Course 2024–2025 in Sustainable Finance
Lecture 7. Engagement & Voting Policy

Thierry Roncalli*

*Amundi Asset Management[1]

*University of Paris-Saclay

November 2024

[1] The opinions expressed in this presentation are those of the authors and are not meant to represent the opinions or official positions of Amundi Asset Management.

Agenda

- Lecture 1: Introduction
- Lecture 2: ESG Scoring
- Lecture 3: Impact of ESG Investing on Asset Prices and Portfolio Returns
- Lecture 4: Sustainable Financial Products
- Lecture 5: Impact Investing
- Lecture 6: Biodiversity
- **Lecture 7: Engagement & Voting Policy**
- Lecture 8: Extra-financial Accounting
- Lecture 9: Awareness of Climate Change Impacts
- Lecture 10: The Ecosystem of Climate Change
- Lecture 11: Economic Models & Climate Change
- Lecture 12: Climate Risk Measures
- Lecture 13: Transition Risk Modeling
- Lecture 14: Climate Portfolio Construction
- Lecture 15: Physical Risk Modeling
- Lecture 16: Climate Stress Testing & Risk Management

Stewardship vs. engagement

Voting $\subset$ Engagement $\subset$ Stewardship

Stewardship vs. engagement

Figure 1: Difference between stewardship and engagement reports

Amundi Stewardship Report (2021)

Amundi Engagement Report (2021)

Source: Amundi corporate website, `https://about.amundi.com/esg-documentation`.

Stewardship

"It guides investors on how to implement the PRI's Principle 2, which sets out signatories' commitment to stewardship, stating: we will be active owners and incorporate ESG issues into our ownership policies and practices. [...] The PRI defines stewardship as the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend." (PRI, 2021).

Definition

Active ownership ≈ Engagement ≈ Shareholder activism

"[...] investors who, dissatisfied with some aspect of a company's management or operations, try to bring about change within the company without a change in control" Gillan and Starks (2000).

Definition

- Conflicting interests between shareholders and management (separation between ownership and control)
- Stakeholder theory (Freeman, 2004)

Milton Friedman (1970)

"*[...] the social responsibility of business is to increase its profits.*"

Peter Drucker (1954)

"*[...] leaders in every single institution and in every single sector ... have two responsibilities. They are responsible and accountable for the performance of their institutions, and that requires them and their institutions to be concentrated, focused, limited. They are responsible also, however, for the community as a whole.*"

Shareholder activism

Shareholder activism can take various forms:

1. Engage behind the scenes with management and the board
2. Propose resolutions (shareholder proposals)
3. Vote (form coalition, express dissent, call back lent shares)
4. Voice displeasure publicly (in the media)
5. Initiate a takeover (acquire a sizable equity share)
6. Exit (sell shares, take an offsetting bet, divestment)

Source: Bekjarovski and Brière (2018)

Engage behind the scenes

"Behind the curtain engagement involves private communication between activist shareholders and the firm's board or management, that tends to precede public measures such as vote, shareholder proposals and voice. In a sense, the existence of other forms of public activism can be taken as a signal that behind the scene engagements were unsuccessful. When it comes to environmental and social issues, writing to the board or management is a common method though which shareholders can express concern and attempt to influence corporate policy behind the curtain; alternatively, face to face meetings with management or non-executive directors are a more common behind the scene engagement method when it comes to governance." Bekjarovski and Brière (2018).

Engage behind the scenes

Three families of engagement:

1. Ongoing engagement, where the goal for investors is to explain their ESG policies and gather information from the company. For instance, they may encourage companies to adopt ESG best practices, alert companies to ESG risks, or better understand sector-specific ESG challenges
2. Engagement for influence (or protest), where the goal is to express dissatisfaction with respect to specific ESG issues, make recommendations to the company and measure/control companies' ESG progress
3. Pre-AGM engagement, where the goal is to discuss with companies any resolution items that the investor may vote against.

