



Quarterly Stewardship Update

Late spring and early summer, or proxy season as it's known, is by far the busiest time of the year for company AGMs. Our analysts continue their in-depth research and carefully considered voting and engagement activities, supported by the stewardship team. The stewardship work that we do is one of our many strengths, which we believe contributes to developing a more sustainable global financial system.

Activity snapshot

This quarter we have:

- Carefully considered emissions reductions targets at BP and Shell
- Dealt with an increasing number of complex shareholder proposals
- Analysed our voting activities as we design our voting guidelines for issues such as climate, diversity and remuneration.

Our voting statistics

This quarter we voted at a total of 51 company meetings.

Votes for the quarter 01/04/23 - 30/06/23



Over the past three months, we voted at 51 meetings, our busiest quarter of the year. At the majority of meetings, we voted with management on all resolutions. In 15 meetings we voted against management on at least one resolution and there were no abstentions. While we appreciate the insights lent to our analysis by Institutional Shareholder Services (ISS), our proxy voting provider, we continue to take a more nuanced approach to voting informed by our engagement with companies. For this quarter, this meant we decided to not follow ISS recommendations at least once in 14 meetings.



Voting on climate resolutions

The 2023 proxy season was once again rife with protestors disrupting company meetings and demanding an end to fossil fuel exploration. This came as no surprise, as media attention has been firmly focused on the fact that the oil and gas industry's transition to lower carbon technologies will be imperative in keeping global temperatures from soaring.

We consider stewardship to be a key lever in the fight against climate change. We actively use our votes and voice to support management when they demonstrate good practice. Furthermore, we do not hesitate to use these same rights to hold companies to account when improvements must be made.

At the BP and Shell AGMs, we applied our stewardship policy and expertise to understand how each resolution will impact the company, the value of our clients shares and environmental and social outcomes.

BP has been seen as the most ambitious in the industry when it comes to greenhouse gas (GHG) emissions reduction targets. However, in February 2023 the company decided to revise its strategy and adopt lower reductions targets. In the same vein, whilst claiming to increase investment in 'transition growth engines' such as renewables and EV charging points, BP announced that they will channel a similar increase into new and existing fossil fuels assets.

Our extensive work in this area has informed our voting choices. We understand that even with this backwards step, BP's targets are still industry leading, and that challenges facing the energy transition, such as infrastructure and financial feasibility, need to be considered. However, we were disappointed with the lack of prior engagement with investors such as ourselves concerning the redirection. We also found that subsequent dialogue did not provide sufficient reassurance on future direction of travel. As such, we voted against the re-election of the Chair over the lack of meaningful engagement. We, and 10% of all shareholders, felt the Chair should be held accountable and our expectations for future engagement should be made clear.

We chose not to support a shareholder resolution asking BP to align its 2030 reduction aims covering Scope 3

GHG emissions with the goal of the Paris Agreement. Scope 3 emissions come from the use of BP's energy products, such as emissions from a car that filled up at the BP petrol station. They are extremely hard to measure and setting reduction targets is rife with challenges, as so much is beyond the control of the company and currently there are no established methodologies for doing so.

At the **Shell** AGM almost a month later, the climate protestors were once again out in force. This time however, we approached the meeting following meaningful engagement with the Chair in particular, and felt comfortable that Shell was, for the time being, managing ESG risk sufficiently.

Whilst conservative, Shell has demonstrated progress against its emission reduction targets. We do however note that whilst in line with targets, the proportion of capital expenditure being allocated to the energy transition still remains low at 17%, with much of the rest directed towards oil and gas. We voted to approve the Energy Transition Progress resolution but will continue to engage with management on this topic and revise our approach as needed.

As at the BP AGM, we did not support a shareholder resolution asking Shell to align its 2030 Scope 3 reduction aims with the goal of the Paris Agreement. The challenges associated with such targets are great and must be considered, but they are not insurmountable. We intend to closely analyse the progress on Scope 3 emissions at both companies.

Voting on climate related issues at AGMs is becoming increasingly common. However, even in two similar companies, the voting decisions we take may differ. Our nuanced approach considers each resolution on a case-by-case basis, and highlights the benefits of engagement, both for the investor and for the company. We are willing, if necessary, to hold board members to account for lack of meaningful engagement with their investors. Moreover, if there is insufficient progress on climate, we are ready to escalate our response by casting additional votes against board members.

