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Five takeaways from the 2018 proxy season

by Marc Butler

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Numbers don't lie, as the saying goes. But they don't tell the whole story, either.

Now that we have some perspective on this year's proxy season, that may be the clearest theme to emerge from it. The concerns of proxy season have always been larger than the numeric obsessions of earnings season: revenues, accounts receivable, earnings per share, adjusted earnings per share, and so on. But increasingly, proxy season has become a moment for investors to test — and management to prove — a corporation's values.

This year, the signs of that trend were unmistakable. Back in January, BlackRock founder Larry Fink sent a very public message to CEOs that his institution's level of interest in their businesses would depend on their own interest in social responsibility. His letter stated:

> To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.

A month later, BlackRock issued a set of proxy voting guidelines that emphasized the environmental, social, and corporate governance issues that have come to dominate proxy season. It appears to have backed those guidelines up with votes. When faith-based investors pushed gunmaker Sturm, Ruger & Co. to report on the risks of its business, BlackRock voted its 2.8 million shares in favor of the successful proposal. Viewing the trend more broadly, data from Intelligize indicates just how sharply discussion of environmental, social, and governance (ESG) issues has risen in public company filings and earnings calls. From 2017 to 2018, mentions of ESG topics increased 38% in 10K forms, 98% in proxy communications, and a dramatic 123% in earnings call transcripts — potentially reflecting particularly intense interest in ESG issues from analysts.

Certainly, bottom-line numbers will always remain of prime importance to investors. As usual, there's no shortage of hot topics revolving around them — from tax impacts to revenue recognition. But in 2018, investors seem to believe there are deeper drivers of success. They seem to believe that an issuer's reactions to the opioid crisis or the #MeToo movement, for instance, are telling of its character in ways that investors of previous decades would not have considered.

And they seem to believe — as demonstrated in the takeaways below — that numbers don't tell the whole story.