Engage behind the scenes

The three steps of identification are:

1. List of engagement issues
2. Screening of companies
3. List of targeted companies

The different stages of engagement tracking are:

- Issues are brought to the attention of the company
- Issues are acknowledged by the company
- The company develops a strategy to address the issues
- The company implements changes and the issues are resolved
- The company does not resolve the issues and the engagement fails

Propose resolutions

According to the SEC (Securities Exchange Act Rule 14a-8, §240):

> *"[...] a shareholder proposal or resolution is a recommendation or requirement that the company and/or its board of directors take action, which the shareholder intend to present at a meeting of the company's shareholders. The proposal should state as clearly as possible the course of action that the shareholder believes the company should follow. If the proposal is placed on the company's proxy card, the company must also provide in the form of proxy means for shareholders to specify by boxes a choice between approval or disapproval, or abstention."*

Propose resolutions

Threshold criteria:

- US: \$2 000 + No-action letter
- France, Germany and UK: 5% of the capital
- Italy: 2.5% of the capital
- Netherlands: 0.33%
- Spain: 3% of the capital

$\Rightarrow$ Collective shareholder proposals

Shareholder resolution = Escalation

Propose resolutions

Some figures (Russell 300 & 2022 proxy season)

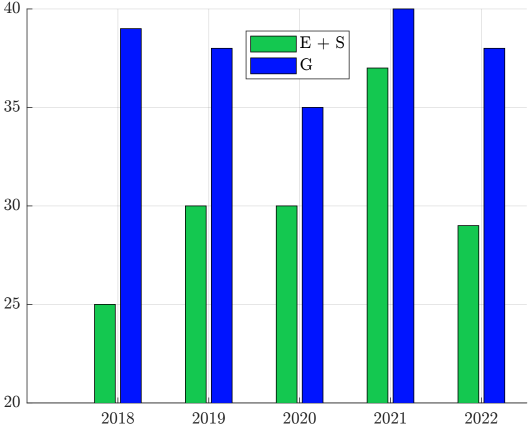
- 98% of proposals are submitted by the management, while less than 2% are shareholder resolutions
- Only 60% of shareholder resolutions are voted on; the other 40% are omitted, not filed, withdrawn or pending
- The average number of proposals per company is about two
- Proponents of shareholder resolutions are concentrated among a small number of investors or organisations (15 proponents were responsible of 75% of shareholder proposals)
- The breakdown of shareholder proposals voted in 2022 was as follows: 11% related to E issues, 41% related to S issues and 48% related to G issues

Vote

- Historical perspectives
- Importance of voting associations and NGOs
- US $\succ$ Europe
- The concept of proxy voting
  - Institutional Shareholder Services (ISS)
  - Glass Lewis
- Say on Pay (2002)
  - Support rate for Russell 3000 companies: 87% in 2022 (from 15.4% to 99%)
  - Results for Germany, France and Spain
- Say on Climate (2020)

Vote

Figure 2: Average support rate of shareholder proposals (Russell 3000 companies)



Source: PwC's Governance Insights Center (2022).

Vote

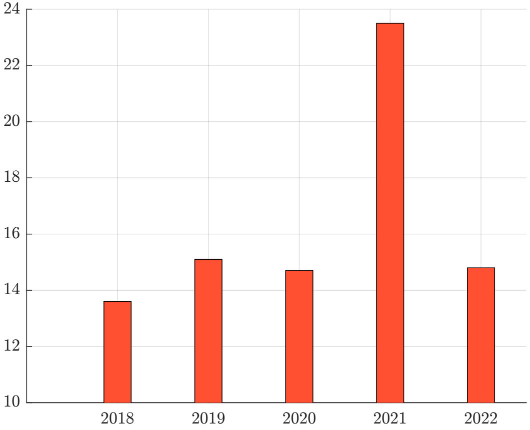
Some figures with Russell 3000 companies

- 555 shareholder resolutions have been voted
- Only 82 have received majority support
- This means that one shareholder resolution was adopted for 37 companies!

What is the efficiency of vote? $\neq$ **What is the impact of vote?**

Vote

Figure 3: Pass rate of shareholder proposals (Russell 3000 companies)



Source: Tonello (2022).

