MILLER/HOWARD INVESTMENTS

# SHAREHOLDER ADVOCACY NEWS

Summer 2017

## Miller/Howard Supports Reasonable Regulations

Many energy companies have stated their preferences for state-based environmental regulatory solutions, but a bill in Pennsylvania threatened the ability of that state to create such solutions. We worked with companies in Pennsylvania to articulate the threat to state-based solutions and to spell out MHI's support for reasonable regulations.

Our position: "Reasonable regulations are an ally to the natural gas investor and company. We call on companies and regulators to support and protect methane emissions regulations across the natural gas value chain."

Read more on mhinvest.com/esg.

## INTRODUCTION

Miller/Howard has been offering ESG strategies and expertise since 1991. Investors might call it ESG (Environmental, Social, Governance), Socially Responsible Investing, Sustainable Investing, or Impact Investing. Some just call it investing. Maybe they choose it because they want to align their investments with their personal values, or because they're focused on the long term, or because they're thinking about the impact of their choices on others. Maybe a combination of reasons. Maybe they've seen pieces on Morningstar or elsewhere that suggest there is no performance penalty for sustainable investing. [1, 2, 3, 4] And maybe they are focused on managing risks in a changing and uncertain world.

## RISK IS AN OPPORTUNITY

In the context of investing, risk can be a good thing. Risk can create key opportunities for investors looking to identify companies that differentiate themselves, either positively or negatively.

Risks may be sector-based, systemic, or specific to a particular region or company, and they may be temporary or lasting. If poorly managed, any type of risk—reputational, environmental, legal, or operational—may have a negative impact on company performance. But when those same risks are managed well, a company's returns may benefit. This is why investors have a financial interest in understanding the risks a company faces and how management responds to them.

A responsible asset manager, in turn, is likely to develop a picture of the risks that are most material to a portfolio company's continuing operational success and performance, and most important for the sustainability of its business model.


1 UNEP Finance Initiative, "Demystifying Responsible Investment Performance," 2007. Web. 1 May 2017.
2 Jon Hale, PhD, CFA, "You Don't Have to Sacrifice Returns for Sustainability," 19 August 2016. Web. 1 May 2017.
3 Morningstar-Magazine, Sustainable Investing Takes Off, December/January 2016. Web. 15 May 2017.
4 Morningstar-Magazine, Sustainability Rating, 24 August 2016. Web. 1 May 2017.

## KNOW YOUR PROFILE

Miller/Howard conducts due diligence to assess the salient risks pertaining to a potential portfolio company before we invest, and then on a regular basis after the company is part of an ESG portfolio.

By evaluating company financials as well as a company's ESG policies and performance—in other words, the ways in which companies manage risks and act on opportunities—we seek to select the names that we believe are aligned with our strategy objectives and firm philosophy.

**"Risk comes from not knowing what you're doing."**

—Warren Buffett

## KNOW RISK, NOT NO RISK

Risks related to environmental, social, and governance issues can have an impact on a company's financial well-being. There are countless examples of nonfinancial concerns that can either benefit or damage a company's reputation and returns.

As one example, hiring good people who make ethical choices is often protective of and additive to company value—and is a sign of healthy and positive governance. Various studies have shown that companies that align with socially responsible behavior may attract like-minded workers, creating a virtuous cycle that can support a robust recruitment process, improved employee retention, and the company's continued operational and financial viability.[5, 6]

Investors and companies are taking notice, which is why 81% of S&P 500 companies published sustainability reports in 2015—up from only 20% four years earlier.[7] Employees are taking notice, as well. A 2016 study found that three-quarters (76%) of millennials consider a company's commitments to social and environmental issues when deciding where to work, and 64% of them will decline the job offer if the potential employer has poor corporate social responsibility practices.[8]

These examples are positive and show how shareholder value can be promoted by certain ESG-related practices. On the flip side, consider how things like corporate messaging, environmental practices, and real or anticipated community impacts can damage shareholder value. Examples abound across industries: when company messaging goes awry and leads to boycotts of the company or its products—leading to a drop in share price; when communities block the inception or progress of company projects because of concerns about the process or the outcome—leading to costly delays and changes; when legislators respond to consumer/constituent outcries by initiating investigations or proposing regulations—leading to costly litigation and brand damage. One can easily underestimate the financial impact on a company of both positive and negative ESG practices.

