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# 2020

## ABOUT THE AUTHORS

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# TABLE OF CONTENTS



**Updates on Information in *Proxy Preview***

Information about the proposals and companies mentioned in the *Proxy Preview* was accurate as of February 21, 2020. Many ongoing negotiations between companies and proponents, plus action at the Securities and Exchange Commission, will change the final tally of proposals that will appear in proxy statements for investors to consider. *Proxy Preview* is unable to provide updates about the ongoing status of all 429 proposals—for updates on proposals at select companies, follow our Proxy Season Updates at www.proxypreview.org.

# LETTER FROM THE PUBLISHER

It sure sounds like a new era has dawned! The World Economic Forum recently issued a new manifesto and the Business Roundtable (BRT) released a new statement on the "Purpose of a Corporation." Both declare that a new business model has been adopted and it is Stakeholder Capitalism, where "a company serves not only its shareholders, but all its stakeholders—employees, customers, suppliers, local communities and society at large" including sustainable environmental, social and governance (ESG) principles. However, are we really in a new era? Do the titans of business finally understand and agree to the essence of what shareholder advocates have been asking for since the first social policy resolutions were filed 50 years ago? Or are these just empty words?

The 2020 proxy season may provide the answer to this question. If we see major asset managers—which between them control major stakes in most public companies—side with the shareholder advocacy community by voting for ESG resolutions, that will tell one story. If we see fund managers continue their long-standing practice of voting with management against nearly every ESG resolutions, it will tell another. BlackRock publicly stated, "Climate risk is investment risk," but every year has voted against the vast majority of climate proposals; if this changes, we will know a shift may truly be underway. In addition, the continued attacks on shareholder rights by signatories of the new purpose reveal a contradiction with their newfound business model.

Likewise, we will see how corporate management responds to this year's resolutions. Leading companies have an opportunity to define a path to a clean, just and sustainable future, leaving behind a dying and destructive economic paradigm. This year can be the inflection point when the battle for the future of our planet intensifies and a new trajectory is revealed. Corporate boards that have not exerted their power for oversight must be held accountable, and they must act to create change. If they do not, shareholders will intensify their use of resolutions and legal options to replace these recalcitrant boards.

The interconnection of all the issues described in *Proxy Preview 2020* is clear. Climate change has already triggered social injustice, with 100+ million refugees fleeing drought, fire and starvation around the world. The coronavirus pandemic is causing border closings and promises to affect supply chains, which may lead to even more economic upheaval—especially for the most vulnerable communities. Toxins in water, pesticides in food, single-use plastics piling up on beaches and disrupting marine life, hate speech proliferating through social media and political spending that shifts power away from the majority of people are all intertwined and may trigger each other. As the World Economic Forum and Business Roundtable now acknowledge, environmental and social impacts have clear material financial implications for corporations and investors.

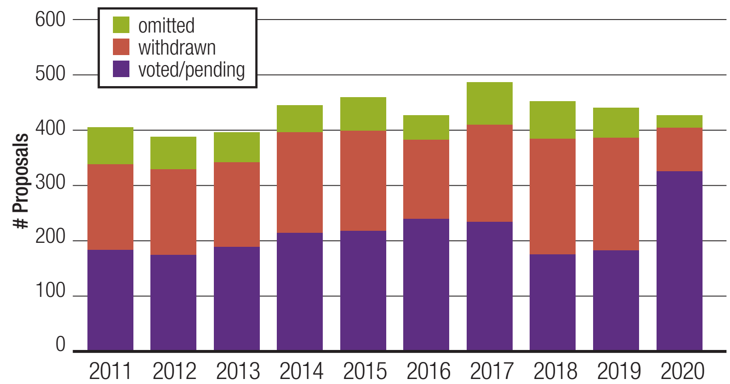
The 2020 shareholder resolutions demand urgent attention from all stakeholders to ensure we find leaders who make the right decisions to transition to a new economic era. It is a time of great risk but also one of great hope. Shareholder proponents strive to work with corporate management to find solutions that create a just and livable world that will allow both businesses and future generations to thrive. We hope the new corporate pledges for stakeholder capitalism mean a new era has arrived.

Andrew Behar
CEO, *As You Sow*

# EXECUTIVE SUMMARY

Proponents have filed at least 429 shareholder resolutions on environmental, social and sustainable governance issues for the 2020 proxy season, up from 366 filed at this time in 2019. A total of 322 were pending as of February 21. Securities and Exchange Commission (SEC) staff have allowed the omission of 26 proposals so far in the face of company challenges; companies have lodged objections to at least 63 more that have yet to be decided. Proponents have already withdrawn slightly more proposals than they had last year at this time—78, compared with 71 in mid-February 2019 and 62 in 2018. Withdrawals generally indicate that the proponents and management have reached an agreement.

### Environmental, Social & Sustainability Proposal Outcomes

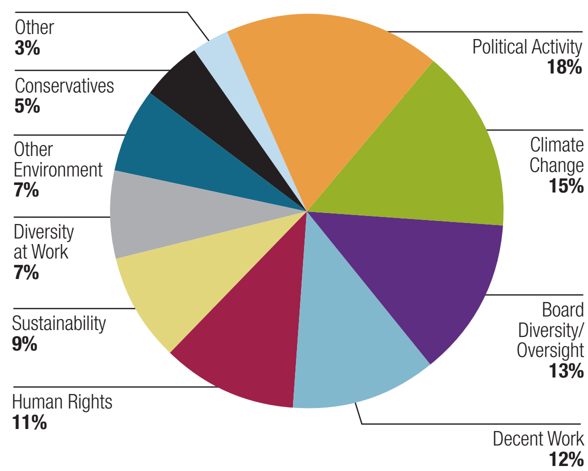



*Excludes 61 not voted for other reasons.* As of 2-21-20

Annual totals are down from an all-time high of just under 500 in 2017 and about 460 in each of the subsequent two years. The proportion of resolutions going to votes has fallen in each of the last two years, only 187 in 2019 (41 percent of the total), while the proportion of withdrawals has risen (44 percent of the total in 2019). Companies omitted just 12 percent in 2019 (56 proposals) after successful SEC challenges, down from a high of 77 three years earlier. *(Bar chart)*

Corporate political activity makes up the largest single category (18 percent), while those on the environment (mostly on climate change) account for another 21 percent. Roughly even slices of 9 percent to 13 percent come from those about board diversity and oversight, decent work, human rights and sustainability. About 7 percent relate to diversity in the workplace, 5 percent are from conservatives and the remaining 3 percent concern other issues. *(Pie chart)*

### Environmental, Social & Sustainability Topics in the 2020 Proxy Season




## Key Recent Developments

**Proposed new proxy voting rules:** On Nov. 5, 2019, after a 3-2 party line vote, the SEC proposed far-reaching changes to the shareholder proposal process regulated by Rule 14a-8 of the 1934 Securities and Exchange Act. It would make it harder to file resolutions, particularly for smaller investors, and substantially raise the bar for how much support a proposal must receive to be resubmitted. A companion rule would impose new restrictions on the activities of proxy advisory firms, including requirements for pre-publication consultation with companies about reports to the advisors' clients. (A history of efforts to restrict advisors is on the Harvard Law School Governance blog here.)

**Reaction**—The proposed rules have sparked a backlash from shareholder proponents and many institutional investors. Opponents to the changes include the Council of Institutional Investors (whose members manage $29 trillion in assets), the Principles for Responsible Investment ($90 trillion) and the SEC's own Investor Advisory Committee, which recommended the commission revise and republish the proposed rules to make sure they comply with the SEC's guidelines. The advisory committee and others were particularly skeptical about the adequacy of the economic analysis offered in the rules. Many of the proponents covered in this forecast helped launch a new website, the Investor Rights Forum, which aggregates material analyzing and opposing the changes. Many investors view these rules as a direct attack on shareholder rights in response to the growing support for environmental and social proposals. As proposed, the new rules would particularly limit resolutions on political spending that have seen increasing support from investors at large, as well as those on climate change and other environmental issues, sustainability and human rights. But corporate groups like the Business Roundtable and the National Association of Manufacturers have seen their long-held aspirations realized in the rulemaking and are lobbying hard for the changes, calling them necessary modernizations.

*(All comments to the SEC can be viewed online. They are divided into comments on the shareholder proposal rules and on the proxy advisors changes. Si2's comment presents an analysis that found about one-fifth of resolutions would not be eligible for resubmission, and explored the differential impact in dominant topic areas.)*

**Looking ahead**—A 60-day comment period on the rules ended on February 4 and final rules are likely this spring. Investor groups are preparing themselves for legal challenge to the changes, with the ultimate result likely to be determined by which party wins the election in November.

**Changing SEC interpretations:** The SEC has been shifting its interpretation of what may be included in shareholder resolutions and issued interpretive bulletins in 2017, 2018 and 2019. These changes have had their most significant impact on climate change proposals that ask companies to measure and report on their greenhouse gas emissions.

**Mutual fund voting:** The huge mutual funds that have influential stakes in nearly every corner of the American financial markets continue to pay more attention to proxy voting on environmental, social and sustainable governance issues, which has pushed the overall support levels higher than ever before. But critics are contending that mutual funds still should do more to integrate environmental and social assessments into their proxy voting. Morningstar, the mutual fund ratings firm, published an analysis that documents growing support from funds for proposals about reputational risk, gender pay equity and diversity, and corporate political spending.

# INTRODUCTION

## Overview and New Issues in 2020

This section provides a look at the main issues raised in each of the topics covered in this report, giving special attention to new issues and also company efforts to block proposals under SEC rules. Hanging over the proxy season this year are proposed controversial rule changes that are likely to have a significant impact on future proxy seasons, although they would come too late for this year. *(See Executive Summary above and SEC Proposed Rules Changes (p. 11) for more on the proposed rule changes.)*

### Environment

Climate change is once again the dominant environmental topic in 2020. The topic of climate change makes up the vast majority of resolutions filed on environmental issues and undergirds many other corners of shareholder activity. In all, there are 93 proposals about the environment.

**Climate change:** The number of proposals specifically concerned with climate change stands at 64 this year, up a bit from 60 last year at this time but down from 83 in 2018. Climate change comes up frequently in other proposals about sustainability disclosure and lobbying. Proponents seek information about how companies plan to address carbon asset risks and disclose what they are doing to retool for a low-carbon economy. A shift in 2020 focuses on what proponents call "Paris-compliant transition planning."

Investors are taking to the courts to force inclusion of climate-oriented proposals, whatever the SEC's view, with a new suit from an individual proponent in Montana at utility **Northwestern**, which follows a lawsuit last year from the New York City pension funds at **TransDigm**, in which the company ultimately agreed to include the proposal.

**Carbon asset risk**—Proponents continue to grapple with recent restrictions on what the SEC thinks can be considered when it comes to *greenhouse gas (GHG) accounting*. Half the proposals on climate ask about goals and reporting. Resolutions on GHG emissions invoke the Paris climate treaty and its aim to keep global warming to 1.5°C or less, and new iterations are less specific than in the past.

A more broadly framed subset of these proposals focuses on *transition planning* for a low-carbon economy and Paris treaty alignment. These "transition" proposals note needed changes in both operations and investments.

Additional proposals ask six utilities how they will handle *stranded assets* that now use fossil fuels, such as coal-fired plants, while a new proposal asks **Chevron** and **ExxonMobil** to support a carbon pricing model for emissions reductions. *As You Sow* has withdrawn one proposal after an agreement at **Duke Energy**, and the others are pending but all face SEC challenge.

*Extreme weather* such as flooding that can create contamination from petrochemical plants came up for the first time in 2019, and the request for a report is newly pending at **Chevron** and **Phillips 66** and resubmitted at **ExxonMobil**, where it earned 25 percent last year.

Five resolutions about *coal, oil and gas* seek reports; all are pending. New this year is a proposal from Proxy Impact about risks associated with natural gas drilling offshore the Israeli coast, at **Noble Energy**.

There are more resolutions this year at banks that *finance* fossil fuel projects. They ask companies to report on financing oil sands projects (**JPMorgan Chase**) and the risks from financing high carbon projects and whether they keep track of the carbon footprints of projects they finance (five more banks).

**Renewable and efficient energy**—Only three of 11 proposals seeking reports on energy efficiency and renewable energy goals are still pending. Withdrawals take most of these resolutions off annual meeting agendas because companies accede to requests asking how they are saving money with energy efficiency and renewable energy. Still pending are proposals at **HD Supply**, **Home Depot** and **Steel Dynamics**. A new proposal asks **ExxonMobil** to install electric vehicle charging stations but it has been challenged at the SEC as being an ordinary business issue.

**Deforestation**—Four resolutions address deforestation that occurs in food commodity production, but Green Century Funds has already withdrawn two at **Archer Daniels Midland** and **Tyson Foods** after the companies agreed to more disclosure. A proposal from SumOfUs at **Yum Brands** seeks more sustainably sourced commodities; it earned 32 percent last year.

**Environmental management:** Twenty-nine proposals ask about waste and hazardous materials management (including plastics), industrial agricultural practices and water. Nineteen are pending, nine have been withdrawn and one has been omitted so far. Most companies are new recipients and challenges are scarce.

**Waste**—Proposals seek reports on plastics pollution at seven companies, reprising last year's request about plastic pellets ("nurdles") used in industrial processes. A new proposal asks about single-use plastic bags at **Walmart**. Four more seek reports about recyclable packaging (or its dearth); *As You Sow* withdrew one of these at **Starbucks** when it agreed to offer washable ceramic mugs for in-store customers (a similar proposal earned 44.5 percent last year at the company). A resubmitted proposal about food waste that survived a challenge last year and earned almost 26 percent is before **Amazon.com**. A new request at **TJX** asks about its chemical footprint and contends the company is falling behind peers in its reporting.

**Water**—*As You Sow* is leading the charge on water disclosure requests this year, with proposals seeking reports on water use risks at five energy companies where the question is usage in arid regions; this is an expansion of earlier water proposals, in a new sector, and all are pending. A detailed request for metrics at chicken processor **Sanderson Farms** received 11.1 percent support, after the company said it has responded to the CDP water survey—even though it has not. The resolution was withdrawn at **Skyworks Solutions**, a semiconductor maker, after an agreement was reached.

**Agriculture**—Three out of nine planned resolutions on industrial agricultural issues are still pending, while three have been withdrawn. The resolutions seek reports on antibiotic use and animal feed (two withdrawals, two pending), and *As You Sow* has withdrawn a resolution at **Kellogg** on suppliers' pesticide use after the company agreed remove all pre-harvest glyphosate from its supply chain by 2025. Still pending is a proposal that will go to a vote in the fall at **Kraft Heinz**; Green Century seeks a report on how it is developing meat-free protein products.

## Social Issues

**Animal welfare:** It is not clear that any of the three resolutions about animal welfare outside the industrial food system will go to votes. There is a pending SEC challenge from **TJX** to a resolution seeking an animal welfare policy; a somewhat similar fur-related resolution there was omitted last year. PETA has withdrawn a dolphin cruelty proposal at **SeaWorld Entertainment**, while another PETA request about wild animal displays at hotelier **Marriott International** faces an additional challenge.

**Corporate political activity:** A mainstay of proxy season is the controversial subject of corporate political influence spending in elections and lobbying and a total of 77 resolutions have been filed on the subject this year. Forty ask for more oversight and disclosure of lobbying, 34 seek the same about election spending, one is about both, and two more are on related matters. The overall tally on the two issues is down after an election spending surge last year. Companies remain happy to put in place oversight policies, and to disclose some direct spending, but far less willing to shine a light on "dark money" that flows into politics through groups that keep their donors secret.

**Elections and lobbying**—About half of the lobbying resolutions are resubmissions and two would not have been eligible for resubmission had the SEC's pending proposed rule been in effect, since they did not receive at least 25 percent last year, at **Ford Motor** and **Tyson Foods**. A new proposal seeking information on if and how lobbying align with the aims of the Paris climate accord has been filed at four energy and airline companies, as well. Two-thirds of the 34 resolutions using the model of the Center for Corporate Political Accountability (CPA) on election spending are resubmissions; support for these has continued to climb and averaged more than 36 percent last year. Just one has been withdrawn to date.

**Decent work:** A total of 52 proposals seek fair pay and equitable working conditions and are driven by the goal of reducing persistent economic inequality in the United States and addressing high profile problems with sexual harassment and violence in the workplace. Forty were pending as of mid-February and nine had been withdrawn.

**Pay disparity**—Five resolutions covered in this report take on disparities between high CEO pay and their underlings, but two have been omitted so far; they are pending at **3M**, **TJX** and **Juniper Networks**. About two dozen resolutions ask for information on global median gender pay disparities; almost all are resubmissions. While companies are providing some information, only a few (including **Starbucks** recently) have agreed to provide the global median figures, which take into account all workers.

**Mandatory arbitration**—Resolutions this year include about a dozen proposals from the New York City pension funds and others to report on mandatory arbitration, which critics say helps hide sexual harassment but also makes it hard to address wage theft; the resolutions face pending challenges at the SEC, which has yet to weigh in. The resolutions highlight a new law in California that is being challenged in court. One of the arbitration proposals has been withdrawn by the Nathan Cummings Foundation at **Nordstrom** after the company provided information. At **CBRE**, the AFL-CIO goes further and wants an end to mandatory arbitration.

**Sexual harassment**—Five proposals ask for review and reports on sexual harassment policies; four are pending, at **Comcast**, **Wells Fargo**, **XPO Logistics** and one other company not yet public.

**Time to vote**—Trillium Asset Management has withdrawn new proposals at **Alphabet** and **Apple** asking for information on paid time off for voting.

**Human capital management**—Five new proposals ask for reports on how companies are managing diversity and labor issues, invoking the Sustainability Accounting Standards Board metrics that are industry specific; one has been withdrawn at **Advance Auto** after an agreement.

**Safety**—A new proposal from the Teamsters is on worker safety at **Amazon.com**, seeking information on what the company does to oversee its own facilities and those of its third-party contractors, although the company is contending this is ordinary business.

**Diversity in the workplace:** After a dip last year, workplace diversity resolutions have surged back, with 29 filings; 21 are pending and eight (including all seven that ask for gender identity policies) have been withdrawn. New proposals at eight companies ask for analysis of corporate diversity programs, while longstanding proposals seeking data on diversity in different job categories and related affirmative action have been filed at seven companies. One is at **Travelers**, where it received 50.9 percent support last year and another is at **Home Depot**, where it has been on the ballot for nearly two decades and seems to have prompted some additional company disclosure last year. The effort begun in 2019 to encourage greater diversity in upper management continues with six proposals, five of which are pending.

**Ethical finance:** Members of the Interfaith Center on Corporate Responsibility are seeking a report on how **Merck** has used the proceeds from the federal tax reform legislation, although a similar proposal last year at **Gilead Sciences** earned only 2.2 percent support.

**Health:** The Investors for Opioid and Pharmaceutical Accountability (IOPA) campaign, led by Mercy Investments and the UAW Retirees' Medical Benefits Trust, in its third year continues to ask for corporate governance reforms to create accountability and disclosure at firms connected to the opioid epidemic and high drug prices. Two opioid report requests are pending, at **Johnson & Johnson** and **Walmart**, and one has been withdrawn at **Walgreens Boots Alliance** because the company produced the report.

New this year are resolutions from *As You Sow* and the Rhia Advisors that raise concerns about how restrictive reproductive health rights laws in some states may affect companies and their employees. Resolutions are pending at **Macy's** and **Progressive** and planned at others. Institutional investors with $236 billion in assets sent a letter to more than 30 *Fortune* 500 companies last September asking about efforts to support employee rights. Also new but not going to a vote was a proposal worried about 5G technology deployment health risks, and another new proposal on youth tobacco use faces a challenge from **Altria**.

*(Additional proposals seek links between drug pricing risks and executive pay, noted below under Sustainable Governance.)*

**Human rights:** A total of 41 resolutions address a wide array of human rights problems. The biggest group seek stronger policies and disclosures about risk management. Just eight of the human rights proposals are resubmissions and 30 are now pending, with eight withdrawals and two omissions so far.

**Policy and approach**—Relatively general proposals ask for risk assessments, new corporate policies or reports on how current implementation is going. A new proposal on how vulnerable communities are disproportionately affected by contamination and climate change impacts is at **Chevron**, while another from Oxfam at **Amazon.com** wants disclosure about sourcing of products from high risk areas with labor abuses. Still another takes aim at the long global supply chains for automotive supplier **Lear** and defense contractor **Northrop Grumman**, from Investor Advocates for Social Justice, which has launched its Shifting Gears campaign. These proposals note low scores from recipient companies from initiatives such as Know the Chain and the Corporate Human Rights Benchmark.

**Penal system**—While proposals last year took on controversies about the U.S. immigration systems and the penal system, these seem to have been folded into the more broadly focused policy proposals this year. The exception is a continued effort from NorthStar Asset Management to report on the use of prisoners in the product supply chain, at **Home Depot** and **TJX**. Resolutions there earned 30.3 percent and 37.6 percent, respectively, in 2019. The Nathan Cummings Foundation also is concerned about the possible use of workers from a drug treatment diversion program at **ExxonMobil**.

**Child sexual abuse**—Four pending proposals at communications and internet companies seek action to prevent child sexual exploitation online; one last year at **Verizon Communications** earned nearly 34 percent support. One withdrawal has taken place at **Apple** after dialogue.

**U.S. slavery reparations**—These resolutions come amid mounting criticism, media investigations, and bi-partisan legislation highlighting the tech industry's role in putting children at risk. It is not clear if the resolution will go to a vote, but an individual would like railroad company **CSX** to study how it "can best atone" for pre-Civil War slavery connections from a company it now owns. This is the first reparations proposal ever on U.S. slavery to our knowledge but it faces a challenge from the company at the SEC on ordinary business grounds.

**Weapons**—Two resolutions ask how companies that make guns and ammunition address the risks inherent in their products. One is at **Sturm**, **Ruger**, where a 2018 proposal earned 68.8 percent but did not go to a vote last year. The other is at **Olin**, a new recipient.

**Offensive products and whistleblowers**—A resubmitted proposal on hate speech and products is at **Amazon.com**; it earned 27.2 percent last year. Taking a different angle, a new proposal asks about protections for **Alphabet** workers who have questioned certain business lines.

**Media**—A handful of proposals question internet media companies about how they impose controls on their platform content, with a new resolution from Azzad Asset Management at **Alphabet** seeking annual reporting and another at **Amazon.com** about its work with Immigration and Customs Enforcement. Concerns about Amazon's involvement in surveillance products are the subject of two proposals, but one seems likely to be omitted on the grounds it duplicates the other.

## Sustainable Governance

Proponents continue to use a corporate governance approach in their requests about environmental and social concerns, seeking reforms in how boards are structured and what companies tell their investors about broadly framed sustainability strategy. But because so many companies now routinely produce sustainability reports, those reporting resolutions have dropped precipitously—while proposals to link environmental, social and governance (ESG) metrics to executive compensative continue at a steady rate.

**Board diversity:** Proponents remain keenly focused on diversifying boards and have filed 49 resolutions, the most ever and up from 44 last year. New this year is a proposal from the New York City pension funds on CEO diversity but one of these has been omitted on the grounds a policy change at **PACCAR** made it moot, in the SEC's view. Thirty-four proposals are pending and 14 have been withdrawn to date, but more agreements for diversity promotion are certain since almost all these proposals usually prompt agreements. The resolutions ask either for reports on how boards are trying to diversify their mix of nominees or for the adoption of policies to do so. They mention gender, race and ethnicity. *(A conservative version that asks about reporting on "ideological diversity" is noted below.)*

**Board experts and oversight:** All six resolutions that ask for specific types of board oversight on climate change or human rights are pending; four more request particular types of board member expertise. These numbers are comparable to 2019.

New is a proposal from Mercy Investments asking **Amazon.com** about the board's oversight of risks connected to third-party vendors using the platform as a "vast unregulated thrift market" to sell unsafe products that could come back to haunt the company, although Amazon says this is an ordinary business concern and should be omitted.

**Sustainability disclosure and management:**

**Reporting**—Since corporate sustainability reports are now ubiquitous, proponents largely are focusing on other aspects of sustainability and filed just six proposals seeking these reports this year. Four are pending.

**ESG pay links**—The number of resolutions seeking links of sustainability metrics to pay has held steady at just over 20 for three years; of the 22 filings this year on pay links, 18 are pending. They ask for links to a panoply of issues—high drug prices, extraordinary legal costs connected to the opioid crisis and student debt, executive diversity, community impacts and cybersecurity. Votes last year on drug pricing links were relatively strong, in the 20-percent range. Companies are contesting the inclusion of the three legal cost proposals; these resolutions, notably, come from pension funds in jurisdictions hard hit by opioids—Vermont and Philadelphia.

**Corporate purpose:** New resolutions ask six companies (four major banks, **BlackRock** and **McKesson**) to explain how they will define and deliver on their CEOs' commitments to support the Business Roundtable's (BRT) redefinition of corporate purpose, issued last summer. The BRT suggests companies should attend to the needs of all stakeholders, not just shareholders. So far, two proposals have been omitted and four remain pending.

**ESG proxy voting**—Proponents have been urging large mutual funds to integrate ESG concerns into their proxy voting policies for several years and there will be at least four resolutions filed this year, although two of the fund companies have mounted SEC challenges.

## Conservatives

The field of proposals from politically conservative groups, chief among them the National Center for Public Policy Research (NCPPR), has always focused heavily on social policy; this remains true in 2020.

**Board diversity:** Conservatives have copied an approach about reporting on board member attributes first used by the NYC pension funds two years ago as they argued for more diversity in terms of race, gender and ethnicity. But the conservative variant contends that "ideological diversity" is what's missing. Last year they had no luck persuading investors at large of this thesis, though; none of the seven votes in 2019 surpassed the 3 percent minimum needed for resubmission. Three recipients of the proposal this year have convinced the SEC their current disclosures make the proposals moot, but a vote of 1.4 percent occurred at **Costco Wholesale** and another at **Deere** was 1.1 percent.

**Diversity at work:** NCPPR is asking three tech companies and **Starbucks** about purported risks connected to excluding "ideology" from their non-discrimination policies. Although there will be a vote at Starbucks, **Apple** has already convinced the SEC this is ordinary business and similar challenges from **Alphabet** and **Salesforce.com** make further votes unlikely. An individual wants **Intel** to stop flying the gay pride flag, in a proposal similar to one that was omitted last year and a vote there is also unlikely given an SEC challenge.

**Lobbying:** Four lobbying resolutions have surfaced to date and a few more are likely to emerge as the season progresses. These proposals use the same resolved clause as those asking for lobbying disclosure but in their supporting statements praise companies for their lobbying efforts.

**Charitable giving:** Four resolutions from an anti-abortion activist sought a report on charitably giving but just one is still standing after a withdrawal and two omissions and the final one faces a challenge that seems likely to succeed.

# SEC PROPOSED RULE CHANGES

The SEC has received nearly 20,000 comments from investment firms, pension funds, organizations, and individuals–representing over $1 trillion in assets under management–in opposition to its proposed rule changes. Four leaders of the shareholder rights' movement help explain the impact of the new rules.

**expert**insight

## PROPOSED RULES THREATEN TO OBSTRUCT PATHWAY TO IMPROVED ESG DISCLOSURE AND PERFORMANCE

SANFORD LEWIS
*Director, Shareholder Rights Group*

The Shareholder Rights Group includes leading shareholder proponents working to defend SEC Rule 14a-8. After the SEC issued its proposed rule on November 5, 2019, we examined how it would have affected recent proposals and engagements at companies with high profile corporate responsibility challenges: **Boeing**, **Wells Fargo** and **Chevron**.

One of the proposed changes would alter the ability of shareholders to resubmit proposals. The new rule would increase the thresholds from 3 percent for a first-year resolution, 6 percent for the second year and 10 percent for the third and any subsequent year, to 5 percent, 15 percent and 25 percent, respectively. It would also add a brand new requirement that a proposal in its fourth year not "lose momentum" (a vote percent less than the previous one). We found that under the proposed rules, shareholder proposals addressing core issues at Boeing, Wells Fargo, and Chevron would have been blocked from recent proxy statements.

**Boeing:** Prior to the two crashes of Boeing's 737 MAX airliners in 2018 and 2019, shareholders voted on a proposal seeking improved disclosure of Boeing's lobbying policies, expenditures and internal controls. The failure of regulators to intercept the safety hazards has been attributed by media to Boeing's aggressive lobbying practices—in effect, curtailing government oversight and allowing the company to regulate itself.

Under the proposed rule on resubmissions, lobbying proposals would have been barred beginning in 2017, having missed the proposed 25 percent third-year threshold in 2016. Yet 32.6 percent of shareholders voted in favor when the proposal was considered in 2019.

**Wells Fargo:** Wells Fargo has suffered and continues to suffer a prolonged crisis of public, government, and consumer trust, and has incurred over $17.2 billion in penalties since 2000. Failings of leadership, toxic corporate culture, and misdirected incentives seem to have produced a company-wide epidemic encouraging consumer fraud. The deterioration of confidence in the company has cost investors at least $24 billion in market value. On February 20, the company agreed to pay out $3 billion to settle federal and criminal charges about the fraudulent accounts.

As the company's problems emerged and worsened, some shareholder proponents sought reform of the company's predatory consumer culture through the shareholder proposal process. If the board and management had heeded the early warnings in proposals, billions of dollars in losses might have been averted.

Yet under the proposed rules, investor engagement would have been thwarted. Predatory lending related proposals would have been excludable from 2013 to 2016, since they failed to reach the 15 percent threshold in 2012. Proposals for an independent board chair would not have been permitted from 2013 to 2016 due to "loss of momentum." It is unclear how eager the company would have been to negotiate on this important governance issue when the proposal was filed in 2017, had the topic been excludable from corporate annual meetings for the prior three years.

**Chevron:** In the United States, advancement on corporate climate initiatives has been driven to a large degree by shareholder proposals and shareholder engagement. One informative example is the progression of 2011-2018 hydraulic fracturing and methane proposals at Chevron. In 2018, approximately 45 percent of Chevron's shareholders voted in favor of a fugitive methane reduction resolution. In anticipation of the vote the company began to announce new measures to address methane management. For the first time, Chevron provided an intensity rate for its methane emissions in its Corporate Responsibility Report. It also signed on to oil & gas industry "Guiding Principles" for reducing methane emissions from across the natural gas value chain.

These moves followed seven years of shareholder proposals and engagement. A slight decline in voting support to a low of 26.6 percent in 2014 would have triggered exclusion in following years, under the SEC's proposed momentum exclusion. The resubmitted 2016 proposal rebounded to a 30.7 percent vote, followed by a 45 percent vote in 2018—and company action. The importance of methane management clearly had not diminished for the company, but the proposed rules would have cut off this productive investor engagement process in the most critical time period.

Other aspects of the proposed rule changes would also make the job of investment fiduciaries more difficult, adding convoluted procedures, costs and red tape that would make it harder to implement client instructions related to engagement and proposals. This raises serious concerns about the proposed rules interfering with state laws of agency and contract, as well as investors' First Amendment rights of expression and association.

In a time in which mainstream investors increasingly monitor environmental, social, and governance (ESG) issues, the rulemaking threatens to disrupt the best available pathway to improving ESG performance and disclosure through a functional ecosystem of working relationships among shareholder proponents, institutional investors, proxy advisors and companies.

For additional information on the proposed rule changes visit: InvestorRightsForum.com

**expert**insight

## THE ATTACK ON SHAREHOLDER RIGHTS

### KEN BERTSCH

*Executive Director, Council of Institutional Investors*

The currently pending SEC proposals to regulate proxy advisory firms and to limit shareholder proposals together represent the biggest attack on shareholder rights by the SEC since it was created in 1934.

The Council of Institutional Investors (CII) believes Rule 14a-8 is working well. Shareholder proposals make up less than 2 percent of voting items facing investors at U.S. companies, and the number of proposals has, if anything, declined in recent years. The fact that proposals get higher voting support than in earlier decades shows the strength of the process, rather than it being a problem as management lobbyists seem to believe.

If anything, CII is even more concerned with the proposed heavy-handed regulatory structure for proxy advisory firms. The regulations, ostensibly aimed at "protecting" investors, have been prompted by a multi-million dollar lobbying campaign by company managers and their representatives. As the SEC's November 2018 proxy roundtable and comment letters on the proposal have made clear, investors strongly oppose the ideas incorporated into the SEC proposal, including establishing a right of management to pre-review proxy advisor regulations.

The extreme SEC proposal actually would give management two rounds of review, delaying proxy reports by more than one full week. The compressed time for voting, particularly during the spring proxy season, already is a huge challenge, and the SEC proposal would make the process unmanageable for most institutional investors in the absence of simply deferring to proxy advisor recommendations. The SEC regulations also would create new barriers to entry, and likely drive out of business one or more existing firms, in a proxy advice industry that already is too concentrated. We believe that some advocates for onerous regulation hope to drive all proxy advisory firms out of business, but the more likely outcome is to establish a monopoly.

The SEC data analysis in its proxy advisor proposal is notably poor. The Commission did not even access its own data regarding, for example, when companies file their proxy materials, instead relying on inaccurate anecdotal accounts. In proposing a requirement for management pre-review and preview of reports, the Commission relied on assertions of pervasive errors in proxy advisor reports—assertions that are unsubstantiated. CII asked the SEC for underlying analysis for a key table on purported errors, but the SEC declined to show its work. One example of the SEC's weak economic analysis: The SEC assumed for purposes of cost estimates that only about one-third of companies will be the subject of proxy advisor reports each year. But larger proxy advisors have reported on virtually all publicly listed companies every year for the last 15 years or more. The SEC provides no explanation for why it thinks this will change.

A wide range of investors has been vocal in opposing this intrusive regulatory approach and supporting a market-based approach to proxy advice. I am hopeful that the SEC may see reason here and back off a proposal that would be highly damaging to corporate governance in the United States.

**advocacy**position

## SHAREHOLDER PROPOSALS PROVIDE CRUCIAL EARLY WARNING SYSTEM FOR IDENTIFYING RISK

### JOSH ZINNER

*CEO, Interfaith Center on Corporate Responsibility*

For decades, the shareholder proposal process has served as a cost-effective way for corporate management and boards to gain a better understanding of shareholder concerns, particularly those of longer-term shareholders concerned about the sustainability of the companies they own.