Voice

- 1970: Publication of the book *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* by the economist Albert Hirschman
- Exist-voice model: exist **versus** voice or exit **and** voice
- Voice as a form of escalation
- Impact of collaborative engagement (e.g., Climate Action 100+)
- Increasing involvement of NGOs in the debate on engagement and greenwashing

Initiate a takeover

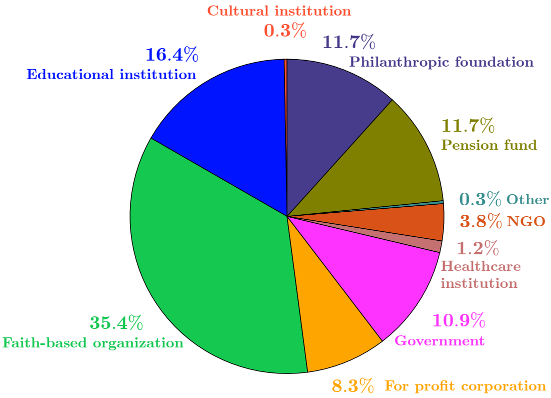
$\Rightarrow$ Hedge funds

Exit

- **Exit** refers to the process of selling off investments in a particular company or industry
- **Divestment** is a more general term that implies a significant exposure reduction
- Divestment: Final step in an escalation strategy?

Exit

Figure 4: What kinds of institutions are divesting from fossil fuel?



Source: `https://divestmentdatabase.org`.

Exit

Case study: the Cambridge University endowment fund

"A dilemma faced by an increasing number of investors is whether to divest from environmentally damaging businesses or whether to enter into a dialogue with them. This predicament now has its epicentre in Cambridge, England, where the ancient University of Cambridge faces great pressure from students and staff to respond to the threat of climate breakdown. Having already received two reports on its approach to responsible investment, the university has appointed a new chief investment officer (CIO) who, alongside University Council and the wider university community, needs to consider the question of whether to divest from or to engage with fossil-fuel firms." Chambers et al. (2020).

Exit

Case study: Church of England Pensions Board

In 2020, they engaged with 21 companies. At the end of the process, 12 companies were supposed to make sufficient progress, while 9 companies were added to the list of restricted investments. These divestments totalled £32.23 mn (wrt £3.7 bn of assets under management).

Exit

Case study: The Universities Superannuation Scheme (USS)

- USS manage about £90 bn
- In 2020, they excluded certain sectors: tobacco manufacturing; thermal coal mining (coal to be burned for electricity generation), specifically where they made up more than 25% of revenues, and certain controversial weapons
- The first exclusion was announced in May 2020
- Two years after, divestment from these sectors is completed
- Ethics for USS ⇒ USS should extend its divestment policy

Individual vs. collaborative engagement

For investors, the advantages of collective engagement are:

- By combining their resources and voices, investors can put more pressure on companies to address their concerns
- A unified stance from diverse investors sends a clear and consistent message to companies, creating a stronger signal
- Collaboration saves time and resources for all participants and enhances the credibility of the engagement process

However, collective engagement can be negative if investors are not aligned and investors have different requirements

It is therefore important that collective engagement is managed by a lead investor

The role of institutional investors

Below, we list Apple's top 5 institutional investors based on the company's 2023 annual report:

#	Investor	Stock outstanding
1	Vanguard	8.36%
2	Blackrock	6.30%
3	Berkshire Hathaway	5.80%
4	State Street	3.66%
5	Fidelity Investments	1.90%

The role of institutional investors

According to Medina *et al.* (2022), **institutional investors account for approximately 43% of global market capitalization** in 2020 followed by the corporations (11%), the public sector (10%) and strategic individuals (9%)

Other free-float investors include direct retail investors, corporations and institutional investors whose holdings are below the disclosure thresholds. They represent 27% of global market capitalization

The role of institutional investors

Table 1: Ownership by investor category as share of market capitalisation (in %, December 2020)

