

DECATUR ESG IMPACT REPORT

RECENT LEGISLATIVE AND REGULATORY ACTIONS Environmental, Social, & Governance Impacts

I recall as a young boy when my family joined my father on a trip to attend an annual shareholder meeting for a publicly traded stock that he owned. My father was not able to finish high school; however, he enlisted in the Army and served in World War II and the Korean War. Though a small shareholder, I remember how proud my

...ONGOING REGULATORY AND LEGISLATIVE ATTEMPTS TO REIGN IN PROXY ADVISORY FIRMS AND THE VOTING EFFICACY OF INSTITUTIONAL INVESTORS.

father was to attend the meeting and to have a voice in how the company managed his ownership stake.

Fast forward almost fifty years later, and I now have the privilege to vote shares that I personally own and more importantly to vote the shares on behalf of our clients. I am concerned, though, about recent and ongoing legislative and regulatory actions that may limit the power of shareholders to impact how the companies they own are run, leaving even fewer checks on the power of management and lessening the positive impact of investors concerned with environmental, social, and governance factors.

As an example, the Securities and Exchange Commission (SEC) is considering changing the minimum thresholds for stock ownership for a shareholder to introduce corporate resolutions during the annual shareholder meeting. Currently, the rule is that a stock owner must own the stock for two years and own at least \$2,000 worth of the company's stock to submit a resolution for

the annual meeting. A recent House bill, the Financial CHOICE Act, attempted to adjust the eligibility requirements to submit a shareholder proposal to being a stock owner for at least three years and owning at least 1% of the company's stock. If we just take the average corporation in the S&P 500, 1% ownership would be approximately \$470 million, which means that most shareholders will no longer be able to submit resolutions. Shareholder-generated resolutions are critical to helping companies identify and manage emerging ESG risks. While this aspect of the House bill was defeated in the Senate, the issue actively remains on the SEC's plate.

A second example is the ongoing regulatory and legislative attempts to reign in proxy advisory firms and the voting efficacy of institutional investors. While controlling the effectiveness of proxy advisory services may sound like a noble objective, it is essentially a legislative and bureaucratic effort to limit the role of a coherent and thoughtful counter-weight to the decisions being made by corporate management. Likewise, while limiting the control of institutional investors by efforts to provide more voting control to individual investors (such as investors in a mutual fund) may appear laudable, it is largely an attempt to limit the voting power of organized and unified investors who can effectively challenge corporate management. It is telling that the main lobby group promoting investor rights for 'the little guy' is heavily funded by the National Association of Manufacturers.

Beyond being good for society and the environment, the empirical evidence is clear that ESG principles and

investing are good for firm performance and neutral-to-beneficial for investors. Decatur Capital is opposed to government efforts to limit the efforts of investors to work with company managements to make wise, long-term decisions. What can we do as shareholders? Decatur Capital is recommending three action items:

- 1.) Please review a more complete report on legislative and regulatory efforts at: <https://www.unpri.org/sustainable-markets/the-shareholder-voting-process-esg-integration-and-proxy-advice-in-the-us/3789.article>

- 2.) There is additional information at www.protectshareholders.org; you can contact your senators concerning their vote on H.R. 4015 (The Corporate Governance Reform & Transparency Act).
- 3.) Stay informed on this issue and speak up to your elected officials and the SEC. Decatur Capital will continue to monitor the potential regulatory or legislative actions.

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Decatur Capital Management, Inc.

150 East Ponce De Leon Avenue Suite 430

Decatur, Georgia 30030

Website: www.decaturcapital.com

Phone: 404 270 9838

Fax: 404 270 9840