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SUSTAINABLE INVESTING

Neuberger Votes Against Lennar Management in First Vote of New Proxy Initiative

By Leslie P. Norton

The investment manager Neuberger Berman voted against management of Lennar at the home builder's annual meeting this week, revealing its vote ahead of time as part of an effort to be more effective as an environmentally and socially conscious investor.

Under the initiative, called NB25+, Neuberger officials said they would preannounce their votes on controversial or noteworthy shareholder proposals involving 25 companies this proxy season. The company is believed to be the first large asset manager to preannounce its proxy votes.

The challenge against Lennar (ticker: LEN) failed, but it illustrates the ways that active managers such as Neuberger, which manages $360 billion, are seeking to differentiate themselves from rivals in a world that has shifted increasingly to passive index investing. As more money flows into passive funds, fewer proxy votes are based on robust analysis of what companies are doing.

Neuberger is no stranger to challenging companies, but its latest move resulted from an increased focus at the firm on environmental, social, and governance investing, Neuberger chairman George Walker said in an interview.

"As we've embraced ESG...we pushed our folks to do more on the engagement front," he said. "As we reflect on our fiduciary obligations, telling folks how we're going to vote on a number of key issues [before the vote] which will increase over time will frankly be good for the system. We hope that other active managers do that as well."

Most active managers don't share how they vote, or disclose their decisions long afterward, because it is hard to publicly challenge management.

Among other things, Neuberger may disclose a plan to vote against a director who sits on too many boards, or a compensation plan that doesn't foster good long-term capital allocation, or may encourage excessive leverage and reduce the ability of the company to weather a crisis.

Neuberger voted against Lennar's executive compensation plan and the election of director Steven Gerard, the compensation committee chairman, citing "excessive" incentives. It also voted against a director who failed to attend at least 75% of the meetings.

Lennar's proposals succeeded regardless. "We are pleased to report that all nominees for election to the Lennar board of directors were elected by a majority vote of our stockholders," a spokeswoman said.

In the coming weeks, Neuberger also plans to support management and vote against a shareholder proposal requiring Adobe (ADBE) to disclose wage gaps between male and female employees across race and ethnicity. Neuberger executives explained that although they ordinarily support such measures, the firm has engaged with Adobe significantly over the years to improve its disclosure, and wanted to send a signal to other companies that it will support them if they make commitments to provide more information.

It also said it would support a recommendation by Stanley Black & Decker's (SWK) to reject a proposal allowing investors to solicit other shareholders to meet in what is called an act of written consent. The executives noted that the company, urged by Neuberger, had already reduced the threshold at which shareholder meetings can be held.

Adobe will hold its annual meeting virtually on Thursday. Stanley Black & Decker has scheduled its meeting for April 17.

In the past, Neuberger has voted against management 11% of the time. Of the 25 proxy votes it will preannounce, "I'd expect there to be a balance" between those for and against company policies, said Jonathan Bailey, head of ESG investing at Neuberger. The 25 votes will be concentrated on companies where Neuberger owns large stakes, or "on votes that signal leadership or lack of leadership on ESG."

Neuberger will rarely file proposals itself. "The goal here is to work with management teams and identify things on ballots that we have an opinion on," said Bailey.

Still, Neuberger has taken a more aggressive stance than other mutual-fund managers in the past, and is a leading exponent of the trend for active managers to become more activist. Active managers are increasingly going on the offensive, seeking alpha, or outperformance, through engagement.

That could encourage clients to stick around longer to see the fruits of that engagement, says Bernstein Associates strategist Inigo Fraser-Jenkins.

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