Country	Corporation	Public sector	Strategic individual	Institutional	Other free-float	Non-domestic Total	Non-domestic % Instit.
Brazil	29	10	8	27	26	17	57
Canada	6	4	4	46	40	23	88
China	12	29	18	11	30	3	50
France	20	6	14	27	33	21	70
Germany	15	7	10	30	38	23	72
India	33	12	11	22	22	13	57
Italy	13	11	11	29	36	25	81
Japan	22	3	6	30	39	15	79
Korea	23	10	10	18	39	15	83
Russia	18	31	17	11	23	10	45
Saudi Arabia	2	87	2	1	8	1	50
Spain	13	7	16	25	39	24	67
Switzerland	6	6	6	33	49	26	84
Turkey	38	25	9	9	19	5	15
United Kingdom	6	6	4	60	24	32	76
United States	3	3	6	68	20	11	69
Total	11	10	9	43	27		

Source: Medina *et al.* (2022).

The role of institutional investors

Table 2: Major holders of Exxon Mobil Corporation (percentage and cumulative)

#	Institutional investor	%	Cum.	Top mutual fund holders	%	Cum.
1	Vanguard	9.80	9.80	Vanguard Total Stock Market	3.15	3.15
2	Blackrock	6.88	16.68	Vanguard 500 Index Fund	2.47	5.62
3	State Street	5.44	22.12	SPDR Energy Select	2.05	7.67
4	Fidelity Investments	3.71	25.83	Fidelity 500 Index Fund	1.19	8.86
5	Geode Capital Management	1.93	27.76	SPDR S&P 500 ETF Trust	1.16	10.02
6	JP Morgan Chase	1.55	29.31	iShares Core S&P 500 ETF	1.01	11.03
7	Bank of America	1.48	30.79	Vanguard Value Index Fund	0.84	11.87
8	Morgan Stanley	1.41	32.20	Vanguard Institutional Index Fund	0.67	12.54
9	NBIM	1.39	33.59	Vanguard Dividend Appreciation	0.58	13.12
10	Northern Trust	1.08	34.67	Vanguard Energy Index Fund	0.53	13.65

Source: `finance.yahoo.com/quote/XOM/holders`.

The role of institutional investors

Table 3: Major holders of BP p.l.c. (percentage and cumulative)

#	Institutional investor	%	Cum.	Top mutual fund holders	%	Cum.
1	State Street	0.78	0.78	DFA International Core Equity	0.13	0.13
2	Fisher Asset Management	0.68	1.46	Vanguard Energy Fund	0.12	0.25
3	Arrowstreet Capital	0.65	2.11	John Hancock Mutual Fds III	0.12	0.37
4	Acadian Asset Management	0.61	2.72	Vanguard Growth and Income Fund	0.09	0.46
5	Morgan Stanley	0.48	3.20	T. Rowe Price Real Assets Trust	0.08	0.54
6	Dimensional Fund Advisors	0.43	3.63	T. Rowe Price Real Assets Trust I	0.08	0.62
7	Blackrock	0.39	4.02	T. Rowe Price New Era Fund	0.07	0.69
8	Wellington Management	0.37	4.39	T. Rowe Price Real Assets Fund	0.07	0.76
9	Boston Partners	0.32	4.71	DFA International Value Series	0.06	0.82
10	Goldman Sachs	0.32	5.03	BlackRock Basic Value Fund	0.05	0.87

Source: `finance.yahoo.com/quote/BP/holders`.

Impact of active ownership

"We analyze an extensive proprietary database of corporate social responsibility engagements with US public companies from 1999-2009. Engagements address environmental, social, and governance concerns. ***Successful (unsuccessful) engagements are followed by positive (zero) abnormal returns****. Companies with inferior governance and socially conscious institutional investors are more likely to be engaged. Success in engagements is more probable if the engaged firm has reputational concerns and higher capacity to implement changes.* ***Collaboration among activists is instrumental*** *in increasing the success rate of environmental/social engagements. After successful engagements, particularly on environmental/social issues, companies experience improved accounting performance and governance and increased institutional ownership." (Dimsons et al., 2015).*

Impact of active ownership

- The success of the engagement depends not only on the investors, but also to a large extent on the management of the company, the shareholder structure and the country
- Investors have the impression that it's case-by-case and that we can't generalize, especially since there's a lot of survivor bias
- Different forms of engagement do not have the same impact
- For example, the performance of exit is generally considered to be negative
- The same conclusion applies to voting, since most shareholder resolutions never receive a majority