Engagement by members of the Interfaith Center on Corporate Responsibility (ICCR) and other shareholders has served as a crucial early warning system that helps companies identify emerging risks.

For example, as problems mounted in the housing market in 2007, members filed resolutions at financial institutions asking for disclosure of risks associated with the mortgage securities crisis. The SEC staff deemed the subject—evaluation of risk—to be ordinary business, yet the ensuing financial crisis confirmed that risks associated with subprime lending had not been fully priced into those securities, nor had those risks been appreciated by organizations hired to rate those securities.

ICCR members were again among the first shareholders—as early as 1991—to flag climate change as a risk for companies. Although initial proposals received low levels of support, as awareness has grown of the potentially catastrophic impact of climate change, proposals seeking climate-related disclosure have received majority support and companies as a result are increasingly managing these risks.

Our members' engagements on human trafficking and forced labor in global supply chains have resulted in enhanced recruitment policies and supplier codes at companies in the agricultural, food and beverage, tech, and apparel sectors. And, as a result of focused engagements with the pharmaceutical sector, HIV/AIDS medicines are available for generic manufacture, exponentially increasing accessibility for millions of patients.

The history of ICCR contains hundreds of examples of companies changing their ESG practices after productive engagement with shareowners.

*Continued next page*

### SHAREHOLDER PROPOSALS PROVIDE CRUCIAL EARLY WARNING SYSTEM FOR IDENTIFYING RISK

*Continued*

Recent examples of such change include:

- **Bank of America**, **BNP**, **JPMorgan Chase** (Investor Advocates for Social Justice), **PNC** (Trillium), **SunTrust** (United Church Funds), and **Wells Fargo** (Sisters of St. Francis and SEIU) announced they would stop financing private prisons;
- **Biogen** acknowledged that its high drug prices are a clear business risk (Mercy Investment Services);
- A resolution filed by the Midwest Capuchins led **Kraft Heinz** to commit to publish a global human rights policy and assess its related risks;
- A 2019 Trillium Asset Management resolution moved **EOG Resources** to set both qualitative and quantitative methane emissions reduction targets;
- Boston Common persuaded **Verizon** to increase its disclosure of its lobbying policies and procedures, and;
- Twelve companies, including **Endo** and **Cardinal Health**, published reports on oversight of risks related to the opioid crisis following receipt of shareholder proposals from ICCR members and Investors for Opioid and Pharmaceutical Accountability.

From the ramifications of new technology on data privacy, immigrant rights, and child sexual exploitation, to the importance of proxy voting support for climate-related proposals by major funds like **BlackRock**, JPMorgan Chase, **T. Rowe Price**, and **Vanguard Funds**, ICCR member proposals provide continued evidence of our members' foresight in identifying critical emerging risks and opportunities for both corporations and the investment community.

advocacyposition

### SEC PUTTING CORPORATE INTEREST OVER SHAREHOLDERS AND CONSUMERS

FRAN TEPLITZ
*Executive Co-Director, Green America*

The general public has grown steadily more aware of how corporations affect people and the planet. More companies now offer "green" products and services, make their supply chains more transparent, and have sustainability departments, but there is an acute need for still greater corporate oversight.

People see corporations pursuing profit while benefitting from human trafficking, modern slavery, child labor, and environmental exploitation and destruction. They see the influence of corporate lobbying and donations to political campaigns on public policy. They see excessive CEO compensation and enrichment of big business as the gap grows between the richest and the poorest. They see too many companies ignoring or responding slowly and weakly to the climate crisis—and even seeking continued profit from fossil fuels—despite the imperative for a clean energy economy.

That's why it is shocking that the Securities and Exchange Commission (SEC) has proposed changes to the shareholder proposal rule that will make it far more difficult for investors to file resolutions with companies. Thousands of individual consumers and investors have given a resounding "no" to the changes because they would result in less corporate oversight, when we need more to advance societal well-being and correct abuses.

Public demand for corporate accountability strengthens our economy and protects human and environmental health. Companies that work to improve their practices and take action to address environmental, social, and corporate governance risks are better positioned for success over the long term. Understanding the unique corporate oversight role that individual and institutional investors play, through the shareholder resolution process, people want the current shareholder proposal process upheld.

By locking many shareholders out of this process, and undermining the ability of investors to keep issues of concern in front of management and fellow investors, the SEC promotes a world run even more than it is today by unaccountable corporations. It is opposition to that outcome—the erosion of democracy, the loss of protections for the public, and increased environmental degradation—that has motivated people to denounce the SEC's attack on shareholder rights.

The shareholder resolution process raises crucial issues facing our society and world that touch the lives of people everywhere, such as the climate emergency, human rights, labor rights, pay disparities based on gender and minority status, and prescription drug costs. Not surprisingly, though short-sighted, many corporations and their associations would like to weaken the shareholder process that promotes shareholder democracy, identifies risks, and shines a spotlight on corporate complicity with exploitative practices.

Americans for Financial Reform, *As You Sow*, Green America, and Public Citizen together generated over 18,000 individual consumer and investor signers on statements urging the SEC not to weaken the shareholder resolution process that has worked well for decades. Consumers and investors are united in seeking an economy that will thrive over the long term, build prosperity for all, and secure our environmental heritage for future generations.

That is what is truly at stake.

# THE 2020 PROXY SEASON

This section of the report presents information on the 429 shareholder proposals investors have filed so far for the 2020 proxy season. Additional proposals for spring votes will show up as the season progresses and more are likely to be filed for meetings that occur after June. A total of 55 proposals are included in the aggregate totals but not described in detail since they have yet to be made public by the proponents. The numbers this year are much higher than the 387 filed last year at this time, but the 2019 season was affected by the six-week government shutdown, which included the Securities and Exchange Commission (SEC). As noted above, this year's season is not likely to be affected by the current rulemaking, but its promise to restrict filings in the future may have prompted more proponent vigor in 2020.

**Structure of the report:** Information is presented in three main areas—Environment, Social and Sustainable Governance (ESG). A separate section, entitled Conservatives, covers resolutions filed by shareholders on issues that reflect conservative social views. We note how many proposals have been filed in each category, which are now pending, how many have been withdrawn for tactical or substantive reasons after negotiated agreements with companies, and the disposition of challenges to the proposals at the SEC under its shareholder proposal rule. Rule 14a-8 of the 1934 Securities and Exchange Act allows companies to omit proposals from their proxy statements if they fall into certain categories such as dealing with mundane, "ordinary business" issues. *(See Appendix on the PP website for details on the rule.)*

Analysis in this report focuses on the resolved clauses and how these compare to previous proposals, as well as previous support for resubmitted resolutions and new developments. We pay close attention to the SEC's interpretations of the omission rules, given new guidance documents from the commission issued in each of the last three years that set out some new approaches from the commission's Division of Corporation Finance about whether a resolution concerns "ordinary business" or is "significantly related" to company business.

**Key information**—Within each section, tables present key data: each company, the resolution, the primary sponsor and the estimated month for each company's 2020 annual meeting if it is pending.

**Voting eligibility**—To vote on proposals, investors must own the stock as of the "record date" set by the company, about eight weeks before the meeting.

## Environmental Issues

As financial markets increasingly take into consideration growing climate change-related risks to businesses, investors have seen their shareholder resolutions on that issue receive more support. At the same time, some common ground has emerged about how companies can respond to increasing risks and opportunities connected to our changing world; this has pushed the number of withdrawn proposals higher. In 2020, activists have offered 64 climate proposals so far. A further 29 resolutions about a variety of environmental management issues address agriculture (including farm animal welfare concerns), water, hazardous materials and waste.

### LAWSUITS

In addition to revising proposal requests about GHG goals, proponents also have sued, seeking court decisions that would supersede any SEC no-action letter.

**2019:** The New York City pension funds went to court in December 2018 after **TransDigm** challenged its resolution seeking "time-bound, quantitative, company-wide goals for managing green-house gas (GHG) emissions, taking into account the objectives of the Paris Climate Agreement," and a progress report. TransDigm initially reiterated an argument used in 2018 by EOG Resources to successfully challenge a GHG goals proposal in its challenge to TransDigm. But the NYC funds filed suit seeking a federal court injunction to require inclusion of the proposal. TransDigm ultimately agreed to include the proposal and the case was closed, as the Comptroller's Office noted in a January 2019 press release.

**2020:** This year, another proponent, attorney Tom Tosdal of Montana, has a similar lawsuit. His proposal is much more detailed than the NYC version, however, and asks **Northwestern** to end coal use and start using renewables *(see p. 20 )*. On Dec. 17, the company contended at the SEC that the proposal concerns ordinary business and is false and misleading. But five days later Tosdal filed suit, seeking an injunction from the U.S. District Court in Montana to require inclusion of the proposal. On Jan. 9, the SEC said it would not respond to the company's complaint given the pending litigation. *(The proposal, the company's response, the lawsuit and the SEC's response are available here.)* The court threw out the suit and denied the injunction as Proxy Preview went to press.

*(The section on Sustainable Governance, p. 57, examines related reporting proposals, which also request more transparency from companies about environmental management at their own operations and in their supply chains, in conjunction with reporting on social issues and related ties to executive compensation as well as board oversight.)*

## CLIMATE CHANGE

As of mid-February, there were 48 proposals about carbon asset risks and how companies will cope with a carbon-constrained world (including greenhouse gas (GHG) emissions management). Twelve others deal with energy solutions and four are on deforestation. The overall number is down from the levels of 2014-18 but similar to last year.

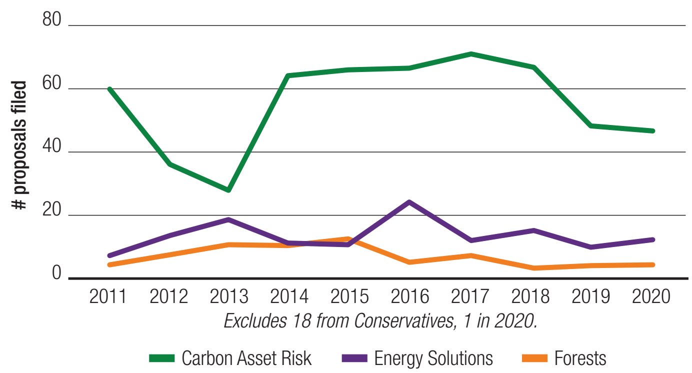
The context for climate change proposals is quite different from a few years ago, given the Trump administration's extensive rollback of laws and regulations enacted in the past to curb emissions and reduce harms. Current U.S. political barriers to climate action have given greater urgency to non-governmental efforts to call companies to account and force them to act. Despite widespread destruction from the changing climate, including devastating storms and wildfires and melting icecaps and glaciers, it remains uncertain if U.S. voters feel strongly enough about these issues to bring about change in either Washington or state capitals around the country. Still, last year large mutual funds continued to vote in greater numbers for climate risk disclosure at their portfolio companies, although most still eschew any public pressure on lawmakers.

**Proponents:** The Ceres coalition coordinates nearly all these proposals, working with its Investor Network on Climate Risk (INCR) and a broad coalition of institutional investors, including many members of the Interfaith Center on Corporate Responsibility (ICCR), the New York City pension funds and some individuals. The proponents support Climate Action 100+, an effort focused on 100 carbon emitters that account for two-thirds of global industrial emissions and 60 more companies the network says will be key to a "clean energy transition." Climate Action 100+ is backed by 450 institutional investors managing $49 trillion in assets.

### Carbon Asset Risk

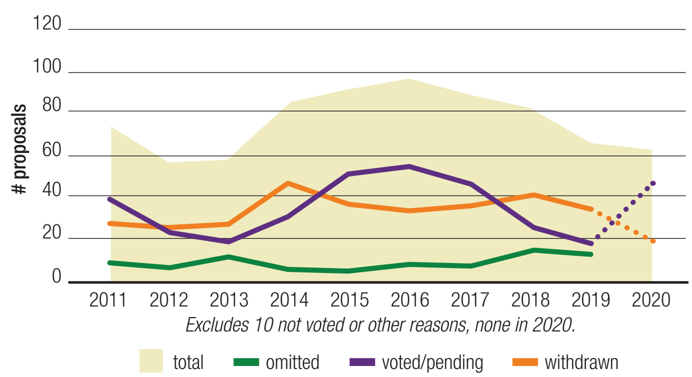
Half of the carbon asset risk proposals filed this year ask companies about their goals and reporting on efforts to reduce their GHG emissions and plan for a lower-carbon transition—a critical step if companies are to effectively address climate risks and seize related opportunities. Proposals in this vein have been hit by the SEC's reinterpretation of what constitutes "ordinary business"—the most commonly used exclusion provision of its shareholder proposal rule—following a no-action letter the SEC staff issued in early 2018 allowing **EOG Resources** to exclude a resolution. The EOG letter found that a proposal about GHG emissions goals was "micromanagement," a long-established

### Climate Change Categories



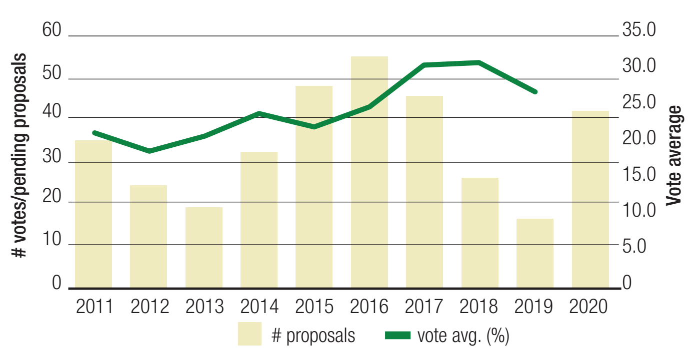

*Excludes 18 from Conservatives, 1 in 2020.*

### Climate Change Outcomes




*Excludes 10 not voted or other reasons, none in 2020.*

### Climate Change Votes



matter of ordinary business, but not one previously applied to emissions. Proponents in 2019 therefore tried several new formulations to get past this new blockade, asking more generally for reports on company carbon footprints and goals in line with the Paris climate accord's aims of keeping warming below 2 degrees Celsius. The SEC reiterated the EOG "micromanagement" approach at three companies and three others were omitted for other reasons. But other companies did not challenge similar proposals last year and eight votes averaged nearly 35 percent support, while proponents withdrew seven after reaching agreements. Support for GHG goals proposals has grown from an average of about 24 percent in 2010.

Almost all the 2020 proposals on emissions management and transition planning refer to the Paris treaty as in past years. Only a couple ask for "company-wide, quantitative, time-bound targets," the EOG stumbling block. Many also seek information or goals on how companies will limit warming to "well below 2 degrees." As of mid-February, the SEC had rejected one of 11 no-action requests and 19 proposals were pending. *(See table.)*

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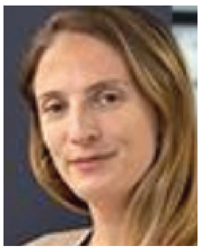

## CLIMATE ACTION 100+ TARGETS THE 100 LARGEST CORPORATE GHG EMITTERS

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*Senior Manager, Investor Engagements, Ceres*

ROB BERRIDGE
*Director, Shareholder Engagement, Ceres*

The global investor initiative Climate Action 100+ involves more than 450 investors with a combined $49 trillion in assets under management. Investors engage with the 100 largest corporate greenhouse gas (GHG) emitters, as well as with 60 other influential companies positioned to drive the low-carbon transition. The initiative's focus companies are collectively responsible for more than two-thirds of global GHG emissions and through engagement investors already have achieved emissions reductions commitments from numerous companies, including **BHP Billiton**, **Daimler**, **Duke Energy**, **Heidelberg Cement**, **Nestle** and **VW**.

The Climate Action 100+ engagement agenda includes three main goals: improving governance, improving disclosure of climate risk and reducing GHG emissions across supply chains in alignment with the Paris Agreement goals. Cutting across all three of these goals is the aim to build company support for strong public policy frameworks to accelerate the transition to a low-carbon economy.

Leading investors worldwide are starting their third year of company engagements through Climate Action 100+. Many productive engagements occur between investors and company boards or C-suite level management. However, when companies have lagged behind their peers and failed to engage productively, Climate Action 100+ members have filed shareholder resolutions.

Resolutions filed during the 2020 proxy season by Climate Action 100+ signatories fall under six broad themes:

- **Independent Board Chairs:** Investors request that companies separate the roles of CEO and Board Chair to drive companies' strategic transformation to succeed in a carbon-constrained future. (Filed with **Dominion Energy**, Duke Energy, **ExxonMobil**, and **Southern**.)
- **Paris-aligned Transition Strategy:** Investors look to understand whether and how companies are transforming their business strategies and setting ambitious GHG emissions reduction targets. (Filed with **Chevron**, **Devon Energy**, ExxonMobil, and **Marathon Petroleum**.)
- **Stranded Assets from Natural Gas Infrastructure:** Investors ask whether, as companies set targets for reaching net-zero emissions by 2050, capital spending on new natural gas infrastructure creates stranded assets. (Filed with Dominion Energy and Southern.)
- **Disclosure of Direct and Indirect Lobbying:** Investors request that companies disclose their climate and energy-related lobbying, including that done through their trade associations. (Filed with **Caterpillar**, Duke Energy, ExxonMobil, **General Motors** and others.)
- **Lobbying for Policy Framework Alignment with the Paris Agreement:** Shareholders request that lobbying align with the goals of the Paris Agreement. (Filed with Chevron, **Delta Air Lines**, ExxonMobil and **United Airlines**.)
- **Environmental, Social and Governance (ESG) Metrics in Executive Compensation:** Investors ask boards to link executive compensation to ESG performance. (Filed with Chevron, Delta, ExxonMobil and United Airlines.)

Climate Action 100+ investors recognize the value of shareholder proposals in influencing corporate management to take needed actions to mitigate risk, improve governance and take steps that will ensure long term value in a world facing the challenges of climate change.

## Carbon Asset Risk

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| **Transition Planning** | | | |
| Chevron | Adopt Paris-compliant strategy to cut GHG emissions | Follow This | May |
| Chevron | Report on Paris-compliant plan to cut carbon footprint | As You Sow | May |
| Chipotle Mexican Grill | Report on Paris-compliant plan to cut carbon footprint | Trillium Asset Management | withdrawn |
| ConocoPhillips | Adopt Paris-compliant strategy to cut GHG emissions | Follow This | May |
| Devon Energy | Report on Paris-compliant plan to cut carbon footprint | As You Sow | June |
| Dollar Tree | Report on Paris-compliant plan to cut carbon footprint | Jantz Management | June |
| ExxonMobil | Adopt Paris-compliant strategy to cut GHG emissions | Follow This | May |
| ExxonMobil | Report on Paris-compliant plan to cut carbon footprint | As You Sow | May |
| General Electric | Report on Paris-compliant plan to cut carbon footprint | As You Sow | withdrawn |
| Hertz Global Holdings | Report on Paris-compliant plan to cut carbon footprint | As You Sow | May |
| Hess | Report on Paris-compliant plan to cut carbon footprint | As You Sow | June |
| J.B. Hunt Transport Services | Report on Paris-compliant plan to cut carbon footprint | Trillium Asset Management | April |
| Marathon Petroleum | Report on Paris-compliant plan to cut carbon footprint | Mercy Investment Services | April |
| Ross Stores | Report on Paris-compliant plan to cut carbon footprint | Jantz Management | May |
| Union Pacific | Report on Paris-compliant plan to cut carbon footprint | James McRitchie | May |
| United Parcel Service | Report on Paris-compliant plan to cut carbon footprint | Zevin Asset Management | May |
| **GHG Emissions Management** | | | |
| Halliburton | Report on GHG emissions targets | NYC pension funds | withdrawn |
| Spire | Report on methane emissions/reduction targets | As You Sow | withdrawn |
| TransDigm Group | Adopt GHG reduction targets | NYC pension funds | March 24 |
| Williams Companies | Report on GHG targets | NYC pension funds | withdrawn |
| **Strategy & Risk Disclosure** | | | |
| Cheniere Energy | Report on LNG stranded asset scenarios | Stewart W. Taggart | May |
| Chevron | Support carbon pricing model to cut emissions | Clark McCall | May |
| Dominion Energy | Report on stranded carbon asset risks | As You Sow | May |
| Duke Energy | Report on stranded carbon asset risks | As You Sow | withdrawn |
| ExxonMobil | Support carbon pricing model to cut emissions | Clark McCall | May |
| PNM Resources | Report on stranded carbon asset risks | Robert Andrew Davis | May |
| Sempra Energy | Report on stranded carbon asset risks | As You Sow | May |
| Southern | Report on stranded carbon asset risks | As You Sow | May |
| **Extreme Weather** | | | |
| Chevron | Report on climate-related infrastructure risk | As You Sow | May |
| ExxonMobil | Report on climate-related infrastructure risk | As You Sow | May |
| Phillips 66 | Report on climate-related infrastructure risk | As You Sow | May |
| **Coal, Oil & Gas** | | | |
| Ameren | Report on energy scheduling risk | Sierra Club | May |
| Duke Energy | Report on coal risks | As You Sow | May |
| Noble Energy | Report on Israel natural gas operations | Proxy Impact | April |
| Northwestern | End coal use | Thomas Tosdal | April |
| PNM Resources | Report on coal ash risks | Dee Homans | May |
| **Carbon Finance** | | | |
| Bank of America | Report on high carbon financing | As You Sow | withdrawn |
| Community Trust Bancorp | Report on high carbon financing | Presbyterian Church (USA) | withdrawn |
| Goldman Sachs | Report on GHG emissions and finance | As You Sow | May |
| JPMorgan Chase | Report on high carbon financing | As You Sow | May |
| JPMorgan Chase | Report on oil sands financing | Trillium Asset Management | May |
| Morgan Stanley | Report on GHG emissions and finance | As You Sow | May |
| Wells Fargo | Report on GHG emissions and finance | As You Sow | withdrawn |

### *GHG Emissions Management*

The NYC pension funds resubmitted their 2019 proposal to **TransDigm** seeking adoption of "a policy with time-bound, quantitative, company-wide goals for managing" GHG emissions and to report. This earned nearly 35 percent in 2019 after an SEC challenge and related lawsuit *(see box page 14)*. Investors will vote again on March 24.

At **Halliburton** and **Williams**, the NYC funds have withdrawn a proposal that asked for disclosure of "any medium- or long-term quantitative goals" for managing" GHG emissions and a report on how each "plans to achieve its goals, and whether the goals" take into account the Paris goals. Three additional recipients are not yet public.

Methane is the issue at **Spire**, where *As You Sow* withdrew a proposal after dialogue with the company. That proposal sought a report on "what, if any, enhanced measures it is taking beyond regulatory requirements and pipeline replacement to reduce its system-wide methane emissions."

### *Transition Planning*

Sixteen resolutions ask companies about reporting or taking action to move their companies to Paris compliance, with a variety of formulations.

**Pending:** Twelve proposals from responsible investing firms and Mercy Investments are pending and ask the following:

- *As You Sow* wants five companies each to report "if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement's goal of maintaining global temperature rise well below 2 degrees Celsius." That proposal is at **Chevron**, **Devon Energy**, **ExxonMobil** and **Hess**. The group also wants **Hertz Global Holdings** to report on "potential climate change mitigation strategies available for reducing the significant carbon footprint of its vehicle rental fleet."
- Trillium Asset Management also asks **Chipotle** and **J.B. Hunt Transport** "if, and how" each "plans to reduce its total contribution to climate change and align its operations" with the Paris goal. Last year, Trillium's proposal asking for *adoption* of a such a GHG goal was omitted on ordinary business grounds.
- Looking at retail companies, Jantz Management wants **Dollar Tree** and **Ross Stores** to report within a year on the alignment of "long-term business strategy with the projected long-term constraints posed by climate change."
- Mercy Investments wants **Marathon Petroleum** to "develop a strategy to increase the scale and pace of the Company's efforts to reduce its contribution to climate change, including establishing any medium- and long-term goals…with an eye toward" the Paris commitments.
- James McRitchie, who mostly files corporate governance resolutions but in the last couple of years has branched out into environmental and social issues, wants **Union Pacific** to re-port using the same "if and how" formulation employed by *As You Sow*. Zevin Asset Management asks the same thing of **United Parcel Service**.

**SEC action:** Three proposals from the Dutch-based collaborative Follow This are fairly prescriptive, filed at oil supermajors **Chevron**, **ConocoPhillips** and **ExxonMobil**, with slightly different formulations asking for "alignment of strategy" with "well below 2 degrees C" warming that is the Paris aim, including goals for all direct and indirect GHG emissions. But each company is asserting at the SEC that the proponent missed procedural requirements (proof of stock ownership at all three and receipt past the deadline at Conoco). These types of company complaints often succeed.

In addition to the procedural challenges on the Follow This proposals, another eight proposals have been challenged at the SEC. Companies argue that the resolutions either concern ordinary business (**ExxonMobil**, **Hess**, **J.B. Hunt** and **Ross Stores**) or that current company reporting makes the resolutions moot (Exxon and Hess).

The SEC has disagreed that the J.B. Hunt resolution concerns ordinary business, although the company noted in its challenge that a 2019 proposal asking it to set greenhouse gas emissions goals was omitted for this reason; the same proposal went to a vote in 2018 at the company, earning 21.4 percent support.

**Withdrawal:** *As You Sow* withdrew at **General Electric** after the company lodged a challenging saying a new report, to be released in January, would make the proposal moot.

### *Strategy and Risk Disclosure*

After proposals in 2017 and 2018 requested that companies provide reports on how they will adjust their operations to a world retooled for a 2-degree warming scenario that necessarily would impose constraints on emissions, companies are providing these reports now in large measure, prompted both by the high votes on those proposals and by the recommendations of the

Taskforce on Climate-related Financial Disclosure (TCFD). Such scenario reporting is a central tenet of the TCFD and is backed by trillions in global investment support as well as the imprimatur of the Financial Stability Board. Still, this year *As You Sow* and two individual investors are asking several utilities to report on stranded asset risks—a similar issue—and another individual wants corporate support for a carbon pricing model. All the pending resolutions face SEC challenges.

**Pending:** *As You Sow* wants **Dominion Energy**, **Sempra Energy** and **Southern** each to report on how they are "responding to the risk of stranded assets of planned natural gas-based infrastructure and assets as the global response to climate change intensifies."

An individual investor—Robert Andrew Davis—wants **PNM Resources** to report on "how it is responding to the risk of stranded assets of natural gas-based infrastructure as the global response to climate change intensifies." Similarly, Stewart W. Taggart has filed a detailed resolution at **Cheniere Energy**, asking for a report:

> discussing price, amortization and obsolescence risk to existing and planned Liquid Natural Gas capital investments posed by carbon emissions reductions of 50% or higher applied to Scope Two and Scope Three emissions by 2030 (in line with the Paris Accord's 2C target) as well as 'net zero' emissions targets by 2050, also called for in the Paris Accord and what the company plans to do about managing this risk.

Further, **Chevron** and ExxonMobil face a proposal from Clark McCall, asking each to:

> support a pricing structure on fossil fuels that will lead to significant reduction in production of carbon dioxide. Such a pricing structure would be of the type in the 2019 U.S. House bill HR763—$15 fee per metric ton fee of carbon dioxide equivalent at the introduction and increasing by $10 per ton each year—or a similar pricing structure.

**SEC arguments:** Dominion, Sempra and Southern all are arguing at the SEC that the resolution is moot given their current disclosures, while Dominion adds that it concerns ordinary business since it is about its product offerings and is too prescriptive. Cheniere says its detailed proposal is too vague and is ordinary business, while PNM says its proposal is moot. Chevron and Exxon say the carbon pricing proposal is too detailed and therefore ordinary business, while Exxon adds that it also is moot.

**Withdrawal:** *As You Sow* withdrew at **Duke Energy** after reaching an agreement.

### *Extreme Weather*

A new resolution from *As You Sow* last year asked oil and chemical companies about potential petrochemical contamination following extreme storms induced by

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## NATURAL GAS IN THE POWER SECTOR: BRIDGE FUEL OR A STRANDED ASSET?

**LILA HOLZMAN**
*Energy Program Manager, As You Sow*

As the window of opportunity to prevent catastrophic climate change narrows, natural gas has been lauded by many in the power sector as a "bridge" from high-carbon coal to a low-carbon future. Indeed, gas has been an important step on the path of reducing greenhouse gas emissions and helping to move the power sector away from coal. However, natural gas is still a fossil fuel that generates considerable climate impacts, both through methane leakage across the supply chain from production to use, as well as direct combustion emissions. To achieve a safe level of climate stabilization and to protect investor portfolio exposure from global climate risks, the bridge of natural gas and its associated emissions must have a clear end.

Yet billions of dollars are poised for investment to build natural gas infrastructure throughout the United States. This investment drive, which includes power plants and pipelines with multi-decadal lifespans, should prompt strong concern about the risk of stranded assets.

Investor engagements with utilities in recent years have been largely successful in moving companies to set ambitious targets to reach the Paris goals. Many utilities are even setting "net-zero" targets. However, such targets often are limited to direct company emissions (excluding upstream supply or downstream product use) or electricity generation (excluding natural gas distribution for cooking and heating uses in buildings). Even for utilities with the most commendable climate targets, there is a disconnect between achieving those targets and company plans to increase reliance on natural gas.

In response to climate change, some options that may significantly reduce demand for natural gas are gaining traction. "Electrify everything" is now a hot topic, and since Berkeley, CA. became the first city to pass legislation banning gas hookups for new buildings, some other cities have followed suit or have plans to do so. Demand-side management practices like improved efficiency and demand-response, which shifts demand to better match more variable renewable electricity resources, further reduce the need to invest in gas infrastructure.

Investors seek enhanced transparency about utilities' planning and assumptions, so they can assess whether companies are adequately preparing for the risk of stranded fossil gas assets. Through related shareholder resolutions with **Sempra Energy**, **Dominion Energy** and **Southern**, *As You Sow* is articulating investor concern about these risks, asking companies to explain how they are preparing for reductions in natural gas demand that may come from accelerated policy action on the climate crisis. In particular, the resolutions point to the need for clear information on depreciation timelines for gas infrastructure and how such timelines can be reconciled with climate goals, pricing assumptions and cost comparisons with clean energy portfolio alternatives, and the company's perspective on the role of unproven, emerging technologies like renewable natural gas or carbon capture.

climate change. It is back with the same resolution this year, newly filed at **Chevron** and **Phillips 66**; the resolution earned 25 percent last year at **ExxonMobil**. The proposal asks the companies to assess "the public health risks of expanding petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise."

## *Coal, Oil and Gas*

A few new resolutions in 2020 ask for action on coal and reports on its use as well as on oil and gas production. All six are currently pending and two have been challenged at the SEC.

The Sierra Club has a new proposal at **Ameren** for a report, "evaluating the specific financial risks to shareholders should the costs of self-scheduling be disallowed by the Missouri Public Service Commission and those market losses are shifted from ratepayers to shareholders, or should another regulator such as FERC or MISO were to penalize Ameren for such practices." The company is arguing at the SEC that it can be omitted on ordinary business grounds since it deals with regulatory compliance and current regulatory proceedings.

At **Duke Energy**, *As You Sow* again wants a report on how the company "will mitigate the public health risks associated with Duke's coal operations in light of increasing vulnerability to climate change impacts such as flooding and severe storms. The report should provide a financial analysis of the cost to the Company of coal-related public health harms, including potential liability and reputational damage." The proposal earned 41.7 percent last year after a similar coal risk report received 27.1 percent in 2018; they were prompted by a 2014 coal ash spill on the Dan River and breaches of coal ash waste ponds following hurricanes in North Carolina.

Coal is also the issue at **PNM Resources**, in a resubmission from Dee Homans that asks for a report that will "identify and reduce environmental and health hazards associated with past, present and future handling of coal combustion residuals and how those efforts may reduce legal, reputational and financial risks to the company." The resolution received 7.8 percent support last year.

Another new and detailed resolution on coal is at the utility from individual proponent Thomas Tosdal asks the company "to cease coal fired generation of electricity from the Colstrip plant and replace that electricity with non-carbon emitting renewable energy and 21st century storage technologies with its own assets or from the market no later than the end of the year 2025, and to share that plan with the shareholders no later than the 2021 annual meeting." It notes supporting documents "are found at 350montana.org." As discussed above *(box, p. 14)*, Tosdal filed suit to require inclusion of the proposal, an unusual move also taken last year by the NYC pension funds, and because the suit was pending the SEC declined to opine on the company's assertion that the proposal is too detailed (and thus ordinary business) as well as false and misleading.

At **JPMorgan Chase**, Trillium Asset Management faces a challenge from the company to its resolution seeking a report on energy production in the far North. It asks that the report describe how the company will "respond to rising reputational risks for the Company and questions about its role in society related to involvement in Canadian oil sands production, oil sands pipeline companies, and Arctic oil and gas exploration and production." But the bank is arguing at the SEC that resolution is too detailed; the commission agreed with a similar argument last year.

Another new proposal looks to a different part of the world. Proxy Impact and the Pension Board - United Church of Christ want **Noble Energy** to report on "the extent of potential environmental and public health impacts in the event of major spills or breaches at its Israel offshore drilling operations including an assessment of the magnitude of related financial, operational and reputational impacts on our Company." The proposal raises concerns regarding the company's natural gas drilling off the coast of Israel, and related pollution, safety, security and health issues, particularly in light of the highly controversial decision to relocate its Leviathan production platform from 75 miles offshore to just six miles offshore.

## *Carbon Finance*

*As You Sow* and the Presbyterian Church (USA) are reprising questions about financing carbon-intensive projects and reporting on carbon footprints at six banks:

- The proposals to **Bank of America** and **Community Trust Bancorp** want a discussion of "the range of risks associated with maintaining…current levels of carbon-intensive lending." At **JPMorgan Chase** a more detailed request is for disclosure on "how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreements goal of maintaining global temperature rise below 1.5 degrees Celsius."
- At **Goldman Sachs**, **Morgan Stanley** and **Wells Fargo**, the proposal is to provide information "on whether, how, and when" each "will begin measuring and disclosing the greenhouse gas footprint of its lending activities."

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## BIG BANKS MUST TAKE RESPONSIBILITY FOR THEIR OWN CLIMATE FOOTPRINTS

DANIELLE FUGERE
*President, As You Sow*

As climate-related harm accelerates, economy-wide losses are increasing and posing growing risk not only to the individual companies in which shareholders invest but, significantly, to their entire portfolios. A 2018 analysis in *Nature* found that limiting global warming at 1.5°C versus 2°C will save $20 trillion globally by 2100. Failure to maintain warming below 2°C will cost the economy vastly more.