## MILLER/HOWARD HELPS IDENTIFY AND MANAGE COMPANY RISKS THROUGH ITS SHAREHOLDER ADVOCACY PROGRAM

MHI's work with companies is based on the theory of mutual benefit: We strive to develop relationships that are good for the shareholder and good for the company. Sometimes we reach out to the companies, and sometimes they reach out to us for feedback and assistance. The bottom line? MHI prizes initiating and building relationships with companies that support sustained or improved shareholder value.

Once a company passes our ESG screening process and becomes one of our ESG strategy holdings, MHI's work moves beyond risk assessment to risk management. Our shareholder advocacy program begins the work of supporting company actions that reduce or manage ESG risks we see.

**"You can't manage what you don't measure."**

—Peter Drucker

5 Meister, Jeanne. "The Future of Work: Corporate Social Responsibility Attracts Top Talent," Forbes, 11 June 2012. Web. 1 May 2017.

6 Bonini, Shelia; Gorner, Stephan. "The Business of Sustainability: McKinsey Global Survey Results," McKinsey & Company, October 2011. Web. 1 May 2017.

7 Casciotti, Julia; Cohen, Alexander; Mullen Kritina Jette; Thomsen, Ashley; Yuen, Alvis. "Flash Report: 81% of the S&P500 Companies Published Corporate Sustainability Reports in 2015," Governance & Accountability Institute, Inc.," 16 March 2016. Web. 1 May 2017.

8 Dailey, Whitney. "Three-Quarters of Millennials Would Take a Pay Cut to Work for a Socially Responsible Company, According to the Research from Cone Communications," Cone Communications, 2 November 2016. Web. 1 May 2017.

*A quick aside on our changing regulatory environment:* MHI is alert to the fact that every incoming administration in Washington introduces a new set of regulations or deregulation policies. Such changes can alter the regulatory risks faced by a company or sector; they warrant attention and, in some cases, action. For more perspective on Trump-era regulations and their potential impact on the market, see the commentary "Challenges, Challenges" in our most recent quarterly report.

Uncertainty can be bad for business, and political uncertainty is a risk that almost always affects long-term investors at some point. Fortunately, MHI has nearly 30 years' experience managing socially responsible investments. In those decades, we have seen dramatic political changes that seemed total and irrevocable at the time, only to be reversed in the future.

Our longevity gives us a unique perspective. It has served to reinforce our holistic investment approach: evaluating the totality of a company, not just its financials. MHI looks for factors that tend to support long-term sustainability as well as continued returns for our clients, beyond the next political cycle or two. We often ask ourselves: Will this business be sustainable in the future, or is its success tied to this particular political context? What nonregulatory risks are exacerbated or reduced by recent regulatory changes? These are the kinds of questions we are always asking.

Once we've estimated a company's risk exposure, compiling a picture of relevant financial and ESG factors, we turn next to action. We work with company management and other shareholders to manage the risks that we have identified. Here are excerpts from the most recent proxy season to show some of the work MHI has been doing with companies to identify and manage risks.

Find more about Miller/Howard's recent ESG Shareholder Advocacy work, starting on page 4.

## MILLER/HOWARD REMAINS COMMITTED TO SHAREHOLDER ADVOCACY

Miller/Howard is proud that the success we've achieved this past year comes in a variety of forms:

- Companies reaching out to us, asking for our expertise and the shareholder perspective;
- Shareholder resolutions that bring issues to the attention of company management and other shareholders;
- Dialogue with companies that strengthens the relationship between investors and management;
- Proxy votes in support of sustainability and good governance initiatives (See page 5, MHI Votes Your Interests); and
- Investor advocacy to support or promote reasonable corporate ESG policies and, in some cases, public policy (See sidebar, MHI Supports Reasonable Regulations).

With MHI's decades of experience, dedicated staff, and realistic yet ambitious collaborations, investors have a way to feel good about their portfolio, engage in positive action in support of our shared goals, and stick around for the long term. We commit to continuing this work for our clients: advocating for investors, supporting changes intended to protect and increase shareholder value, and pressing for beneficial systemic change that, in our view, is good for both our clients and portfolio companies in the years to come.

### Tell Us How We Are Doing

**"We all need people who will give us feedback. That's how we improve."**

— Bill Gates

Miller/Howard agrees. We encourage our clients to give us feedback, suggestions, and comments. Reach us at esg@mhinvest.com.

