end of 2016, following revelations that fabricated news flows over the platform outperformed legitimate news in the weeks leading up to the US presidential election. But despite our early and persistent engagement on these issues, Facebook has not engaged with us in a meaningful way.

During the question and answer session of the meeting, I asked why. Elliot Schrage, Facebook's head of public policy and communications told me to follow up privately after the meeting, where he informed me it's because I'm "not nice." Schrage's comment in and of itself didn't hold water, as Facebook has failed to meaningfully engage with many of its independent investors (which is why the meeting was so contentious, with one investor calling Zuckerberg a corporate dictator). But given the patronizing and dismissive nature of his comment, I published an opinion piece in the Financial Times outlining the sexist and inappropriate interaction. Three days later, Schrage stepped down from his 10-year role at Facebook. And while we didn't expect change at Facebook to come in the form of Elliot Schrage, it is change nonetheless. It was under Schrage's watch as head of public policy that 126 million Americans viewed Russian propaganda in the lead up to the 2016 presidential election and who advised Mark Zuckerberg to write off the legitimacy of that breach as "a pretty crazy idea."

CONTENT GOVERNANCE

Just six months after Arjuna's "fake news" proposals went to a vote at Facebook and Google's annual meetings back in 2017, the two companies, along with Twitter, were summoned to testify to Congress about the nearly 200 million Americans who may have viewed Russian propaganda over the social media platforms during the US presidential campaign. Fast forward another four months, and Facebook CEO Mark Zuckerberg found himself before Congress testifying about the Cambridge Analytica scandal—a revelation that 87 million Americans' data was compromised and used to manipulate Facebook users during the US election.

This year, we expanded the scope of our proposals to address not only fake news and the impact of election interference and an ill-informed electorate on our democracy, but also the hate speech, violence, and sexual harassment propagated over the platforms of the social media giants. Specifically, we asked Facebook, Twitter, and Google how the companies are managing the business and public policy risks from content that violates the companies' own terms of service. And while last year's proposals garnered only 2-4% of the independent investor vote at Facebook and Google, investor support grew in the wake of these scandals, with average support from over 1/3 of independent shareholders.

PAY EQUITY

Following a very successful campaign to close the gender and racial pay gap in Silicon Valley, Arjuna set its sights on Wall Street. We are proud to report that since January of this year, nine out of the nine financial companies where we filed shareholder proposals have disclosed or committed to disclose and close their gender and (more often than not) racial pay gaps. They include Citibank, JP Morgan, Bank of America, Bank of New York Mellon, Wells Fargo, American Express, Mastercard, Progressive Insurance, and Reinsurance Group of America. This success was catalyzed on Martin Luther King Jr. Day, when Citigroup agreed to the terms of our shareholder proposal and awarded raises to women and minorities at the firm. Nearly every week that followed Citi's announcement another firm committed to do the same. To date, Arjuna has engaged 23 companies on pay equity, and 21 have agreed to disclose and close their pay gaps across the tech, consumer, and financial sectors. Facebook and Walmart are the sole holdouts.

On Equal Pay Day we published our first "Equal Pay Scorecard" to rank companies on their pay equity disclosures. The goal of this work is to create a standard of disclosure that is quantitative and transparent, not simple lip service. We ranked companies across 9 metrics, awarding Apple an A- and Facebook an F, for example. No companies were awarded a full A, as disclosures are still wanting.

To date, we have worked with companies to disclose their "equal pay for equal work" gaps. That is, what women and men with the same positions, seniority, and geography are paid. But no companies have yet disclosed their "median pay" gap—the median pay of all women versus the median pay of all men in a firm's workforce. Median pay gaps reflect the structural deficit companies face when so few women hold high paying leadership positions. In April, companies with United Kingdom operations were mandated to disclose such gaps. And in June, we pressed Google and Facebook to disclose their median pay gaps through shareholder proposals at their annual meetings. We plan to expand the campaign in the fall to request global median pay disclosures from our other portfolio companies.

CLIMATE CHANGE

Our clients have filed numerous proposals related to climate change, from methane leakage and distributed energy to carbon asset risk and low carbon business planning. This season, in partnership with As You Sow, we filed shareholder proposals, with Exxon Mobil, Chevron, Dominion Energy, and Entergy Corporation.

Since filing the first methane leakage proposals on behalf of our clients in 2012, investor interest and action on this issue has exploded. Methane is a potent climate change contributor with over 80 times the impact of CO2 over a 20-year timeline. The problem is that from the time a natural gas well is drilled until that gas is burned, methane leaks. And if more than 2.6% of the gas is lost, natural gas is worse than coal from a climate standpoint. Methane leakage, nonetheless, continues to be mismanaged and inaccurately measured. In fact, a recent study published in the journal *Science* puts the leakage rate at 2.3% of gas produced, 60% higher than current EPA estimates, further bringing natural gas's role as a more "sustainable" energy source into serious question.

We are happy to say that after a two-year engagement on methane with Dominion Energy, a utility with the 3rd highest volume of natural gas in the country, we withdrew our shareholder proposal in exchange for improved reporting. Remarkably, despite publishing a methane report for the last few years, Dominion had completely excluded the most critical piece of information—its methane leakage rate.

Distributed energy is also front of mind for investors, as rooftop solar disrupts a centralized utility business model. Our proposal asking Entergy Corporation to modernize its utility business model went to a vote for the 3rd year and received significant support from nearly 30% of shareholders. Specifically, we asked Entergy to report on how it can incorporate distributed, low carbon technologies such as energy storage, rooftop solar, energy efficiency, and demand response into its business planning. And while not completely in line with our request, in response, the company announced at its annual meeting that it intends to produce a report evaluating the risks to the company of a scenario where global temperature rise is contained to two degrees Celsius and the world is quickly decarbonizing.

And last, but not least, we continue to engage Exxon and Chevron on carbon asset risk—that is, the risk that two thirds of all fossil fuel reserves could be stranded, unburnable and devalued in the low-carbon future necessary to avoid catastrophic climate change. Unfortunately, our "Low Carbon Business Model" proposal was blocked by the Securities and Exchange Commission (SEC), which sided with Exxon by allowing it to exclude the proposal from its ballot as "substantially implemented." The SEC ruling followed updated carbon asset risk/climate change reporting from Exxon on the heels of a historic vote (62%) for greater climate disclosure at Exxon's annual meeting last spring. However, the new reporting does not address the core concerns of our proposal—how the company can adapt its business models to align with a decarbonizing economy by substantially reducing dependence on fossil fuels, including making greater investments in clean energy. The SEC decision was a blow to shareholder rights, but we will continue to engage, understanding the risks of a "business as usual" approach, and investors' invaluable role in pressing for change.

Natasha Lamb, Director of Equity Research & Shareholder Engagement