

ADVOCACY IN ACTION

An Investor Guide to Impacting Public Companies

When you buy shares of stock in a public company, you become a part-owner, also known as shareowner. Now, you have certain rights that can influence the decisions of the companies whose stock you own. When you exercise these rights, you are engaging in a process commonly known as shareowner advocacy.

Shareowner advocacy is, at its heart, the “art” of effectively and persuasively communicating with corporate management, board members, policy makers, and other stakeholders. The idea that a small shareowner can influence the behavior of a behemoth public company may seem like a pipe dream, but it can and does happen.

EXPLORING THE ADVOCACY TOOLKIT

First Affirmative incorporates environmental, social, and governance (ESG) factor analysis in our investment process. We seek to own the shares of companies that are good corporate citizens and are positioned to deliver competitive investment performance over the long-term, all while impacting people and the planet in positive ways, creating a more vibrant, healthy world.

But, there is no such thing as a perfect company. First Affirmative, along with a growing number of forward-thinking investors, acts in service of a common objective: to influence the behavior of public companies to improve performance on ESG factors. The end goal is to guide companies to be more responsible corporate citizens, help them have a more positive impact on society, and create long-term value. While this is a formidable task, there are several tools at our disposal that help us get the job done.

Proxy Voting. Shareowners who own qualifying shares in a company may vote on resolutions (also known as proposals) that are presented at the Annual General Meeting (AGM) or other special meetings as are called by the company. Although votes can be cast at the meeting, most shareowners vote in advance “by proxy” — via mail, by phone, or online.

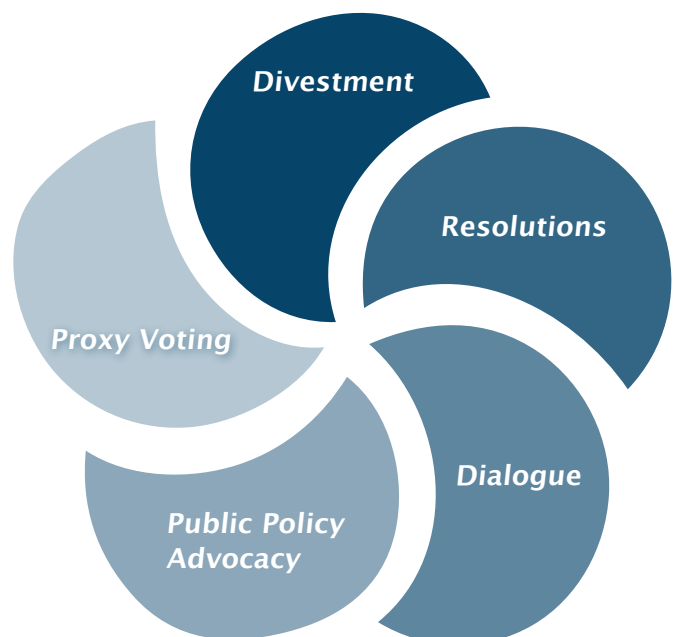
Proposals are placed on the ballot by either management or by shareowners. Management proposals typically cover “routine” items, such as electing directors, executive compensation, and approving auditors. Shareholder resolutions often cover ESG issues, such as climate risk, gender equality, and political spending practices.

Historically, proxy voting was a little exercised right. Instead, votes were often automatically cast in favor of the company’s board recommendation or not voted at all. This is changing as investors come to realize that oversight is a responsibility of ownership, and that the issues addressed at the AGM can have a tremendous impact not only on the company’s long-term performance, but on the common good.

Dialogue. Shareowner advocacy often begins with a very human approach — a conversation! Many corporations see the wisdom of working with their investors to improve policies and practices. Management will often agree to negotiate, particularly if investor concerns are shown to impact the financial performance or reputation of the company. Some of these dialogues become ongoing partnerships that involve regular communication on a broad slate of issues that impact all stakeholders.

Shareholder Resolutions. When dialogue fails, it is time to present the issues to all of the owners of the company. Proxy resolutions may request additional disclosure or propose changes to company policies or practices. At the AGM, a filer has the rare opportunity to speak directly to the CEO and board members.

TOOLS FOR ACTIVE OWNERSHIP



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Unfortunately, virtually all shareholder resolutions are non-binding; meaning that the company can choose to ignore the direction provided by shareowners. However, many companies recognize the adverse consequences of ignoring shareowner input, so even non-binding resolutions can be a powerful tool in the process of changing corporate behavior.

Divestment. When all else fails, investors may choose to sell all shares in a company to send a message. This technique has been used to help stop companies from doing business with repressive governments, such as in South Africa in the 1980s. The “fossil fuel free” movement is taking form as divestment campaign.

But remember, divesting does have a downside — you give up your rights as a shareowner. In order to be effective, divestment should be accompanied by publicity that encourages others to follow suit and puts pressure on the company to change course. One must also consider how the proceeds from a divestment strategy are redeployed. When divesting from fossil fuel extraction companies, for example, using the proceeds to support the transition to a renewable energy economy can serve to maximize the positive impact.