Banks will play a critical role in either helping to meet this challenge or failing to do so. Currently banks, through their lending practices, loan portfolios, underwriting, and investments, are playing an outsized role in funding the fossil fuel operations that are wreaking havoc on the climate. The **Bank of England** notes that the global financial system is supporting carbon-producing projects that will cause global temperature rise of more than 4°C—more than double the limit necessary to avoid catastrophic warming.

The **European Investment Bank**, the biggest multilateral lender in the world, has recognized these risks and will stop funding fossil fuel projects in 2021. Other European banks have also started to act. **HSBC** has committed to set a science-based target to reduce its carbon footprint in line with the Paris goals. **ING**, **BNP Paribas**, **Standard Chartered**, and others have committed to measure the climate alignment of their lending portfolios against Paris goals. Some have abandoned high risk sectors, including Arctic drilling and tar sands.

U.S. banks are the largest funders of companies causing climate change and are lagging behind the progress made by European peers. While increasing their green financing and reducing their own limited operational emissions, they continue to provide alarming levels of fossil fuel funding. Year after year, **JPMorgan Chase** has held the top spot in terms of fossil fuel financing, with **Wells Fargo**, **Citibank**, and **Bank of America** comprising the next three largest funders. Recent announcements by **Goldman Sachs** and JPMorgan Chase to limit financing of coal mines, some coal power plants, and Arctic projects represent an important first step. But, this reaches only a small part of their total fossil fuel financing. Across the board, these five U.S. banks have failed to set any Paris-aligned targets.

This year, *As You Sow*'s shareholder proposal with JPMorgan Chase asks the bank if and how it will reduce the greenhouse gas emissions of its total lending activities in alignment with the Paris Agreement's 1.5°C goal. The proposal emphasizes the need to measure and disclose its full carbon footprint and set a target to reduce emissions associated with its lending activities. Only through taking such steps can JPMorgan Chase assure investors it is appropriately reducing its contribution to the systemic, material risks that the climate crisis poses to investor portfolios.

Similar proposals this year filed with Bank of America, **Morgan Stanley**, Wells Fargo, and Goldman Sachs have prompted productive dialogues and commitments toward evaluating and measuring progress in reducing emissions, with an eye toward Paris alignment. Such movement stands in contrast to JPMorgan Chase's unwillingness to commit, in any substantial way, to measure or begin reducing its total carbon footprint in alignment with Paris goals.

**SEC action and withdrawal:** JPMorgan is arguing the proposal is ordinary business since it addresses products sold by the company; last year *As You Sow* withdrew a similar proposal after a similar SEC challenge. Community Trust has lodged a procedural challenge. But *As You Sow* withdrew at Wells Fargo after the company said an imminent report would make the resolution moot.

## Renewable and Efficient Energy

### Energy Solutions

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| A.O. Smith | Report on energy efficiency/renewable energy goals | Nathan Cummings Foundation | withdrawn |
| Air Products & Chemicals | Report on energy efficiency/renewable energy goals | Nathan Cummings Foundation | withdrawn |
| ExxonMobil | Install electric vehicle charging stations | Christopher W. Drexler | May |
| HD Supply Holdings | Report on energy efficiency/renewable energy goals | Boston Common Asset Management | May |
| Home Depot | Report on energy efficiency/renewable energy goals | Boston Common Asset Management | May |
| Newmont | Report on energy efficiency/renewable energy goals | New York State Common Retirement Fund | withdrawn |
| Nucor | Report on energy efficiency/renewable energy goals | Friends Fiduciary | withdrawn |
| PACCAR | Report on energy efficiency/renewable energy goals | Pax World Funds | withdrawn |
| Rockwell Automation | Report on energy efficiency/renewable energy goals | Nathan Cummings Foundation | withdrawn |
| Sherwin-Williams | Report on energy efficiency/renewable energy goals | Friends Fiduciary | withdrawn |
| Steel Dynamics | Report on energy efficiency/renewable energy goals | Friends Fiduciary | May |
| Texas Instruments | Report on energy efficiency/renewable energy goals | New York State Common Retirement Fund | withdrawn |

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## RENEWABLE ENERGY AND ENERGY EFFICIENCY = CLEAN ENERGY FUTURE

**KATE MONAHAN**
*Shareholder Engagement Manager, Friends Fiduciary Corporation*

Over the past several years, investors have increasingly focused on clean energy as a way for companies to mitigate climate risk and take advantage of opportunities as we transition to a low-carbon economy. In the absence of strong legislative action, corporate commitments are crucial in reaching the levels of decarbonization necessary to keep warming under 1.5°C .

Clean energy—renewable energy procurement coupled with energy efficiency measures—is a promising avenue for shareholder engagement. In coordination with the Ceres Investor Network, investors have filed resolutions with high-emitting companies across several sectors, asking them to report on the feasibility of setting clean energy goals.

The business case for clean energy is clear. The cost of renewable energy continues to fall. According to a recent International Renewable Energy Agency (IRENA) report, unsubsidized renewables are "frequently less expensive than any fossil-fuel option." Companies are increasingly taking advantage of the opportunity to cost-effectively reduce emissions. Bloomberg New Energy Finance reports that corporate renewable energy procurement has more than tripled since 2017, with over 100 companies purchasing 19.5GW of renewable energy in 2019.

Tech companies like **Google** and **Facebook** are by far the largest purchasers, but other sectors also stand to benefit. Industrial firms like **3M**, **BMW**, **Dalmia Cement**, and **General Motors** have committed to powering their operations with 100 percent renewable energy. Corporate commitments such as these set the bar for their peers and signal demand to utilities, building support for the increased investment in renewables necessary to prevent catastrophic warming.

Energy efficiency measures represent another source of both savings and reduced emissions for companies. The International Energy Agency estimates that efficiency efforts alone could account for 35 percent of $CO_2$ savings through 2050. Efficiency programs often pay for themselves—or, in the case of the U.S. Department of Energy's 50001 Ready Platform, they are free.

This year, in partnership with Winston Vaughan and Dan Seligman at Ceres, Friends Fiduciary focused on manufacturing companies based in states where we have clients. We filed resolutions at several companies, including two steel manufacturing companies, **Nucor** and **Steel Dynamics**. Both manufacture primarily via electric arc furnaces, emitting far fewer greenhouse gases than their peers. However, the process is still energy intensive, and further reducing embedded emissions would take advantage of the potential opportunities posed by increased customer demand for low-emission steel. We withdrew both resolutions after the companies agreed to evaluate setting renewable energy and energy efficiency targets.

It's crucial that more companies in all sectors consider sourcing renewable energy and making energy efficiency improvements—and clean energy proposals aim to spur companies' ambitions and highlight the clear business case.

As in the past, most of the proposals that set out possible energy solutions to climate change challenges are about using more renewable energy, often coupled with questions about energy use and energy efficiency. A majority have already been withdrawn after agreements, as this is an area where companies can see immediate, positive bottom-line impacts.

**Pending:** Just three proposals seeking renewable energy goals are still pending, at **HD Supply Holdings**, **Home Depot** and **Steel Dynamics**. With slight variations, the request is for a report on how feasible it would be to adopt "quantitative, company-wide goals for increasing the… use of renewable energy, energy efficiency, and any other measures deemed feasible by company management to substantially reduce the company's greenhouse gas (GHG) emissions." At Home Depot, it says the report could illustrate reduction in "climate change risks associated with the use of fossil fuel-based energy."

**Withdrawals:** Proponents have withdrawn renewables proposals at seven companies, noted on the table. In a typical move, **Rockwell Automation** agreed to assess setting new environmental goals, including possible goals for increasing renewable energy use, and it will provide more disclosure about ESG topics in its 2020 sustainability report.

**SEC action:** Two of the withdrawals occurred after SEC challenges. **Air Products & Chemicals** asserted the resolution was too detailed and thus ordinary business, and the Nathan Cummings Foundation subsequently withdrew after discussions with the company. At **Newmont**, the withdrawal was for procedural reasons—the proposal arrived past the submission deadline.

In addition, a different new request from an individual investor to **ExxonMobil** about facilitating electric vehicles seems likely to be omitted. It asks that the company "install electric vehicle rapid-charging facilities in either a fraction of its existing rural service stations, located along major highways, or in specially designed sites." The company contends at the SEC that the proponent did not substantiate his stock ownership and that it relates to ordinary business since it involves the types of products and services offered for sale.

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## VERIZON HEEDS SHAREHOLDER CALL TO SOURCE MORE RENEWABLE ENERGY

**LESLIE SAMUELRICH**

*President, Green Century Capital Management*

When Green Century first engaged **Verizon Communications**, the company sourced 2 percent of its energy from renewable sources—and had a goal to increase that amount to 4 percent by 2025.

We thought 4 percent was the wrong number for Verizon, the largest telecommunications company in the country. Starting in 2016, therefore, we sent letters of inquiry and filed shareholder resolutions asking the company to address its climate risks and reduce its carbon footprint. In November 2018, we filed our third shareholder resolution with the company, urging it to increase the pace of its renewable energy commitments and explore how it might reduce its exposure to the material risks associated with the use of fossil fuel-based energy.

In spring 2019, we met with Verizon executives and detailed the benefits and cost competitiveness of renewables. We pointed out that **T-Mobile** had adopted the RE100 pledge in 2018, committing to 100 percent renewable energy by 2021, and **AT&T** had announced "one of the largest corporate renewable energy purchases in the U.S." Meanwhile, an environmental organization was waging its own renewable energy campaign aimed at the telecommunications industry, raising the reputational risk for the companies.

We withdrew the resolution when Verizon announced a new commitment to source 50 percent of its entire electricity usage from renewable energy sources by 2025.

Verizon is one of the largest energy consumers in the United States, so this commitment represents significant progress. In fact, it should prevent the annual release of approximately 2.3 million metric tons of carbon dioxide—the equivalent of taking nearly 500,000 cars off the road.

The commitment also represents a success for the company and its shareholders. In addition to obvious environmental benefits, there are sound financial justifications for sourcing more renewable energy, because the economics around renewables have changed dramatically in the last decade. Renewable energy is now cost-competitive with conventional fossil fuels. In the last decade, the price of wind energy plummeted 70 percent and solar photovoltaics collapsed 89 percent, according to Lazard's 2019 Levelized Cost of Energy report. By increasing its use of renewable energy, Verizon also may reduce its exposure to reputational risk and volatile energy prices.

Verizon is not the first corporation to decide to reduce its energy costs, carbon footprint and exposure to business and reputational risks by using more renewable energy to meet its business needs. In 2019, corporations in the United States purchased twice as much renewable energy as in the previous year, which had nearly doubled from the year before. Progress is being made, but there's still a long way to go.

Approximately 83 percent of the energy used in the United States in 2018 came from fossil fuels or nuclear energy, with just 17 percent attributable to renewables. The quicker we transition to a clean-energy economy, the better chance we have of avoiding the most catastrophic effects of the climate crisis. Corporate commitments, such as Verizon's, are critical to maintaining the momentum to that transition.

## Deforestation

Four proposals address deforestation and its connection to climate change. All are at food companies and seek information on commodity supply chains.

**Pending:** Just two resolution about deforestation are still pending. Green Century wants **Bloomin Brands**, which owns Outback Steakhouse, to report "assessing how the company could increase the scale, pace, and rigor of efforts to mitigate supply chain greenhouse gas emissions, inclusive of deforestation and land use change." A similar resolution from SumOfUs is pending at **Yum Brands**, asking it to provide annual report "on how the company is curtailing the impact on the Earth's climate caused by deforestation in YUM's supply chain. The report should include quantitative metrics on supply chain impacts on deforestation and progress on goals for reducing such impacts." A deforestation proposal at the company asking for sustainably sourced palm oil, soy, beef and pulp/paper earned 32 percent support at Yum last year.

### Deforestation

| Company | Proposal | Lead Filer | Status |
|---|---|---|---|
| Archer Daniels Midland | Report on supply chain deforestation impacts | Green Century | withdrawn |
| Bloomin Brands | Report on supply chain deforestation impacts | Green Century | April |
| Tyson Foods | Adopt supply chain deforestation policy | Green Century | withdrawn |
| Yum Brands | Report on supply chain deforestation impacts | SumOfUs | May |

**Withdrawn:** Green Century withdrew at **Archer Daniels Midland** after asking the company to report on "metrics regarding its supply chain impacts on deforestation, demonstrating any progress toward reducing such impacts." No details on the agreement are yet available. But **Tyson Foods** made a commitment that prompted Green Century to withdraw a similar resolution, after it appeared in the proxy statement.

**SEC action:** Yum has challenged the proposal, arguing current reporting makes it moot.

## ENVIRONMENTAL MANAGEMENT

Proposals about environmental management that go beyond direct climate impacts relate to the use of animals and chemicals in the industrial food supply chain, waste (including recycling) and hazardous materials (including plastics) and water.

**Environmental Management**

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| **Waste** | | | |
| Amazon.com | Report on food waste management | JLens | May |
| CVS Health | Report on packaging | Trillium Asset Management | withdrawn |
| Huntsman | Report on plastics pollution | As You Sow | omitted |
| Kroger | Report on packaging | As You Sow | June |
| Occidental Petroleum | Report on plastics pollution | As You Sow | May |
| Republic Services | Report on plastics pollution | As You Sow | May |
| Sonoco Products | Report on plastics pollution | Trillium Asset Management | withdrawn |
| Starbucks | Report on packaging | As You Sow | withdrawn |
| TJX | Report on toxic materials risks/phase out | Trillium Asset Management | June |
| Walmart | Report on plastics pollution | As You Sow | June |
| Waste Management | Report on plastics pollution | Trillium Asset Management | withdrawn |
| Westlake Chemical | Report on plastics pollution | As You Sow | May |
| Yum Brands | Report on packaging | As You Sow | May |
| **Water** | | | |
| Baker Hughes | Report on water use risks | As You Sow | May |
| Diamondback Energy | Report on water use risks | As You Sow | June |
| Entergy | Report on water use risks | As You Sow | May |
| Halliburton | Report on water use risks | As You Sow | May |
| Pilgrim's Pride | Report on supply chain water risks | Mercy Investment Services | May |
| Sanderson Farms | Report on water use risks | As You Sow | 11.1% |
| Skyworks Solutions | Report on water use risks | As You Sow | withdrawn |
| **Agriculture** | | | |
| Costco Wholesale | Report on ending antibiotics in animal feed | As You Sow | withdrawn |
| Hormel Foods | Report on antibiotic use in animal feed | Green Century | withdrawn |
| Kellogg | Report on supplier pesticide use | As You Sow | withdrawn |
| Kraft Heinz | Report on alternative protein development | Green Century | May |
| Walmart | Report on antibiotic use in animal feed | As You Sow | June |
| Wendy's | Report on ending antibiotics in animal feed | As You Sow | withdrawn |

### Waste & Hazardous Materials

**Plastics:** An effort to get companies to increase their reporting and better manage plastics production that began last year continues, at an expanded list of companies. The proponents are *As You Sow* and Trillium Asset Management.

- At **Huntsman**, **Occidental Petroleum**, **Westlake Chemical**, the proposal requests a report on plastic pollution that would "disclose trends in the amount of pellets, powder or granules released to the environment by the company annually, and concisely assess the effectiveness of the company's policies and actions to reduce the volume of the company's plastic materials contaminating the environment." It remains pending at Occidental and Westlake.

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## THE BEVERAGE RECYCLING CONUNDRUM

**MARY JANE MCQUILLEN**
*Head of Environmental, Social and Governance Investment, ClearBridge Investments*

**HUMPHREY OLENG**
*Director, Senior Research Analyst for Materials, ClearBridge Investments*

The beverage container touches many industries, upstream and downstream, and presents logistical and environmental challenges at each step. ClearBridge takes a life cycle approach to the beverage container's challenges, finding that there are several entry points for action that can reduce environmental impact.

While plastic bottles are light, durable, versatile, and lower the carbon footprint from transportation costs, recycling plastic remains a major challenge as increased use results in high levels of plastic waste.

There are several ways businesses can improve the situation up and down the beverage container supply chain. One much-discussed option is to switch some uses to aluminum cans, which have much higher recycling rates (75 percent globally) than plastic bottles. This shift is being made possible in part by **Ball Corporation**, the largest manufacturer of recyclable aluminum beverage cans in North America. While aluminum is more carbon intensive to manufacture, and it releases greenhouse gases in its production process, it is infinitely recyclable, which indicates the overall life cycle impact would be less than that of plastic.

Some beverage companies are working to improve the recyclability of plastic. **PepsiCo**, for example, announced in June 2019 that its LIFEWTR brand will be packaged in 100 percent recycled polyethylene terephthalate. Using more recycled plastic could start a virtuous cycle of raising plastic's waste value, encouraging more recycling.

Whether we're using plastic or aluminum, recycling practices likewise show considerable room for improvement. Recycling rates in the United States have been flat at 35 percent since 2012. In addition, as we've learned from engaging with **Waste Management**, contamination—non-recyclable material or garbage that ends up in the recycling system—has increased as more people have begun recycling. U.S. recyclers have reduced contamination in their recycling baskets although this has raised costs for municipalities, in some cases threatening recycling programs.

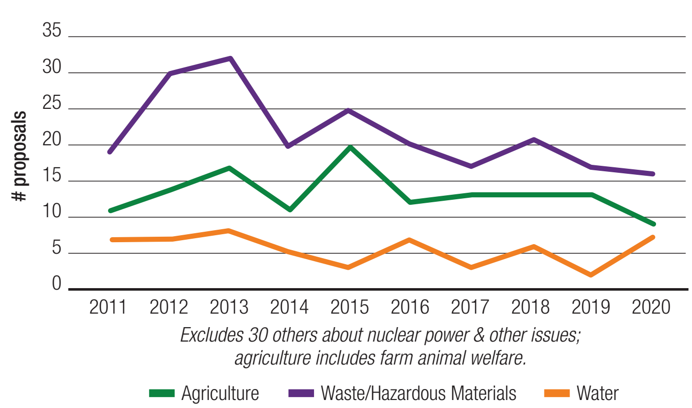
Another waste disposal option is to turn waste into energy. **Covanta**, for example, operates energy-from-waste facilities that convert over 21 million tons of waste into power for over one million homes and recycles roughly 400,000 tons of metal every year. Combustion does release CO2 into the atmosphere, albeit less than would be generated by the waste going to a landfill over a long period of time.

The practices of recycling and, to a lesser extent, combustion with energy recovery have grown in the past 30 years, helping slow the amount of waste entering landfills. Shareholders have played an important role in moving companies to improve their recycling and waste practices. For more than 20 years, shareholders have been filing resolutions on beverage containers, sustainable packaging, and extended producer responsibility. To help continue this trend, as active investors, we seek to partner with companies producing beverages, those producing their containers, and those working to improve recycling practices. All are part of an international effort that is gaining strength.

- At **Republic Services** the pending request is for an explanation of how it "can increase the scale and pace of its efforts to increase plastics recovery and recycling to address environmental problems caused by plastic pollution."
- Plastic bags are the concern at **Walmart**, where the proposal asks for a report "assessing the environmental impacts of continuing to use single-use plastic shopping bags."

**Withdrawals**—Trillium Asset Management withdrew a resolution similar to the one at Republic Services, adding that it wanted information on "constructive" support for "public policy and industry solutions." The group reached agreements at **Sonoco Products** and **Waste Management**, which will expand its reporting to include a nationwide analysis of the generation of and demand for recyclable plastic material, a report on the efficiency of the company's recycling facilities, and an updated public policy discussion.

### Environmental Management Categories




*Excludes 30 others about nuclear power & other issues; agriculture includes farm animal welfare.*

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## STARBUCKS SIGNALS HISTORIC SHIFT FROM SINGLE-USE CUPS AND PLASTICS TO REUSABLE PACKAGING

CONRAD MACKERRON
*Senior Vice President, As You Sow*

An estimated eight million tons of plastics are swept into oceans annually. Plastic beverage containers are among the most common items found in beach cleanups. In 2008, **Starbucks** pledged that, by 2015, it would serve 25 percent of beverages in reusable containers like ceramic mugs. Ten years later, the company had little to show for its efforts, with less than 2 percent of beverages served in reusable cups.

Global concerns increase daily regarding plastic trash, including single-use cups finding their way into waterways, where they can harm animals. Half of Starbucks' beverage sales are now cold drinks served in plastic cups, and its hot paper cups use a plastic liner. In 2018, *As You Sow* urged the company to develop a revised plan to meet its failed reusable container goals.

In January 2020, following two years of strong shareholder proposal votes, Starbucks agreed to begin a broad shift from single-use packaging to reusable packaging, conduct unprecedented research to promote customer behavior change, develop new global reusable container goals, and cut global packaging waste 50 percent by 2030.

*As You Sow* and its dialogue partner Trillium Asset Management filed shareholder proposals in 2018 and 2019 asking Starbucks to renew the failed effort to serve 25 percent of beverages in reusables and to start recycling packaging in developing markets. The 2019 proposal was supported by 44 percent of shares voted, the highest vote result to date on plastic pollution. When the company did not adequately respond, the proposal was re-filed for 2020, which led to a productive dialogue and the January agreement.

Starbucks will pursue a parallel track of making existing single-use cups more recyclable and more frequently recycled in the short term, while pushing long-term efforts to shift completely to reusable or refillable containers. The company will continue its NextGen Cup Challenge, initiated in response to our 2018 proposal, which seeks to alter the composition of paper cups to make them more recyclable and compostable in many markets. The company agreed to undertake comprehensive market research and trials on consumer adoption of reusable containers over the next year and set a strengthened reusables goal, or range of goals, in 12 months based on research results.

The shareholder proposal also called out the lack of recycling bins at thousands of Starbucks locations in developing markets, such as China, where the company has more than 3,000 stores and opens a new one every 15 hours. The company's promise to cut store waste in half by 2030 includes single-use cups and should lead to reuse, recycling, and composting programs in those markets. In recognition of these actions, *As You Sow* and Trillium withdrew their shareholder proposal.

This is a watershed moment with the world's largest coffeehouse company agreeing to look at ways to fundamentally shift how its beverages are delivered. If the effort is successful, as many as six billion single-use cups may be eliminated annually, drastically cutting the company's single-use waste.

**SEC action**—Huntsman successfully challenged the proposal at the SEC, which agreed the proponent failed to substantiate stock ownership.

**Packaging:** Other resolutions also concerned with plastics more specifically address packaging.

**Pending**—A seventh-year resubmission at **Kroger** asks for a report on an assessment of "the environmental impacts of continuing to use unrecyclable brand packaging." Similar resolutions earned 38.9 percent in 2019 and 29.4 percent in 2018. At Yum, where As You Sow has a long history, a resubmitted proposal that earned 33.6 percent last year asks for a report "detailing efforts to achieve environmental leadership through a comprehensive policy on sustainable packaging."

**Withdrawals**—Trillium Asset withdrew a request to **CVS** to report on "discussing if, and how, it can further reduce its environmental impacts by increasing the scale and pace of its sustainable plastic packaging initiatives." The company will identify the amount and types of plastic used in its packaging, as well as their recyclability. CVS also is collaborating with industry partners to address various aspects of the plastic pollution problem. Further, **Starbucks** agreed to take further action on plastics, having been asked to report on cutting its environmental impact "stepping up the scale and pace of its sustainable packaging initiatives." Similar proposals earned 44.5 percent support in 2019 and 29 percent in 2018.

**Food:** JLens is back at **Amazon.com** seeking an annual report "on the environmental and social impacts of food waste generated from the company's operations given the significant impact that food waste has on societal risk from climate change and hunger." It earned 25.9 percent last year. The resolution draws a connection between food waste, reducing GHG emissions and providing food redistribution options; it survived an SEC challenge last year.

**Chemical footprint:** Trillium has a new proposal to **TJX**, asking for a report on "describing if, and how, it plans to reduce its chemical footprint." The body of the proposal discusses "the costs of environment chemical exposure to the health of the global economy" and references a 2017 report that suggests such exposures "likely exceed 10 percent of global GDP or 11 trillion dollars." It goes on to delineate serious harms, notes new restriction on hazardous materials and asserts that toxic chemicals "present systemic portfolio risks to investors." Trillium claims competitors such as **Walmart**, **Target** and **Dollar Tree** have set public goals on the subject, but that TJX has not. It wants to see a new policy, lists of priority chemicals, more effort to identify chemicals and mitigate risks and investment in "safer alternatives."

## A LIGHTER CHEMICAL FOOTPRINT SOUGHT FOR CONSUMER GOODS, HEALTH CARE, TECHNOLOGY SECTORS

**MARK S. ROSSI**
*Executive Director, Clean Production Action*

**ALEXANDRA MCPHERSON**
*Consulting Program Manager, Investor Environmental Health Network*

Materiality of chemicals in products is well established in the Sustainable Accounting Standard Board's (SASB) standards for Consumer Goods, Health Care, and Technology & Communications. These standards reflect rising demand from consumers and institutional purchasers for safer products and growing evidence of the harmful effects of toxic chemicals, including a peer-reviewed study showing that toxic chemicals cost the world 10 percent of annual global gross domestic product, $11 trillion a year in disease burdens. Yet companies in these sectors have been slow to assess and reduce the chemical footprint of their products.

The Investor Environmental Health Network (IEHN) is a community of investors working to reduce the material impacts of toxic chemicals in products and supply chains. IEHN supports investors in engaging companies to reduce their risks by disclosing chemicals management performance indicators in SASB standards and the Chemical Footprint Project (CFP), integrating chemical footprinting metrics into executive compensation proposals, and improving board oversight of the reputational and regulatory risks of selling products that contain toxic chemicals.

Corporations that fail to proactively avoid toxic chemicals in their products, manufacturing operations, and supply chains carry *"chemical risks"*—financial liabilities that include potential fines, lawsuits, market share decline, lower market value, and loss of trust with consumers.

Chemical risks are trending rapidly upward:

- **Lumber Liquidators**' CEO resigned and stock price plummeted 70 percent in response to revelations by advocacy organizations of formaldehyde above regulatory thresholds in its products in 2015.
- **Kaiser Permanente**, one of the nation's largest health care systems and a CFP Signatory, has a set a goal of purchasing 50 percent environmentally preferred products by 2025.
- **Vizient**, one of the nation's largest group purchasing organizations with $100 billion in purchasing power annually and a CFP Signatory, asks companies in its contracts to participate in CFP as a indicator of the health care sector's demand for safer products.
- The Mind the Store Campaign annually releases a Retailer Report Card that scores the largest retailers on their chemical management practices.
- Washington, New York, Oregon, and other states are implementing ambitious regulations restricting toxic chemicals in children's products.

Proactive companies are demonstrating leadership and moving ahead of advocacy campaigns, customer demands, and regulations by reporting their chemical policies, procedures, practices, and progress to the CFP Survey. It assesses whether companies are aware of their chemical risks, how they minimize these risks, and whether they transform avoidance of these risks into business opportunities. For example, companies participating in more than one year of the CFP Survey reported eliminating 461 million pounds of toxic chemicals. That's the equivalent of a 30-mile line of Boeing 747s parked nose-to-tail.

Investors, advocacy organizations, and governments are challenging corporations to reduce their chemical footprint and invest in inherently safer chemicals and products through the Chemical Footprint Project.

## Agriculture

Nine proposals raise questions related to agriculture; these concern antibiotics used in food production and pesticides, in addition to a resubmission about alternative protein development. Three are not yet public.

**Antibiotics:** **Walmart** investors may get to vote on a proposal seeking a report "assessing strategies to strengthen the company's existing supplier antibiotic use standards, such as prohibiting or restricting the routine use of medically important antibiotics by meat and poultry suppliers, and assess the costs and benefits to public health and the company compared to current practice." Also still pending is a resolution to **Wendy's** for a report "providing quantitative metrics demonstrating progress, if any, toward phasing out the routine use of medically important antibiotics in the company's beef and pork supply chains."

**advocacy**position

## REGENERATIVE AGRICULTURE TAKES ROOT AMONG FOOD MANUFACTURERS

### CHRISTY SPEES

*Environmental Health Program Manager, As You Sow*

Food manufacturers have a critical role to play in sustainable food systems. As major purchasers of commodity crops, these companies wield immense power to shift the way food is grown. Some, such as **Kellogg** and **General Mills**, are starting to use that power to drive positive change after persistent shareholder pressure.

In 2019, *As You Sow* published the "Pesticides in the Pantry" scorecard, examining what food manufacturers are currently doing to address the pesticide problem. The majority of companies scored just a few points (out of 30 possible), demonstrating that the industry has a long way to go to ensure investors that companies are taking responsibility for their agricultural supply chains.

In recent years, pesticides have raised growing concerns for consumers. Scientists are increasingly tying exposure to these chemicals to myriad negative health impacts, including cancers, endocrine disruption, and neurological damage. The more that toxic pesticides are used in agriculture, the greater our collective exposure through air, water, and food. Glyphosate-laced rain in Mississippi indicates just how significant the pesticide problem has become.

Investors are working with food manufacturers to decrease risk across the food chain, improve relationships, and protect stakeholders, including farmworkers, nearby communities, and the environment. Reputational risk is a growing concern. Consumer advocates continuously test food products for pesticide residues, publish test results, and call on major food companies to take action. Kellogg, General Mills, and **Quaker (PepsiCo)** all have popular breakfast products that have been called out by such groups. Pesticide residues in food also present a potential legal risk to companies when products are marketed as safe, natural, or wholesome.

Investors have engaged with Kellogg for years on the pesticide issue, highlighting the importance of addressing glyphosate residues in food products. At the beginning of 2020, Kellogg made a landmark commitment to phase out pre-harvest glyphosate from its major supply chains for oats and wheat. This is an important step forward and one that other food makers should consider as they confront the pesticide problem.

General Mills has also engaged with investors on pesticides in supply chains. *As You Sow* filed a shareholder resolution with the company in 2018 that received over 30 percent support, asking for meaningful disclosure on pesticide use and pollinator impacts. It filed a similar resolution in 2019, which was withdrawn when General Mills stepped up and announced an initiative to promote regenerative agriculture practices in its supply chain for oats. Regenerative agriculture is a holistic system that aims to reduce the use of pesticides (and includes mechanisms for measuring progress) and improve biodiversity, soil health, and farmer profitability.

As climate change increasingly threatens the integrity of crop supply chains, investors are asking food manufacturers to develop insurance through comprehensive sustainability efforts. Companies can mitigate risks while also winning over consumers by investing in practices that both reduce environmental toxins and improve soil health. Investors continue to engage with both Kellogg and General Mills, as well as PepsiCo, **Campbell's**, **Kraft Heinz**, **J.M. Smucker**, and others.

**Withdrawals**—Two similar proposals will not go to votes:

- As You Sow withdrew at **Costco Wholesale** a request for metrics about any "progress toward phasing out the routine use of medically important antibiotics in the company's private label meat and poultry supply chains." Costco had argued at the SEC that the resolution dealt with ordinary business by dint of micromanagement and was moot.
- Green Century withdrew a **Hormel** after it agreed to provide annual reporting in its use of medically important antibiotics for swine raised on company-owned farms, with the first report in the next year. It also will start a pilot program to tracking use of these drugs with some contract farms, continue discussions with the proponents and continue to work with industry peers.

**Pesticides:** *As You Sow* reached an agreement at **Kellogg** after asking it to provide "available quantitative metrics on pesticide use in the company's supply chain."

**Alternative protein:** A resubmission to **Kraft Heinz** asks for a report on the company's "long-term strategy towards protein diversification within its product catalogue." It earned just 3.2 percent last year.

## Water

A new proposal to **Baker Hughes**, **Diamondback Energy**, **Entergy** and **Halliburton** asks for a report "using quantitative indicators where appropriate any policies and practices to reduce climate related water risk and prepare for water supply uncertainties associated with climate change."

Another from *As You Sow* at **Sanderson Farms** was far more detailed:

> in order to allow tracking of water stress trends and impacts that are expected to be exacerbated by climate change, the Board of Directors report to shareholders on quantitative metrics identified by the Sustainability Accounting Standards Board (SASB) as providing material information on water resource risks for the Meat, Poultry and Dairy sector by 180 days after the 2020 Annual Meeting, at reasonable expense and excluding confidential information, and annually thereafter, including:
>
> - Total water withdrawn, and percentage in regions with High or Extremely High Baseline Water Stress;
> - Percentage of contracts with producers located in regions with High or Extremely High Baseline Water Stress;
> - Percentage of animal feed sourced from regions with High or Extremely High Baseline Water Stress.

The issue was last raised at the company in 2016, when a proposal seeking a water stewardship policy earned 27.4 percent support. This time around, it received just half that—11.1 percent. Management said it is dedicated to water stewardship and that it reports to investors on its initiatives and practices through its Corporate Responsibility Report and its response to the CDP water questionnaire, although it did not actually report to CDP.

*As You Sow* invoked the Sustainability Accounting Standards Board (SASB) standards in a resolution at **Skyworks Solutions** that asked for a report on "water management risks" that consider the standards SASB set out for the semiconductor industry. The group withdrew after reaching an agreement with the company.

Finally, Mercy Investments wants **Pilgrim's Pride** to report by December "assessing if and how the company plans to increase the scale, pace, and rigor of its efforts to reduce water pollution from its supply chain."

**advocacyposition**

## 2020 COULD BE PIVOTAL YEAR FOR SUSTAINABILITY ACCOUNTING STANDARDS

**PAUL RISSMAN**
*Co-founder, Rights CoLab*

The Sustainability Accounting Standards Board (SASB) was formed in 2011 to formulate social and environmental disclosure standards in line with definitions of financial materiality under U.S. securities laws. Financial materiality is a critical feature from the standpoint of mainstream investors, as many of them construe their fiduciary responsibilities to mean that any engagement or voting effort directed toward ESG issues must have monetary benefits for their customers.

Once the final standards were published in 2018, *As You Sow* began to file resolutions requesting disclosure of various topics in a SASB-compliant manner, to gain the support of mainstream investors for sustainability reporting. Of fourteen resolutions filed, seven were satisfactorily settled and withdrawn, two were omitted, and one received 41 percent support last year.

A resolution concerning climate change-related water risk at the poultry processor Sanderson Farms garnered 11.1 percent on February 13 this year and it is the first to test BlackRock's recent change in its engagement priorities.