Voting process

- *"The company sets the agenda for the annual shareholder meeting;*
- *The custodian confirms the identity of the shareholders and the number of shares eligible for voting – often for a specific date ahead of the meeting (record date);*
- *Shareholders receive the meeting materials from the company (may be before or after the record date);*
- *Shareholders procuring proxy advisory services receive voting recommendations;*
- *Shareholders instruct the custodian on how to vote, often through a proxy voting service provider, within a deadline ahead of the shareholder meeting (cut-off date);*
- *Voting takes place at the shareholder meeting;*
- *Shareholders receive confirmation from the service provider that their voting instructions have been carried out."*

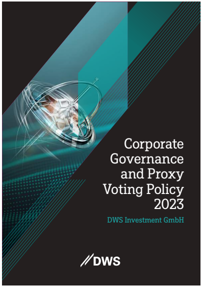
Proxy voting

Figure 5: The two largest proxy advisory firms

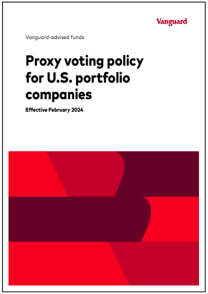
Voting policy

Figure 6: Voting policy

DWS

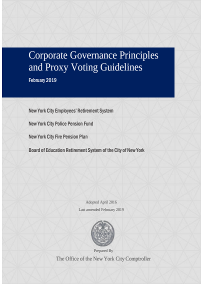


Vanguard



OT PP

NYC PFs



Source: Corporate websites.

Asset managers

Figure 7: Voting Matters series of ShareAction

2019 2020 2021 2022

Source: `https://shareaction.org`.

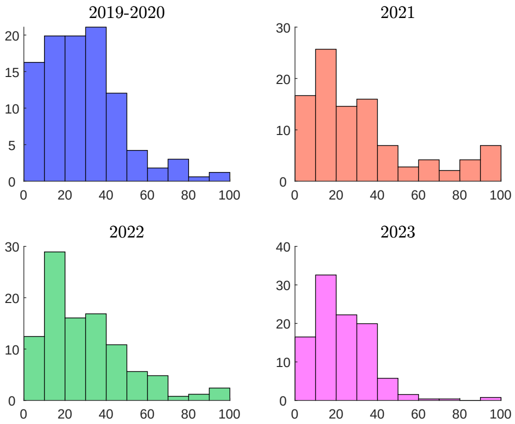
Asset managers

Table 4: Statistics of success rate shareholder resolutions

Year		2019	2020	2021	2022	2023
Number of resolutions		64	102	144	249	261
Resolutions with majority support		3	15	29	37	8
Success rate (in %)		4.7	14.7	20.1	14.9	3.1
Average support rate (in %)		28.2	29.9	32.9	29.9	23.2
Percentile of support rate (in %)	10%	6.5	9.2	7.2	9.4	8.2
	25%	17.0	13.1	12.0	13.5	13.1
	75%	37.7	42.6	42.8	40.3	31.6
	90%	41.8	55.2	81.2	57.6	37.6
Average support rate (in %)	E	28.2	35.8	41.8	31.6	22.2
	S		24.5	28.8	27.4	22.4

Asset managers

Figure 8: Histogram (in %) of support rates



Source: ShareAction (2019, 2020, 2021, 2023, 2024) & Author's calculations.

Asset managers

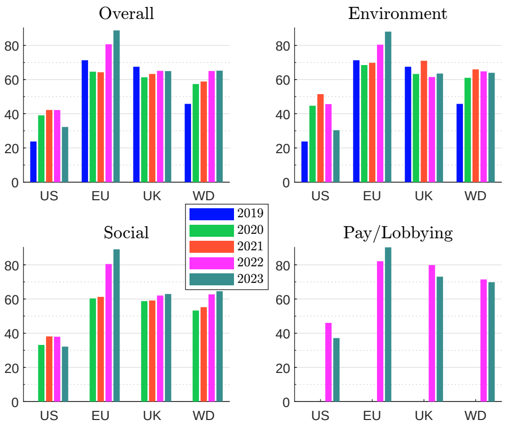
Table 5: Average support rate in % for ESG resolutions

