Rise of the ACTIVISTS

Whether you see shareholder activists as heroes or villains, their profile is undoubtedly on the rise. James McCafferty takes a look at some of the ways that investors are using their rights to influence the corporate agenda.

When the boss of the world's biggest asset manager says firms need to do more on everything from "protecting the environment to retirement to gender and racial inequality", the sense of a shifting mood is difficult to escape.

BlackRock Chief Executive Larry Fink made the point in January this year, in his annual public letter to chief executives, alongside his more traditional comments on financial and geopolitical uncertainty[1]. It was just the latest indication that major investors are taking their stewardship role increasingly seriously.

Promoting gender diversity

Legal & General (L&G) recently revealed that it voted against more than 100 chairmen in 2008 for their failure to increase the presence of women in the boardroom. Its action on diversity represented a marked increase on the 13 chairmen voted against in 2016 for failing to reach gender diversity targets.

It also divested from a number of companies that had previously been held in its Future Worlds Funds, which aims to address long-term financial risks related to climate change. Companies were excluded from the fund on the basis of issues such as poor governance and lobbying for policies that contribute to climate change[2].

Sacha Sadan, L&G's director of corporate governance, said it would continue to vote against boards where concerns remain around environmental-based issues, adding that "the point here is that we are facing a climate catastrophe"[3].

Tackling corporate pay and climate change

Others have taken similar action on a range of issues, with several prominent recent examples:

- In November 2018 the chief executive of housebuilder Persimmon, Jeff Fairburn, stepped down following a shareholder revolt against a proposed pay package. Firms including Royal London Asset Management and Aberdeen Standard Investments were among those voting against the proposal[4/5].

- RBS is under renewed pressure from shareholder rights group ShareSoc to give investors a bigger say on corporate governance. ShareSoc, along with the Investment Association, also wants the bank to reduce the gap between the pensions of top executives and staff [6].
- Investors including Schroders and Hermes backed responsible investment charity Share Action's call for HSBC to cut back on investments in coal projects and coal-reliant companies [7].
- In October 2018 some 40% of investors in Whitehaven Coal, Australia's biggest independent coal miner, voted in favour of a resolution demanding the company reveal the financial risks it faces as a result of climate change, forcing the company to review its disclosures policy [8].

These are just some of the recent instances of major investors seeking to use their shareholdings as a force for positive change. The growing prominence of such activism reflects the rise of broader environment and social governance (ESG) issues up the investment agenda, apparently shifting from a niche concern into mainstream one.

Entering a new phase for activism

The MSCI defines ESG as "the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process" [9]. Jane Sydenham, investment director at Rathbone Investment Management, said recently that the sector was entering a new phase in shareholder activism.

"Across the whole industry investment managers are realising that their clients, investors or shareholders want to see companies taking on the management where there is a need." [10]

Promoting sustainable investment

Activists, and those seeking to apply ESG factors in other ways, can also refer to a widening range of policies and guidelines aimed at promoting sustainable investment.

New ESG-related requirements introduced by the UK government in 2018, for instance, require pension fund trustees to take account of 'financially material' considerations, including ESG factors, such as climate change [11].

Many fund firms also use the UN's Principles for Responsible Investment as a basis on which to incorporate ESG issues into investment practice [12]. The guidelines, which ask firms to commit to six ESG objectives, are followed by more than 2,200 signatories accounting for over $82 trillion (£61.8trn) in assets under management [13].

With this spring's Extinction Rebellion protests drawing more attention to climate change issues, it seems likely we can only expect to see increased focus on the ability – and willingness – of private and professional investors to drive positive change. ■

1. Blackrock – Larry Fink CEO letter – 01/19.
2. Guardian – L&G steps up action against firms with few female board members – 16/04/19.
3. Pensions Age – LGIM warns of 'climate catastrophe' as it takes action against corporate boards – 16/04/19.
4. FT – Persimmon boss at centre of pay storm to leave company 07/11/18.
5. FT – Persimmon hit by pay revolt at AGM 25/4/18.
6. Yorkshire Post – Showdown for RBS executives over pay packets – 22/04/19.
7. Share Action – Investors hold HSBC's feet to the fire on coal – 06/03/19.
8. Market Forces – Investors want Whitehaven Coal to disclose climate risk – but not avoid it – 25/10/18.
9. MSCI – What is ESG?
10. Citywire – Asset management firms urged to increase stewardship efforts – 16/04/19.
11. FTAdviser – Pension schemes mandated to disclose ESG risks – 11/09/18.
12. UN PRI – Principles for responsible investment?
13. UN PRI – PRI CEO Fiona Reynolds addresses meeting at G20 – 5 December 2018.

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