RIDDING THE SYSTEM OF WOKE INVESTING - INSIDE SOURCES

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Shareholder activism has gone under the microscope over the last year, exposing the intricate ways Environmental Social Governance and related issues have infiltrated the proposal and voting processes. Annual meetings and proposal submissions have been overrun with climate and diversity concerns, which have proven to be a distraction or burden on companies and have also resulted in less profitable investment strategies.

The typical consumer and shareholder ultimately suffer the consequences through smaller returns and reduced company efficiency. Businesses are having to allocate significant time, money and resources to handle concerns that bear little on their overall performance.

A Security Exchange Commission bulletin in November 2021 stated that “proposals that raise issues of broad social or ethical concern related to the company’s business may not be excluded.” That fostered a lax environment for shareholders to pursue resolutions that have little to no material effect on the company’s financial performance. This approach has been a disaster. Not only have ESG-related issues taken quite a hold, but the sheer volume of proposals submitted to companies has been steadily increasing.

Last month, the American Consumer Institute published a paper discussing the matter, detailing some of the issues surrounding the annual shareholder meetings and proposal process. The number of proposals being submitted to companies has seen a dramatic climb over the last several years, and half of them concern social and political affairs. Proxy advisory firms, which give voting recommendations, are also culpable; they increasingly favor ESG topics.

Fortunately, some state and federal leaders are taking action, hoping to stop pursuits motivated by an agenda rather than fiscal optimization.

As the 117th Congress commenced, the House Financial Services Committee established an ESG Working Group to “combat the threat to our capital markets.” As such, it held several hearings to investigate the interconnection between shareholders, proxy advisory firms and ESG. Multiple experts exposed the underlying agenda that a small handful of people are pushing by exploiting lenient Securities and Exchange Commission standards and the current shareholder proposal process.

Last spring, 18 governors issued a policy statement promising to protect “taxpayers from ESG influences across state systems.” To maximize returns, only financial factors, not ESG, would be considered on financial investments.

Republican attorneys general from 21 states issued a letter to 53 of the largest fund firms telling the asset managers that “many of you have committed to take actions inconsistent with your clients’ financial interests.”

Three GOP senators introduced the Stop Woke Investing Act in December. The bill's sponsor, Eric Schmitt, wants to "restore fiscal sanity and ensure that companies are focused on financial returns to their customers and shareholders, not on ESG quotas."

Among the legislation's directives, the bill would require the SEC to amend the Code of Federal Regulations to cap the number of shareholder resolutions a company would have to include on its annual proxy ballot. It also mandates that any shareholder resolutions included have a monetary effect on the company's financial performance, not a political or social one. These measures are a step in the right direction for a system that has gotten out of hand.

Several organizations recently signed a coalition letter to members of Congress urging them to make this legislation a priority to "prevent activist investors from coercing publicly traded companies to expend resources complying with extraneous shareholder resolutions."

American companies deserve the freedom to conduct business without meddling from those who want to make political statements rather than maximizing financial returns. And consumers deserve to have companies that can focus on them and their best interests rather than a political agenda.