Larry Fink's 2020 letter set new guidelines for voting in support of shareholder resolutions and against directors: "This year we are asking the companies that we invest in on behalf of our clients to…publish a disclosure in line with industry-specific SASB guidelines by year-end… we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them." These statements provide the proponent community with a golden opportunity to hold BlackRock accountable.

Sanderson's board was against the resolution, and urged shareholders to reject it, but in the press release announcing voting results, the company stated that it would *implement* the proposal. Moreover, Sanderson committed to go *beyond* what the proposal requested in terms of sustainability disclosure, and produce a complete SASB report in FY 2020. Notably, the press release explained that Sanderson reversed course after "recent extensive engagement with many of its largest stockholders, and in recognition of evolving investor expectations in regard to sustainability reporting." For a first-time resolution this may be an unprecedented reaction.

It is highly doubtful that BlackRock voted for the resolution given the low vote. Yet Sanderson not only acceded to *As You Sow's* demands, it acceded to BlackRock's policy goals as well. When Sanderson publicly committed to produce a complete SASB-compliant report, BlackRock won its disclosure, and Sanderson dodged a governance bullet. Despite the low vote count, Sanderson somehow got the message.

Three other SASB-based resolutions are scheduled for a spring vote. These include the industrial distributor **Fastenal** and the auto parts retailers **O'Reilly Automotive** and **Genuine Parts** (NAPA). These resolutions deserve shareholder attention because they will provide information about the types of financially material sustainability disclosure BlackRock and other large mainstream investors will support.

# SOCIAL ISSUES

## ANIMAL WELFARE

Only three proposals about animal welfare issues have surfaced so far in 2020 and it is not clear any will go to a vote. Harrington Investments wants **TJX** to "commission an independent analysis of any material risks of continuing operations without a company-wide animal welfare policy or restrictions on animal-sourced products associated with animal cruelty." It says the report "should assess the operational, reputational and financial implications of the company's vendor policies pertaining to oversight on animal welfare throughout the supply chain." The company is arguing at the SEC that it concerns ordinary business given its focus on fur, a specific type of product, an argument that has succeeded at other companies in the past.

People for the Ethical Treatment of Animals (PETA) has two resolutions but already has withdrawn one at its longtime foe, **SeaWorld Entertainment**, which asked the company "to address the most pressing issue that Sea World faces today—the public's continued opposition to captive-animal displays—the shareholders urge the board to stop allowing trainers to stand on dolphins' faces and ride on their backs in exploitative and potentially harmful circus-style shows." The company lodged a multi-pronged challenge at the SEC and the withdrawal came before any commission response, although the company also clarified in a letter to PETA that it plans to end the use of dolphins to which it objected. PETA has proposed several other resolutions about the company's use of marine mammals in the past and most have been omitted on ordinary business grounds.

One remains pending at **Marriott International** but also appears to be vulnerable to an ordinary business challenge. It encourages the company "to prohibit wild-animal displays at all its hotels because such exhibits are cruel, promote an abusive industry, and pose a safety risk to the public." Marriott contends it is too detailed and not significantly related to its business.

**Animal Welfare**

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Marriott International | Encourage ban on wild animal displays | PETA | May |
| SeaWorld Entertainment | Impose restriction on dolphin use in entertainment | PETA | withdrawn |
| TJX | Report on animal welfare issues/policy | Harrington Investments | June |

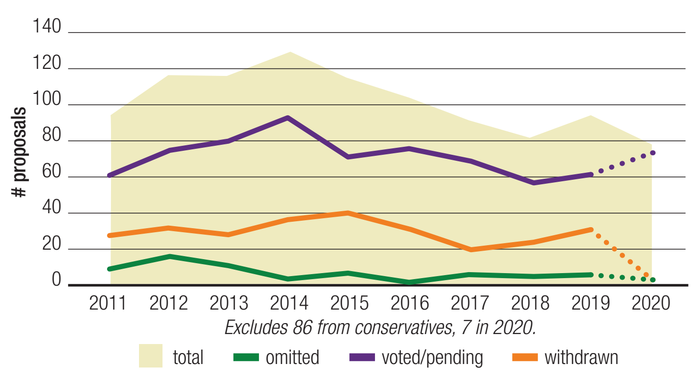
## CORPORATE POLITICAL ACTIVITY

The volume of proposals filed about corporate political activity—election spending and lobbying, as well as other corporate influence issues—is down from a high point in 2014, but remains the biggest single topic of shareholder resolution interest, as it has for many years. High-scoring proposals about lobbying and election spending would be significantly affected by the proposal changes to the Shareholder Proposal Rule, as discussed in the introduction to this report (see p. 11). Proponents have filed 77 proposals thus far, down from 93 at this point in 2019, and around the same level as the previous two years. Last year saw a bump-up in election spending resolutions, but in 2020 lobbying is again transcendent; each of these main types seek more oversight and disclosure. *(Only a few other issues about political activity come up, as noted on the graph next page.)* Proponents are less likely to withdraw proposals on political spending. *(See graph right.)*

In response to the campaigns for more corporate accountability, a growing number of companies now have oversight in place, but most remain reluctant to disclose expenditure amounts in public reports for investors, as requested, and very few are willing to report on money they give to trade associations that makes its way into the political system, through "dark money" channels that shield funders and play an outsized role in elections and policymaking.

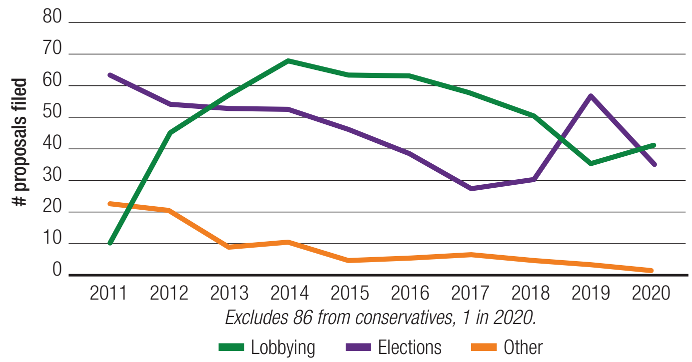
Proponents include social investment and religious organizations, leading pension funds such as the New York City's and the New York State Common Retirement Fund (NYSCRF), trade unions and some

**Political Activity Outcomes**



individuals. Investor concern about corporate election spending began in 2003 with the advent of the Center for Political Accountability (CPA) and intensified after the *Citizens United* U.S. Supreme Court decision in 2010. The CPA's model oversight and disclosure approach is the standard template for lobbying transparency, too, and forms the basis for the lobbying disclosure campaign run by Boston Trust Walden and the American Federation of State, County and Municipal Employees (AFSCME). The umbrella Corporate Reform Coalition supports shareholder activity on corporate spending and includes other reformers.

### Political Activity Categories




Key references for investors are the CPA's CPA-Zicklin Index, most recently updated in October 2019, covering the S&P 500. The Conference Board's Committee on Corporate Political Spending offers a more corporate but generally supportive perspective on accountability, but has had little recent activity.

**Multiple proposals:** Since 2013, proponents have been able to file separate election spending and lobbying proposals at the same company; before that the SEC judged them to be too similar and allowed the omission of the second one received. This year, only **Duke Energy**, **ExxonMobil** and **Nucor** have both.

Conservative "free market" proponents have borrowed the resolved clauses written by disclosure advocates, in successful efforts to block the main campaign proposals, since SEC rules still allow the exclusion of the second-received proposal on the same subject. While the supporting statements make clear the different goals of the proponents of the two types of proposals, investors do not seem to differentiate between the two in their voting. This year, one omission at **Chevron** has occurred so far because of such a competing conservative proposal. *(See Conservatives, p. 66.)*

## Lobbying

The lobbying transparency campaign is coordinated by Boston Trust Walden and the American Federation of State, County and Municipal Employees (AFSCME).

**Primary resolution:** The resolved clause for the main lobbying campaign resolution remains the same and was filed at 41 companies *(see table for a full list)*. Eighteen are resubmissions, 10 of which had seen a vote increase last year from earlier. Two filed this year would not have been eligible under the proposed new SEC rule since they did not receive at least 25 percent support; Ford Motor's third-year proposal received 16.5 percent and Tyson Foods' earned 11.2 percent in its fourth year (it already has gone to a vote this year, getting 14.7 percent). At both companies, founding family ownership always produces votes that are lower than is typical for an issue.

The main proposal asks for an annual report that includes:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by [the company] used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. [The company's] membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of the decision-making process and oversight by management and the Board for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which [the company] is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Audit Committee or other relevant oversight committees of the Board and posted on [the company]'s website.

**Votes**—Investors at **Tyson Foods** gave the proposal 14.7 percent in February. Other early votes will occur at **Maximus** on March 17 and **Walt Disney** on March 11.

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## COULD LOBBYING DISCLOSURE AT BOEING HAVE PREVENTED OVERSIGHT LAPSES THAT LED TO FATAL CRASHES?

JOHN KEENAN
*Corporate Governance Analyst, AFSCME Capital Strategies*

**Boeing** is one of the biggest corporate spenders on federal lobbying, spending over $166 million since 2010, and Boeing's reputation and financial health remain at serious risk in the wake of two fatal crashes of its 737 MAX.

Serious questions have been raised about whether Boeing's lobbying led to relaxed Federal Aviation Administration (FAA) oversight, including long-standing concerns about industry capture of the FAA, from lobbying. Boeing spends millions lobbying Congress and federal agencies each year, with a revolving door between it and the FAA.

Shareholders who have asked Boeing to improve its lobbying disclosure each year from 2014 to 2019 can only wonder if Boeing's lack of lobbying transparency, disclosure, and oversight were the major factors that contributed to this public relations and regulatory nightmare.

**Reputation Matters**

Corporate reputation is an important component of shareholder value. Companies with a high reputation rank perform better financially than lower ranked companies, and executives find it is much harder to recover from a reputational failure than to build and maintain reputation. Without transparency, corporate lobbying can present reputational risk that harms shareholder value.

In the case of Boeing and its undisclosed trade association payments, Boeing management is getting a crash course in reputational crisis management, and Boeing shareholders are getting a close-up view of what happens when a system of proper board oversight and lobbying spending transparency are missing. Proponents of lobbying disclosure are left to wonder why Boeing and its board were so opposed to disclosure that might have mitigated this unfolding disaster.

**2020 Lobbying Disclosure Campaign**

For 2020, the investor campaign for lobbying disclosure continues to focus on corporate political responsibility, with a concentration on climate change lobbying in many cases. Approximately 40 proposals have been filed asking companies to disclose their federal and state lobbying, trade association payments, and support for the American Legislative Exchange Council (ALEC), which has drafted thousands of legislative bills supporting corporate special interests.

Corporate lobbying provides decision-makers with valuable insights and data, but it also leads to undue influence, unfair competition, and regulatory capture. In the United States, more than $3.4 billion was spent on federal lobbying in 2019, and over $1 billion is spent yearly to lobby at the state level, where disclosure is less robust. Trade associations spend hundreds of millions of dollars annually lobbying indirectly on behalf of companies.

A major concern for investors is companies lobbying, often through their trade associations, for policies that directly contradict company public positions. For example, many companies that support addressing climate change belong to the Chamber of Commerce, which opposed the Paris Agreement and has spent $1.583 billion on lobbying since 1998, or to ALEC, which also undermines climate change regulations.

The 2020 proposals focus on companies that lobby heavily at the federal and state levels, do not disclose their trade associations lobbying payments, and are members of ALEC. In addition to climate lobbying, the proposals also target lobbying misalignments on drug pricing, net neutrality, opioids, sick leave, shareholder rights, tobacco, and worker safety.

**Withdrawals**—So far, proponents have withdrawn four proposals after reaching agreements, at **AES** (a new recipient), **BlackRock** (21.7 percent in its third year in 2019), **CenturyLink** (36.2 percent in its third year) and **Nucor** (36.2 percent in its third year).

**SEC action**—As noted above, the proposal at **Chevron** has been pushed aside in favor of one from the conservative National Center for Public Policy Research. The SEC did not agree with a challenge from **Walt Disney** that its proposal was moot. Still awaiting a response from the SEC is a **GEO Group** challenge that says its resolution from SEIU is ordinary business, is moot and relates to the union's complaints with the company and not broader shareholder concerns.

**Climate-related advocacy:** Four new proposals from one of the world's largest banks, BNP Paribas, reiterate investors' concerns about corporate efforts to specifically influence public policy about climate change, creating two political resolutions at **Chevron**, **ExxonMobil** and **United Continental Air Lines**—as well as one more at **Delta Air Lines**. The proposal asks for a report

> within the next year…describing if, and how, [the company's] lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal). The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks.

**SEC action**—**Exxon** has challenged the proposal at the SEC, arguing that it duplicates the other resolution about lobbying that it received first; a withdrawal therefore seems likely.

## Lobbying

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Abbott Laboratories | Report on lobbying | Unitarian Universalists | April |
| AbbVie | Report on lobbying | Zevin Asset Management | May |
| AES | Report on lobbying | Miller/Howard Investments | April |
| Altria | Report on lobbying | Trinity Health | May |
| Amazon.com | Report on lobbying | Newground Social Investment | May |
| American Water Works | Report on lobbying | Boston Common Asset Management | May |
| BlackRock | Report on lobbying | Unitarian Universalists | May |
| Boeing | Report on lobbying | Midwest Capuchins | April |
| Caterpillar | Report on lobbying | SHARE | June |
| CenturyLink | Report on lobbying | AFL-CIO | May |
| Charles Schwab | Report on lobbying | Friends Fiduciary | May |
| Cheniere Energy | Report on lobbying | Miller/Howard Investments | May |
| Chevron | Review/report on climate change advocacy | BNP Paribas | May |
| Chevron | Report on lobbying | Philadelphia Public Employees Retirement System | omitted |
| Citigroup | Report on lobbying | New Economy Project (formerly NEDAP) | April |
| Comcast | Report on lobbying | Friends Fiduciary | June |
| Delta Air Lines | Review/report on climate change advocacy | BNP Paribas | June |
| Duke Energy | Report on lobbying | Mercy Investment Services | May |
| Eli Lilly | Report on lobbying | SEIU Master Trust | May |
| ExxonMobil | Report on lobbying | United Steelworkers | May |
| ExxonMobil | Review/report on climate change advocacy | BNP Paribas | May |
| Ford Motor | Report on lobbying | Unitarian Universalists | May |
| General Motors | Report on lobbying | NYC pension funds | June |
| GEO Group | Report on lobbying | SEIU Master Trust | May |
| Honeywell International | Report on lobbying | Mercy Investment Services | April |
| Keurig Dr Pepper | Report on lobbying | Trinity Health | June |
| Maximus | Report on lobbying | SEIU Master Trust | March 17 |
| Nucor | Report on lobbying | Domini Social Investments | May |
| Pfizer | Report on lobbying | Oxfam America | April |
| Phillips 66 | Report on lobbying | Le Fonds de Solidarite | May |
| Southern | Report on lobbying | Climate Majority Project | May |
| Southwest Airlines | Report on lobbying | SEIU Master Trust | May |
| Sturm, Ruger | Report on lobbying | Mercy Investment Services | May |
| Tyson Foods | Report on lobbying | Teamsters | 14.7% |
| United Continental Holdings | Report on lobbying | Nathan Cummings Foundation | May |
| United Continental Holdings | Review/report on climate change advocacy | BNP Paribas | May |
| United Parcel Service | Report on lobbying | Boston Trust Walden | May |
| Verizon Communications | Report on lobbying | International Brotherhood of Electrical Workers | May |
| Vertex Pharmaceuticals | Report on lobbying | Friends Fiduciary | June |
| Walt Disney | Report on lobbying | Congregation of Sisters of St. Agnes | March 11 |

## Election Spending

The Center for Political Accountability and its allies, a wide variety of institutional investors, continue to seek board oversight and transparency about election spending from corporate treasuries, with 34 proposals filed this year. Nearly two-thirds (20) are resubmissions, 14 of which were first proposed last year. *(See table for the full list.)* Support from investors for these resolutions has continued to climb and averaged 36.2 percent last year, a big jump from earlier. Votes in 2019 included two majorities at **Cognizant Technology Solutions** (53.6 percent) and **Macy's** (53.1 percent) and nine more tallies over 40 percent.

advocacyposition

## 2020: YEAR OF RECKONING FOR COMPANIES ON POLITICAL SPENDING

**BRUCE FREED**
*President, Center for Political Accountability*

**DAN CARROLL**
*Vice President for Programs, Center for Political Accountability*

As the 2020 proxy season unfolds, this is the moment to assess the real impact of corporate political spending, the heightened risk companies and our society face, and what more needs to be done to address it.

The amount and consequences of company spending shouldn't be underestimated. The common misperception is that individuals and private companies are the dominant donors. The Center for Political Accountability (CPA) undertook the first look into the sources of money for and the impact of spending by six partisan "527" committees that have reshaped state and national politics over the past decade. They included the Republican and Democratic governors' associations, state legislative campaign committees, and attorneys general associations. Here's what we found:

- From 2009 to 2018, public companies and their trade associations accounted for almost half—46 percent or $594 million—of the $1.3 billion raised by the groups.
- During the same period, individuals contributed 22 percent, private companies 16 percent, and unions under 10 percent.

A *Wall Street Journal* headline—"For Big Companies, Much of Politics Is Local"—underscored CPA's findings. The accompanying article said the impact of corporate money was amplified because the political committees targeted their spending on key states and races.

What have been the consequences? Attacks on efforts to address climate change, women's reproductive rights and LGBTQ rights, and gerrymandering that sometimes is racially driven.

These outcomes conflict with the donating companies' core values and positions and pose serious risks to their reputations and bottom lines. Companies today confront a hostile environment. CPA polling on public attitudes toward corporate political spending reinforces its message to companies about the risk their spending poses. CPA is working with the George Washington University School of Political Management, which included six of our questions in a late September 2019 GW Politics/YouGov poll. Here are the key findings:

- 77.7 percent of respondents strongly or somewhat agreed with the statement "Corporations have too much power over elections and policymaking in the United States today."
- 75.8 percent of respondents strongly or somewhat agreed with the statement "Corporations should be required to publicly disclose all their political spending on a quarterly basis."

How have companies been responding? The *2019 CPA-Zicklin Index*, the annual benchmarking of the political disclosure and accountability policies of the S&P 500 (these companies are the major spenders), found:

- The number of companies with the best political disclosure and accountability policies (scores of 90 or above) jumped to 73, a 160 percent increase over 2015 when the Index was expanded to cover the S&P 500;
- Three-fifths of the S&P 500 have some form of political disclosure; and
- Over half of the S&P 500 have board oversight of their political spending.

CPA will expand its effort to make political disclosure and accountability uniform and universal and change how companies approach spending. This proxy season, its resolution has been or is set to be filed at 34 companies. The goal is to file at least 40 to build on last year's 13 agreements and record average vote of 36.4 percent.

The standard CPA proposal, which has not been changed for several years, asks companies to produce a report, with semiannual updates, on:

1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct and indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:
   a. The identity of the recipient as well as the amount paid to each; and
   b. The title(s) of the person(s) in the Company responsible for decision-making.

**Withdrawal:** James McRitchie withdrew at **MGM Resorts International** after the company agreed to adopt the CPA model policy and disclosure. More withdrawals are likely as the season progresses. Last year, proponents reached agreements and withdrew proposals at 13 companies.

**SEC action: NextEra Energy** is contending that the resolution, in its sixth year, is moot given recent reforms undertaken after the 2019 vote. The proposal has earned increasing levels of support, starting with 39.5 percent in 2015 and reaching 48.7 percent in 2019.

**Rebuke:** NorthStar Asset Management filed a resolution at **PayPal** that the company challenged, arguing that it was not a proper shareholder request and also was too vague. It was a new request and criticized the company's PAC spending. NorthStar withdrew before any SEC response. The resolution said:

> Resolved: Shareholders rebuke the Board of Directors at PayPal Holdings, Inc. for failing to have in place adequate measures to ensure that political contributions made by the Company or its PAC are in line with PayPal's stated values and goals.

One more proposal also addresses congruency between corporate values and political spending, at **Coca-Cola**. It expresses concern about the company's efforts to oppose bill requiring bottle deposits to encourage recycling and support for candidates that oppose reproductive health rights. The proposal is a new iteration of earlier calls for values congruency in corporate political spending, aired at other companies and asks that the company publish an annual report on "the congruency of political and electioneering expenditures during the preceding year against publicly stated company values and policies." *(See p. 47 for more on a new campaign from Rhia Ventures on reproductive health rights.)*

## Election Spending

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Activision Blizzard | Review/report on election spending | James McRitchie | June |
| Alaska Air Group | Review/report on election spending | John Chevedden | May |
| Allstate | Review/report on election spending | Teamsters | May |
| American Airlines Group | Review/report on election spending | John Chevedden | June |
| American Tower | Review/report on election spending | James McRitchie | May |
| Broadridge Financial Solutions | Review/report on election spending | James McRitchie | Nov. |
| Brown-Forman | Review/report on election spending | New York State Common Retirement Fund | July |
| Centene | Review/report on election spending | Friends Fiduciary | April |
| CMS Energy | Review/report on election spending | New York State Common Retirement Fund | May |
| Cognizant Technology Solutions | Review/report on election spending | James McRitchie | June |
| DaVita HealthCare Partners | Review/report on election spending | Friends Fiduciary | June |
| Delta Air Lines | Review/report on election spending | Friends Fiduciary | June |
| DTE Energy | Review/report on election spending | Mercy Investment Services | May |
| Duke Energy | Review/report on election spending | New York State Common Retirement Fund | May |
| Evergy (formerly Westar Energy) | Review/report on election spending | Nathan Cummings Foundation | May |
| Expedia Group | Review/report on election spending | Friends Fiduciary | June |
| ExxonMobil | Review/report on election spending | Unitarian Universalists | May |
| Fiserv | Review/report on election spending | John Chevedden | May |
| Illumina | Review/report on election spending | James McRitchie | May |
| J.B. Hunt Transport Services | Review/report on election spending | Teamsters | April |
| Loews | Review/report on election spending | Clean Yield Asset Mgt. | May |
| Marriott International | Review/report on election spending | James McRitchie | May |
| MetLife | Review/report on election spending | James McRitchie | June |
| MGM Resorts International | Review/report on election spending | James McRitchie | withdrawn |
| Monster Beverage | Review/report on election spending | Unitarian Universalists | June |
| Motorola Solutions | Review/report on election spending | Newground Social Investment | May |
| Netflix | Review/report on election spending | James McRitchie | June |
| NextEra Energy | Review/report on election spending | Newground Social Investment | May |
| Nucor | Review/report on election spending | First Affirmative Financial Network | May |
| ResMed | Review/report on election spending | James McRitchie | Nov. |
| Royal Caribbean Cruises | Review/report on election spending | New York State Common Retirement Fund | May |
| Simon Property Group | Review/report on election spending | New York State Common Retirement Fund | May |
| Western Union | Review/report on election spending | John Chevedden | May |
| **Water** | | | |
| Coca-Cola | Report on political spending and values | As You Sow | May |
| PayPal | Rebuke election spending policy | NorthStar Asset Management | withdrawn |

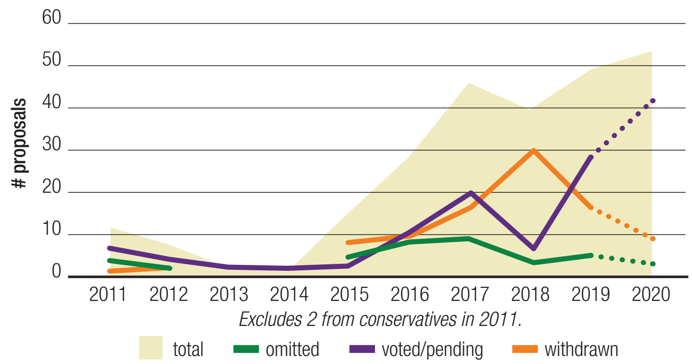
## DECENT WORK

The number of shareholder resolutions seeking more disclosure about fair pay and working conditions rose sharply after 2014 and has stood at about 50 filings in each of the last two years. Most of the proposals address inequalities connected to race and gender. Women and people of color continue to earn less than their white male counterparts and the campaign to rectify these differences continues. *(Workplace diversity is covered separately in this report, p. 42.)*

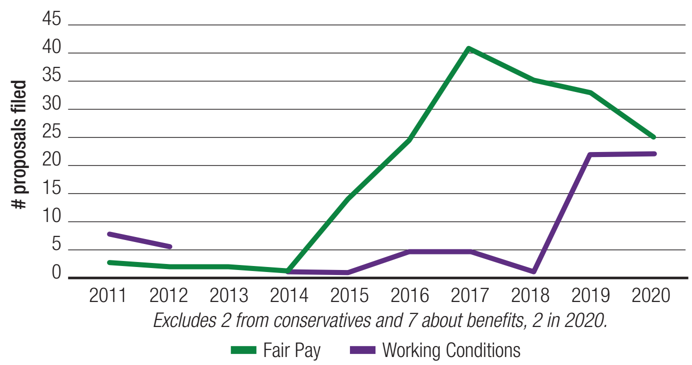
Proposals ask for action to alleviate disparities and provide data about the nature of differential pay. Last year the New York City Comptroller's Office and trade unions also started focusing on mandatory arbitration and the ways in which it hides sexual harassment and violence in the workplace. *(Table, p. 41, lists all the resolutions.)*

Many of the decent work proposals have come out of work from a group of 25 large institutional investors called the Human Capital Management Coalition, (HCMC) sponsored by the UAW Retirees' Medical Benefits Trust, which in 2017 petitioned the SEC to require more disclosure of information about a company's workforce and human resources policies. Members of HCMC include Trillium Asset Management, the Office of the New York City Comptroller and the AFL-CIO Office of Investment, among others.

### Decent Work Outcomes




### Decent Work Categories




## Pay Disparity

**CEOs:** The vast majority of proposals about corporate pay included in this report address disparities that occur for employees based on gender and race. But we also include a few that discuss the vast disparities between pay for CEOs and other employees. The United Steelworkers and Trillium Asset Management have filed the same proposal at **3M** and **TJX**, asking each to

> take into consideration the pay grades and/or salary ranges of all classifications of Company employees when setting target amounts for CEO compensation. The Compensation Committee should describe in the Company's proxy statements for annual shareholder meetings how it complies with this requested policy. Compliance with this policy is excused if it will result in the violation of any existing contractual obligation or the terms of any existing compensation plan.

The resolution earned 10 percent last year at 3M. It is new at TJX, which is arguing at the SEC that it is moot and also concerned with ordinary business; the SEC has yet to respond.

Jing Zhao, the Chinese human rights activist, also asked **Apple** to "improve guiding principles of executive compensation," discussing CEO pay disparity in the body of his proposal. But the company persuaded the SEC that it dealt with ordinary business. Zhao has a different resolution at **Juniper Networks**, asking it to "reduce the CEO Pay Ratio by 5% each year until it reaches 50:1," but the company contends at the SEC that it also is ordinary business since it is too prescriptive; the SEC has yet to respond.

**Walt Disney** successfully argued another proposal, from individual proponent Karen Perricone, also related to ordinary business and was too vague. It asked the company to

> limit the annual total compensation of our Chairman and Chief Executive Officer to a ratio not to exceed the total annual compensation of Disney's median employee by more than 500:1. This proposed ratio would be attained within a five year timeframe by decreasing the annual total compensation of our Chairman and Chief Executive Officer and by increasing the annual total compensation of our lowest paid employees.

## WHAT PAY RATIO DISCLOSURE CAN TELL US ABOUT DECENT WORK

expertinsight

ROSANNA LANDIS WEAVER
*Program Manager, Power of the Proxy, As You Sow*

Under a provision of the 2010 Dodd-Frank financial reform bill, companies must disclose the ratio of the pay between the CEO and the company's median employee. While shareholders had insight into executive compensation under prior rules, this is the first insight into median employee pay. It should not be skimmed as another number amongst so many in a proxy statement but considered for the insight it may offer into decent work.

We now have multiple years of data, and shareholders are just beginning to utilize the information. For example, comparing within an industry makes it is easy to tell what companies are high road and which are low road. In the retail sector, the median employee at **Walmart** earns $21,952 a year, and the ratio of median employee pay to CEO pay is 1,076:1. At **Costco**, the median employee earns $47,312, and the pay ratio is 169:1. Costco also offers supplemental disclosures. Meanwhile, in the food sector, the median worker at **Yum! Brands**, which includes Pizza Hut, earns $11,865, and the pay ratio is 1,181:1. The median employee at **Papa John's** earns $9,201 a year, and the ratio to CEO pay is 614:1. **Domino's** does considerably better: the median employee earns $19,077, and the pay ratio is 477:1.

At several retail and food companies, half the employees made less than $10,000 last year. Trade groups may have people believe that these are high school students, as if they were earning money to buy extra milkshakes at a diner. The group Fight for Fifteen and others have demonstrated that most minimum wage employee are not teenagers, but instead often women of color.

Critics of pay ratio disclosure claim that it is inconsistent and include features that make comparisons challenging. For example, the SEC currently allows companies to identify one employee as the median employee for comparison to the CEO and use that same person for three years. Ideally, the figure should be recalculated every year. Yet, the pay ratio figure will become more useful as best practices evolve.

In general, best practices include better disclosure. The Say on Pay Working Group, co-led by Maureen O'Brien of Marco Consulting and the AFL-CIO's Brandon Rees, review proxies to identify whether companies include the following in their disclosures:

- Identification of the median employee's job function
- Breakdown of workforce by job function and/or business unit
- Geographic location of the median employee
- Country-level breakdown of global employee headcount
- Breakdown of full-time vs. part-time employment
- Use of temporary or seasonal employees
- Use of subcontracted workers
- Tenure and experience of workforce
- Workforce education levels and skillsets
- The company's overall compensation philosophy
- Employee compensation mix
- Alignment of CEO pay practices with pay practices for other employees

These are areas where many companies can improve disclosure, and questions about these areas can be part of any engagement with companies on decent work. As more comparable data are gathered, shareholders will be able to utilize the information to identify the gaps in their companies' disclosures and gain additional insight into the ratio between worker and CEO pay.

**Gender and race:** Arjuna Capital remains the most prolific of the proponents in this area; the New York City Comptroller's Office is a key player, too, but its 2020 filings are not yet public. Additional proposals on pay equity are from Proxy Impact on behalf of the Women's Inclusion Project. All but two of the proposals are resubmissions from 2019, when the average for 15 votes on the issue was 26 percent. High votes last year at companies that have resubmissions were at **CIGNA** (35.6 percent), **Adobe** (33.3 percent), **JPMorgan Chase** (31 percent) and **Intel** (30.3 percent).

Arjuna wants 13 companies *(see table 41)* to report on global pay disparities. Last year it asked six companies to report on risks associated with public policy about gender pay gaps generally, and six others about the global median pay gap. This year the latter is the request at all companies and adds race to the mix, seeking a report "on the company's global median gender/racial pay gap, including associated policy, reputational, competitive, and operational risks, and risks related to recruiting and retaining diverse talent." The proponents state that "Assessing if a company has pay gaps requires analyzing both equal pay and equal opportunity. This is done using adjusted and unadjusted (median) pay data. The objective of this proposal—median pay gap disclosure—addresses the structural bias affecting the jobs women and minorities hold, when white men hold most higher paying jobs."

advocacyposition

## IT'S TIME FOR AN HONEST ACCOUNTING OF PAY EQUITY

NATASHA LAMB
*Managing Partner, Arjuna Capital*

In December 2019, **Starbucks** became the second U.S. company to disclose the full story of gender and racial pay equity. The retailer disclosed both its "equal pay" gap and its "median pay" gap for women and minority workers. The headline here is that there was no gap on either basis in the United States—a rarity among companies. In fact, Starbucks' median pay results stand in sharp contrast to the 20 percent gender pay gap for the U.S. workforce and the 30 percent gap for the retail industry.

For investors engaging with companies on this issue, understanding the difference between "equal pay" and "median pay," and requesting disclosures on both measures, may determine just how much progress women and minority workers make in the next decade.

The definitions:

**"Equal pay" gap:** What women/minorities are paid versus their direct male/non-minority peers, statistically adjusted for factors such as job, seniority, and geography. Often referred to in the context of "equal pay for equal work" or "similar work."

**"Median pay" gap:** The median pay of women/minorities working full-time versus men/non-minorities working full-time. This is an unadjusted raw measure used by the Organization for Economic Cooperation and Development (OECD) and Department of Labor.

Equal pay gaps measure whether women and minorities are being paid commensurate with their peers for the work they are doing today. Median pay gaps measure whether women/minorities are holding as many high-paying jobs.

Over the last four years, investors have filed more than 100 shareholder proposals on gender and racial pay equity at U.S. corporations. Arjuna Capital began this campaign with one company in 2015—**eBay**—and has since pressed 22 Fortune 500 companies to publish their equal pay data. But in 2019, Arjuna began asking for the other half of the story—median pay. The year before, many U.S. companies began reporting median pay data for their U.K. operations, as required by a new law, but not for global operations. As a result, Arjuna filed 13 proposals asking for median pay disclosures with companies across the technology, finance, and retail sectors.

Starbucks' recent disclosure follows that of **Citigroup**—the first U.S. company to publish both equal and median pay numbers. In January 2019, Citi revealed a 29 percent median pay gap for women and a 7 percent gap for minorities—not flattering numbers, but an honest accounting of how pay and position fall across the bank. Notably, by January 2020, the bank had shrunk those gaps to 27 percent and 6 percent, respectively. In short, Citigroup created a baseline from which to measure progress and improved its performance.

Revealing the whole story of the gender and racial pay gap is essential to create change. The future of best practice disclosure should blend the approaches taken in the U.K. and the United States and apply it to 100 percent of global operations. More complete reporting will not only reveal whether women and minorities are paid equitably for the work they do today, but also whether companies are closing median pay gaps over time by moving those workers into higher paying positions.

The United Kingdom mandates disclosure of adjusted and unadjusted (median) pay data, yet with few exceptions, U.S. companies decline to provide unadjusted data. All of the companies facing resolutions (with one exception) assert that median pay is not a useful metric, although this is the key metric used by the Organization for Economic Cooperation and Development, the World Economic Forum and the United States Department of Labor.

As for racial pay gaps, in general, U.S. companies report on domestic racial breakdowns for the United States and gender differentials only (when they discuss them) globally.