Public Policy Engagement is advocacy focused on governments, rather than on companies. Since government regulations may either support or hinder progress toward attaining certain ESG goals, it is essential that the voices of responsible investors are heard. The intention is to counteract the many, often well-funded, competing interests. Advocacy options in the public policy arena include commenting on proposed regulation or legislation, issuing public statements advocating government action, and communicating directly with elected officials.

WHERE THE ACTIONS IS: THE ANNUAL GENERAL MEETING

Every publicly traded U.S. company must conduct an AGM that is open to all qualified shareowners. This requirement is mandated by U.S. Securities and Exchange Commission (SEC), an independent government agency that holds primary responsibility for regulating the securities industry.

Prior to the AGM, companies issue a proxy statement that provides investors with an agenda and detailed information regarding business to be discussed and voted on. The agenda is commonly dominated by a report on the prior year’s financial results and discussion of issues and events that impact the future of the company.

THE LIFECYCLE OF A SHAREHOLDER RESOLUTION

PROCEDURAL DEFECT NOTIFICATION

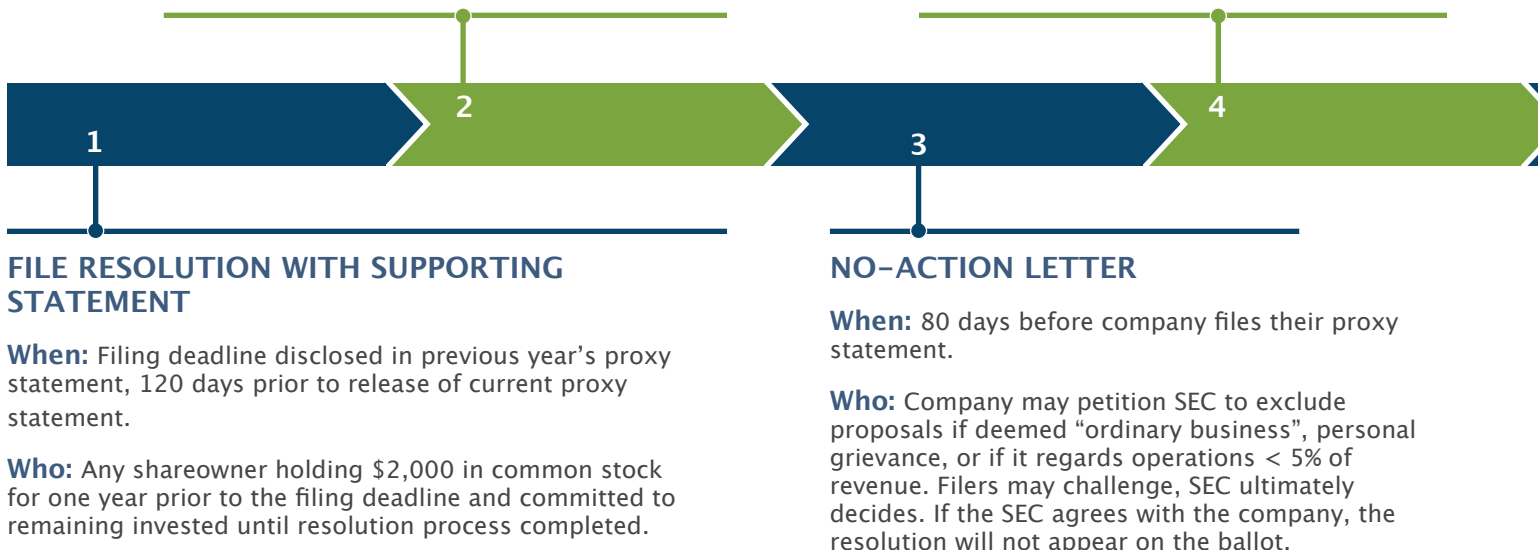
When: Written notice from Company requiring Filer response within 14 days.

Who: Filer provided opportunity to amend any filing errors identified by the Company and provide proof of ownership, if requested.

OPPOSITION STATEMENT

When: 30 days before a company files a proxy statement.

Who: The Board responds to the proposal, usually recommending a vote against. Filer is provided a copy in advance of the meeting. If there are any factual errors, the Filer can notify the Company.



Shareowners are asked to vote on corporate business, including the election of the board of directors and any other resolutions put forth by either management or shareowners.

The AGM presents one of the best opportunities for direct interaction with company management and to communicate with other shareowners, making it a key focus of the shareowner advocacy calendar.

MEASURING PROGRESS

Advocacy requires persistence and patience! While there is the occasional big WIN, achieving high vote counts is actually more aligned to a tool than an outcome in and of itself. Strong and increasing support certainly provides negotiating leverage, but it is a difficult feat given the tendency of institutional investors to vote with management and the high level of ABSTAIN and NO votes.