## Miller/Howard Answers the Call—Positive Action & Education

A critical component of MHI's ESG program is raising the investor voice on important issues. MHI works with network partners (such as Ceres and the Interfaith Center on Corporate Responsibility) to amplify the impact, joining investor statements and public policy work. Additional information is available on mhinvest.com/esg.

### Senate vote against rollback of Bureau of Land Management's methane waste rule.

- Op-ed in favor of our position published in The Hill.[9]

### Support of Dodd-Frank Section 1502 (Conflict Minerals Rule), which has been an important driver of positive change to sourcing and supply chains.

- Cosigned a public statement sent to the Securities and Exchange Commission (SEC).[10]

### Continued support of the "pay ratio" disclosure requirement in Dodd-Frank.

- Cosigned a public statement sent to the Securities and Exchange Commission (SEC).[11]

### Support of establishing a Modern Slavery Act in Australia.

- Publicly circulated statement in coordination with ICCR and the Business & Human Rights Resource Centre.

### ENVIRONMENTAL: Natural Capital as Risk and Opportunity

*"Potent methane emissions from the oil and gas industry pose a burden on the climate and a risk to the industry's reputation, while also representing waste of a valuable product. Therefore, enhanced methane management is both a risk-mitigation imperative and a financial opportunity. Improving methane emission disclosure is a key step toward securing investor confidence, managing risk, and unlocking returns."*

***—Jack Ehnes, CEO of CalSTRS (quoted in EDF's "Rising Risk: Improving Methane Disclosure in the Oil and Gas Industry")[12]***

### SOCIAL: Human and Social Capital as Risk and Opportunity

*"The pharma industry has been plagued with multiple drug pricing scandals that have been the subject of congressional hearings and have prompted the introduction of bills in at least 12 states that would mandate greater transparency on drug pricing. Investors argue that the reputation of the entire industry has been tarnished and its business model called into question by policymakers, the medical community, public health advocacy groups, and the public at large."*

***— ICCR[13]***

### GOVERNANCE: Corporate Policies and Practices as Risk and Opportunity

*"Companies that had strong female leadership[14] generated a Return on Equity of 10.1% per year versus 7.4% for those without (on an equal-weighted basis). Companies lacking board diversity tend to suffer more governance-related controversies than average."*

***— MSCI[15]***

9 Kron, Jonas; Jenifer, Luan; Morgan, Will; "Senate must vote against roll back of BLM methane waste rule" 2 March 2017. Web. 1 May 2017.

10 SEC Gov. Regulatory Actions, Comments/Statement, Compere, Lauren, "Comments on Reconsideration of Conflict Minerals Rule Implementation – Supplemental Submission to February 17, 2017," 7 March 2017. Web. 1 May 2017.

11 SEC Gov. Regulatory Actions, Comments/Statement, "Reconsideration of Pay Ratio Rule Implementation," 22 March 2017. Web. 1 May 2017.

12 Environmental Defense Fund, "Rising Risk: Improving Methane Disclosure in the Oil and Gas Industry," January 2016. Web. 1 May 2017.

13 Wokaty, Julie. "Citing Mounting Risks Shareholders Call for Fuller Disclosure of Price Hikes from Leading Pharma-Companies," Interfaith Center on Corporate Responsibility, 24 October 2016. Web. 1 May 2017.

14 "A company was designated as having strong female leadership if its board had three or more women, if the percentage of women on the board was above its country average, or if it had a female CEO and at least one woman on the board. Companies that had experienced controversies related to diversity were excluded from the definition." Lee, Linda-Eling; Marshall, Ric; Rallis, Damion; Moscardi, Matt; Women on Boards, Global Trends in Gender Diversity on Corporate Boards, MSCI, 2015 November. Web. 15 May 2017.

15 Ibid.

## ACTIVE PROXY VOTING—at the heart of change

### Nomination of Directors

- MHI votes against directors on the nominating and governance committees for companies that lack women on the board.

### Shareholder Proposals on Environmental and Governance Issues

- MHI supports environmental, social, and governance shareholder proposals that align with our investment and ESG goals.

### Executive Compensation

- MHI votes against executive compensation packages that are deemed "excessive" by Glass Lewis (ESG Guidelines).

## Miller/Howard Votes Your Interests

MHI's proxy voting policy, which is applied firmwide, is an important component of our shareholder advocacy. Voting proxies at the annual general meeting is an ownership right for most shareholders, which MHI fulfills on behalf of its clients. Before we cast our proxy votes at annual general meetings, we review company ballots and evaluate proposals in order to vote in accordance with the best interests of our clients and our policy. This evaluation is in addition to the financial analyses that our investment professionals conduct.