**Withdrawals**—To date, just one of the Arjuna proposals has been withdrawn, at **Starbucks**; the company agreed to provide the global median pay gap data requested. Arjuna had withdrawn most of its 2018 proposals that focused only on women, asking for reports on "policies and goals to reduce the gender pay gap." It reached agreements with major banks that year about actions they planned to take to close their pay gaps but was less successful in 2019 with the global data request. Companies proved reluctant to report on worldwide disparities, which are affected by country-by-country pay differentials. Companies have reported on adjusted data that often leaves out 10 percent to 15 percent of a workforce total, including the highest paid positions where the largest discrepancies appear, which is why proponent are now asking for *unadjusted* data.

**Women:** Proxy Impact has three proposals similar to Arjuna's, but only about women, seeking a report "on the company's global mean and median gender pay gap, including associated policy, reputational, competitive, and operational risks, and risks related to recruiting and retaining female talent." The proposal is a resubmission at **CIGNA**, where it earned 35.6 percent last year, the highest 2019 vote on this issue. Proxy Impact withdrew in 2019 at **Pfizer** when the company said it will hire outside experts to assess in the first half of 2019 whether it has a global gender pay gap and a U.S. race pay gap, and the sources for any gaps, and report publicly on the results by no later than early 2020. Its internal U.S. pay audits have found no gender- or race-based pay gaps, Pfizer said. But Proxy Impact refiled this year, asking just about unadjusted global median pay, since the company has only provided adjusted data so far. The filing is new at **Wyndham Destinations**.

## Benefits

**Voting participation:** Trillium Asset management has withdrawn its new proposal about policies that would encourage voting, at **Alphabet** and **Apple**. It asked that the companies provide a report about "current policies regarding employee time off to vote, and assessing the merits of strengthening those policies." There was a procedural problem at Alphabet, but Trillium reports "successful" discussion at Apple.

## Working Conditions

Most of the resolutions over the last couple of years about working conditions have zeroed in on how companies handle sexual harassment complaints. New York City Comptroller Scott Stringer began a new campaign last year, joined by the union Change to Win, about mandatory arbitration and non-disclosure agreements. This year's proposals focus more specifically on mandatory arbitration, which can shield the accused and help perpetuate problems—as shown in many high profile cases such as that against disgraced movie mogul Harvey Weinstein.

**Mandatory arbitration:** Twelve pending resolutions ask for reports on the use of arbitration and one asks for its end; four are not public:

- Invoking a new California law, the New York City pension funds face SEC challenges at **Dollar General** and **Dollar Tree** for a proposal that seeks a report

  > on the use of contractual provisions requiring employees of Dollar General to arbitrate employment-related claims. The report should specify the proportion of the workforce subject to such provisions; the number of employment-related arbitration claims initiated and decided in favor of the employee, in each case in the previous calendar year; and any changes in policy or practice [the company] has made, or intends to make, as a result of California's ban on agreeing to arbitration as a condition of employment.

- The resolution notes high profile sexual harassment cases at companies such as **Fox News**, **Google** and **Uber** about sexual harassment, adding that it is concerned about wage theft, too. It points to a law signed by California Governor Gavin Newson in October 2019 that would have banned mandatory arbitration requirements. The law, AB 51, was to have gone into effect in January, but was put on hold by a federal judge in Sacramento at the end of the year after the Chamber of Commerce and the National Retail Federation sued to block it, claiming it violates the Federal Arbitration Act. At the end of January the judged issued a preliminary injunction that blocks implementation; the law now appears headed for the 9th Circuit Court of Appeals.
- Change to Win has returned to **Walmart** with a resolution similar to its request last year, using the same formulation as the NYC proposals. Last year, a proposal from company employees in the group Organization United for Respect to the company about sexual harassment earned 10.8 percent support. That proposal sought more board oversight of sexual harassment, consideration of it in executive pay, and a review of company policies.
- Change to Win has filed a proposal using the 2020 request for a report on mandatory arbitration at **Yum Brands**, as well.
- Nia Impact Capital, a socially responsible investing firm from California, has a similar proposal at **Tesla Motors** and two small firms, **Natus Medical** and **Pattern Energy**. It asks for a report "on the impact of the use of mandatory arbitration on [company] employees and workplace culture. The report should evaluate the impact of [the company's] current use of arbitration on the prevalence of harassment and discrimination in its workplace and on employees' ability to seek redress."

**Withdrawal**—The Nathan Cummings Foundation withdrew its proposal to **Nordstrom** that made the same request as the Nia Impact proposal, following an agreement in which the company agreed to review its use of arbitration and the implications for its corporate culture. The proposal noted the high prevalence of workplace discrimination for African American and Hispanic women, and the company's current requirement for arbitration of any employment-related claims—saying it creates "a long tail risk for Nordstrom," where two-thirds of employees are women and more than half are people of color.

**SEC action**—Dollar General and Dollar Tree both have lodged challenges to the NYC proposal at the SEC, arguing it concerns ordinary business. The commission has yet to respond. Yum Brands is making the same argument on its resolution from Change to Win, saying this is a workforce management concern; last year, Yum successfully challenged a proposal seeking an end to mandatory arbitration on these grounds.

**Sexual harassment:** A few arbitration proposals make the link to sexual harassment in their resolved clauses. Five resolutions come from a union and two socially responsible investing firms:

- Arjuna Capital wants **Comcast** "to conduct an independent investigation into and prepare a report (at reasonable expense, omitting confidential and proprietary information) on risks posed by the Company's failures to prevent workplace sexual harassment."
- At **XPO Logistics**, the shipping company, the Service Employees International Union (SEIU) has resubmitted proposal asking the company to "strengthen XPO's prevention of workplace sexual harassment by formalizing the Board's oversight responsibility, aligning senior executive compensation incentives, reviewing (and if necessary overseeing revision of) company policies," with a report by the end of the year. The proposal is a resubmission that earned 18 percent support in 2019, after the company unsuccessfully challenged the proposal at the SEC on several grounds. One more proposal like this is pending at an additional company that has yet to be made public.
- **SEC action**— **JPMorgan** said its proposal was submitted late and dealt with ordinary business since it's too detailed, and the proponent withdrew. In still-pending challenges, **Comcast** says the proposal concerns ordinary business because it discusses legal compliance, while **Wells Fargo** says it would be moot after a report it planned early this year.

**Human capital management:** Five new resolutions ask for reports about how companies are managing both diversity and labor law issues, invoking the Sustainability Accounting Standards Board (SASB) standards in three instances:

- At **Advance Auto Parts**, the proposal is for a report

  > describing the company's policies, performance, and improvement targets related to material human capital risks and opportunities by 180 days after the 2020 Annual Meeting, at reasonable expense and excluding confidential information, including at a minimum reporting on average hourly wage and percentage of in-store employees earning minimum wage; voluntary and involuntary turnover rate for in-store employees; and total amount of monetary losses as a result of legal proceedings associated with labor law violations.

- At **McDonald's**, the resolution looks at the company's restaurant ownership structure, asking for a report

  > on actions the company is taking to ensure decent work practices are upheld in the company's owned and franchisee operations, including: Information on the company's overall approach and board-level oversight of human capital management in the context of emerging workforce-related risks and opportunities in the quick service restaurant sector; and Comprehensive workforce metrics that effectively demonstrate the success and/or challenges the company faces in its management of human capital.

- At three companies—**Genuine Parts**, **O'Reilly Automotive** and **Ulta Beauty**, the resolution is for a report on

  > policies performance and improvement targets related to material human capital risks and opportunities by 180 days after the 2020 Annual Meeting at reasonable expense and excluding confidential information prepared in consideration of the metrics and guidelines set forth in the SASB Multiline and Specialty Retailers Distributors standards provisions on workforce diversity and inclusion and labor practices requirements.

**Withdrawal**—*As You Sow* withdrew at Advance Auto after reaching an agreement.

**SEC action**—**Genuine Parts** unsuccessfully challenged its proposal at the SEC on procedural grounds. Still awaiting SEC responses are challenges from two companies. **McDonald's** says the proposal concerns ordinary business because it relates to workforce management, while **O'Reilly Automotive** contends the resolution is both too long and also moot. *As You Sow* withdrew a sustainability reporting proposal in 2019 after the company agreed to produce the report, and the company's challenge this year notes its current sustainability report includes a section on diversity and inclusion.

**Worker safety:** The United Steelworkers have filed several proposals over the years about worker safety and this year the union approached **HollyFrontier**, asking it to "prepare a report to shareholders by the 2020 annual meeting…on process safety incidents, environmental violations, and worker fatigue risk management policies for the Company's refineries." The resolution was filed too late for consideration last year, and has been withdrawn this year after an SEC challenge in which the company argued that it concerned ordinary business as it dealt with worker safety and legal compliance matters, and that it was too vague. The withdrawal came before any response from the commission.

A new resolution is still pending at **Amazon.com**, from the AFL-CIO. It asks for a report "on the steps the Company has taken to reduce the risk of accidents. The report should describe the Board's oversight process of safety management, staffing levels, inspection and maintenance of Company facilities and equipment and those of the Company's dedicated third-party contractors." Amazon is contending at the SEC that it relates to ordinary business.

**Plant closures:** The AFL-CIO is asking **United Technologies** to report on the impacts of plant closures. The resolution wants to see "a committee, with members drawn from representatives of the employee workforce and management of the Company, to prepare a report regarding the impact on communities from the closure of Company manufacturing facilities and alternatives that can be developed to help mitigate the impact of such closures in the future."

## Decent Work

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| **Fair Pay** | | | |
| 3M | Consider pay disparity in CEO compensation | United Steelworkers | May |
| Adobe | Report on gender/minority pay disparity | Arjuna Capital | April |
| Alphabet | Report on global median gender/racial pay gap | Arjuna Capital, Proxy Impact | June |
| Amazon.com | Report on global median gender/racial pay gap | Arjuna Capital | May |
| American Express | Report on global median gender/racial pay gap | Arjuna Capital | May |
| Apple | Consider pay disparity in CEO compensation | Jing Zhao | omitted |
| Bank of America | Report on global median gender/racial pay gap | Arjuna Capital | April |
| Bank of New York Mellon | Report on global median gender/racial pay gap | Arjuna Capital | April |
| CIGNA | Report on global mean and median gender pay gap | Proxy Impact | April |
| Facebook | Report on global median gender/racial pay gap | Arjuna Capital | May |
| Intel | Report on global median gender/racial pay gap | Arjuna Capital | May |
| JPMorgan Chase | Report on global median gender/racial pay gap | Arjuna Capital | May |
| Juniper Networks | Limit CEO pay disparity | Jing Zhao | May |
| Mastercard | Report on global median gender/racial pay gap | Arjuna Capital | June |
| Microsoft | Report on global median gender/racial pay gap | Arjuna Capital, Proxy Impact | Dec. |
| Pfizer | Report on global median gender pay gap | Proxy Impact | April |
| Starbucks | Report on global median gender/racial pay gap | Arjuna Capital | withdrawn |
| TJX | Consider pay disparity in CEO compensation | Trillium Asset Management | June |
| Walt Disney | Limit CEO pay disparity | Karen Perricone | omitted |
| Wells Fargo | Report on global median gender/racial pay gap | Arjuna Capital | April |
| Wyndham Destinations | Report on global mean and median gender pay gap | Proxy Impact | May |
| **Working Conditions** | | | |
| Advance Auto Parts | Report on human capital management | As You Sow | withdrawn |
| Amazon.com | Report on accident prevention efforts | Teamsters | May |
| CBRE Group | End inequitable employment practices | AFL-CIO | omitted |
| Comcast | Review/report on sexual harassment policy | Arjuna Capital | June |
| Dollar General | Report on mandatory arbitration | NYC pension funds | May |
| Dollar Tree | Report on mandatory arbitration | NYC pension funds | June |
| Genuine Parts | Report on human capital management | As You Sow | April |
| HollyFrontier | Report on accident prevention efforts | United Steelworkers | withdrawn |
| JPMorgan Chase | Review/report on sexual harassment policy | Clean Yield Asset Mgt. | withdrawn |
| McDonald’s | Report on human capital management | IBVM Foundation of Canada | May |
| Natus Medical | Report on mandatory arbitration | Nia Impact Capital | June |
| Nordstrom | Report on mandatory arbitration | Nathan Cummings Foundation | May |
| O’Reilly Automotive | Report on human capital management | As You Sow | May |
| Pattern Energy Group | Report on mandatory arbitration | Nia Impact Capital | Dec. |
| Tesla Motors | Report on mandatory arbitration | Nia Impact Capital | June |
| Ulta Beauty | Report on human capital management | As You Sow | June |
| United Technologies | Report on plant closure impacts | AFL-CIO | May |
| Walmart | Report on mandatory arbitration | Change to Win | June |
| Wells Fargo | Review/report on sexual harassment policy | Clean Yield Asset Mgt. | withdrawn |
| XPO Logistics | Review/report on sexual harassment policy | SEIU Master Trust | May |
| Yum Brands | Review/report on sexual harassment policy | Change to Win | May |
| **Benefits** | | | |
| Alphabet | Report on paid time off to vote | Trillium Asset Management | withdrawn |
| Apple | Report on paid time off to vote | Trillium Asset Management | withdrawn |

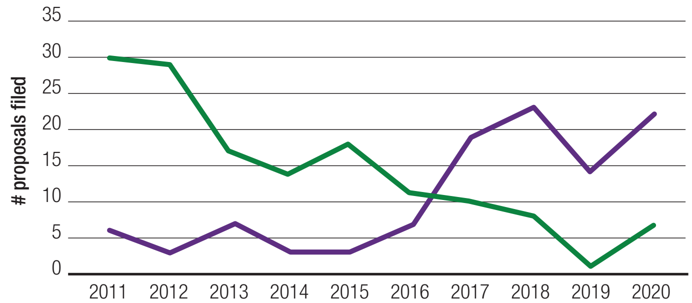
# DIVERSITY IN THE WORKPLACE

The number of shareholder proposals about diversity at work has jumped back up this year to 29, after seeing just 16 filed at this point in 2019. Resolutions seek reports on diversity programs in general and on the perennial question of equal employment data disclosure and affirmative action. In addition, the effort begun last year to encourage diversity in the upper echelons of management continues. Furthermore, Trillium Asset Management has pressed seven companies to add gender identity provisions to their policies and withdrawn all the requests after the companies agreed to do so.

All of the proposals share a concern about discrimination on the basis of race, ethnicity and gender and support more disclosure and action to provide equal employment opportunities. All but two have been submitted at companies that have yet to consider such a proposal and few have been withdrawn as of mid-February, although more withdrawals seem quite likely given past agreements on employment discrimination in general. *(Also see proposals seeking executive pay links to diversity, p. 62.)*

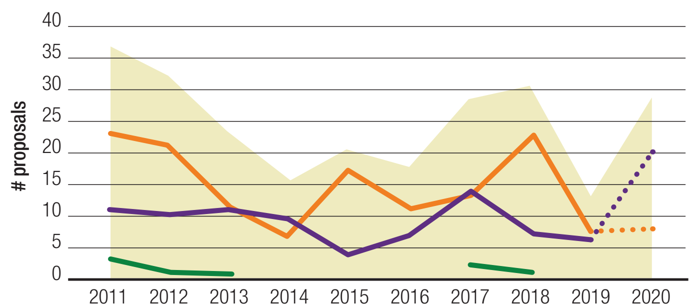
*(Proposals about greater gender pay equity are covered in the Decent Work section above, p. 36. The Sustainable Governance section (p. 57), describes 49 other proposals seeking greater board diversity—focused on women but increasingly minorities; both are deeply underrepresented on corporate boards.)*

### Diversity at Work Categories




*Excludes 24 from conservatives and 1 other.*

### Diversity at Work Outcomes




*Excludes 24 from conservatives and 1 other.*

## Discrimination and Diversity

**Analysis of programs:** *As You Sow* and Nia Impact Capital have eight resolutions asking for reports on diversity programs. At **Gilead Sciences**, **JPMorgan Chase**, **Mastercard**, **MetLife**, **Morgan Stanley** and **Sarepta Therapeutics** the resolution asks for an annual report "assessing the Company's diversity and inclusion efforts," and suggests in the resolved clause that the proposal should include:

- the process that the Board follows for assessing the effectiveness of its diversity and inclusion programs,
- the Board's assessment of program effectiveness, as reflected in any goals, metrics, and trends related to its promotion, recruitment and retention of protected classes of employees.

*As You Sow* expects to file one more such proposal at an additional company. Additionally, a shorter proposal is pending at **Fastenal**, asking only that it report "assessing the diversity of our company's workforce."

**EEO data reporting:** Trillium Asset Management and Boston Trust Walden have seven proposals between them. At **Choice Hotels**, **Hyatt Hotels** and **Williams-Sonoma**, the proposal asks for a report by the end of the year that will include:

1. A breakdown of its workforce by race and gender, preferably according to the Equal Employment Opportunity Commission (EEOC) defined job categories (the EEO-1 Report); and
2. A description of policies and programs implemented to increase the number of minority and female employees in job categories where they are underutilized.

At **Hanesbrands**, **Marriott International** and **Travelers** (where it earned 50.9 percent in 2019), it is slightly different, requesting a report (with no timeline specified), that would include:

1. A chart identifying employees according to gender and race in major EEOC-defined job categories, listing numbers or percentages in each category;
2. A description of policies/programs focused on increasing gender and racial diversity in the workplace.

The Benedictine Sisters of Bourne, Texas, have resubmitted an EEO data resolution at **Home Depot**, where the company has been under pressure to report more fully on its workforce and to describe its affirmative action for 18 years. The resolutions routinely earned more than 20 percent. In 2018, the vote jumped to 48.3 percent; late that year, the company released figures for the breakdown of its workforce overall in 2017 by race, ethnicity and gender and provided comparable data on the board of directors and for officers and "managers and above." The data show decreasing levels of diversity as posts become more senior but are not as detailed as the EEO-1 reporting sought in the resolution. Further, the proposal last year noted that the company paid a $100,000 disability rights settlement in 2018. The proposal this year reiterates past concerns, seeking EEO-1 job category breakdowns, "a summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilized" and "description of policies/programs oriented toward increasing diversity in the workplace."

**Withdrawal**—Trillium withdrew at Hanesbrands after the company agreed to publish diversity and inclusion initiatives, including workforce diversity data.

**advocacy**position

## YOU CAN'T BREAK THE GLASS CEILING WITHOUT A PROMOTION

MEREDITH BENTON
*Principal, Whistle Stop Capital*

KRISTIN HULL
*Founder and CEO, Nia Impact Capital*

In the finance industry, there is a mind-boggling 32 percent gap between women represented in entry level roles and women in the executive suite; women make up 56 percent of entry level positions and 24 percent of executives. Finance is not an anomaly. In transportation, logistics, and infrastructure, the gap is 43 percent, healthcare's gap is 40 percent, and consumer packaged goods' gap is 35 percent. There is no industry without a significant valley. We know that these valleys also exist around race, ethnicity, sexual orientation, and other immutable characteristics. We are still lacking sufficient public data to understand just how pervasive or extensive these gaps are.

According to McKinsey, a woman is 21 percent less likely to be offered her first promotion. This phenomenon, colloquially "the broken rung," has persisted despite companies actively stating their commitments to gender equity (as 84 percent of the S&P 100 companies have done). Currently, published data is so limited that it is hard for investors to know who the corporate leaders are, who the corporate laggards are, and where a diversity commitment is nothing but PR. Only a small number of companies publish data on their workforce composition, and even fewer publish meaningful information on the promotion, recruitment, and retention rates of diverse employees.

This year, Nia Impact Capital and *As You Sow*, supported by Whistle Stop Capital, filed shareholder resolutions asking for more quantitative diversity data. We made this request knowing that companies with the strongest racial and ethnic diversity are 35 percent more likely to have financial returns above their industry medians. Companies in the top quartile for gender diversity are 21 percent more likely to outperform on profitability and 27 percent more likely to have superior value creation. Firms with management teams that were more than 20 percent female, over the course of a decade, showed share prices surpassing their less gender-diverse peers.

Research also indicates that positive abnormal returns exist for momentum-based strategies associated with improving human capital management (implying that a poor initial showing has a potential upside). Of particular importance here, Stanford researchers found that announcements of gender diversity improvements catalyzed stock price jumps, yet flat or negative data did not harm shareholder value (implying that companies will not be penalized by investors for imperfect statistics).

Initial conversations with companies have been productive, tapping into strong internal allies eager to share more information on their initiatives and goals. We have worked alongside them to identify what information might be brought forward this year, making the case that a company that tells investors it is confident in its current programs and practices should also be confident that it will have improving diversity data to share.

Companies seem to understand, though, that what is currently a request for transparency will soon be an expectation. As an investor relations executive from a large financial services firm recently told us, "We're getting almost as many questions on this as we are on climate change."

**advocacy**position

## MAJORITY SHAREHOLDER VOTES PUT SPOTLIGHT ON C-SUITE DIVERSITY

SUSAN BAKER
*Vice President Shareholder Advocacy, Trillium Asset Management*

BRIANNA MURPHY
*Vice President Shareholder Advocacy, Trillium Asset Management*

Evidence continues to mount that ethnic, racial, and gender diversity at the highest levels of leadership is enormously important to a well-functioning organization. The gains made by corporations to diversify both their boards and senior executive ranks are noteworthy and investor engagement has played a valuable role in these advances.

In 2019, women on S&P 500 boards and in the C-suite reached new milestones, comprising 26 percent and 21 percent, respectively. Yet promotional gaps persist, especially in the highest ranks of decision makers. Of top earners in the C-suite, just 11 percent are women and a much smaller percentage are women of color. According to Catalyst, only 5.8 percent of S&P500 CEOs are women (unchanged from a year ago) and just 0.4 percent are women of color. A 2017 survey of business leaders revealed that women comprised just 10 percent of the short-term CEO candidate pool, pointing to added concerns around future diversity trends.

Further, the gender and minority pay gaps that persists across industries exist because men still hold a majority of the higher paying jobs when compared to women. Narrowing this pay gap requires management focus on diversity and inclusion from entry level to senior leadership.

In 2018, sustainable investment firms and mutual funds began urging companies to specifically address diversity in executive leadership ranks. A majority (50.9 percent) of **Newell Brands** shares supported a request to assess and plan for expanded executive leadership diversity. In mid-2019, the board appointed India-born Ravi Saligram as Newell's next CEO and newest member of the executive committee.

Related shareholder proposals asking for comparable data of total workforce composition received equally strong support (56 percent at **Travelers** and 48 percent at **Analog Devices**). After nearly four years of engagement and the majority vote, Travelers began releasing its complete EEO-1 report on the racial, gender and ethnic composition of its workforce by specific job categories. While Travelers was willing to engage over the years, it was only after the majority vote that it agreed to disclose meaningful workforce data.

The business and societal benefits of diversity are no longer in question and are increasingly expected, as growing votes on this issue show. However, in practice much remains to be done. As a result, Trillium and several investor partners are continuing to urge companies, including **Tractor Supply**, **IPG Photonics**, **Ormat Technologies**, **SVB Financial Group**, and **Hanover Insurance Group**, to provide assessments of diversity in the C-suite and plans to expand diversity inclusive of race, ethnicity and gender.

*This is not a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. The specific securities were selected on an objective basis and do not represent all of the securities purchased, sold or recommended for advisory clients.*

**Executive diversity:** Last year, Trillium Asset Management started asking companies to provide more reporting on their efforts to diversify upper echelons of management. It withdrew at four companies after each agreed to provide more information on how they seek to boost women and minorities in their executive ranks. One more went to a vote at **Newell Brands**, earning 56.6 percent support.

In 2020, Trillium is back with five more similar proposals, at **Hanover Insurance Group**, **IPG Photonics**, **Ormat Technologies**, **SVB Financial Group** and **Tractor Supply**. It asks, as it did in 2019, for an "assessment of the current state of its executive leadership team diversity and its plan to make the company's executive leadership team more diverse in terms of race, ethnicity, and gender."

**Withdrawal**—Proxy Impact has withdrawn the same proposal at **Dell** after an agreement.

## LGBTQ Rights

Trillium filed and withdrew a proposal at seven companies, asking each to add gender identity as a protected class of employees in non-discrimination policies. All *(see table for a list)* agreed to do so.

*(See Conservatives, p. 66, for proposals that argue against policies to protect LGBTQ rights.)*

## Diversity at Work

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| **Discrimination & Diversity** | | | |
| Choice Hotels International | Report on EEO and affirmative action | Boston Trust Walden | April |
| Dell | Report on executive diversity | Proxy Impact | Oct. |
| Fastenal | Report on diversity programs | As You Sow | April |
| Gilead Sciences | Report on diversity programs | As You Sow | May |
| Hanesbrands | Report on EEO and affirmative action | Trillium Asset Management | withdrawn |
| Hanover Insurance Group | Report on executive diversity | Trillium Asset Management | May |
| Home Depot | Report on EEO and affirmative action | Benedictine Sisters of Bourne, TX | May |
| Hyatt Hotels | Report on EEO and affirmative action | Boston Trust Walden | May |
| IPG Photonics | Report on executive diversity | Trillium Asset Management | May |
| JPMorgan Chase | Report on diversity programs | As You Sow | May |
| Marriott International | Report on EEO and affirmative action | Trillium Asset Management | May |
| Mastercard | Report on diversity programs | As You Sow | June |
| MetLife | Report on diversity programs | As You Sow | June |
| Morgan Stanley | Report on diversity programs | As You Sow | May |
| Ormat Technologies | Report on executive diversity | Trillium Asset Management | May |
| Sarepta Therapeutics | Report on diversity programs | Nia Impact Capital | June |
| SVB Financial Group | Report on executive diversity | Trillium Asset Management | April |
| Tractor Supply | Report on executive diversity | Trillium Asset Management | May |
| Travelers | Report on EEO and affirmative action | Trillium Asset Management | May |
| Williams-Sonoma | Report on EEO and affirmative action | Boston Trust Walden | May |
| **LGBTQ Rights** | | | |
| A.O. Smith | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |
| Aqua America | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |
| EastGroup Properties | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |
| International Flavors & Fragrances | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |
| LKQ | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |
| Rogers | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |
| Syneos Health | Adopt gender identity anti-bias policy | Trillium Asset Management | withdrawn |

## ETHICAL FINANCE

**Tax windfall:** Just one proposal on ethical finance is pending for 2020. Taking an idea raised previously by Trillium Asset Management at Gilead Sciences, the Benedictine Sisters of Mt. St. Scholastica and Oxfam are asking **Merck** to provide "a report, prepared at a reasonable cost and omitting proprietary information, describing how the company plans to allocate tax savings that result from the Tax Cuts and Jobs Act ("TCJA")." The resolution points out the 2017 law cut the corporate tax rate from 35 percent to 21 percent and reduced federal revenue by $100 billion. The proponents say they want to know how the company's tax savings are being spent to provide long-term value creation. They also point out the company doubled its stock buybacks from $4 billion in 2017 to twice that in 2018, while cutting research and development expenditures. (The Gilead proposal earned just 2.2 percent, not enough or resubmission, although it survived a company challenge, where the SEC disagreed it concerned ordinary business.)

## HEALTH

Pending resolutions about health relate to the opioid crisis and tobacco, as in the past. New this year are a few about reproductive health rights and a proposal to two companies about the possible harms of 5G technology, but the latter will not go to a vote. *(Related proposals that seek ties between drug pricing risks and executive pay are covered in the Sustainable Governance section of this report, p. 62.)*

## Health

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Altria | Report on/reduce nicotine levels | Srs. of St. Francis of Philadelphia | May |
| Johnson & Johnson | Report on opioid crisis | Illinois State Treasurer | April |
| Macy's | Report on reproductive health rights risks | As You Sow | May |
| Progressive | Report on reproductive health rights risks | As You Sow | May |
| Sprint | Stop deployment of 5G technology for health reasons | William C. Fleming | omitted |
| Verizon Communications | Stop deployment of 5G technology for health reasons | William C. Fleming | omitted |
| Walgreens Boots Alliance | Report on opioid crisis | Mercy Investment Services | withdrawn |
| Walmart | Report on opioid crisis | Mercy Investment Services | June |

## Pharmaceuticals

**Opioids:** As litigation progresses towards a national settlement between communities affected by the opioid crisis and the companies that made and sold prescription drugs that helped fuel the epidemic, proponents continue to call for more transparency and accountability. Prompted by clear financial risks from lawsuits, legislation and reputational damage, votes on the subject have been high—majorities above 60 percent in 2018 and 2019 at Walgreens Boots Alliance, Assertio Therapeutics (the former Depomed) and Rite Aid and 41.2 percent at Amerisource Bergen in 2018. Proponents have withdrawn four other resolutions seeking reports since the start of a campaign from faith-based investors, the UAW Retirees' Medical Benefit Trust and state pension fund. Investors for Opioid Accountability issued a report last year recapping the efforts and describing an array of corporate governance reform requests.

**advocacy**position

### OPIOID CRISIS & INSULIN PRICES PROMPT SHAREHOLDER PUSH FOR BIG PHARMA BOARD ACCOUNTABILITY

**DONNA MEYER, PH.D.**
*Director, Shareholder Advocacy, Mercy Investment Services*

In July 2019, Investors for Opioid Accountability, which has been at the forefront of the fight against the opioid crisis, broadened its focus to encompass companies with insulin and generic legal risks and those under scrutiny for anticompetitive practices. Now known as Investors for Opioid and Pharmaceutical Accountability (IOPA), this diverse global coalition of 60 public, faith-based, labor, and sustainability funds, as well as asset managers, represents investors with more than $4.4 trillion in assets under management.

This year, multiple IOPA resolutions focus on gaps in governance practices. The coalition seeks board-level commitments to sustainable business models, as well as a change in board director leadership, where appropriate. IOPA's engagements are specifically addressing independent board chairs, disclosure of adjustments to compensation metrics, misconduct clawback disclosure, board opioid risk reports, and the new issue of bonus deferral. IOPA agreed to not file or to withdraw the bonus deferral resolution at more than a dozen pharmaceutical manufacturers, distributors, and retail pharmacies that agreed to participate in a facilitated working group on the topic. IOPA expects very few bonus deferral resolutions will appear on proxies.

In addition to the new work on governance issues, IOPA continues to address opioid risk with pharmaceutical distributors, manufacturers, and retailers. The coalition added manufacturer **Johnson & Johnson** and retailer **Walmart** to the 13 companies previously engaged regarding risks of opioids; shareholders should see proposals requesting board oversight of opioid risks on these companies' proxies.

The expanded work with generic and insulin manufacturers, as well as pharmaceutical companies reported to engage in anticompetitive practices, brings the total to 26 companies engaged in the pharmaceutical supply chain. In addition to the proposals discussed above, these proposals expand on the coalition's previous proposals:

- Independent chair proposals were filed at seven companies; three responded with no-action requests that the Securities and Exchange Commission rejected.
- Four proposals request adjustments to compensation metrics
- Four proposals address clawback disclosure

IOPA believes that this expanded focus will encourage companies to become more accountable for their business practices and the risks involved in the industry. By engaging pharmaceutical manufacturers, distributors, and retailers on governance issues and opioid risk, shareholders will continue to work to ensure fair, affordable access to health care.

**Pending**—Two resolutions at new recipients seek comprehensive reports on the crisis. At **Johnson & Johnson** the request is for a report

> describing the governance measures JNJ has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis, given JNJ's sale of opioid medications, including whether increased centralization of JNJ's corporate functions provides stronger oversight of such risks and any changes in how the Board oversees opioid-related matters, how incentive compensation for senior executives is determined, and how the Board obtains input regarding opioids from stakeholders.

A substantially similar resolution is at **Walmart**. The proposal notes the company is a defendant in the national class action litigation because it is "accused of failing to adequately train employees or monitor suspicious orders of prescription opioids." It says the company's Opioid Stewardship Initiative addresses restrictions on prescriptions, but not changes such as board oversight and links to executive pay that the proponents believe are needed.

**Withdrawal**—Proponents withdrew a proposal this year at **Walgreens** that asked for the same report. That proposal also said the company should explain "whether and how the Board oversees Walgreens' opioid-related programs and AmerisourceBergen's opioid-related risks, and whether and how Walgreens has changed senior executive incentive compensation arrangements." The requested report is available on the company website.

## Reproductive Health

*As You Sow* and Rhia Ventures have a new proposal in 2020; filed at two companies and planned at one more, it expresses concerns about eroding access to abortion and other related reproductive health care services. As described in a *Roll Call* article in February, the resolution seeks a report by December "detailing any known and any potential risks and costs to the Company caused by enacted or proposed state policies affecting reproductive rights and detailing any strategies beyond litigation and legal compliance that the Company may deploy to minimize or mitigate these risks." Target companies include **Macy's** and **Progressive**.

**advocacy**position

### THE BUSINESS CASE FOR REPRODUCTIVE HEALTH

**SHELLEY ALPERN**
*Director of Shareholder Advocacy, Rhia Ventures*

Reproductive health is a business issue—this is the message that a new campaign wants companies and investors to know and to act upon. The effort is led by Rhia Ventures, a San Francisco-based venture firm specializing in contraceptive and maternal health investments.

In September 2019, Rhia Ventures sent a letter signed by 39 institutional investors to over 30 major Fortune 500 companies requesting dialogue in four areas where corporations can take a positive role in ensuring their employees' access to full reproductive health services: insurance, benefits, public policy, and political spending. Signatories included the Office of the New York Comptroller Scott Stringer, SEIU, the Presbyterian Church (USA), Amalgamated Bank, JLens, and other investment management firms and foundations, representing an aggregate $236 billion in assets under management. This is the first sustained, multi-investor effort to influence corporate behavior on this topic.

The overture has led to dialogue with a number of companies, as well as the filing of five shareholder proposals at **Coca-Cola**, **Home Depot**, **Delta Airlines**, **Progressive**, and **Macy's**. These proposals call attention to the challenges companies can encounter due to the highly differentiated state legal environments in which they operate. The proposals note:

> In the first six months of 2019, states enacted 58 abortion restrictions…. At the same time, other states enacted legislation that protects these rights and advanced measures to increase access to contraception. A similar patchwork of state laws regulates the coverage of abortion by private insurance plans. Eleven states ban abortion coverage in all state-regulated private insurance plans, whereas six states require private insurance plans to cover abortion.

