



Dividend Growth ESG

2020: A Shift Toward Socially Responsible Corporate Behavior

Following a tumultuous Presidential election, the S&P 500 extended its recovery into year-end, ultimately returning 12.15% during 4Q20. Along the way, the S&P 500 established several new all-time-high index prices. Partially fueled by a mix of vaccine-optimism and accommodative government policies, the index's strong performance featured a modest shift in investor sentiment toward more economically sensitive Value stocks. This sentiment shift was partially subdued as COVID-19 cases continued to rise and concerns mounted regarding vaccine distribution and the potential effect on the ongoing economic recovery. Amid the seemingly unending uncertainty, many businesses continue to thoughtfully balance economic stability and profits with the continued prioritization and execution of environmental, social and governance related initiatives and goals. In an effort to convey the more qualitative nature of the Dividend Growth ESG's primary objective, ESG integration, below we highlight noteworthy developments across a range of portfolio holdings. It is important to note that this review is not a recommendation to buy or sell, but rather an inventory of examples that illustrate the focus on ESG issues the strategy seeks to emphasize.

Notably, **Starbucks (SBUX)** has increasingly embraced prioritization of its vast employee base, and diversity and inclusion efforts therein. The company's commitment was made apparent during 4Q2020 through several notable actions. Foremost, the company announced the appointment of Mellody Hobson as Non-Executive Chair of the Board. According to Corporate-Governance-Data firm Equilar Inc., Ms. Hobson will be the only Black chairwoman of an S&P 500 company. In addition, CEO Kevin Johnson detailed his goal to increase employee wages to \$15/hour across US stores while also outlining actions the company will make in the pursuit of inclusion, diversity and equity at Starbucks. Bahl & Gaynor

emphasizes the importance of accountability, and the company is following through by committing to heightened reporting and disclosures. While certain initiatives may prove to be costly in the short-term, we believe these significant social and governance changes will improve the company's long-term financial performance.

Accenture (ACN) is one of the first companies to report its earnings in any given reporting cycle and paired with its F1Q2021 results announced in December was significant focus on ESG initiatives achieved to date and more aggressive goals for the future. In 4Q2020, Accenture met its target of 25% women Managing

Directors (MDs) by the end of the year. For the 2020 promotion cycle, Accenture advanced 605 employees to the MD role, 39% of whom were women. Further, 63 individuals were promoted to Senior Managing Director roles, of which 29% were women. The company re-committed to its gender diversity in management roles by extending a goal to reach 30% women MDs by 2025.

For some time now the company has prioritized gender parity and now stands at 45% throughout the entire workforce, on track for parity by 2025. Regarding racial equality, the company set formal standards in its US, UK and South Africa markets to reach representative racial equality by 2025 and remains the only publicly traded services company to publish these goals. Accenture is leading the way on multiple ESG fronts, but perhaps more important, the trusted advisor to many of the world's leading companies is building a framework which can be replicated for the benefit of so many other organizations which are not as far along their ESG goal-setting, execution and reporting path.

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world, Bahl & Gaynor continues to value dialogue with management teams as a form of primary research and engagement. Further, we believe a key role of equity shareholders is engagement with companies through proxy voting to ensure that principal-agent conflicts are minimized, including those related to environmental, social and governance issues. The Dividend Growth ESG Strategy allows investors to encourage and support significant changes at portfolio companies through various proxy contests. The alignment of ESG investors on proxy contests helps elevate an investment to a method promoting progress in portfolio companies.

As a testament to this process, during **Procter & Gamble's (PG)** 4Q2020 fully virtual Annual Meeting of Shareholders, the company's Proxy Statement included multiple ESG issues. Though Bahl & Gaynor did not serve as a lead activist through the proxy voting process,

Bahl & Gaynor Dividend Growth ESG investors acted in their roles as shareholders by supporting these ESG-motivated items. Notably, Item Five (a proposal calling for further reporting on efforts to eliminate deforestation) was approved by two-thirds of PG's shareholders, including Bahl & Gaynor Dividend Growth ESG investors, despite management's recommendation to deny the proposal. While we recognize the merits of various environmental efforts by PG (i.e. accelerated usage of recycled materials and afforestation efforts), we support initiatives focused on increased reporting and disclosures regarding potentially detrimental environmental effects of utilizing palm oil and forest pulp in their products. This successful proposal serves as an example of shareholders' ability to directly impact management and to enforce standards of outstanding corporate citizenship to help shape a better tomorrow.

During 4Q2020, Bahl & Gaynor initiated the following position in the Dividend Growth ESG portfolio:

Broadcom (AVGO)

Broadcom engages in the design, development, and supply of analog and digital semiconductor connectivity solutions. AVGO's business is focused on radio frequency filters and amplifiers used in high-end smartphones in addition to an assortment of solutions for wired infrastructure, enterprise storage, and industrial end markets. While AVGO is already recognized for its strong corporate governance structure, we believe the company's commitment to conducting business in an ethical and sustainable manner will garner additional recognition as leadership begins to more explicitly detail its ESG-related efforts in early-2021.

Despite the ongoing economic and social challenges presented by COVID-19, the current environment highlights the relevance of ESG investment efforts and the impact in supporting faster and more equitable recovery from this unique societal challenge.

Please contact your Bahl & Gaynor Portfolio Manager if you are interested in learning more about our Dividend Growth ESG strategy.

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