The value of voting proxies is often overlooked. MHI's proxy voting expands the shareholder advocacy program far beyond the dialogues and engagements we conduct directly with companies. With active voting, we can influence management, policies, compensation packages, and other governance issues.

In addition, because most companies pay close attention to proxy voting behavior, the simple act of voting can lead management to reach out to us in order to establish a line of communication. A proposal that receives less than majority support from other investors can still precipitate company awareness of the issue, behavioral change, and willingness to talk with investors.

As we say, shareholder advocacy is not a sprint; it's a marathon. As long-term investors, we are in it for the long haul.

Please note that proxy voting rights are typically delegated to us by clients at the custodial relationship level, and we do not vote proxies for clients who elect to retain the voting rights themselves. With any questions, or to request a strategy's voting record, please email esg@mhinvest.com. You can read our proxy voting policy on our website (mhinvest.com/esg).

# SHAREHOLDER PROPOSALS and ENGAGEMENTS

## ENVIRONMENTAL: Natural Capital as Risk and Opportunity

### Methane

| Kinder Morgan, Inc. (KMI) | |
|---|---|
| **Methane Emissions (Storage and Transportation):** The proposal asked that the company publish a report "reviewing the Company's policies, actions, and plans to measure, monitor, mitigate, disclose, and set quantitative reduction targets for methane emissions resulting from all operations, including storage and transportation, under the Company's financial or operational control." | **Outcome:** Company shareholders supported the resolution at the Annual General Meeting (40.5%). |

| Occidental Petroleum Company (OXY) | |
|---|---|
| **Methane Emissions (Flaring):** The proposal asked that the company publish a report "reviewing the Company's policies, actions, and plans to measure, disclose, mitigate, and set quantitative reduction targets for methane emissions and flaring resulting from all operations under the company's financial or operational control." | **Outcome:** Company shareholders supported the resolution at the Annual General Meeting (45.7%). |

| EOG Resources, Inc. (EOG) | |
|---|---|
| **Methane Emissions (Greenhouse Gas Emissions Reductions):** The proposal asked that the company "adopt time-bound, quantitative, companywide goals for reducing methane emissions and issue a report, at reasonable cost omitting proprietary information, on its plans to achieve these goals." | **Outcome:** Successful withdrawal following the company's commitment to increase its public disclosure on five new quantitative metrics (including the company's greenhouse gas intensity rate, the fugitive emissions intensity rate, and the methane emissions intensity rate), and to continue participation in the CDP climate change program. |

| Pioneer Natural Resources Company (PXD) | |
|---|---|
| **Hydraulic Fracturing ("Fracking"):** The proposal asked that the company report to shareholders "the results of company policies and practices, above and beyond regulatory requirements, to minimize the adverse environmental and community impacts from the company's hydraulic fracturing operations associated with shale formations." | **Outcome:** Successful withdrawal of the proposal after the company committed to increase its public disclosure, covering such material issues as water use for each of the company's plays and the frequency of leak detection and repair efforts. |

| Anadarko Petroleum Company (APC) | |
|---|---|
| **Carbon Asset Risk Analysis:** The proposal asked that the company "publish an analysis of long-term impacts to Company's oil and gas reserves and resources under a scenario in which oil and gas demand reduction results from carbon restrictions or related rules or commitments adopted by governments consistent with Paris Agreement's 2 degree C global warming target. Reporting should assess resilience of company's portfolio of assets through 2040 and financial risks associated with such a scenario." | **Outcome:** Successful withdrawal of the proposal after the company committed to ongoing dialogue and investigation of the issues. |

# SHAREHOLDER PROPOSALS and ENGAGEMENTS

## SOCIAL: Human and Social Capital as Risk and Opportunity

### Drug Pricing

| AbbVie (ABBV), Amgen (AMGN), Gilead Sciences (GILD), Johnson & Johnson (JNJ), Merck (MRK), and Pfizer (PFE) | |
|---|---|
| The proposals asked that each company issue a report "listing the rates of price increases year-to-year of our company's top 10 selling branded prescription drugs between 2010 and 2016, including the rationale and criteria used for these price increases, and an assessment of the legislative, regulatory, reputational, and financial risks they represent for our company." | **Outcome:** Six resolutions were filed, resulting in ongoing and robust dialogues. The engagements and dialogues continue, with the companies recognizing investor concerns. The SEC upheld the companies' "No Action" requests, which means that the resolutions were not presented to other shareholders for voting this year. |