Shareholder proposals: ESG and anti-ESG

Shareholder proposals can be submitted by any shareholder for inclusion and voting at an AGMs, provided they meet certain inclusion criteria, for example ownership levels or containing 'a proper subject for action'¹. While shareholder proposals date back to the 1960s and 70s, in recent years they have become a fundamental tool for responsible investors trying to bring about positive change within the companies they own. This is particularly the case in North America where dialogue with the board is harder.

While they are not binding for the company, significant support for a proposal sends a strong signal that management would be foolish to ignore. A memorable example that hit the headlines in 2021 was Engine No1. With only 0.02% of the share capital, this small activist fund successfully installed climate literate directors to the Board of Exxon, the oil and gas giant, with support from large institutional investors.

Anti-ESG* campaigners have also adopted the shareholder proposal mechanism to further their own objectives. A 'traditional' ESG proposal usually pushes for greater disclosures or actions on subjects ranging from climate to human rights and diversity; whereas anti-ESG proposals are trying to effectively deter companies from advancing on these areas and/or serve what is generally considered a right-wing or Republican supported stance.

The 'anti-ESG' or 'anti-woke' movement has been bubbling in away in the background of the USA for some time. It is seen by commentators as "a proxy for opposition to the spread of 'liberal values' in civil society"². Its goal? Putting it simply, to return companies to a time where they focused solely on profit, with little or no regard for other stakeholders. The number of anti-ESG shareholder proposals in the US has tripled in the last three years, with over two thirds of such proposals about diversity matters and a little over 10% on climate. Interestingly though, although the volume of these proposals has risen, support for them has fallen.

In our voting this proxy season, we came up against a number of such proposals. At **Alphabet's** AGM, a filer argued that the views of those with conservative or Republican beliefs were being suppressed. The supporting statement accused Alphabet of interfering in elections, an allegation also brought before the courts in Missouri and Louisiana³. In their opposing statement, Alphabet offered evidence and supporting policies to refute the allegations. Since the lawsuit referenced has been dismissed, and with the evidence provided, ISS and RBC Brewin Dolphin could not see how this proposal warranted support.

At **Charles Schwab**, we were faced with a shareholder proposal that requested an evaluation into potential discrimination of customers based on factors including race, gender, religion or political views. This proposal aimed to address the perceived issues of financial institutions "debanking" individuals and organizations who espouse conservative opinions or otherwise hold viewpoints that don't fit the leftwing narrative⁴. We voted against this proposal, agreeing with ISS and the board. We believe the company provides adequate disclosures related to its commitment not to discriminate, and there is a lack of evidence or significant controversies related to refusal of service.

These examples are a helpful way of showing why we do not automatically support all shareholder proposals. While many can be a valuable tool for positive change, they are becoming increasingly complex, often politicised. Investors like RBC Brewin Dolphin must pay close attention to the detail to understand not only what the proposer wants, but why – and then ultimately judge each proposal on its own merits, ensuring it steers the company in a way that we believe is the most sustainable and value creating.

*ESG refers to the integration of environmental, social and governance factors

Sources: ¹ <https://www.sec.gov/news/speech/jones-cii-2022-03-08>

² <https://www.morningstar.com/sustainable-investing/whos-behind-rights-anti-esg-campaign>

³ https://www.sec.gov/Archives/edgar/data/1652044/000130817923000736/lgoog2023_def14a.htm#lgooga062

⁴ <https://nationalcenter.org/ncppr/2023/05/15/conservative-shareholder-activists-present-proposals-addressing-civil-liberties-debanking-conservatives-corporate-board-incest-and-racial-equity-audits/>

The value of investments, and any income from them, can fall and you may get back less than you invested. Neither simulated nor actual past performance are reliable indicators of future performance. Information is provided only as an example and is not a recommendation to pursue a particular strategy. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our conflicts policy which is available on request or can be accessed via our website at www.brewin.co.uk. Information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness. We will only be bound by specific investment restrictions which have been requested by you and agreed by us.