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U.S. Activists Complain That Virtual Shareholder Meetings Let Companies Silence Them

By Reuters

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NEW YORK/BOSTON — Justin Danhof has used annual shareholder meetings to question companies on social issues for the last nine years.

His conservative think tank, the National Center for Public Policy Research, owns just a few shares in each of about 150 companies and takes advantage of its shareholder status to grill executives on issues ranging from gay rights to boardroom diversity.

This year, Danhof often found himself ignored, as companies held their shareholder meetings remotely during the COVID-19 pandemic, and asked investors to submit their questions online. Danhof said his questions on topics such as companies' dealings with China or restrictions on financing gun makers were answered in only 13 of the 27 virtual shareholder meetings he and his representatives attended.

"Companies used the crisis to set up question-and-answer sessions that are a joke," Danhof said. His success rate was much higher when he could sit near a microphone or in a CEO's line of sight during in-person gatherings, he added.

Danhof is not alone. Investors faced obstacles, such as not being able to ask questions or not having their inquiries addressed, about 55% of the time in a sample of 88 virtual shareholder meetings held this year and reviewed in a Hebrew University of Jerusalem study published this month.

The researchers did not provide such figures for in-person shareholder gatherings in previous years but estimated that this year's virtual meetings had significantly increased the number of dodged questions.

To be sure, virtual shareholder meetings have been welcomed by many mom-and-pop investors, who would have otherwise had to travel to a company's headquarters to attend amid the pandemic.

Broadridge Financial Solutions Inc, the top technology vendor to companies for these events, said it helped run 1,494 virtual shareholder meetings this year, up from 326 last year, preserving a key ritual in the corporate calendar.

Yet many activists focused on environmental, social and corporate governance issues say the digital format can make it hard for them to hold companies accountable, given that Wall Street's big institutional investors get access to top executives all year long.

"Companies should not use the pandemic as a cover for silencing their investors," New York State Comptroller Thomas DiNapoli, who administers the state's roughly $194 billion pension fund, said in a statement to Reuters. He said he wanted companies to use virtual meetings as a supplement to in-person shareholder gatherings, not a replacement.

Questions avoided this year ranged from online auctioneer eBay Inc declining to name directors who did not attend its online meeting to drug maker AbbVie Inc avoiding an inquiry on whether it would raise the cost of drugs during the pandemic.

"As long-term investors, we were disappointed our question wasn't answered by AbbVie," said Kate Monahan, shareholder engagement manager at the Friends Fiduciary Corporation, which invests roughly $480 million based on religious Quaker values.

She said she also posted her question on social media to attract attention but has yet to receive an answer from AbbVie.

Abbvie did not respond to a request for comment. An eBay spokeswoman said the company's shareholder meeting was well attended by its board, and that it focused on questions more relevant to its business "out of fairness to other shareholders."

Shareholder advocacy groups, including the Council of Institutional Investors (CII), last month asked the U.S. Securities and Exchange Commission (SEC) to look into the issue, including companies avoiding questions or not allowing shareholders to speak during virtual meetings.

An SEC spokesman declined to comment. The securities regulator issued guidance in April instructing companies to be clear about how shareholders "can remotely access, participate in, and vote" in online meetings.

The New York State Common Retirement Fund, overseen by DiNapoli, voted against the re-election of directors sitting on the governance committees of AT&T Inc and Berkshire Hathaway Inc's boards this year for restricting investor participation at their virtual meetings.

Berkshire Hathaway did not respond to requests for comment. An AT&T spokeswoman said via e-mail that its decision this year to tweak the format of its shareholder meeting, allowing the company to read comments on proxy proponents' behalf, "lets us efficiently address the matters to be voted and then move on to additional content."

A spokesman for the fund said it will vote against directors of companies that do not meet CII's standards for virtual shareholder meetings.

Proxy advisory firm Glass, Lewis & Co, which many funds turn to for advice on how to cast their shareholder votes, is considering recommending against directors at companies that ran this year's virtual meetings poorly, its head of research and engagement Aaron Bertinetti said.

TECHNICAL GLITCHES

The snubbing of the activists has not always been intentional. As the pandemic spread in the spring, some companies had to switch to virtual meetings with little notice, resulting in technical glitches.

"The technology is just catching up with the need to make virtual meetings the best in class," said Lawrence Elbaum, a partner at law firm Vinson & Elkins LLP, who often works with companies challenged by activists. He added that investors can also contact companies through investor relations and by writing letters any day of the year.

Some activists argued, however, that public pressure on companies at shareholder meetings is more successful in triggering change. They pointed to oil major ExxonMobil Corp’s move in 2018 to provide investors with a report on the impact of climate change after shareholders won a high-profile vote at its annual meeting the previous year.

"Virtual meetings provide another tool for companies who don't like dissent to shut it down," said Doug Chia, the president of corporate governance consulting firm Soundboard Governance LLC.

(Reporting by Jessica DiNapoli in New York and Ross Kerber in Boston; Additional reporting by Svea Herbst-Bayliss in Boston; Editing by Greg Roumeliotis and Cynthia Osterman)