ESG Voting: Lies, damn lies and statistics

The phenomenon of "swing votes" is well understood and accepted in political circles. During the 2016 US presidential election, Hilary Clinton won 48.2% (65,853,514 votes) of the total vote yet lost the election to Donald Trump with 46.1% (62,984,828 votes). However, as Donald Trump did better in the swing states (i.e. states where the contest was closest and where a relatively small number of votes could determine the outcome) he won more electoral colleges and subsequently became the US President. In effect, a small number of voters and their votes has a disproportionate influence on the final outcome of the election. Meanwhile, a large number of voters discharged their civil and democratic right knowing their vote had little impact.

Interesting, but what relevance has this to the ESG voting of funds? Well, some startling new research by the European Corporate Governance Institute (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3884917) has revealed that even with ESG voting, "some votes matter more than others". From data gathered on voting between 2011-2018, they authors concluded that

"…environmental and social (ES) funds in non-ES families (sic: non-ESG dedicated fund groups) adopt a strategic voting pattern: they are supportive of ES proposals that pass or fail by large margins, but unsupportive when their votes are likely to be pivotal…results highlight possible conflict of interest between ES funds and their families; showing that, when it matters the most, family preferences towards ES prevail over funds stated objectives, and perhaps with their fiduciary responsibilities."

To paraphrase, the research has highlighted a clear conflict of interest that exists within investment managers that claim to be able to offer both ESG and non-ESG funds for clients. By hiding behind "average" or total voting statistics, investors can be duped into believing that the vote cast by ESG funds are "always" in line and consistent with the funds stated objectives when in fact this may not be the case. Just like data on swing votes, investors need to press asset managers to reveal more granularity on E and S voting, particularly where the votes make a difference to the outcome.

At Alquity, as a pure play ESG-only Manager with a business model founded on sustainable and equitable growth, this conflict never arises and investors can be assured we vote in accordance with our ESG values and Principles of Governance at all times, not just when it suits us. For us, every vote is a swing vote.