Instead, progress is usually measured incrementally and over the course of years. Fortunately, many companies recognize that resolutions on emerging issues may be “canaries in the coal mine.” Even single digit vote outcomes may be enough to bring a company to the negotiating table. Many successes involve collaborators working together on an issue, company by company, to create the tipping point necessary to fundamentally transform the definition of acceptable business practice.

We have a long-term perspective and focus our advocacy efforts on continuous improvement. In some cases, the successful outcome of a resolution can lead to a successful “partnership” that benefits both investor and company, and ultimately the world at large.



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ANNUAL GENERAL MEETING (AGM) DATE

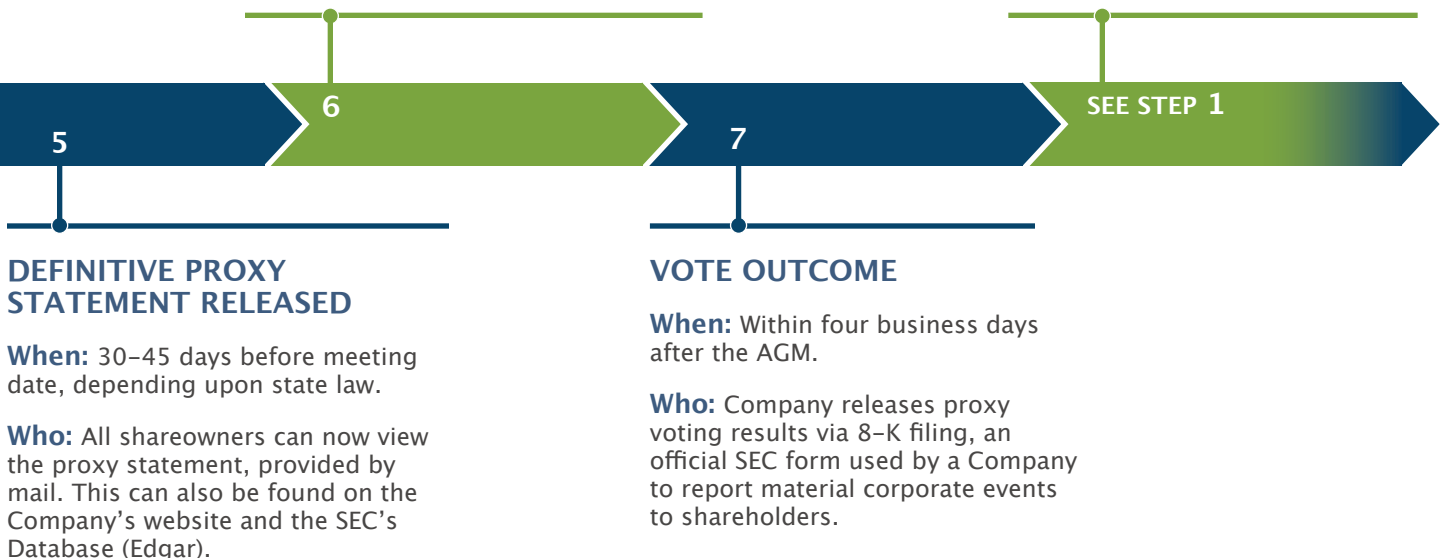
When: Date announced in the proxy statement. The Company chooses the location.

Who: Representative of Filer presents the resolution to the Board of Directors and Shareholders at the AGM.

REFILE IF NECESSARY

When: The cycle begins again!

Who: Filer may re-file the Resolution if it received 3% support in the first year, 6% in the second year and 10% each year thereafter.



OUR HISTORY OF ACTIVE OWNERSHIP

First Affirmative has, since its inception, engaged with companies and other stakeholders on a wide range of ESG issues. We have pursued an increasingly ambitious advocacy agenda since 2009, as we recognized that our impact could be enhanced by taking a more active role in engagement with our portfolio companies.

We commit significant resources and staff time to advocacy, making use of all the tools in the advocacy toolbox. Our commitments include:

- Voting client proxies according to customized, comprehensive proxy voting guidelines. We update this annually to ensure we include emerging issues.
- Meeting regularly with advocacy partners, both coalitions and investment managers, to prioritize issues and plan dialogues and resolution filings.
- Engaging in ongoing dialogue with companies, often in collaboration with advocacy partners.
- Filing and co-filing resolutions on behalf of our clients.
- Presenting resolutions at annual meetings nationwide with the help of our staff and network of investment advisors.
- Offering advocacy education and opportunities for engagement to our advisors and their investors.
- Producing The SRI Conference on Sustainable, Responsible, Impact Investing. Since 1990, The SRI Conference has been the premier annual gathering for responsible investors and investment professionals in the United States.




FOLLOW OUR PROGRESS!

For timely updates on our advocacy activities, visit our website's advocacy page and leadership blog. You can also follow us on Twitter and Facebook

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