To better educate companies and investors on this topic, Rhia Ventures published *Hidden Value: The Business Case for Reproductive Health* earlier this year. *Hidden Value* draws from interviews with nearly 40 companies (over half in the Fortune 500) and a survey of 1,377 college-educated, employed Americans aged 18-64.

The report argues that businesses cannot afford to overlook the bottom-line impact of access to reproductive health services, noting that 99 percent of women use contraception and 24 percent have had an abortion by age 45. It identifies five motivators for companies to strengthen reproductive health policies: widening the talent pipeline; supporting and retaining existing talent; providing high-impact benefits with low-cost investments; delivering on diversity and inclusion commitments; and preparing for an increase in public scrutiny, which began to emerge in the spring of 2019 after the passage of a wave of state laws effectively banning abortion. All the new laws are being challenged in court.

*Hidden Value* found that companies are frequently unaware of the benefits they provide for reproductive health and often may unintentionally limit their offerings as a result. It also found that the vast majority of women in their child-bearing years say they would want their employer's insurance to cover the full range of reproductive health care and that majorities of both women and men say restrictive state abortion laws would factor into whether or not they would accept a position in that state.

The proposal points to the wide array of legal challenges that affect access, noting 58 new state restrictions about reproductive health rights that were enacted in the first six months of 2019, plus competing measures to secure and remove these rights. Eleven states now have laws banning abortion on the books, although they are being challenged in court, while six states require coverage for abortion.

The proposal reasons that because the companies targeted operate in some of the states with restrictions, and because their employees are affected, investors need a report on how the companies are handling the issue. It quotes statements from the companies supporting diversity and inclusion and better financial returns for diverse companies, then argues that reproductive health rights are key benefits for company employees that bolster diversity and inclusion. The resolution calls on the companies to "evaluate any risks and costs including, but not limited to: effects on employee hiring, retention, and productivity, and increases in litigation and brand risks. Strategies evaluated should include any public policy advocacy programs, political contributions policies, and human resources or educational strategies."

**SEC action:** Progressive has challenged the proposal at the SEC, arguing it concerns ordinary business, is too vague, and is not a proper subject for a shareholder proposal. The SEC has yet to respond.

### Tobacco

Only one resolution on tobacco appears to have been filed for 2020. The Sisters of St. Francis of Philadelphia has a proposal that asks **Altria** "to review corporate adherence to Altria's principles and policies aimed at discouraging the use of their nicotine delivery products to young people, assess the effectiveness of those polices, and the damage inflicted on our nation's youth and report the results" by November. A similar resolution last year asked Altria to report on nicotine levels in its cigarettes and reducing them earned 3.9 percent in 2019, about the same as the 4.1 percent it got in 2018 and not enough for resubmission.

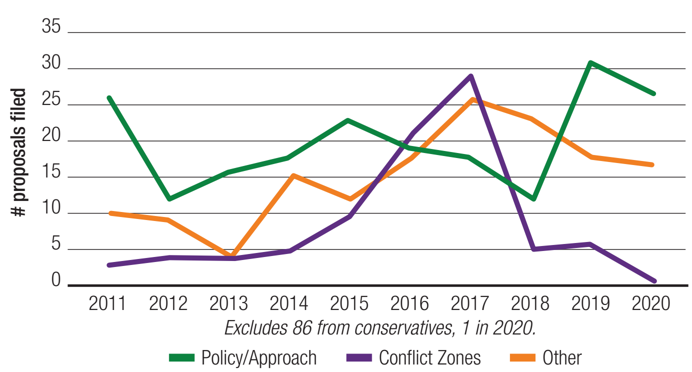
### Technology

Individual investor William Fleming asked **Sprint** and **Verizon** to "Cease the deployment by [Verizon's] contractors of 5G technology immediately, only resuming its deployment after such impact and health risk studies can be completed." The SEC agreed with each company that Fleming failed to prove his stock ownership. Fleming is concerned about what he sees as the harmful health impacts of microwave transmitters.

## HUMAN RIGHTS

Shareholder proposals about human rights are a mainstay of proxy season and a heterogeneous bunch, reflecting key controversies of the day. The largest group seeks stronger policies and disclosure about how companies attend to risks related to human rights in their operations. Concerns about specific conflicts have waned from a high point in 2017, but last year's focus on immigrants and the penal system continues, alongside proposals about trafficking and modern slavery, surveillance and privacy issues connected to social media and internet platforms, weapons and the penal system.

Human Rights Categories




*Excludes 86 from conservatives, 1 in 2020.*

Just eight of the 40 proposals filed on human rights in 2020 are resubmissions. Most resolutions (30) are now pending, eight have been withdrawn and two have been omitted. The SEC has yet to respond to nine no-action challenges.

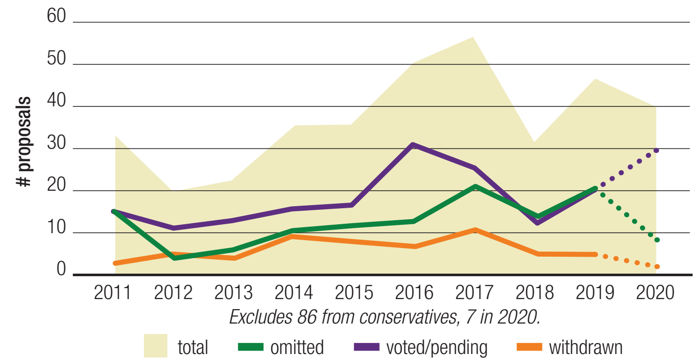
### Policy & Approach

Relatively general resolutions about company approaches to human rights abound this year. The largest group ask companies to report on how their human rights risk assessments are done, six more ask companies to adopt policies in the first place, and five seek reports on how current policies are implemented.

**Risk assessments:** The proponents want to know how companies assess their supply chains and operations for red flags:

- At **Broadcom**, **TJX** and **Kohl's**, the proposal asks about the "process for identifying and analyzing potential and actual human rights risks of its operations and supply chain." Longstanding concerns exist about workers in long global supply chains for textiles at the last two companies, the proponents note, while the issue at Broadcom is one of forced labor in the electronics sector, both in product assembly as well as from sourcing for raw materials like tin, tungsten, tantalum and gold ("conflict minerals"). The resolutions note low scores for all three companies in reports from KnowTheChain and the Corporate Human Rights Benchmark and say current company policies and disclosures are insufficient.

### Human Rights Outcomes




*Excludes 86 from conservatives, 7 in 2020.*

- At three chicken processors—**Pilgrim's Pride**, **Sanderson Farms** and **Tyson Foods**—the request is for a report on the "human rights due diligence (HRDD) process to assess, identify, prevent and mitigate actual and potential adverse human rights impacts." Shareholder proponents have long been concerned about working conditions at chicken processors, highlighted in an Oxfam initiative called Lives on the Line.
- In a similar vein, the Sisters of St. Francis of Philadelphia would like **Chevron** to "commission an independent third-party report…evaluating the effectiveness of Chevron's efforts to prevent, mitigate and remedy actual and potential human rights impacts of its operations." The proposal calls for information about community consultation and environmental justice—and notes the Sustainability Accounting Standards Board says these all are material concerns for the oil and gas industry. The proposal observes, "Emissions from the use of Chevron's products and operations contribute to the climate crisis, which may compound impacts to already burdened communities," giving examples about contamination near California refineries and controversy about cleanup in Ecuador. The proposal notes the company received zero points from the 2019 Corporate Human Rights Benchmark report grading how it is resolving problems.

Three of the risk assessment resolutions explicitly focus on products they call "high risk." At **Amazon.com**, Oxfam America seeks an assessment "examining the actual and potential impacts of one or more high risk products sold by Amazon or its subsidiaries…throughout the supply chain." The resolution says the company can focus on areas with known problems, such as the Southeast Asian shrimp industry, palm oil plantations in Malaysia and "rampant labor abuse among U.S. tomato producers." The company's ownership of Whole Foods and AmazonFresh make these issues particularly salient, Oxfam says.

Similarly, proponents want **Lear** and **Northrop Grumman** to report on examinations of "company's high-risk business activities in its operations and value chain." At Lear, the proposal mentions the automotive supply chain and its long raw materials supply chain in high-risk countries for sourcing of leather, assembly of seating, and also domestic health and safety issues. The proposal was prompted by a campaign from the Investor Advocates for Social Justice called "Shifting Gears." At Northrop, the company's heavy dependence on defense contracts is the issue, including its work using biometric data in its work on the Homeland Advanced Recognition Technology (HART) database; the proposal says the database will hold information on some 260 million people and poses risk to privacy, the First Amendment and immigrant communities. Longstanding concerns about the company's weaponry also are at issue, including in its sales to Saudi Arabia given the war in Yemen.

**Votes**—Two of the resolutions to chicken processors have already come to votes. Shareholders gave the Sanderson Farms proposal 36.8 percent support on Feb. 13. Before that, the vote at Tyson Foods was 14.5 percent.

**SEC action**—Amazon.com is arguing the proposal is not significantly related to its business and concerns ordinary business but the SEC has yet to respond. (Last year the company successfully challenged a similar resolution and the SEC agreed it was ordinary business.) The proposal expresses concerns about potential use of child or forced labor in the company's supply chain, for various commodities as well as shrimp in Southeast Asia.

Northrop Grumman is contending the resolution relates to ordinary business, and also that it is moot and too vague; the first two arguments reiterate an unsuccessful challenge by the company in 2019 on a similar human rights proposal that earned 31 percent support.

advocacyposition


## INVESTORS WANT AUTO INDUSTRY TO SHIFT GEARS ON HUMAN RIGHTS

MARY BETH GALLAGHER
*Executive Director, Investor Advocates for Social Justice*

GINA FALADA
*Senior Program Associate, Investor Advocates for Social Justice*

Accountability for corporate supply chain impacts is now before the courts as **Tesla** and five other companies face a class action lawsuit filed on behalf of 14 children and parents from the Democratic Republic of Congo (DRC) for allegedly "aiding and abetting in the death and serious injury of children who claim they were working in cobalt mines in their supply chain." This risk faces all companies in the automotive industry, which relies on complex, extended supply chains to source the wide range of raw materials that go into the 30,000 different parts in a vehicle. Despite the prevalence and severity of risks like forced labor and hazardous working conditions, many companies in the sector fail to conduct effective human rights due diligence, with gaps in policy implementation, impact assessments, and disclosure.

In 2018, Investor Advocates for Social Justice (IASJ), formerly the Tri-State Coalition for Responsible Investment, launched an investor initiative called Shifting Gears for our Affiliates to engage with 23 portfolio companies in the automotive industry to improve respect for human rights. This initiative was born from investors' concerns about the quality and effectiveness of policies and human rights due diligence to address salient risks and the legal, financial, and reputational risks facing companies. These risks include cobalt used in electric vehicle batteries that may be sourced from mines in the DRC where child labor is prevalent. Leather used in seating may be produced using child labor, while it also contributes to deforestation, and communities and workers may be exposed to hazardous chemicals. Automotive electronic systems require labor-intensive assembly and may be manufactured in countries where forced labor and child labor are present. Mica, a component of paints, coatings, and other parts, may come from illegal mines in India with well-documented child labor risks, which are also present in Madagascar. Operations and manufacturing facility risks include discrimination, harassment, and poor labor conditions.

IASJ's investor engagement and analysis found that there is inadequate human rights expertise within companies at the staff or board level, weak processes to provide remedy when adverse impacts occur, and poor embedding of human rights commitments throughout business functions such as procurement.

Through the proxy process and ongoing dialogue with management, IASJ has encouraged three companies to take meaningful steps to adopt human rights policies or improve disclosure on human rights due diligence practices. This proxy season, IASJ Affiliates filed six shareholder proposals with companies where we identified significant human rights risks in operations and the supply chain that were not being adequately managed. Three are likely moving forward for a shareholder vote, at **General Motors**, **Tesla**, and **Lear**. At General Motors and Tesla, the proposals request disclosure of systems to ensure effective implementation of human rights commitments. At Lear, the proposal requests a human rights impact assessment to examine the impacts of the company's high-risk business activities in its operations and value chain. IASJ encourages all shareholders to support these proposals calling for stronger due diligence and welcomes investors to join ongoing engagements.

**Withdrawal**—Miller/Howard Investments withdrew at Broadcom after reaching an agreement.

**Adopt and strengthen policies:** Six proposals contend companies should adopt policies or strengthen the ones they already have. Five are quite similar, asking **American Outdoor Brands**, **Carnival**, **First Horizon National**, **Nucor** and **Skechers U.S.A.** to adopt policies that explain the companies' approach to the "due diligence processes" that will "identify, assess, prevent and mitigate actual and potential adverse human rights impacts." Another at **Amazon.com** is more detailed, asking it to adopt and

> publicly disclose a comprehensive policy applicable to Amazon's operations and subsidiaries that commits the company to respect human rights, including ensuring safe and healthy workplaces; prohibiting discrimination and retaliation; affirming the right of workers to form and join trade unions and bargain collectively; and describing the process the Company will use to identify, assess, prevent, mitigate, and, where appropriate, address adverse human rights impacts.

**Withdrawal and SEC action**—Two of the policy adoption proposals have been withdrawn. Mercy Investments and the Presbyterian Church (USA) withdrew after Carnival agreed to continued engagement as well as to "expand its existing policies and practices on human rights and develop a more strategic and holistic approach to these issues." At First Horizon, the withdrawal came after a company challenge at the SEC that argued the resolution was moot, concerned ordinary business was not significantly related to the company. Discussing the withdrawal, the proponents report that the company has developed and made public its initial Human Rights Policy and Supplier Code of Conduct and agreed to dialogue with shareholders.

**Reporting on implementation:** Four out of five resolutions seeking information on how companies are implementing extant human rights policies are pending. Each is slightly different:

- At **Tesla Motors**, the request is for information on "processes for embedding respect for human rights within operations and through business relationships."
- At **Royal Caribbean** and **PPG Industries** it is to describe "processes to implement the commitments" set out in company policies.
- At **General Motors**, the proposal seeks a report "on GM's systems to ensure effective implementation of its Human Rights Policy."
- A **Kroger**, Oxfam America wants to know about the company's "human rights due diligence (HRDD) process to identify, assess, prevent and mitigate actual and potential adverse human rights impacts in its operations and supply chain."

  **SEC action**—PPG Industries persuaded the SEC the resolution is moot given current disclosures.

## Conflict Zones

Just one proposal made the case that a company should take action to extricate itself from a specific conflict, and it has been withdrawn. Friends Fiduciary sought a report from **Western Union** "evaluating the feasibility of adopting a policy of not doing business with governments or military forces that are complicit in genocide, and/or crimes against humanity, and/or mass atrocities as defined by the U.S. Department of State or the appropriate international body." The resolution noted that the company did business in Myanmar (Burma) through Myawaddy Bank, owned by the military. It pointed out that the UN has found systematic human rights abuses in the country by the military, including genocide against the Rohingya people. It asserted companies are under increasing pressure to cut all business ties and points out a contrast between "CEO Hikmet Ersek's public advocacy for migrants and refugees with the fact that the company's business partner, the Burmese military, is responsible, through its attacks on Rohingya communities, for creating one of the world's largest refugee populations." Friends Fiduciary withdrew after the company announced it is ending their relationship with Myawaddy; it will consider implementing a human rights policy and also will take part in more dialogue with the proponent.

## Penal System

While 2019 saw several proposals raising concerns about corporate connections to controversies about U.S. immigration and similar concerns about the U.S. penal system, these concerns in 2020 seems to be folded into a larger framing about a perceived need for better human rights policies and implementation in general, as discussed in the sections above. There are, though, four proposals about reporting on prison labor and corporate supply chains and one on prisoner and detainee deaths that has been withdrawn.

**Prisoner labor:** NorthStar Asset Management filed resolutions asking for reports at **Costco Wholesale**, continuing its reform efforts there from earlier, as well as at **Home Depot** and **TJX**:

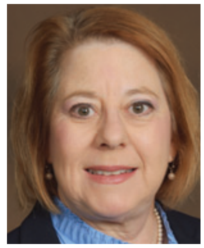
- NorthStar withdrew at Costco after the company agreed to more disclosure about supply chain prison labor, although Costco also had challenged the proposal at the SEC saying it was moot. A very similar proposal in 2019 earned 28.7 percent support. In 2018, a proposal asking for a policy on supply chain prison labor received 4.8 percent; despite the low vote the company adopted a new policy on the subject that year.
- Home Depot contends at the SEC that a resolution seeking an annual report "summarizing the extent of known usage of prison labor in the company's supply chain" concerns ordinary business. A similar resolution received 30.3 percent support last year.
- TJX has challenged a proposal asking for an annual report "assessing the effectiveness of current company policies for preventing prison labor in the company's supply chain." The company is arguing at the SEC that this is ordinary business since it addresses supplier relationships and also workplace safety and working conditions. A similar proposal earned 37.6 percent in 2019, up from 7.7 percent in 2018. Negotiations surrounding the proposal caused management to update the Vendor Code of Conduct to more explicitly prohibit forced or voluntary prison labor.

The Nathan Cummings Foundation has filed a proposal for the first time at **ExxonMobil** that addresses the issue. The SEC has yet to respond to Exxon's challenge that it is moot. The proposal seeks

> a policy committing the Company to take steps to address the use of prison and unpaid diversion program labor in its operations and supply chain. In doing so, ExxonMobil might consider surveying suppliers in order to identify sources of unpaid diversion program labor in its supply chain, reporting to shareholders on these findings and developing additional criteria or guidelines for suppliers and operators regarding the use of prison and diversion program labor.

advocacyposition

## A TALE OF TWO PRISONS: HUMAN RIGHTS FOR INMATES AND DETAINEES



**MARY BAUDOUIN**
*Provincial Assistant for Social Ministries for the Jesuits of the US Central and Southern Province*

**BRYAN PHAM**
*SJ, JD, USA West Province Society of Jesus*

**PAT ZEREGA**
*Senior Director of Shareholder Advocacy, Mercy Investment Services*

At the turn of this century, the United States saw increased use of private prisons because of more incarceration, aging local prisons, and a belief that contracting private prisons was cheaper. Cities, counties, and states began to contract with the private sector to handle their inmates. At the same time, the industry began consolidating, and **CoreCivic** (formerly Corrections Corporation of America) and **GEO Group** dominated the field. The faith community, with a long history of prison chaplaincy, was concerned with what they saw in these facilities. Reports included untrained and limited staff, problems with health care and food, inability to meet families, and an increase in violence. Faith-based organizations such as Wespath and the Presbyterian Church (USA) began to exclude private prisons from their investments.

Shareholders began engaging the industry in 2005. In 2011 both CoreCivic and GEO Group were asked to develop a human rights policy. Both companies responded by developing a policy, but research kept showing incidents. Engagements continued to address implementation of the policies, development of staff training, and the underlying causes of incidents. Productive dialogues with CoreCivic continue to this day, with CoreCivic assessing its policies, practices, and standards against the UN Guiding Principles.

GEO was a different story. We have held ongoing engagements with GEO around human rights concerns for seven years and appreciate that, given the enormous risks inherent in its business, the company saw the importance of adopting a human rights policy in 2013. An increase in recent contracts with U.S. Immigration and Customs Enforcement and disturbing reports about detainee safety seem to have exacerbated GEO's exposure to these human rights risks. We needed to better understand how that policy was being operationalized to mitigate them. This led shareholders to file a resolution asking GEO to detail its human rights policy implementation addressing "respect for our inmates and detainees."

The resolution, co-filed by 13 institutional investors, struck a chord with fellow investors. In light of high-profile, ongoing controversies concerning human rights performance at GEO-owned and operated facilities, as well as the importance of safeguarding GEO's reputation and long-term growth, shareholders recognized the benefit of more information on how the company ensures awareness of its commitment to inmate/detainee human rights, assesses human rights performance, and remedies shortcomings. As the annual meeting approached, the resolution clearly had significant support. At the last minute, GEO withdrew its opposition to the resolution but did not remove the proposal from the proxy.

Following the extraordinary 88 percent vote of support, GEO agreed to develop a report. When the report was published in October 2019, however, shareholders issued a press release saying it falls far short of expectations and fails to meet current standards for human rights policies and processes, leaving the company exposed to numerous legal, reputational, and financial risks. Dialogue with the company will continue.

The proposal asserts that goods made by prisoners can post risks to the company, reputational and financial, and states, "Diversion program labor does not fall under the 13th amendment exemption. Participants in these programs have not been convicted of any crime. According to recent reports by the Center for Investigative Reporting, diversion programs have supplied unpaid and involuntary labor to corporations, including ExxonMobil." Nathan Cummings Foundation says this violates the company policy and asserts the company should carefully review its policies. In its challenge to the proposal at the SEC, Exxon noted the allegation is that patients from a drug rehabilitation program were sent to work at a company refinery, but it says its investigation of the matter found no documentation to prove it.

**Deaths:** Inmate rights advocate Alex Friedmann had a new resolution this year about prisoner and detainee deaths, at **CoreCivic**, but he withdrew it after an SEC challenge that argued it could not be implemented and concerned ordinary business since it would micromanage the business. The proponent has filed other detailed proposals in the past about prisoner and detainee rights, but this is a new formulation. It sought annual reports that would include information on:

1. The, number of prisoners/detainees who died while housed at or assigned to the company's facilities during the previous calendar year;
2. The name of each of the prisoners/detainees described in section 1, above;
3. The date of death for each of the prisoners/detainees described in section 1, above;
4. The name of the facility where each death of the prisoners/detainees described in section 1, above, occurred;
5. When known to the Company, the cause of death for each of the prisoners/detainees described in section 1, above; and
6. What actions the Company has taken or plans to take to reduce the number of deaths in its facilities. The annual reports described above shall be posted on the Company's website to reduce costs to shareholders.

## Human Trafficking and Exploitation

**Child sexual exploitation:** Christian Brothers Investment Services, Proxy Impact, and several faith-based ICCR members launched a new effort last year to enlist corporate support for ending child sexual exploitation online. Just one of three proposals went to a vote in 2019, earning 33.9 percent at Verizon Communications. Also last year, CBIS ended up withdrawing at Apple after discussions with the company about its policies. This year, there are four proposals:

- At **Verizon** and **AT&T** proponents want:

  > a report on the potential sexual exploitation of children through the company's products and services, including a risk evaluation… assessing whether the company's oversight, policies and practices are sufficient to prevent material impacts to the company's brand reputation, product demand or social license.

- At **Alphabet**, they want a report

  > assessing the risk of children being sexually exploited across the Company's platforms and businesses…by February 2021, including whether the Company's existing policies and practices are sufficient to prevent adverse impacts to children (18 and younger) and to the company's reputation or social license.

- At **Facebook**, proponents led by Proxy Impact seek the same sort of report, specifically about the risk

  > of increased sexual exploitation of children as the Company develops and offers additional privacy tools such as end-to-end encryption. The report should address potential adverse impacts to children (18 years and younger) and to the company's reputation or social license, assess the impact of limits to detection technologies and strategies.

**Withdrawal**—In a late-breaking development as this report was being finalized, the proponents withdrew at Verizon after the company agreed to conduct a child risk assessment across its business, provide metrics on its efforts to fight child sexual exploitation online and report annually to the board on these efforts.



## FACEBOOK AT CENTER OF STORM OVER CHILD SEXUAL EXPLOITATION ONLINE

**MICHAEL PASSOFF**
*CEO, Proxy Impact*

There has been an explosion of child sexual abuse material (CSAM) online and it is likely going to get much worse unless tech companies take more aggressive action to stop it. What was once the province of individual child predators taking photos for their own use has–through the proliferation of smart phones, social networks, and data storage—increased exponentially with the growth of the internet and children going online. (One third of Internet users are children and 800 million kids now are on social media.)

Twenty years ago, there were about 3,000 reports of child sexual abuse imagery known by law enforcement. Ten years ago this increased to more than 100,000 reports. By 2018, there was a quantum leap to more than 18 million, including 45.5 million images and videos. Experts lament that this is just the tip of the iceberg.

In 2018, Facebook (especially Facebook Messenger) was responsible for 16.8 million of the 18.4 million reports worldwide of CSAM (91 percent of the total). To be fair, Facebook comprises the bulk of reported images because it scans more actively for them than any other company; most barely bother. Yet despite Facebook's claim as the industry leader in combating CSAM, its other activities hamper its reporting and help enable child abuse online.

For example, Facebook searches rely on artificial intelligence that generally detects previously identified images but has trouble detecting new images, videos and livestreaming. Human confirmation is typically needed and most of Facebook's reports go to non-profit groups such as the National Center for Missing and Exploited Children that are overwhelmed with the avalanche of material they are sent.

Reporting aside, Facebook and other tech peers have grossly insufficient age verification procedures, allowing predators' access to kids. Tech companies often also lobby against legislation to control online child data collection, safety measures and sexual exploitation.

Most importantly, Facebook's rush for end-to-end encryption in Messenger and Instagram, in the name of protecting user privacy, seems to ignore the overwhelming threat to children's privacy and safety. Encryption will provide child predators cover that will exponentially expand their outreach and the number of victims. Facebook CEO Mark Zuckerberg blogged, "Encryption is a powerful tool for privacy, but that includes the privacy of people doing bad things." In late 2019, 129 child protection groups implored the company to end its move to encryption because of child sexual abuse harms.

Electronic Service Providers—websites, email, social media and cloud storage—currently are not liable for what users say or do on their platforms. However, U.S. and U.K. lawmakers are considering legislation to remove this immunity for CSAM cases.

A shareholder group led by Christian Brothers Investment Services has engaged **Alphabet/Google**, **Apple**, **AT&T**, Facebook, **Microsoft**, **Sprint**, **Deutsche Telekom**, **T-Mobile US** and **Verizon** on this issue. Proxy Impact, on behalf of Lisette Cooper and along with several co-filers, has a resolution pending at Facebook asking it to assess the risk of increased child sexual exploitation from end-to-end encryption.

The information and communications technology sector is the world's main facilitator of child sexual exploitation. Facebook is the world's largest social media company with 2.45 billon active monthly users. Shareholders, lawmakers and child safety advocates believe that a $70 billion dollar company should do more to solve a problem that it has helped to create—yet Facebook and the tech industry are about to make it much worse.

## Human Rights

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| **Policy & Approach** | | | |
| Alphabet | Report on whistleblower protection and human rights | Trillium Asset Management | June |
| Amazon.com | Adopt/expand human rights policy | Srs. of St. Francis of the Holy Cross | May |
| Amazon.com | Report on human rights risk assessment | Oxfam America | May |
| Amazon.com | Report on sales of offensive products | Nathan Cummings Foundation | May |
| American Outdoor Brands (Smith & Wesson) | Adopt/expand human rights policy | Srs. of the Holy Names | Sept. |
| Broadcom Limited | Report on human rights risk assessment | Miller/Howard Investments | withdrawn |
| Carnival | Adopt/expand human rights policy | Presbyterian Church (USA) | withdrawn |
| Chevron | Report on human rights risk assessment | Srs. of St. Francis of Philadelphia | May |
| First Horizon National | Adopt/expand human rights policy | Figure 8 Investment | withdrawn |
| General Motors | Report on human rights policy implementation | School Srs. of Notre Dame, St. Louis | June |
| Kohl's | Report on human rights risk assessment | School Srs. of Notre Dame, Central Pacific | omitted |
| Kroger | Report on human rights policy | Oxfam America | June |
| Lear | Report on human rights risk assessment | Srs of the Good Shepherd | May |
| Northrop Grumman | Report on human rights risk assessment | Srs. of St. Dominic of Caldwell | May |
| Nucor | Adopt/expand human rights policy | Srs of the Good Shepherd | May |
| Pilgrim's Pride | Report on human rights risk assessment | Oxfam America | May |
| PPG Industries | Report on human rights policy implementation | Srs. of St. Joseph of Peace, NJ | omitted |
| Royal Caribbean Cruises | Report on human rights policy implementation | Mercy Investment Services | May |
| Sanderson Farms | Report on human rights risk assessment | Oxfam America | 36.8% |
| Skechers U.S.A. | Adopt/expand human rights policy | Congregation of Divine Providence - San Antonio | May |
| Tesla Motors | Report on human rights policy | Srs of the Good Shepherd | June |
| TJX | Report on supply chain human rights risks | Priests of the Sacred Heart | June |
| Tyson Foods | Report on human rights risk assessment | Investor Advocates for Social Justice | 14.5% |
| **Conflict Zones** | | | |
| Western Union | Report on anti-genocide policy | Friends Fiduciary | withdrawn |
| **Penal System** | | | |
| CoreCivic | Report on prisoner/detainee deaths | Alex Friedmann | withdrawn |
| Costco Wholesale | Report on prison labor and supply chain | NorthStar Asset Management | withdrawn |
| ExxonMobil | Report on prison labor and supply chain | Nathan Cummings Foundation | May |
| Home Depot | Report on prison labor and supply chain | NorthStar Asset Management | May |
| TJX | Report on prison labor and supply chain | NorthStar Asset Management | June |
| **Weapons** | | | |
| Olin | Report on gun safety and harm mitigation | Episcopal Church | May |
| Sturm, Ruger | Report on gun safety and harm mitigation | Catholic Health Initiatives | May |
| Visa | Report on payment network and weapons sales | SumOfUs | withdrawn |
| **Trafficking & Exploitation** | | | |
| Alphabet | Report on child sexual exploitation and products/services | Maryknoll Sisters | June |
| Amazon.com | Report on human trafficking policies/practices | Adrian Dominican Sisters | withdrawn |
| AT&T | Report on child sexual exploitation and products/services | Christian Brothers Investment Services | April |
| CSX | Study options for slavery reparations | March S. Gallagher | May |
| Facebook | Report on child sexual exploitation and products/services | Proxy Impact | May |
| Verizon Communications | Report on child sexual exploitation and products/services | Christian Brothers Investment Services | withdrawn |

**Trafficking:** The Adrian Dominican Sisters have withdrawn a proposal at **Amazon.com** that asked for a report on the company's "management systems and processes to implement its commitment to prohibit human trafficking in its operations." It pointed out what it saw as deficiencies in the company's implementation of a policy against trafficking—contrasting it to other companies including **Albertsons**, **Costco**, **FedEx** and **UPS** that work with groups such as Truckers Against Trafficking to take proactive measures. It noted the vast array of delivery services commanded by the company. The withdrawal came after the company agreed to engage further on the issue with investors; increase disclosure of its prevention efforts to prevent and raise awareness of the problem. It also agreed to partner with Truckers Against Trafficking.

**U.S. slavery reparations:** In a first, an individual named March S. Gallagher has proposed that the railroad **CSX** take steps to atone for pre-Civil War slavery through a company it now owns. The resolution asks that the company

> set aside sufficient funding to commission a study, beginning no later than the fourth quarter of 2020, to determine how the corporation can best atone for its participation in slavery. The commission, made up of recognized scholars with knowledge and experience in reparations, will: (1) study how other corporations have atoned for slavery; (2) formulate CSX's own atonement with an emphasis on apology and community-building reparations through an atonement trust fund; and (3) clarify the historical record regarding CSX's participation in slavery so that the corporation's shareholders and the public at large understand why atonement is being made.

The body of the resolution makes the case for reparations given current economic disadvantages for African Americans, noting that the U.S. government has paid reparations to Japanese Americans forced into internment camps during World War II and the German government to Holocaust victims. It says, "Many companies benefitted from the use of slave labor during the time it was legally sanctioned." Further, it notes that CSX now owns the Richmond, Fredericksburg & Potomac Railroad, which "is still operating on infrastructure built with slave labor," which produced capital for the company.

CSX has challenged the resolution at the SEC, arguing it concerns ordinary business since it would micromanage the company and because it is not significantly related to the company's business.

## Weapons

Two proposals at firearms companies are pending from faith-based investors. The Episcopal Church wants to see a report from **Olin**, a new recipient, "on the company's activities related to gun and ammunition safety measures and the mitigation of harm associated with gun products." The company makes ammunition and licenses the Winchester brand to a gunmaker.

Catholic Health Initiatives has returned to **Sturm**, **Ruger**, where a resolution about gun safety earned 68.8 percent in 2018 but missed a filing deadline last year after the company switched its annual meeting date. The proposal this year seeks a report "with the results of a Human Rights Impact Assessment…examining the actual and potential human rights impacts of Sturm Ruger firearms sold to civilians." The company is arguing at the SEC that it concerns ordinary business.

Finally, SumOfUs has withdrawn a resolution to **Visa** about facilitating gun sales through its payment network, because the proposal arrived past the submission deadline. It asked for a report on the risks to Visa from mounting public scrutiny of the role played by credit card issuers and payment networks in enabling purchases of firearms, ammunition, and accessories used to commit crimes, including mass shootings, and the steps Visa is taking to mitigate those risks."

## Offensive Products and Whistleblowers

The Nathan Cummings Foundation has resubmitted a proposal about **Amazon.com's** approach to hate speech and products that foment it on the company's platforms. It earned 27.2 percent in 2019 and again asks for a report on

> efforts to address hate speech and the sale or promotion of offensive products throughout its businesses. The report should…discuss Amazon's process for developing policies to address hate speech and offensive products, including the experts and stakeholders with whom Amazon consulted, and the enforcement mechanisms it has put in place, or intends to put in place, to ensure hate speech and offensive products are effectively addressed.

The proposal raises the issue of hate speech and its prevalence among product offerings on Amazon's platform, saying that while Amazon has a policy against offensive materials, it appears to be applied inconsistently, citing examples of various white supremacist paraphernalia available for purchase on the site. Nathan Cummings points to other companies that have experienced boycotts over similar issues, and notes tightening hate speech legislation in Europe that comes with fines for non-compliance. The proponent also makes a case that employee engagement and satisfaction may suffer if the company allows hateful materials on its platform. Amazon said last year that it takes these issues seriously, and pointed to its policies on the subject; it said that as part of its enforcement activities around the world in a wide array of cultural contexts, it "seeks information about potentially offensive products from various sources including customer contacts, social media posts, and the press." The company uses an automated process to support its offensive products policies and may include human intervention in ambiguous cases.

A new proposal at **Alphabet** from Trillium Asset Management wants to see more scrutiny of whistleblower protections. It asks for a report "evaluating" these policies "and assessing the feasibility of expanding those policies and practices above and beyond current levels to cover, for example, information concerning the public interest and/or information concerning rights contained in the United Nations Declaration of Human Rights." The resolution says that protecting employees who identify dishonest behavior "is vital to a well-functioning system," but such protections are patchy. It notes human rights groups urged subsidiary Google to provide protections to employees who felt the company is "failing its commitments to human rights." The company faced an employee walkout connected to employee unionization efforts in November, the resolution notes; the company fired employees who were protesting company work they found ethically objectionable, such as its work in China and that for Project Maven, an artificial intelligence offering for the Department of Defense that the company later cancelled.

