



## ESG AND THE INTERNET AGE

NEW ISSUES ARE COMING TO THE FORE BUT SHAREHOLDER COMMUNICATION REMAINS THE BEST WAY TO AVOID UNPLEASANT SURPRISES, ACCORDING TO PAT MCHUGH, FOUNDER AND SENIOR MANAGING DIRECTOR OF OKAPI PARTNERS.

### HOW MUCH OF A WATERSHED WAS THE 2021 PROXY SEASON FOR ESG ISSUES?

This proxy season was extremely busy and in many ways it's not over yet. We saw interest in E&S issues really come to the fore with sustainability and diversity, equity, and inclusion (DEI) being the major priorities. The interest in these issues from investors is widespread – in all industries and market capitalizations. We've seen a major increase in our corporate clients reaching out to us to facilitate E&S-focused meetings with investors.

"Say on pay" was also a key issue with some large-cap companies failing to garner majority support for proposals. Pandemic-related adjustments in executive compensation programs, especially long-term incentive (equity) compensation, drove increased concerns from investors. Companies need a strategy to communicate with their shareholders about these issues before next year's proxy season and to begin executing on that strategy now.

### HOW SHOULD COMPANIES APPROACH THE "SAY ON CLIMATE" CAMPAIGN IN 2022?

The Children's Investment Fund Foundation (CIFF) has revised its "say on climate" strategy for U.S.-listed companies and no longer intends to seek annual advisory votes. Many U.S. fund managers were concerned that the campaign would reduce director accountability for climate oversight and heighten the risk of greenwashing. Accordingly, we urge clients to consider a nuanced approach. Companies need to recognize that more investors have a greater focus on environmental matters than ever before but there is not yet an agreed process to measure progress. With that evolution in mind, we urge clients to engage with their investors before deciding on a plan of action on this issue.

### WHAT STEPS CAN COMPANIES TAKE TO DEMONSTRATE THEY ARE PROACTIVELY MAINTAINING OVERSIGHT OF BOARD AND WORKPLACE DIVERSITY?

First off, some boards of directors may be tempted to dismiss an activist investor's focus on diversity as a cynical

ploy to exploit the current zeitgeist. But the fact remains that many investors – not just activists – view diversity in the boardroom and among the workforce as critical factors in a company's performance – and a failure to address such issues as a significant risk to value.

Companies need to lay out the facts for their investors and have a clear plan to address any deficiencies. Regular engagement with shareholders on this issue is critical. If your management and board have maintained an open channel of communication with shareholders, it's less likely that an activist will uncover some heretofore undiscovered area of disagreement that can become the focus of a successful campaign.

### HOW HAS THE RISE OF RETAIL SHAREHOLDER ACTIVITY AFFECTED VOTING AND PROXY SOLICITATION?

Retail investors have a significant impact on the outcome of election campaigns and sometimes more than any individual investor appreciates. As a proxy solicitor we know this well because of our work on behalf of companies, investment management firms, and mutual funds. The challenge with retail investors is overcoming their apathy, especially when the mail has been disrupted by the pandemic and people are giving up their landlines and not answering calls from unknown numbers on their cell phones.

So, it's a huge challenge to get individual investors to vote using traditional methodology, but if you have a tailored and smart strategy, you can get things done. We are helping companies use social media, including Reddit and Twitter, to reach their retail shareholders while staying on brand and within compliance. We're also using our comprehensive StockWatch abilities to understand the changing shareholder base to ensure we're reaching out the right targets.

THANK YOU, PAT. 

# Unrivaled Insight



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1212 Avenue of the Americas, 24<sup>th</sup> Floor  
New York, NY 10036  
+1.212.297.0720