Topic	Method	2019	2020	2021	2022	2023
Overall	Arithmetic	45.8	57.4	58.9	65.0	65.2
	Weighted	32.7	42.1	47.6	46.5	39.8
Environment	Arithmetic	45.8	61.0	66.0	64.8	64.0
	Weighted	32.7	44.7	55.8	48.8	39.8
Social	Arithmetic		53.3	55.2	62.7	64.3
	Weighted		39.0	43.7	44.3	39.0
Pay & politics	Arithmetic				71.5	
	Weighted				47.8	
Lobbying	Arithmetic					69.9
	Weighted					42.1

Source: ShareAction (2019, 2020, 2021, 2023, 2024) & Author's calculations.

Asset managers

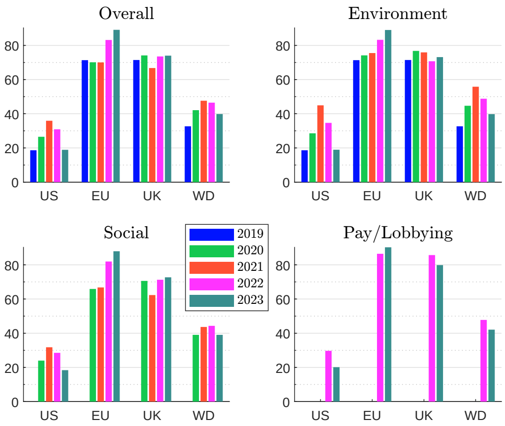
Figure 9: Arithmetic average support rate in % per region and year



Source: ShareAction (2019, 2020, 2021, 2023, 2024) & Author's calculations.

Asset managers

Figure 10: Weighted average support rate in % per region and year



Source: ShareAction (2019, 2020, 2021, 2023, 2024) & Author's calculations.

Asset managers

Table 6: Best performers (2022, overall)

Rank	Name	Country	AUM	Overall	E	S	Pay
1	Achmea IM	Netherlands	251	100	100	100	100
1	Impax AM	UK	56	100	100	100	100
3	BNP PAM	France	761	99	97	100	100
3	MN	Netherlands	193	99	97	100	100
5	Candriam	Luxembourg	180	98	97	99	100
6	PGGM	Netherlands	331	97	93	100	97
7	Man	UK	149	96	98	94	98
8	Robeco	Netherlands	228	95	94	94	100
9	Aviva Investors	UK	363	93	88	96	100
10	Amundi AM	France	2 348	93	93	92	98
11	Nordea AM	Finland	333	91	93	89	90
12	Aegon AM	Netherlands	466	90	85	94	90
13	Federated Hermes	UK	672	89	88	87	90
14	Pictet AM	Switzerland	284	88	85	90	91
15	Legal & General	Switzerland	1 923	86	84	84	98

Source: ShareAction (2023) & Author's calculations.

Asset managers

Table 7: Worst performers (2022, overall)

Rank	Name	Country	AUM	Overall	E	S	Pay
59	Goldman Sachs AM	US	2 218	35	56	24	24
60	Baillie Gifford	UK	455	31	29	29	45
61	SSGA	US	4 140	29	30	31	22
62	BlackRock	US	10 014	24	28	24	15
63	T. Rowe Price	US	1 642	17	26	11	18
64	Fidelity Investments	US	4 520	17	23	19	2
65	Vanguard	US	8 274	10	12	9	9
66	DFA	US	679	4	6	5	0
67	Santander AM	Spain	220	4	0	5	6
68	Walter Scott	UK	95	3	0	6	0

Source: ShareAction (2023) & Author's calculations.

