Title: Strategic Shareholders and Prudent Directors Come Together
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The Lane Report

Despite a disturbing rise in unequal voting structures and virtual shareholder meetings at public companies, this year's corporate proxy season reflects the best of corporate boards' growing commitment to transparency, accountability and engagement. It's no surprise that the savviest of corporate directors are eager to set themselves apart as reliable stewards among their peer groups in seizing the upside of the unprecedented disruption before them.

Going into 2017, directors of public companies faced a new world order, one that challenges them as they've never been challenged before. Political instability and shifting geopolitical and regulatory environments are tougher than ever to navigate. Internal and external cybersecurity and other existential threats call for a more nuanced approach to enterprise risk management. Technological change is increasingly empowering new competitors, recasting supply chains and lowering price points. The gender and racial diversity of human capital is now universally seen as delivering a "diversity dividend" while boards are reconstituting their own ranks to gain the benefits of the varying perspectives, knowledge and skills that diversity carries with it.

Against this dynamic backdrop, 38 institutional investors, having invested more than $20 trillion in U. S. equities, signed on to a new "Framework for U.S. Stewardship and Governance" in January which will take effect next January. The principles they embrace will affirm that boards are accountable to shareholders; that shareholders should be entitled to voting rights in proportion to their economic interest; that boards should be responsive to shareholders and be proactive in order to understand their perspective; that boards should have a strong, independent leadership structure; that boards should adopt structures and practices that enhance their effectiveness; and that boards should develop management incentive structures that are aligned with the long-term strategy of the company.

Already, proxy access is becoming commonplace among American companies. After corporations have long resisted shareholder proposals that bylaws be amended to allow them to nominate directors, more than half of the 100+ resolutions seeking that power were accepted by management this proxy season. Now, a full 60% of S&P 500 companies have proxy access bylaws, up from 1% just three years ago. As a result we're likely to see a growing number of boards boast that their members are recruited and assessed to ensure that they're competent to oversee the company's strategy and risks.

This proxy season also saw significant movement on gender diversity and pay equity. Since only 18% of S&P 1500 companies had female directors in 2016, it came as no surprise that shareholder proposals asking boards to increase their diversity were among the most numerous this year, The shareholders of 30 high-profile companies demanded the disclosure of plans to fill the pay gap between male and female employees. Six giant tech companies agreed to report on pay equity, and most other pay equity resolutions were withdrawn after company management came to terms with shareholders.

Investors large and small – asset managers State Street, BlackRock and Fidelity among the largest – are demanding reports on sustainability, renewable energy and environmental impact issues as a low-carbon economy will likely disrupts a host of industries. This year's proxy season also reflected shareholder awareness that, over the long term, environmental sustainability is a critical component of risk management. Support for shareholder proposals that companies report on climate risks jumped from 7% in 2011 to 43% this year, with proposals at two major energy companies gaining more than 60% support.

Embracing inclusion and promoting climate leadership are good business. They also make financial sense.

Forbes recently reported that companies that are more diverse see an increase in return on investment—of 35% for ethnically diverse companies and 15% for gender-diverse companies. Not only are more diverse companies better able to win top talent; they also benefit from greater employee satisfaction.

And more and more company leaders are united in their understanding of the urgency to act on climate as a moral and economic imperative. They are speaking with one voice – and funding clean energy investments – like never before.

The shareholder's role is indispensable in driving positive social and environmental change.

We strongly believe – and our research indicates – that one's investment portfolio can be successfully aligned with his or her core convictions without sacrificing diversification or financial performance. For each of its values-based investment clients, Marc J. Lane Investment Management, Inc.'s proprietary Advocacy Investing® strategy identifies companies which not only exhibit sound business fundamentals and solid governance, but also whose policies and practices reflect and promote the client's deeply held beliefs or, in the case of an institutional investor, its mission. In that way Advocacy Investing empowers the client investor to back only those companies that are doing the "right thing," converting the investor's "passive" assets into "active" assets that actually help drive positive social and environmental change.

Marc Lane is an attorney, financial adviser and the author of *Profitable Socially Responsible Investing? An Institutional Investor's Guide*, published by Euromoney Institutional Investor PLC, and *Representing Corporate Officers, Directors, Managers, and Trustees*, published by Aspen Publishers. We invite you to reach out to Marc in confidence and learn how Marc J. Lane Investment Management, Inc. can add value to your investment portfolio. He can be reached at mlane@MarcJLane.com or 312-372-5000.