## GOVERNANCE: Corporate Policies and Practices as Risk and Opportunity

### Board Gender Diversity

| Continental Resources, Inc. (CLR) | |
|---|---|
| This is a continuation of MHI's ongoing engagement with CLR, beginning in 2015. The proposal asks that the company "adopt a policy for improving board diversity requiring that the initial list of candidates from which new management-supported director nominees are chosen by the Nominating/Corporate Governance Committee should include (but need not be limited to) qualified women and minority candidates. The Policy should provide that any third-party consultant asked to furnish an Initial List will be requested to include such candidates." | **Outcome:** Company shareholders supported the resolution at the Annual General Meeting, receiving 10.4% support (or 56.7% support of shares not held by CEO Harold Hamm). |

| MHI profiled all holdings in all strategies in order to initiate a letter and dialogue campaign. We sent letters to **48 companies** that were critical of the fact that they have zero or minimal gender diversity on the board. MHI also included the topic of board gender diversity in ongoing dialogues with six additional companies. | |
|---|---|
| As investors, it concerns us and our clients that the companies may not be benefiting from the bottom-line benefits afforded by promoting sufficient levels of gender-diverse leadership. The rationale for doing so is straightforward: Research shows that companies that exhibit gender diversity are better governed, better managed, and have better long-term growth prospects. This is a winning proposition for both companies and their shareholders. | **Outcome:** This is an ongoing engagement, spanning years. It is coordinated with members of the Thirty Percent Coalition, of which we are a part. Companies such as Tallgrass Energy (TEP and TEGP) and Concho Resources (CXO) responded to the queries with openness to engage in dialogue and invite constructive questions. |

# MILLER/HOWARD AS AN ADVOCATE: SHAREHOLDER ENGAGEMENT

## At Miller/Howard, our shareholder engagement is:

**Active:** Engagement is an active use of one's investment in an effort to protect the dividend and move the company to better, more sustainable practices.

**Realistic:** Engagement works to have an immediate, positive impact on the companies and the communities in which they operate. Divestment, on the other hand, is about absence—selling shares, walking away from a company or industry—rather than sitting in difficult conversations in the pursuit of improvement and solutions.

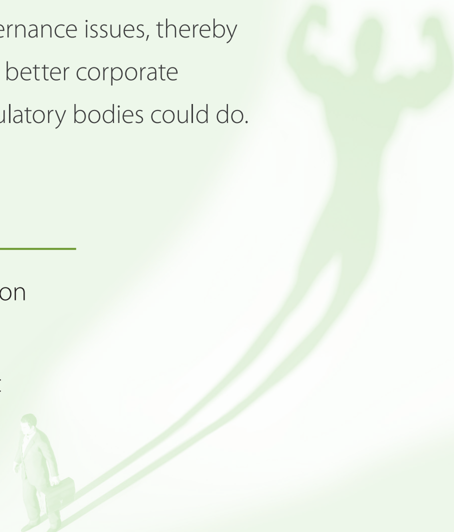
**Ongoing:** Through proxy voting and networking with coalition partners, we keep our shareholders' perspective at the forefront of regulatory and company change-making. Shareholders can initiate discussions of improved and cutting-edge changes to industry practices and standards, and help inform the conversations of policy-makers by representing the investor viewpoint.

**Effective:** We engage companies on social and environmental issues, encouraging companies to reduce their emissions and report on their processes. This is not only positive for the environment; it's also good risk mitigation and can help to protect the company from lawsuits and reputational risks. And when companies push back, Miller/Howard pushes forward and files shareholder resolutions, which allow other shareholders to support the request. Likewise, we actively vote client proxies—and in so doing, support other investors' shareholder resolutions that are in line with our goals.

Shareholder engagements have raised the bar on environmental, social, and governance issues, thereby moving companies to become better corporate citizens—often faster than regulatory bodies could do.

## THE POWER OF THE RESPONSIBLE INVESTOR

- ✔ Proxy voting
- ✔ Ongoing dialogues
- ✔ Shareholder resolutions
- ✔ Relationships with company management
- ✔ The right of the shareholder to access information
- ✔ A business argument: protect the dividend
- ✔ A moral argument: subjective and value-centric
- ✔ A unified investor voice for greater influence



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