## Media

Investors continue to file shareholder resolutions that mirror the public debate about the influence of electronic media and platforms on public and private discourse and behavior—and the related risks to companies. Resolutions continue to focus on problematic content, with a few new ones this year from individual investors that seem headed for omission. Cybersecurity may be on the agenda again at one more company, but information on a pending proposal is not yet public.

**Media**

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Alphabet | Report on government censorship | Azzad Asset Management | June |
| Amazon.com | Disclose oversight of illegal product usage | Dan Phung | June |
| Amazon.com | Report on surveillance technology | Harrington Investments | May |
| Amazon.com | Report on surveillance technology | Srs. of St. Joseph of Brentwood | May |
| Apple | Review/report on free speech rights policy | SumOfUs | 40.6% |
| Comcast | End violent programming | Joseph S. and Donna E Nunziato | June |
| Facebook | Change platform content and report | As You Sow | withdrawn |
| Tribune Publishing | Report on approach to journalism | The Newspaper Guild | omitted |

### *Platform Content and Restrictions*

Azzad Asset Management has a new proposal to **Alphabet** for a report "assessing the feasibility of publicly disclosing on an annual basis, by jurisdiction, the list of delisted, censored, downgraded, proactively penalized, or blacklisted terms, queries or sites that the company implements in response to government requests."

At **Amazon.com**, individual Dan Phung characterizes as illegal the use of Amazon Web Services by Amazon's customer, Palantir, for a contract with U.S. Immigration and Customs Enforcement. It reasons that Palantir's efforts to identify people for deportation are forbidden by laws in several states, and that because illegal activity is contrary to the terms of service, this is a violation of company policy. It notes company employees have protested the contract, which its says disrupted operations and hurt the Amazon's reputation in a key demographic from which it draws talent. The company is contending at the SEC that this concerns ordinary business since it is about customer relations.

At **Apple**, investors voted on a new resolution from SumOfUs. The SEC rejected a company challenge arguing that it was similar to an earlier proposal that did not earn enough support for resubmission, and investors on February 26 gave 40.6 percent support for a request that it produce annual reports

> regarding the Company's policies on freedom of expression and access to information, including whether it has publicly committed to respect freedom of expression as a human right; the oversight mechanisms for formulating and administering policies on freedom of expression and access to information; and a description of the actions Apple has taken in the past year in response to government or other third-party demands that were reasonably likely to limit free expression or access to information.

Several members of the Nunziato family want **Comcast** to curtail programming that shows the use of guns, asking that it

> draw up a plan and begin implementing it to eliminate, step by step, all violence being shown on our network, beginning six months from passage of this proposal, and completed in no more than seven years. This would include all programming, past, present and future, whether produced by Comcast, our subsidiaries, or other companies that rent or lease our channels, specifically, anything showing automatic or semi-automatic weapons would be eliminated in no more than two years.

The company has challenged the proposal at the SEC, arguing it concerns ordinary business since it relates to programming and related business choices.

After an SEC challenge, *As You Sow* withdrew a proposal that suggested ways **Facebook** could change its business model to eliminate many of the reputational and legal risks that the company faces. It asked for a "reboot" by September in which the company would:

1. Delete all images of child pornography and torture, remove all associated accounts, and work with law enforcement to bring abusers to justice;
2. Delete all fake accounts and establish a verification system to improve expeditious removal;
3. Delete all political ads containing lies and mistruths based on Facebook employee recommendations to avoid adverse impact on our political system;
4. Publicly agree to a policy stating that Facebook will abide by campaign advertising rules like all U.S. broadcasters and end micro-targeting of groups smaller than 5,000 people;

5. As a show of Goodwill and until the platform can be effectively monitored, disallow any political ads Labor Day through the 2020 election;
6. Provide full transparency of the Reboot process including listing deleted political ads, Bots, fake accounts, fake news, deep fakes and accounts closed;
7. Disclose budget committed to fix these issues to inform other platforms as a case study of best practices; and
8. Establish systems to maintain all of the above going forward with public transparency.

A final resolution to **Tribune Publishing** has been omitted on procedural grounds. It sought "an annual "journalism report" detailing the company's commitment to its core product—news. Available to investors, this report should… consider the relative benefits and drawbacks of the Company's approach to journalistic integrity…"

### *Surveillance*

Two proposals at **Amazon.com** address concerns about surveillance and technology. Harrington Investments has resubmitted a proposal that survived an SEC challenge last year and went on to earn 28.2 percent. It asks the company to report by September after commissioning an independent study that would examine

- The extent to which such technology may endanger, threaten, or violate privacy and or civil rights, and unfairly or disproportionately target or surveil people of color, immigrants and activists in the United States;
- The extent to which such technologies may be marketed and sold to authoritarian or repressive foreign governments, identified by the United States Department of State Country Reports on Human Rights Practices;
- The potential loss of good will and other financial risks associated with these human rights issues.

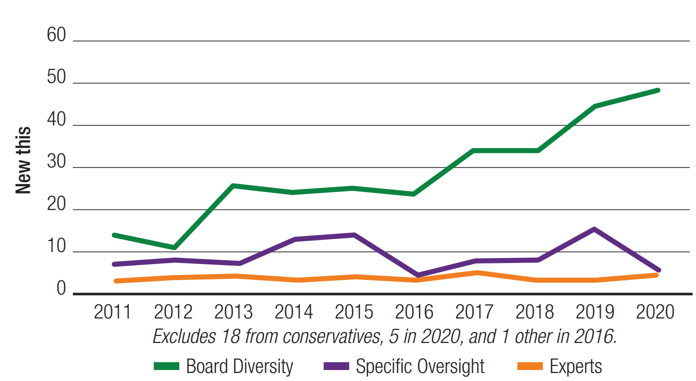
The other resolution is from the Sisters of St. Joseph of Brentwood. They earned 2.2 percent last year for a proposal seeking a ban on facial recognition software. This year, they ask for "an independent third-party report…assessing Amazon's process for customer due diligence, to determine whether customers' use of its surveillance and computer vision products or cloud-based services contributes to human rights violations." Amazon is arguing at the SEC that the resolution duplicates the Harrington proposal, which it received first; this challenge is likely to succeed.

# SUSTAINABLE GOVERNANCE

The convergence between more traditional concerns about how companies are governed and social and environmental topics continues. This interest is expressed in proxy season in resolutions about how companies make their overarching social and environmental policy decisions—and who is on the board to do so—as well as in proposals about how companies make themselves accountable to their investors on strategic sustainability issues. This section examines these issues, looking at board diversity, board oversight and sustainability disclosure. We also include discussion of proposals about executive pay links to ESG issues, which continue to increase in number, and those about ESG proxy voting policies at mutual funds.

There are 59 resolutions about boards, nearly as many as the 64 filed on these issues in 2019; 49 focus on board diversity and another 10 address a variety of board oversight matters. But this year shows a big drop in sustainability reporting resolutions (five, down from two dozen last year), although the number asking for links between various ESG issues and executive pay is about the same as last year (23). Four are on proxy voting and seven new resolutions ask companies about their support for new Business Roundtable Statement of Purpose that expands the definition of the stakeholders companies say are relevant.

### Board Diversity/Oversight Categories



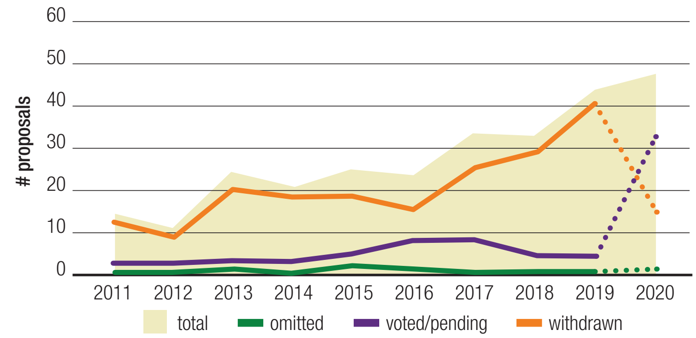

*Excludes 18 from conservatives, 5 in 2020, and 1 other in 2016.*

# BOARD GOVERNANCE

## Diversity on the Board

Shareholder proponents remain keenly interested in making the corporate boardroom more diverse—for reasons of both equity and performance. Almost all these resolutions get withdrawn after companies agree to change their board nominee procedures *(graph right)*. Last year, proponents withdrew fully 40 out of the 44 resolutions filed on the subject after agreements. More of the same will occur in 2020. To date, we have identified 49 proposals and a few more may emerge; 27 are not yet public. New this year are resolutions specifically seeking more diversity for CEOs. This is in addition to last year's shift to seek diversity beyond simply gender, race and ethnicity—with attributes such as age, gender identity, gender expression and sexual orientation.

### Board Diversity Outcomes




The 30 Percent Coalition continues to coordinate resolutions and work in other ways to diversify boards. The coalition's members include senior business executives, civil society groups, institutional investors, corporate governance experts and board members themselves. The proposals ask companies to add more diversity to the board room and report on how they manage this process. Since most of the very largest companies have made some commitment to more diversity, companies further down the revenue ranks are coming under scrutiny. Since 2010, proponents have filed about 280 proposals, withdrawing nearly three-quarters after companies have made their policies more inclusive, at least on paper. Proponents are most likely to file proposals at companies with no women or people of color on the board, but increasingly they are not satisfied with a token few and seek expanded representation even where there one or two diverse board members.

**advocacy**position

## USING "ROONEY RULE" TO ADVANCE CEO DIVERSITY

**MICHAEL GARLAND**
*Assistant Comptroller, Corporate Governance and Responsible Investment Office of New York City Comptroller*

New York City Comptroller Scott M. Stringer, on behalf of the New York City Retirement Systems, submitted shareholder proposals to approximately 17 S&P 500 companies for the Spring 2020 proxy season calling on their boards of directors to adopt a policy for improving board and top management diversity. The policy would require that the initial list of candidates from which new management-supported director nominees and chief executive officers (CEOs) are recruited (if from outside the company) should include qualified female and racially/ethnically diverse candidates. The policy should provide that any third-party consultant asked to furnish a list will be requested to include such candidates.

None of the companies that received these shareholder proposals had any disclosed board/CEO diversity search policies in place, nor did they appear to have people of color among their directors and CEOs, based on public disclosures.

The proposed rule resembles the Rooney Rule in the National Football League (NFL), which requires teams to interview minority candidates for head coaching and senior football operations openings and was recently expanded to include general manager jobs and equivalent front office positions. It does not dictate who should be hired, but instead widens the talent pool and requires a diverse set of candidates for consideration. While corporate boards may face differing circumstances, and notwithstanding some recent criticism regarding the NFL's enforcement of the Rooney Rule, it is difficult to ignore the positive impact of the Rooney Rule on diversity. In the 12 years before the Rooney Rule was implemented, the NFL had four minority head coaches and one minority general manager. Twelve years after, the NFL had 16 minority head coaches and eight minority general managers.

The policy described in this proposal would apply only to those CEO searches that consider candidates from outside the company. We do not intend for the policy to be a substitute for robust internal succession planning, and we encourage companies to maintain and disclose a process for fostering a diverse talent pipeline for executive management.

The aspect of the policy governing CEO searches is the most novel facet of the request, has prompted the most pushback and required the most intensive negotiation, and represents a minimum requirement for withdrawal of the proposal. Based on the negotiated settlement/withdrawal rate through mid-February 2020, the Comptroller's Office expects approximately five of the proposals to go to a vote during the 2020 proxy season.

## Board Diversity

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Ameresco | Adopt board diversity policy | Nia Impact Capital | May |
| ANI Pharmaceuticals | Adopt board diversity policy | SEIU Master Trust | May |
| Bridge Bancorp | Report on board diversity | Boston Trust Walden | withdrawn |
| Ensign Group | Report on board diversity | Boston Trust Walden | May |
| First Solar | Adopt board diversity policy | Nia Impact Capital | May |
| FirstCash | Report on board diversity | Episcopal Church | June |
| Fortinet | Report on board diversity | Nia Impact Capital | June |
| Liberty Broadband | Adopt board diversity policy | As You Sow | May |
| Luminex | Adopt board diversity policy | Philadelphia Public Employees Retirement System | Sept. |
| Neurocrine Biosciences | Adopt board diversity policy | Philadelphia Public Employees Retirement System | May |
| PACCAR | Adopt board diversity policy | NYC pension funds | omitted |
| Puma Biotechnology | Adopt board diversity policy | Philadelphia Public Employees Retirement System | June |
| SBA Communications | Report on board diversity | Trillium Asset Management | withdrawn |
| SeaWorld Entertainment | Adopt board diversity policy | Philadelphia Public Employees Retirement System | June |
| SunPower | Report on board diversity | Nia Impact Capital | May |
| T-Mobile US | Report on board diversity | Pax World Funds | June |
| World Fuel Services | Adopt board diversity policy | Episcopal Church | withdrawn |
| Xylem | Adopt board diversity policy | Nia Impact Capital | withdrawn |

There are two types of resolutions. One seeks adoption of a policy that would require consideration of diverse candidates in the selection process, based on the "Rooney Rule" concept that helped to diversify National Football League coaching. These proposals typically ask the company to:

> adopt a policy for improving board and top management diversity (the "Policy") requiring that the initial lists of candidates from which new management supported director nominees and chief executive officers ("CEOs") recruited from outside the company are chosen by the board or relevant committee ( each, an "Initial List") should include qualified female and racially/ethnically diverse candidates. The Policy should provide that any third-party consultant asked to furnish an Initial List will be requested to include such candidates.

The other type of resolution asks for reports and all recipients this year are new. The type commonly asks how companies will

enhance board diversity beyond current levels, such as:

1. Strengthening Nominating and Corporate Governance policies by embedding a commitment to diversity inclusive of gender, race, ethnicity;
2. Commit publicly to include women and people of color in each candidate pool from which director nominees are chosen;
3. Report on its process to identify qualified women and people of color for the board.

**Withdrawals**—As of mid-February, proponents had withdrawn six of the policy adoption proposals and one of the reporting resolutions (see table).

**SEC action**—At **PACCAR**, the resolution was omitted on the grounds that a policy change made it moot. **Liberty Broadband** is contending *As You Sow* has not provided sufficient proof of stock ownership.

## Board Oversight

The number of proposals about ESG board oversight is down dramatically in 2020, with just 10 filed as of mid-February—in contrast to two dozen in 2019. Resolutions about board oversight fall into two functional categories—suggesting specific types of committees are needed to properly oversee complicated sustainability issues (six, down from 16 last year) or asking for the nomination of specific types of experts to sit on the board (four, up from three in 2019).

### *Specific Issues*

**Climate change:** Arjuna Capital has resubmitted proposals that went to votes last year at **Chevron** and **ExxonMobil**, seeking a new board committee on climate change "to evaluate [the company's] strategic vision and responses to climate change. The charter should require the committee to engage in formal review and oversight of corporate strategy, above and beyond matters of legal compliance, to assess the company's responses to climate related risks and opportunities, including the potential impacts of climate change on business, strategy, financial planning, and the environment." ExxonMobil has again challenged the proposal at the SEC, arguing it is moot because its Public Issues and Contributions Committee is already charged with climate change oversight; this argument didn't fly in 2019, however.

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## ALPHABET / GOOGLE NEEDS BOARD OVERSIGHT COMMITTEE ON HUMAN RIGHTS

**LARISA RUOFF**
*Director of Shareholder Advocacy, The Sustainability Group of Loring, Wolcott & Coolidge*

**DR. CHRISTINE CHOW**
*Director, EOS at Federated Hermes*

Through its ubiquitous platforms and services, **Alphabet/Google** has become an influential global force that has democratized information collection and sharing, connected and empowered communities, and transformed media and entertainment. While its technologies have tremendous potential to benefit society, without proper oversight these same technologies and the ways that companies deploy them can cause specific human rights impacts and unintended, widespread harm.

It is incumbent upon investors to understand how companies are assessing and mitigating the human rights and ethical risks these technologies pose. For investors in Alphabet, this is especially true. Alphabet's open-source AI platforms, cloud computing and analytics have extensive reach beyond the technology sectors, covering its clients in other industries, including financial services, healthcare, industrials, utilities and consumer retail. This can create or magnify myriad risks to the company, individuals, and society—including human rights risks such as those related to surveillance, privacy, and freedom of expression. However, there is no concrete evidence to suggest that Alphabet has a holistic oversight structure with the necessary mandate and expertise to assess the full range of risks. There is also no apparent independent review process equipped to anticipate and address the real and potential human rights impacts of its operations, technologies or business relationships.

Shareholders therefore want Alphabet to improve transparency and accountability regarding how the company manages these risks. As part of this work, Federated Hermes, NEI Investments, Robeco and The Sustainability Group of Loring, Wolcott and Coolidge have filed a shareholder proposal asking Alphabet to establish a human rights risk oversight committee of the board of directors. The proponents recommend the committee should provide an ongoing review of corporate policies and practices, above and beyond legal and regulatory matters, to assess how Alphabet manages the current and potential impacts of its products and services on human rights. Additionally, the committee should oversee the extent to which Alphabet is meeting international human rights responsibilities, and offer guidance on strategic decisions.

The proponents believe a human rights risk oversight committee should be drawn from internal and independent experts (in line with the board's mandate to remain accountable to shareholders) operate outside of the day-to-day decision-making process, and manage higher-level strategic issues. This committee would best position Alphabet to oversee human rights risks in a way that protects the company and its investors, and respects the rights of individuals throughout the value chain.

This engagement is one of the Investor Alliance for Human Rights' priority engagements with companies in the Information and Communication Technologies sector. The Investor Alliance provides a platform for responsible investment grounded in respect for people's fundamental rights. With 170 members representing nearly US$4 trillion, we seek to promote robust human rights governance and oversight mechanisms across many of the world's tech giants, including Alphabet, **Amazon**, and **Facebook**.

*The views and opinions contained herein are those of the authors and may not necessarily represent views expressed or reflected in other Federated Hermes communications, strategies or products.*

**Human rights:** The Sustainability Group of Loring, Wolcott last year saw a proposal about societal risk at **Alphabet** receive 8.8 percent support. It is back with a similar request, that the company

> establish a Human Rights Risk Oversight Committee….The Committee should provide an ongoing review of corporate policies and practices, above and beyond legal and regulatory matters, to assess how Alphabet manages the current and potential impacts of the Company's products and services on human rights, oversee the extent to which the Company is meeting international human rights responsibilities, and offer guidance on strategic decisions. At its discretion, the Board should consider creating an advisory body of independent subject matter experts to aid the Committee in its oversight responsibilities, publishing a formal charter for the Committee and a summary of its functions, and directing the Committee to issue periodic reports.

Members of the Garcia family also have filed a resolution at **MetLife**, asking it to "create a standing committee to oversee the Company's response to domestic and international developments in human rights that affect MetLife's business." The Met has not had such a resolution before but has lodged a challenge at the SEC, arguing it is moot given an existing board committee on governance and corporate responsibility.

Mercy Investments would like a report from **Amazon.com** "on the process and effectiveness of board oversight of ESG risks associated with third-party sellers on Amazon's website, including the board's assessment of any progress, policies and trends toward reducing the presence of unsafe products for sale on the site." The resolution highlights what it says are thousands of unsafe articles sold through the company's third-party seller platform, which it asserts presents risks to the company—it says Amazon is essentially an "unregulated thrift market" that "poses significant risks and liability to our company, as highlighted a recent *Wall Street Journal* article. It says the company's response to these criticisms is insufficient. The company has challenged the resolution at the SEC, arguing it concerns ordinary business since it relates to product safety issues and items sold by the company.

The Nathan Cummings Foundation would like **Facebook** to report,

> on Board-level oversight of civil and human rights risks. In doing so, Facebook might consider reporting on board level expertise in civil and human rights; board level responsibilities for advising on and managing civil and human rights risk; board level expertise pertinent to oversight regarding civil and human rights issues impacting Facebook's community of global users; and the presence of board level infrastructure ensuring ongoing consultation with leading civil and human rights experts.

An earlier proposal from Trillium Asset Management that covered some of the same ground as this year's but was more broadly framed about risk; it earned 11.6 percent support in 2018.

### *Experts*

Three of four resolutions in 2020 that ask companies to nominate human rights experts to the board are now pending, all from Arjuna Capital. The proposal asks **Alphabet**, **Facebook** and **Twitter** to:

> nominate for the next Board election at least one candidate who:
>
> – has a high level of human and/or civil rights expertise and experience and is widely recognized as such, as reasonably determined by Alphabet's Board, and
>
> – will qualify as an independent director within the meaning of the listing standards of the New York Stock Exchange.

SEIU has withdrawn a proposal at **CoreCivic**, the prison company, which urged the company "to amend the 'Board Membership Criteria' section of the Company's Corporate Governance Guidelines to add human rights expertise to the factors the Nominating and Governance Committee…and/or Board takes into account when evaluating persons for nomination or re-nomination to stand for election as directors."

**Board Oversight**

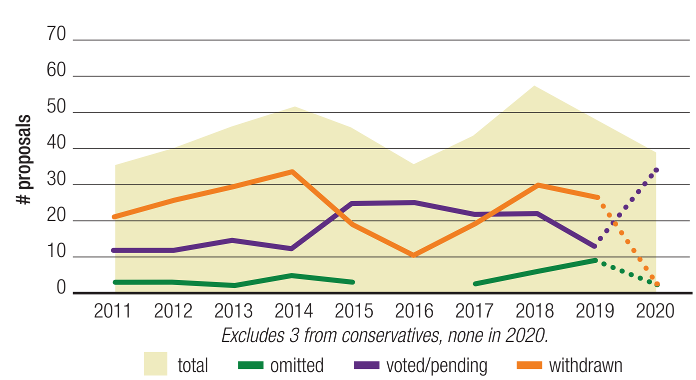
| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Alphabet | Nominate human rights expert to the board | Arjuna Capital | June |
| Alphabet | Establish board committee on human rights | The Sustainability Group | June |
| Amazon.com | Report on board oversight of vendor ESG risks | Mercy Investment Services | May |
| Chevron | Establish board committee on climate change | Arjuna Capital | May |
| CoreCivic | Nominate human rights expert to the board | SEIU Master Trust | withdrawn |
| ExxonMobil | Establish board committee on climate change | Arjuna Capital | May |
| Facebook | Nominate human rights expert to the board | Arjuna Capital | May |
| Facebook | Report on board oversight of human rights risk | Nathan Cummings Foundation | May |
| MetLife | Establish board committee on human rights | The Garcia Family | June |
| Twitter | Nominate human rights expert to the board | Arjuna Capital | May |

## SUSTAINABILITY DISCLOSURE AND MANAGEMENT

The number of resolutions asking companies for disclosure of metrics, links to executive pay and other sustainability topics has dropped back to 39, after having increased to a high of 58 in 2018. Thirty-six are now pending, one has been withdrawn and two have been omitted. Many more withdrawals are likely, as companies are eager to claim leadership on sustainability. *(Graph right.)*

The number of straightforward requests for sustainability reports has largely dried up given the volume of companies now reporting, but requests to link a variety of sustainability issues to executive pay have been growing for several years—underscoring the proposition that executives deliver best if they are paid to pay attention. This year a new set of seven resolutions also asks about how companies are defining and delivering on their CEOs' commitments to support the Business Roundtable's statement last summer to attend to a wide variety of stakeholders, not just shareholders. *(Graph next page.)*

**Sustainability Proposal Outcomes**



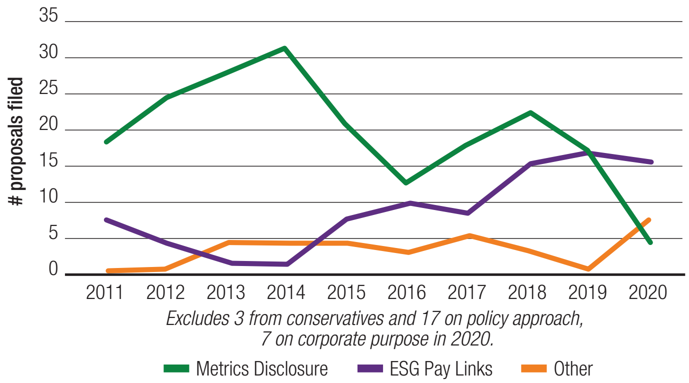

*Excludes 3 from conservatives, none in 2020.*

Four proposals this year at large investment managers also seek support for ESG shareholder proposals, which has grown but remains relatively scant despite considerable support for a few climate change proposals and those about gun safety and the opioid crisis.

## Executive Pay Links

The biggest category of sustainability resolutions concerns those that seek to link sustainability issues to executive incentive pay—continuing a trend that became apparent last year. Six address the risk of *drug price increases* and five more the legal *costs of the opioid crisis*; three are on *senior executive diversity*, four ask generally about *ESG pay links*; and there is one proposal each on *student loan debt, community impact metrics* and *cybersecurity*.

### Sustainability Proposal Categories




*Excludes 3 from conservatives and 17 on policy approach, 7 on corporate purpose in 2020.*

**Drug pricing:** Investors will be voting for the third year in a row on the idea of linking metrics about expensive pharmaceutical drug prices to long-term risks to companies posed by high prices. In 2019 and 2018, votes were in the 20-percent range. The resolution this year expresses concerns about specific drugs but make the same request in the resolved clause. At **Amgen**, **Biogen**, **Eli Lilly** and **Pfizer** it asks for an annual report "assessing the feasibility of incorporating public concern over high drug prices into the senior executive compensation arrangements." Added at Merck (where it earned 28.7 percent in 2019) and **Vertex Pharmaceuticals** (22.8 percent) is guidance that the report

> should include, but need not be limited to, discussion of whether incentive compensation arrangements reward, or not penalize, senior executives for (i) adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding the level or rate of increase in prescription drug prices; and (ii) considering risks related to drug pricing when setting financial targets for incentive compensation.

No companies have filed SEC challenges to date; last year commission staff rejected corporate assertions that the proposals related to ordinary business by dint of micromanagement and/or were moot.

**Opioid legal costs:** Five resolutions reprise proposals from last year about legal costs. The proposal is pending (and challenged) at **Amgen**, **Bristol-Myers Squibb** and **Johnson & Johnson** as well as at two other companies not yet public. It asks that each

> adopt a policy that when a financial performance metric is adjusted to exclude legal or compliance costs when evaluating performance for purposes of determining the amount or vesting of any senior executive compensation award, it provide an explanation of why the precise exclusion is warranted and a breakdown of the litigation costs. "Legal or compliance costs" are expenses or charges associated with any investigation, litigation or enforcement action related to drug distribution, including legal fees; amounts paid in fines; penalties or damages; and, amounts paid in connection with monitoring required by any settlement or judgment of claims of the kind described above. "Incentive Compensation" is compensation paid pursuant to short-term and long-term incentive compensation plans and programs. The policy should be implemented in a way that does not violate any existing contractual obligation of the Company or the terms of any compensation or benefit plan.

The proponents want the companies to include litigation and compliance costs in future performance metrics for pay because of myriad lawsuits about opioids, while the companies say that excluding non-recurring or one-time events is a more accurate picture of performance. Each company is contending that the proposal relates to ordinary business and Amgen also says it is moot. Last year, AbbVie and Johnson & Johnson persuaded the SEC this resolution dealt with ordinary business and a similar exclusion seems possible this year.

**Executive diversity:** Proposals from Zevin Asset Management seeking reports on integrating senior executive diversity metrics into incentive pay are in their third year. The proposals ask for a report

> assessing the feasibility of integrating sustainability metrics, including metrics regarding diversity among senior executives, into performance measures or vesting conditions that may apply to senior executives under the Company's compensation plans or arrangements. For the purposes of this proposal, "sustainability" is defined as how environmental and social considerations, and related financial impacts, are integrated into long-term corporate strategy, and "diversity" refers to gender, racial, and ethnic diversity.

It is a resubmission at **Alphabet**, where it is co-filed by Warren Wilson College and earned 9.7 percent last year, and at **Amazon.com** (19.1 percent)—and newly filed at **Walmart**. Amazon is contending at the SEC that the company's current compensation arrangements make the proposal moot, although those do not mention diversity as requested in the proposal.

**General ESG considerations:** Three pending proposals ask more generally for reports on ESG pay links to executive incentive pay, at **Apple** and **United Continental** and one more firm not yet public. The vote at Apple was 12 percent. The proposal says the report should explore "the feasibility of integrating sustainability metrics into performance measures, performance goals or vesting conditions that may apply to senior executives under the Company's compensation incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term." At **Stryker** a fourth request is shorter: a report "assessing the feasibility of integrating specific sustainability metrics into Stryker's executive compensation program."

**Student loans:** At Navient, the Rhode Island Pension Fund makes the same report request as the one on opioids, but the body of the resolution makes clear the concern is student loans. Navient is contending at the SEC that the proposal is ordinary business; a proposal from Rhode Island on this topic earned 42.8 percent in 2018.

**Privacy:** At **Verizon Communications**, Trillium Asset Management is back for a third year, with a slightly different request for a report "assessing the feasibility of integrating user privacy protections into the Verizon executive compensation program

## Sustainable Governance

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| **Executive Pay Links to ESG** | | | |
| Alphabet | Report on executive pay links to ESG metrics - executive diversity | Zevin Asset Management | June |
| Amazon.com | Report on executive pay links to ESG metrics - executive diversity | Zevin Asset Management | May |
| Amgen | Report on executive pay links to ESG metrics - drug pricing | Mercy Investment Services | withdrawn |
| Amgen | Consider extraordinary legal costs in executive pay metrics | Philadelphia Public Employees Retirement System | omitted |
| Apple | Report on executive pay links to ESG metrics | Zevin Asset Management | 12% |
| Biogen | Report on executive pay links to ESG metrics - drug pricing | UAW Retiree Medical Benefits Trust | June |
| Bristol-Myers Squibb | Consider extraordinary legal costs in executive pay metrics | Philadelphia Public Employees Retirement System | omitted |
| Eli Lilly | Report on executive pay links to ESG metrics - drug pricing | Mercy Investment Services | May |
| Johnson & Johnson | Consider extraordinary legal costs in executive pay metrics - opioids | Vermont State Treasurer | omitted |
| Marathon Petroleum | Report on executive pay links to ESG metrics - community | Trillium Asset Management | April |
| Merck | Report on executive pay links to ESG metrics - drug pricing | Midwest Capuchins | May |
| Navient | Consider extraordinary legal costs in executive pay | Rhode Island Pension Fund | May |
| Pfizer | Report on executive pay links to ESG metrics - drug pricing | Trinity Health | April |
| Stryker | Report on executive pay links to ESG metrics | Trillium Asset Management | April |
| United Continental Holdings | Report on executive pay links to ESG metrics | Mercy Investment Services | May |
| Verizon Communications | Report on executive pay links to ESG metrics - cyber | Trillium Asset Management | May |
| Vertex Pharmaceuticals | Report on executive pay links to ESG metrics - drug pricing | Trinity Health | June |
| Walmart | Report on executive pay links to ESG metrics - executive diversity | Zevin Asset Management | June |
| **Metrics Disclosure** | | | |
| Alexion Pharmaceuticals | Publish sustainability report | Domini Social Investments | May |
| Carter's | Publish sustainability report | New York State Common Retirement Fund | May |
| Charter Communications | Publish sustainability report (GHGs) | Illinois State Treasurer | April |
| Dominion Energy | Report on societal impacts of business | Diana Smith | omitted |
| Old Republic International | Publish sustainability report | Miller/Howard Investments | May |
| **Policy & Purpose** | | | |
| Amazon.com | Add sustainable products portal to website | Stephen Sacks | May |
| Bank of America | Review/report on corporate purpose | Harrington Investments | April |
| BlackRock | Review/report on corporate purpose | As You Sow | May |
| Citigroup | Review/report on corporate purpose | Harrington Investments | pending |
| Goldman Sachs | Review/report on corporate purpose | Harrington Investments | May |
| JPMorgan Chase | Review/report on corporate purpose | Harrington Investments | omitted |
| McKesson | Review/report on corporate purpose | As You Sow | July |
| **ESG Proxy Voting** | | | |
| BlackRock | Review and report on ESG proxy voting - climate | Mercy Investment Services | May |
| JPMorgan Chase | Review and report on ESG proxy voting - climate | Boston Trust Walden | May |
| T. Rowe Price Group | Review and report on ESG proxy voting - climate | Zevin Asset Management | April |
| Vanguard Mutual Funds | Review and report on ESG proxy voting - climate | Boston Trust Walden | Unknown |

## CORPORATIONS REDEFINE THEMSELVES AFTER 50 YEARS OF SHAREHOLDER-PRIMACY

**ANDREW BEHAR**
*CEO, As You Sow*

In a 1970 *New York Times Magazine* article, economist Milton Friedman said corporations exist solely to serve their shareholders and must maximize shareholder financial returns to the exclusion of all else. Moreover, he maintained, companies that did adopt "responsible" attitudes would be faced with more binding constraints than companies that did not, rendering them less competitive. This has been the dominant interpretation of capitalism for nearly 50 years.

In summer 2019, CEOs of 181 of the world's largest corporations did an about-face with an updated "Statement on the Purpose of a Corporation" from the Business Roundtable (BRT). This statement aligns with the intent and purpose of what social, environmental, and governance (ESG) shareholder advocates have been asking companies for decades.

The outdated Friedman philosophy emphasized short-term returns rather than long-term value, sacrificing much. The *As You Sow* resolution this year at **BlackRock** and **McKesson**, and the Harrington Investments resolution at **Bank of America**, **Citigroup**, **Goldman Sachs** and **Morgan Stanley**, ask how each will implement the new Statement of Corporate Purpose. The statement says that to achieve maximum value, companies must consider all stakeholders including employees, customers, suppliers, and the communities in which they operate, on equal footing with shareholders. All these stakeholders need a sustainable climate, breathable air, drinkable water, edible food, and social justice; to address these needs, companies must act. The questions are, by signing the Statement saying that all stakeholders are now on equal footing, does the BRT mean to demote shareholders or elevate the other four groups, and will the 181 BRT signatories enshrine these responsibilities in their bylaws?

