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GLOBAL ACTIVISM VOLUMES DIP IN THE FIRST HALF

Global Activism Volumes Dip In The First Half - ValueWalk

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This week we published ***Shareholder Activism in H1 2021***, our statistical analysis of shareholder activism, short activism, and proxy voting data year-to-date. Here are some of the highlights.

Global Activism Volumes Dip

Global activism volumes continued to dip in the first six months of 2021, with the 518 companies publicly subjected to activist demands representing a modest dip on the nearly 600 companies targeted in the same period of last year. Only in the consumer defensive and technology sectors were more companies targeted in absolute terms.

One reason many advisers say that the end of 2020 and the start of this year has been busier is that the proportion of targets valued at more than $2 billion is up four percentage points. Another is that proxy fights have been a focal point of this year's activity, with increased numbers going to a vote in Europe and Asia and the U.S. practically level when a few late meetings are accounted for (Box, GeoPark, and Genesco fights are ongoing).

As we've previously noted, M&A opposition is at elevated levels. Europe and Asia have also seen proportionately higher levels of balance sheet activism, so it's fair to say that companies are having to deal with more contentious and urgent forms of activism than pre-pandemic.

Less and less activism is professional, however, at least judging by our count of impactful campaigns (those run by investors with a primary, partial, or occasional focus on activism). The proportion of companies targeted in H1 that found one of these investors on the opposite side of the table fell to 47% from 49% last year, making for more unpredictable campaigns.

Meanwhile, activist short sellers have had a field day going after frauds and stock promotions, according to *Activist Insight Shorts*, while racking up an average one-month campaign return of 10% for the first time. Yet even in that field, campaign numbers are down – perhaps more understandably, given the perilous market.

In proxy voting news from our colleagues at *Proxy Insight Online*, companies in the consumer and financial services sectors saw a recent record number of pay revolts in H1 2021 (>20% against), while there was also a record number of environmental- and social-related shareholder proposals over the same time period.

For more analysis, look out for *The Activist Investing Half-Year Review 2021*, in association with Olshan Frome Wolosky, coming soon.

Josh Black, Editor-in-Chief, Insightia

Holding Companies In Carbon-Intensive Sectors Accountable

Although leading fund managers are supporting an increased number of shareholder proposals seeking lobbying disclosure this year, they are also failing to hold companies in carbon-intensive sectors accountable to the same degree as other industries.

Lobbying proposals at companies in carbon-intensive industries, such as the oil and gas and airline sectors, have frequently been opposed by BlackRock and Vanguard, despite the oil and gas sector being the fourth highest-paying sector for federal lobbying in 2020, **according** to the Center for Responsive Politics.

Companies in carbon-intensive sectors are under increased pressure from shareholders to disclose their lobbying payments and policies, especially as investors seek to mitigate the risks of anti-climate lobbying and push companies toward establishing a robust decarbonization strategy. The energy sector has been subject to one of the highest levels of investor support for environmental and social proposals in the U.S. this year, averaging 51.1% support, second only to the basic materials sector.

Investors turned their focus to the potential risks inherent in political spending this year, in response to the Capitol storming on January 6 and increased concern about the impact on meeting climate change mitigation goals, with average support for lobbying disclosure shareholder proposals increasing to 40.9% so far this year, compared to 34.2% and 35.1% in 2019 and 2020, respectively. This increase in support is partly attributable to a more flexible approach by BlackRock and Vanguard, which supported no proposals seeking lobbying disclosure in 2020, but have now adopted more of a case-by-case approach toward resolutions of this kind.

Of the 39 shareholder proposals of this kind subject to a vote so far this year, nine have won majority support, including at companies such as Netflix, Chemed, and United Airlines Holdings, compared to four and six in 2019 and 2020 respectively, according to *Proxy Insight Online* data.

“The record high votes for resolutions and the record number of agreements have established, without question, that investors want companies to disclose their political spending with corporate funds,” Bruce Freed, president for the Center for Political Accountability (CPA), told *Proxy Insight Online*.

Opposition From BlackRock And Vanguard

Although investor support for lobbying proposals has experienced an overall increase, the approach of leading fund managers BlackRock and Vanguard has been somewhat mixed.

Recent BlackRock voting bulletins highlight that the fund manager opposed three shareholder proposals seeking corporate lobbying disclosure at companies in carbon-intensive industries, namely Delta Air Lines, Exxon Mobil, and Chevron, while supporting similar proposals at Pfizer, Charter Communications, and Tyson Foods.

The investor **said** that Delta, Exxon, and Chevron “meet expectations” regarding lobbying disclosure and have “already improved the disclosure of lobbying and political spending and provide details on board oversight of these decisions.”

BlackRock’s stance regarding Exxon’s lobbying disclosure stands in stark contrast to the views expressed by the Securities and Exchange Commission (SEC), which rejected Exxon’s no-action request for the lobbying proposal, **considering** additional disclosure to be of material interest to investors.

In contrast, BlackRock’s **rationale** for supporting the proposals at Pfizer, Tyson, and Charter was that they gave shareholders greater insight into “how the board assesses any material gaps that may arise between the company’s key policy positions and those of the major trade associations in which it is active.”

A similar trend is also exhibited by Vanguard, which opposed lobbying proposals at multiple oil and gas companies, including Sempra Energy, Dominion Energy, Phillips 66, and Duke Energy, **based on** companies having “enhance[d] disclosures on corporate political and lobbying activities over time.” In contrast, Vanguard supported three lobbying proposals at Charter Communications, Tyson Foods, and Exxon Mobil.

Major fund managers expect to drive the transition to increased lobbying and climate-related disclosure, and it is essential they are not found to be supporting one leg of the fight against climate change but not another in the rush to transition to a successful net-zero economy.

Rebecca Sherratt, Corporate Governance Editor, Insightia