Asset managers

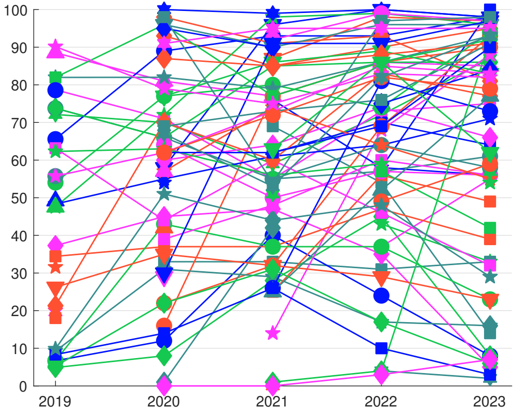
Table 8: Ranking of the 25 largest asset managers (2022, overall)

Rank	Name	Country	AUM	Overall 2019	2020	2021	2022	2023
22	BlackRock	US	10 014	7	12	40	24	8
25	Vanguard	US	8 274	8	14	26	10	3
23	Fidelity Investments	US	4 520	9	31	29	17	16
21	SSGA	US	4 140	26	35	32	29	23
18	J.P. Morgan AM	US	2 742	7	43	37	37	23
16	Capital Group	US	2 716	5	8	28	45	8
2	Amundi AM	France	2 348	66	89	93	93	98
20	Goldman Sachs AM	US	2 218	37	45	47	35	5
3	Legal & General	UK	1 923	82	96	77	86	92
24	T. Rowe Price	US	1 642	5	22	31	17	6
15	Invesco	US	1 611	34	37	37	47	39
12	Morgan Stanley IM	US	1 566			55	64	58
14	Wellington Management	US	1 426	10	51	44	48	29
7	Northern Trust AM	US	1 348	21	70	60	83	77
13	Nuveen AM	US	1 271	62	63	56	59	
8	UBS AM	Switzerland	1 216	90	79	75	83	82
4	DWS	Germany	1 055	74	66	85	86	86
10	AXA IM	France	1 009	79	71	55	73	75
6	Schroders	UK	991	56	62	73	85	83
17	AllianceBernstein	US	779				43	33
5	Allianz GI	Germany	766	89	81	77	86	85
1	BNP PAM	France	761	48	72	98	99	96
19	Columbia Threadneedle	US	754				37	55
9	Manulife IM	Canada	723				75	84
11	APG AM	Netherlands	721	72	70	59	72	87

Source: ShareAction (2019, 2020, 2021, 2023, 2024) & Author's calculations.

Asset managers

Figure 11: Evolution of the support rate in % per asset manager



Source: ShareAction (2019, 2020, 2021, 2023, 2024) & Author's calculations.

Asset managers

Main findings (2022 report)

1. "*49 additional resolutions would have received majority support if the largest asset managers had voted in favour of them.*
2. *Voting performance has been stagnant in the US and the UK compared to 2021, while European asset managers have shown a large improvement.*
3. *Asset managers across the board are hesitant to back action-oriented resolutions, which would have the most transformative impact on environmental and social issues.*"

Asset managers

Table 9: Statistics on Say on Climate resolutions

Resolution sponsor	2022 #	2022 Avg.	2022 Min.	2022 Max.	2023 #	2023 Avg.	2023 Min.	2023 Max.
Shareholder	6	21.98%	1.00%	46.50%	6	19.68%	16.60%	24.40%
Management	30	89.17%	51.00%	99.90%	11	90.83%	69.70%	98.60%

Asset managers

3 case studies of Say on Climate resolutions

- Electricité de France or EDF (French energy company): 99.9%
- Barclays (British bank): 80.8%
- Woodside Energy Group Ltd. (Australian energy company): 51.03%

Asset owners

"Our research reveals that between April 2009 to September 2021, asset owners that are now members of the NZAOA were more likely to vote in favour of climate action at Annual General Meetings (AGMs) of companies than the non-NZAOA peer group. This is an indicator that investors that joined the NZAOA in its first two years were early adopters of strong climate voting policies. However, when we analysed the voting pattern of NZAOA members and their non member peer group, we found that after becoming an NZAOA member, the NZAOA group's increase in pro-climate voting is not statistically different to the increase of the non-NZAOA peer group during the same time period. This is an indicator that joining the Alliance may be a recognition of existing voting practice, not an accelerator of that practice." (Cojoianu et al., 2021).