Recently, corporate trade associations have tried to block implementation of these ideas, arguing that shareholders who raise ESG issues are wasting the time and money of corporations and investors. In addition, for decades, the BRT has been spearheading efforts to deny shareholders the right to raise the very concepts that it now has adopted. If the BRT's new statement is to be taken seriously, its members should stop trying to eliminate shareholders' rights and engage to address their needs.

Companies can implement the BRT statement by internalizing environmental costs and working with shareholder proponents. The antiquated notion that corporations exist for the sole benefit of shareholder returns was long overdue for a rewrite given its basic conflict with data on long-term value creation. The new "Statement of the Purpose of a Corporation" presents a golden opportunity for major companies and shareholders. Together we can reshape the definition of capitalism to accommodate all stakeholders, including those increasingly left behind. Together, we can create a safe, just, and sustainable world.

which it describes in its annual proxy materials." A similar resolution specially asking about cyber security earned 11.6 percent in 2018 and 12.5 percent last year. It notes this time that the proposal "does not seek greater disclosure or information regarding cybersecurity (the criminal or unauthorized actions), but rather is focused on legally permissible and permitted uses of data."

**Community impacts:** A new pay links proposal from Trillium to **Marathon Petroleum** seeks a report "assessing the feasibility of integrating community stakeholder concerns and impacts into Marathon's executive compensation program…"

## Metrics Disclosure

There are only six proposals seeking sustainability reports this year. At **Alexion Pharmaceuticals**, **Carter's**, **Old Republic International** and one more firm not yet public the simple request is for an annual "report describing the company's environmental, social, and governance (ESG) policies, performance, and improvement targets and quantitative metrics." At **Charter Communications**, a resubmission specifies climate concerns—and an annual report "that includes greenhouse gas (GHG) emissions management strategies and quantitative metrics." This resolution earned 28.2 percent last year.

One more new proposal from Diana Smith asked **Dominion Energy** to "evaluate how cultural shifts towards human rights and climate justice affect the corporation's governance." The company successfully challenged the proposal at the SEC, which agreed to was moot. The supporting statement suggested a wide variety of social and environmental issues could be considered in the requested evaluation.

## Purpose and Policy

**Corporate purpose:** In August 2019, The Business Roundtable issued a statement signed by 181 CEOs who pledged to "lead their companies for the benefit of all stakeholders—customers, employees, suppliers, communities and shareholders." *As You Sow* and Harrington Investments have filed resolution asking what this means, in practice, at six companies.

- The proposal asks that the boards of **Bank of America**, **Citigroup** and **Goldman Sachs**, "acting as responsible fiduciaries, review the Statement of the Purpose of a Corporation to determine if such statement is reflected in our Company's current governance documents, policies, long term plans, goals, metrics and sustainability practices and publish its recommendations on how any incongruities may be reconciled by changes to our Company's governance documents, policies or practices."

- At **BlackRock** and **McKesson**, the proposal seeks "a report based on a review of the BRT Statement of the Purpose of a Corporation signed by our Chairman and Chief Executive Officer and provide the board's perspective regarding how our Company's governance and management systems should be altered to fully implement the Statement of Purpose."
- At **JPMorgan Chase**, the request is to "provide oversight and guidance as to how the new statement of stakeholder theory should alter our Company's governance and management system, and publish recommendations regarding implementation."

**SEC action**—All of the recipients save McKesson have challenged the resolution at the SEC, arguing variously that it is too vague, relates to ordinary business and is moot. So far, the SEC has agreed with the ordinary business argument at JPMorgan Chase. Challenges from Bank of America, BlackRock and Goldman Sachs are still pending.

**Sustainable products portal:** Individual investor Stephen Sacks says **Amazon.com** "shall in their sales website have a department category concerning sustainability products particularly to address climate change. They shall populate it from their other listings." Amazon is contending at the SEC that this concerns ordinary business, and the challenge seems likely to succeed.

## Proxy Voting

Proponents have filed or plan to file resolutions at four investment managers about their climate-related proxy voting policies. The resolution asks **BlackRock** and **JPMorgan Chase** to "initiate a review assessing [the company's] 2019 proxy voting record and evaluate the Company's proxy voting policies and guiding criteria related to climate change, including any recommended future changes." Boston Trust Walden plans to file this resolution at several of the **Vanguard** mutual funds, as well, but the various funds do not always hold shareholder meetings each year and a proposal must be filed on a fund-by-fund basis.

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### PROXY VOTING POWER CAN TRANSFORM COMPANY CLIMATE ACTION

**TIMOTHY SMITH**
*Director of ESG Shareowner Engagement, Boston Trust Walden*

**JARED FERNANDEZ**
*ESG Research Analyst, Boston Trust Walden*

The power of proxy voting to transform corporate behavior is real. Through the height of the 2019 proxy voting season, shareholders had the opportunity—and responsibility—to vote on 177 shareholder resolutions addressing environmental and social issues and sustainable governance. Boston Trust Walden takes this fiduciary responsibility seriously, striving to vote on all company and shareholder proposals presented in proxy statements. Our multi-year initiative to hold asset managers we invest in accountable for thoughtfully incorporating long-term ESG considerations in their proxy voting practices remains an engagement priority.

In the 2020 proxy season alone, we have engaged eight companies, among them some of the largest global investment firms, such as **BlackRock**, **JPMorgan Chase**, and **Vanguard Group**, where we filed shareholder resolutions seeking a review of 2019 proxy voting practices on proposals addressing climate change. Our goal is to encourage better alignment between stated corporate policy and actual proxy voting practices. While these engagement initiatives previously fostered positive changes in written proxy voting policies and practices, the firms' actual voting records too often have contradicted their public statements on the urgency and financial materiality of climate change. In 2019, BlackRock supported just 12 percent of climate-related shareholder proposals, while JPMorgan Chase and Vanguard Group supported just 10 percent.

In contrast, firms such as BNP Paribas, DWS Group, and Legal & General Investment Management each supported over 95 percent of climate-related shareholder proposals in 2019, emerging as leaders among major global asset managers seeking to reconcile established climate science with the responsibilities of a fiduciary.

Thus far, the responses to our proposals have been mixed. BlackRock CEO Larry Fink recently issued his 2020 Letters to CEOs and Clients, outlining the investment firm's evolving consideration of climate risk within investment strategies and active ownership. In an accompanying commentary on BlackRock's engagement on climate risk, the Investment Stewardship team announced that it will vote against directors, or in favor of appropriate shareholder proposals, when a company has failed to provide adequate climate-related disclosure or created a clear plan for managing long-term climate risk in line with the recommendations of the Paris Climate Agreement. It is yet to be seen how BlackRock's 2020 proxy voting record will change, but concerned investors and clients plan to hold BlackRock accountable.

Our engagements with JPMorgan Chase and Vanguard Group have yet to produce desired results. JPMorgan Chase challenged our proposal with the SEC, and Vanguard Group has been slow to come to the table to discuss our concerns. Both continue to defend their climate change voting records as acceptable.

Major asset managers have a fiduciary responsibility to utilize their proxy voting power to support meaningful corporate action and better shield portfolios from systemic climate risk by supporting meaningful corporate action. As investors, companies, and communities are already feeling the financial and physical impacts of the climate crisis, the time to match rhetoric with record is now.

Zevin Asset Management has a similar request at **T. Rowe Price**, seeking the same thing; it also says that the report should include "an assessment of any incongruities between the Company's public statements and pledges regarding climate change (including ESG risk considerations associated with climate change), and the voting policies and practices of its subsidiaries."

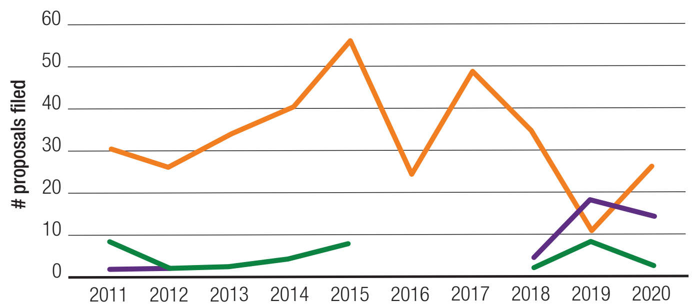
**SEC action:** JPMorgan says it cannot implement the resolution, that it is moot and that it concerns ordinary business; T. Rowe Price is making the latter argument, as well.

# CONSERVATIVES

Proponents with a conservative political bent have filed most of their shareholder resolutions on social policy issues *(top graph)*. The proposals have expressed support for free market solutions to the world's ills and push-back against policies that favor protections for LGBTQ people or abortion rights. More usually get omitted than go to votes, although this was not true last year *(bottom graph)*. Support from other investors tends to be scant, unless the resolved clauses are ones copied from other proponents with opposing views on political activity.

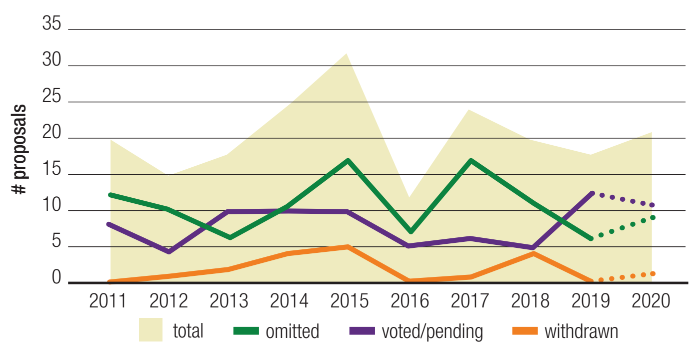
The National Center for Public Policy Research (NCPPR), a Washington, D.C.-based think tank, is the main player, with resolutions also filed by David Ridenour, one of its principals, and like-minded supporters. NCPPR calls itself "the nation's preeminent free-market activist group focusing on shareholder activism and the confluence of big government and big business."

### Conservative Proposal Categories




*Excludes 18 from conservatives, 5 in 2020, and 1 other in 2016.*

### Conservative Proposal Outcomes




**Board diversity:** Repeating an approach begun in 2018 that copies board diversity resolutions initially filed by the New York City Comptroller's Office, NCPPR wants five companies—**AT&T**, **Costco Wholesale**, **Deere**, **Johnson & Johnson** and **Pfizer**—to

> adopt a policy to disclose to shareholders the following:
>
> 1. A description of the specific minimum qualifications that the Board's nominating committee believes must be met by a nominee to be on the board of directors; and
> 2. Each nominee's skills, ideological perspectives, and experience presented in a chart or matrix form.
>
> The disclosure shall be presented to the shareholders through the annual proxy statement and the Company's website within six (6) months of the date of the annual meeting and updated on an annual basis.

The proposal makes arguments in favor of diversity that parallel those expressed by supporters of greater diversity. But they aver that what is missing is "ideological diversity." The resolution says that companies do not display "diversity of thought" but instead "operate in ideological hegemony that eschews conservative people, thoughts, and values. This ideological echo chamber can result in groupthink that is the antithesis of diversity. This can be a major risk factor for shareholders."

**Results**—None of the seven proposals on the subject that went to votes last year earned more than 3 percent. The first vote this year was 1.4 percent at **Costco Wholesale**, and the next was 1.1 percent at **Deere** on Feb. 26. The other three recipients have convinced the SEC that their current board nomination processes address the concerns raised and the proposals were omitted on mootness grounds.

**Diversity at work:** An individual last year said conservatives at Facebook face cultural discrimination and proposed the company make efforts to increase their number through affirmative action, but he received support from just 0.5 percent of the shares voted. This year, NCPPR has taken up the idea and filed a similar resolution at **Alphabet**, **Apple**, **Salesforce.com** and

**Starbucks**, asking for a report "detailing the potential risks associated with omitting "viewpoint" and "ideology" from its written equal employment opportunity (EEO) policy."

**Results**—The first vote will occur on March 28 at Starbucks. Apple convinced the SEC this is an ordinary business matter, and challenges similar to Apple's await the SEC's response at the two other firms, making votes there unlikely.

**Gay pride flag:** An individual last year asked Intel to make a statement about the gay pride flag, saying the practice was disparaging to those who do not support LGBTQ rights, but it was omitted on ordinary business grounds. The same person is back this year with a similar request. He asks, "that Intel refrain from publicly displaying the pride flag." The company has challenged the proposal again, arguing as last year that it relates to ordinary business.

**Lobbying:** NCPPR supports unfettered corporate spending in the political arena but takes language from the resolved clauses of proponents who want spending disclosure. *(The main political activity campaign is covered in this report under Political Activity, p. 31.)* The group also is critical of companies that support environmental regulation and incorporates these values in its resolutions. This year, The NCPPR resolution praises both companies for supporting the American Legislative Exchange Council and the Business Roundtable and says they should continue to "advance economic liberty" and "free speech rights."

**Results**—NCPPR filed its lobbying proposal at **Chevron**, where a vote will occur at the end of May. The NCPPR resolution uses the same resolved clause as the main lobbying campaign but is informed by different motives; the 2020 NCPPR proposal got to Chevron before the pro-disclosure proponents and has been omitted because SEC rules allow companies to exclude the second-received resolution on the same issue. But the opposite occurred at **Walt Disney**, where the main lobbying proposal blocked the NCPPR version. Further similar resolutions are likely to crop up as the season progresses. Because the resolved clauses of the NCPPR resolutions are exactly the same, investors seem to vote the same way and results have been in the high 20-percent range.

**Charitable giving:** Tom Strobhar, a conservative activist who has filed many anti-abortion resolutions about Planned Parenthood support from companies' charitable giving programs in the past, is back in 2020 with at least four resolutions that ask **Bank of America**, **JPMorgan Chase**, **MGM Resorts International** and **Pfizer** to disclose the recipients of any corporate charitable contributions of more than $1,000, "excluding employee matching gifts." At Bank of America, MGM and Pfizer, Strobhar asks the boards to "consider issuing a statement on the Company website, omitting proprietary information and at reasonable cost, disclosing the Company's standards for choosing which organization receive the Company's assets in the form of charitable contributions, and the rational, if any, for such contributions."

**Results**—The proposal arrived past the submission deadline at Bank of America, has been withdrawn at MGM and was omitted on mootness grounds at Pfizer. It remains pending at JPMorgan, but a similar proposal was omitted on ordinary business grounds given its specificity in 2018 and another omission seems likely because the company is reiterating its argument.

## Conservative

| Company | Proposal | Proponent | Status |
|---|---|---|---|
| Alphabet | Report on affirmative action and protections for conservatives | National Center for Public Policy Research | June |
| Apple | Report on affirmative action and protections for conservatives | National Center for Public Policy Research | omitted |
| AT&T | Report on board nominee ideological diversity | National Center for Public Policy Research | omitted |
| Bank of America | Establish board committee on human rights | National Center for Public Policy Research | omitted |
| Bank of America | Report on charitable contributions | Tom Strobhar | omitted |
| Chevron | Report on benefits of lobbying | National Center for Public Policy Research | May |
| Citigroup | Establish board committee on human rights | National Center for Public Policy Research | omitted |
| Costco Wholesale | Report on board nominee ideological diversity | National Center for Public Policy Research | 1.4% |
| Deere | Report on board nominee ideological diversity | National Center for Public Policy Research | 1.1% |
| ExxonMobil | Provide cost-benefit report on environmental programs | Steven J. Milloy | May |
| Intel | Stop displaying gay pride flag | Chris Hotz | May |
| Johnson & Johnson | Report on board nominee ideological diversity | National Center for Public Policy Research | omitted |
| JPMorgan Chase | Report on charitable contributions | Tom Strobhar | May |
| MGM Resorts International | Report on charitable contributions | Tom Strobhar | withdrawn |
| Pfizer | Report on board nominee ideological diversity | National Center for Public Policy Research | omitted |
| Pfizer | Report on charitable contributions | Tom Strobhar | omitted |
| Salesforce.com | Report on affirmative action and protections for conservatives | National Center for Public Policy Research | June |
| Starbucks | Report on affirmative action and protections for conservatives | National Center for Public Policy Research | March 28 |
| Walt Disney | Report on benefits of lobbying | National Center for Public Policy Research | omitted |

# APPENDIX

## More on the Web

All resolutions must conform to the Shareholder Proposal Rule of the Securities and Exchange Act of 1934, which sets procedural as well as substantive standards for admissibility. Read more on **www.proxypreview.org**.

Access research about shareholder proposal issues, organizations, networks and investor campaigns on **www.proxypreview.org**.

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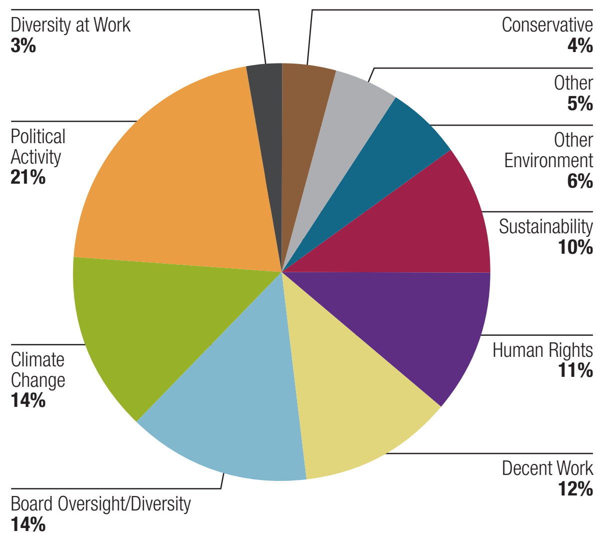
# 2019 Proxy Season Review and Trends

Investor support for a wide range of social and environmental issues grew slightly in 2019 to 25.7 percent, on average, and eight proposals earned majority support. The final vote tally was 187, up 10 from 2018, with 457 filings in all. For the second year in a row, proponents withdrew more resolutions than the number that went to votes—a total of 210. There was a marked increase in filings about election spending and human rights, but a drop in those addressing climate change; sustainability proposals increased.

### Proposals Filed in 2019




Companies were less successful overall in their efforts to block resolutions from inclusion in proxy statements by citing provisions of the shareholder proposal rule, about which the Securities and Exchange Commission (SEC) decides. (A total of 56 proposals were omitted in 2019, compared with 65 in 2018 and 77 the year before.) But the commission's new view, established in 2018, that many resolutions seeking corporate action to cut greenhouse gas (GHG) emissions are inadmissible continued to block proposals and concern proponents. The New York City pension funds went to court to force inclusion of one resolution on emissions, but ended up settling before setting any precedent.

## Major Themes

The three major themes of proxy season continued to be climate change, corporate influence spending and diversity. Shareholder proponents also filed a wide range of new proposals, many on human rights.

- **Climate change:** Proponents continued to grapple with the SEC's new stance on GHG proposals and filed new versions of proposals seeking disclosure and action on emissions, with mixed results; votes included a high score of 46.3 percent at **Fluor** and a new agreement at **Emerson Electric**. A new proposal about the impacts of extreme weather on petrochemical plants surfaced, but with uneven results. Proponents withdrew most proposals seeking carbon asset risk reports (16 withdrawn versus just six votes) and eight of 10 filed on clean energy. Investor scrutiny of how food companies attend to climate risk in their commodity supply chains continued and prompted some additional company commitments.
- **Political activity:** Investor support for political activity proposals continued its upward climb, with three majority votes and 13 more earning above 40 percent. There were 13 agreements that led to withdrawals on election spending (proponents also withdrew six more); resolutions seeking election spending action increased to 55, while lobbying proposals dropped to 33; two combined both lobbying and elections. Ten lobbying withdrawal agreements included a new commitment from **AT&T** to report more about spending that flows through its trade associations—a long-sought goal given the company's substantial lobbying budget.
- **Diversity:** Proposals sought fair treatment and equal pay for women and people of color, and more diverse boards of directors—with some new angles. **Citigroup** agreed to disclose its global median gender pay differential in January, but proponents were unable to get commitments about similar reporting from other firms so 13 resolutions went to votes; many of these have seen resubmitted proposals on the topic for 2020. Proponents also tried with limited success to raise concerns about non-disclosure agreements, forced arbitration and sexual harassment. A handful of new requests at relatively small hotel firms asked for reporting on sexual harassment, but earned little support. Fewer resolutions asked about workplace diversity, but there were two majority votes, at **Travelers** and **Newell Brands**.

**Other high votes and key issues:** The continuing opioid epidemic prompted a 60.5 percent majority at **Walgreens Boots Alliance**, as shareholders eye the burgeoning legal challenges facing companies that make and distribute opioids. An unprecedented majority of 87.9 percent came at the private prison company **GEO Group** after the company withdrew its opposition to a request that it increase reporting on human rights protections for inmates and immigrant detainees. A board diversity resolution also received a majority—78.3 percent—after **Gaming & Leisure Properties** did not oppose it. Additional proposals asked for human rights risk assessments, while new proposals sought action to curb online child sexual exploitation. Proponents filed a record number of board diversity proposals, but withdrew almost all of them—41 out of 45. On the sustainable governance front, the number of proposals seeking links between various ESG issues and executive pay exceeded requests for generalized reporting for the first time. The largest number of pay links proposals concerned drug pricing.

As noted above, two of the majority votes came when companies did not oppose the proposals, prompting the nearly 88 percent vote on human rights at **GEO Group** and nearly 80 percent for board diversity at **Gaming & Leisure Properties**. Otherwise, in addition to the majority at **Walgreens Boots Alliance**, other votes over 50 percent were for reporting on executive diversity at **Newell Brands**, for greater oversight and disclosure of election spending and/or lobbying at **Alliant Energy**, **Cognizant Technology** and **Macy's**, and for reporting on diversity data and affirmative action at **Travelers**. Furthermore, 22 resolutions earned more than 40 percent. Just four of the high scoring proposals were resubmissions *(table below.)*

## High Scoring Proposals in 2019

| Company | Proposal | Proponent | Vote (%) |
|---|---|---|---|
| GEO Group | Report on human rights implementation | Jesuit Conference | 87.9* |
| Gaming & Leisure Properties | Report on board diversity | NYSCRF | 78.3* |
| Walgreens Boots Alliance | Report on opioid crisis | Mercy Investments | 60.5 |
| Newell Brands | Report on executive diversity | Trillium Asset Mgt. | 56.6 |
| Alliant Energy | Report on election spending/lobbying | NYC pension funds | 54.3 |
| Cognizant Technology | Review/report on election spending | James McRitchie | 53.6 |
| Macy's | Review/report on election spending | Mercy Investments | 53.1 |
| Travelers | Report on EEO and affirmative action | Trillium Asset Mgt. | 50.9 |
| Kohl's | Review/report on election spending | John Chevedden | 49.8 |
| NextEra Energy | Review/report on election spending | NYSCRF | 48.7@ |
| Analog Devices | Report on EEO and affirmative action | Trillium Asset Mgt. | 48.0 |
| Allstate | Review/report on election spending | Teamsters | 46.9@ |
| Fluor | Adopt GHG reduction targets | NYSCRF | 46.3@ |
| Chemed | Review/report on election spending | John Chevedden | 46.2 |
| McKesson | Report on lobbying | SHARE | 45.8 |
| NRG Energy | Report on election spending/lobbying | NYC pension funds | 45.4 |
| Starbucks | Report on packaging | As You Sow | 44.5 |
| Western Union | Review/report on election spending | John Chevedden | 44.3 |
| Amphenol | Report on human rights risk assessment | Amalgamated Bank | 43.9 |
| Fiserv | Review/report on election spending | John Chevedden | 43.8 |
| Alaska Air Group | Review/report on election spending | John Chevedden | 43.4 |
| Roper Technologies | Review/report on election spending | Sonen Capital | 43.1 |
| Honeywell International | Report on lobbying | Azzad Asset Mgt. | 42.4@ |
| Duke Energy | Report on coal risks | As You Sow | 41.7 |
| Netflix | Review/report on election spending | Myra K. Young | 41.7 |
| Centene | Review/report on election spending | Friends Fiduciary | 41.6 |
| Fastenal | Report on EEO and affirmative action | As You Sow | 41.4 |
| Ross Stores | Report on GHG emissions targets | Jantz Management | 40.9 |
| Macy's | Report on human rights risk assessment | Priests-Sacred Heart | 40.7 |
| Nucor | Review/report on election spending | FAFN | 40.6 |

@ Resubmission * Not opposed by management

## Roundup of Results

This section includes final tallies in each of the major areas, updating information from the 2019 *Proxy Preview*.

### *Environment*

**Climate change:** There were 63 proposals specifically concerned with climate change, down more than 20 from 2018, although the topic also came up in other proposals including those on sustainability disclosure and lobbying. Proponents wanted information about how companies are managing carbon asset risks, reporting and setting goals to cut greenhouse gas (GHG) emissions, using clean energy and addressing deforestation. The SEC's changed view about what constitutes "ordinary business" in this arena continued to constrain the options for proponents about what they can bring up in shareholder resolutions for votes by investors at large, even though support for more climate reporting and action remains strong in the investment community.

**Environmental management:** There were 16 proposals about environmental management issues that go beyond climate change, about waste and recycling, water and nuclear power. Six went to votes, six were withdrawn, three omitted and one did not see a vote because of a merger.

**Industrial agriculture:** Thirteen resolutions raised concerns about the industrial food system—five dealing with antibiotics in feed and four more on pesticides. Four others dealt with farm animal welfare.

### *Social Issues*

**Corporate political activity:** Proponents continued their longstanding campaigns asking companies about expenditures for elections and lobbying, with many more resolutions in 2019 on elections (56) and fewer about lobbying (33); two proposals combined the two and three addressed other matters of corporate political influence. The overall tally on the two issues had been dropping but in 2019 rose to 94—up from 80.

In 2018, while rejecting company no-action requests, the SEC noted previous levels of support of 20 percent or more—raising a question that it might boost the resubmission rule thresholds, which for more than 50 years have required that first year proposals earn only at least 3 percent to qualify for resubmission, 6 percent the second year and 10 percent in each year thereafter. The SEC's proposal for a new rule, released on Nov. 5, 2019, does indeed propose a much higher bar. As noted earlier in this report, the rule would have a disproportionately negative impact on corporate political influence proposals that earn votes in the 20-percent range but may not hit 25 percent, and on those that reach 25 percent but may have slipped by more than 10 percent from any immediately preceding vote and therefore would be struck given a new "momentum" rule.

**Decent work:** Growing economic inequality in the United States, which is more acute for women and racial and ethnic minorities, along with the #MeToo movement's demand for equal treatment—and, implicitly, equal pay—have driven a surge of resolutions about pay equity and working conditions since 2014. There were 33 proposals in 2019 about differential pay rates, mostly focused on women but sometimes also for people of color; another 20 were about working conditions. A new angle about "inequitable employment practices"—concerning among other things non-disclosure agreements, arbitration and sexual misconduct—went to a vote in only two cases because of SEC challenges.

**Diversity in the workplace:** Half as many proposals addressed workplace diversity data in 2019 as in 2018—just 16, down from 30—but there were two majority votes. Four of seven resolutions seeking reports on EEO data and affirmative action for women and people of color went to votes. One about LGBTQ protections—the only one on this subject in 2019—earned 37.4 percent.

**Health:** As opioid makers and distributors face a national class action lawsuit that aims to fund treatment for the tens of thousands of people affected, just one of four related resolutions seeking corporate oversight and disclosure regarding opioids went to a vote. (Additional proposals from Investors for Opioid and Pharmaceutical Accountability with corporate governance angles are not include in this tally.)

**Human rights:** After a dip in 2018, investors expanded their filing on human rights, with new resolutions on immigrant rights and detention, child sexual exploitation and food and human rights. In all, there were 49 proposals, 21 votes, 21 withdrawals, just five omissions and two that did not go to votes for other reasons. Many were to new recipients and a number asked about the penal system and migrant detainees.

**Media:** The "big three" social media firms—**Alphabet**, **Facebook** and **Twitter**—saw resubmitted proposals asking for reports on problematic content. The highest vote was 39.4 percent at Twitter.

### *Sustainable Governance*

**Board diversity:** Proponents withdrew 41 of 45 resolutions that asked companies to diversify their boards or report on efforts to diversify. A spectacularly high vote of 78.3 percent occurred at **Gaming & Leisure Properties**, after the company did not oppose the resolution, and there were only three additional votes given all the agreements from companies to work on diversity.

**Board composition and oversight:** Fifteen resolutions asked for specific types of board oversight, up from eight last year; three more requested particular types of board member expertise. On oversight and experts proposals combined, there were seven votes, five withdrawals (three after SEC challenges) and six omissions. The most striking characteristic of these proposals was that each raised an issue of intense public debate that the proponents said company boards were not handling well—but investors gave support of less than 10 percent.

**Sustainability oversight and disclosure:** In 2018, as reporting requests surged to 58, more of the sustainability disclosure and management proposals were withdrawn than went to votes. In 2019, in volume these proposals (23 filings) fell behind requests to tie various ESG metrics to executive pay (24) and there was just one vote, 28.2 percent at **Charter Communications**.

**ESG pay links**—The big increase in 2018 with proposals seeking reports on how executive compensation is linked to sustainability metrics continued and was again dominated by nine proposals about drug price increases. Others raised a laundry list of issues. One notable withdrawal occurred when **Eli Lilly** agreed to more pricing disclosure; it has been under pressure given the skyrocketing price of insulin and was sued about drug price inflation in October 2018 by the Minnesota attorney general.

### *Conservatives*

More of the 20 proposals from political conservatives went to votes in 2019 because proponents made it through the SEC by copying the resolved clauses from other resolutions but adding a conservative twist to supporting statements. In all, four concerned climate change, nine asked for disclosure on "ideological diversity" on the board, two related to sexual harassment, three were copy-cat resolutions on lobbying and two dealt with workplace diversity. The lowest vote of the season for any issue came at **Facebook**—0.5 percent support for a request to explore affirmative action for conservative people.

# COMPANY INDEX

The index below shows with checkmarks (✓) how many proposals have been filed at each company, in each major topic categories presented in this report. More details on each of the resolutions can be found in the tables and text of appropriate sections of the report, as follows:


- Climate Change/Environment......................p. 17
- Sustainability Reporting/Oversight...............p. 60
- Corporate Political Activity ...........................p. 34
- Diversity/Decent Work .................................p. 41
- Human Rights.............................................p. 50


| Company | Climate/ Environment | Corporate Political Activity | Decent Work/ Diversity | Human Rights | Other | Sustainable Governance | Grand Total |
|---|---|---|---|---|---|---|---|
| 3M | | | ✓ | | | | 1 |
| A.O. Smith | ✓ | | ✓ | | | | 2 |
| Abbott Laboratories | | ✓ | | | | | 1 |
| AbbVie | | ✓ | | | | | 1 |
| Activision Blizzard | | ✓ | | | | | 1 |
| Adobe | | | ✓ | | | | 1 |
| Advance Auto Parts | | | ✓ | | | | 1 |
| AES | | ✓ | | | | | 1 |
| Air Products & Chemicals | ✓ | | | | | | 1 |
| Alaska Air Group | | ✓ | | | | | 1 |
| Alexion Pharmaceuticals | | | | | | ✓ | 1 |
| Allstate | | ✓ | | | | | 1 |
| Alphabet | | | ✓✓ | ✓✓✓ | ✓ | ✓✓✓ | 9 |
| Altria | | ✓ | | | ✓ | | 2 |
| Amazon.com | ✓ | ✓ | ✓✓ | ✓✓✓✓✓✓✓ | | ✓✓✓ | 14 |
| Ameren | ✓ | | | | | | 1 |
| Ameresco | | | | | | ✓ | 1 |
| American Airlines | | ✓ | | | | | 1 |
| American Express | | | ✓ | | | | 1 |
| American Outdoor Brands | | | | ✓ | | | 1 |
| American Tower | | ✓ | | | | | 1 |
| American Water Works | | ✓ | | | | | 1 |
| Amgen | | | | | | ✓✓ | 2 |
| ANI Pharmaceuticals | | | | | | ✓ | 1 |
| Apple | | | ✓✓ | ✓ | ✓ | ✓ | 5 |
| Aqua America | | | ✓ | | | | 1 |
| Archer Daniels Midland | ✓ | | | | | | 1 |
| AT&T | | | | ✓ | ✓ | | 2 |
| Baker Hughes | ✓ | | | | | | 1 |
| Bank of America | ✓ | | ✓ | | ✓✓ | ✓ | 5 |
| Bank of NY Mellon | | | ✓ | | | | 1 |
| Biogen | | | | | | ✓ | 1 |
| BlackRock | | ✓ | | | | ✓✓ | 3 |
| Bloomin Brands | ✓ | | | | | | 1 |
| Boeing | | ✓ | | | | | 1 |
| Bridge Bancorp | | | | | | ✓ | 1 |
| Bristol-Myers Squibb | | | | | | ✓ | 1 |
| Broadcom Limited | | | | ✓ | | | 1 |
| Broadridge Financial | | ✓ | | | | | 1 |

*Continued on next page*

| Company | Climate/ Environment | Corporate Political Activity | Decent Work/ Diversity | Human Rights | Other | Sustainable Governance | Grand Total |
|---|---|---|---|---|---|---|---|
| Brown-Forman | | ✓ | | | | | 1 |
| Carnival | | | | ✓ | | | 1 |
| Carter's | | | | | | ✓ | 1 |
| Caterpillar | | ✓ | | | | | 1 |
| CBRE Group | | | ✓ | | | | 1 |
| Centene | | ✓ | | | | | 1 |
| CenturyLink | | ✓ | | | | | 1 |
| Charles Schwab | | ✓ | | | | | 1 |
| Charter Communications | | | | | | ✓ | 1 |
| Cheniere Energy | ✓ | ✓ | | | | | 2 |
| Chevron | ✓✓✓✓ | ✓✓ | | ✓ | ✓ | ✓ | 9 |
| Chipotle Mexican Grill | ✓ | | | | | | 1 |
| Choice Hotels | | | ✓ | | | | 1 |
| CIGNA | | | ✓ | | | | 1 |
| Citigroup | | ✓ | | | ✓ | ✓ | 3 |
| CMS Energy | | ✓ | | | | | 1 |
| Coca-Cola | | ✓ | | | | | 1 |
| Cognizant Technology | | ✓ | | | | | 1 |
| Comcast | | ✓ | ✓ | ✓ | | | 3 |
| Community Trust Bancorp | ✓ | | | | | | 1 |
| ConocoPhillips | ✓ | | | | | | 1 |
| CoreCivic | | | | ✓ | | ✓ | 2 |
| Costco Wholesale | ✓ | | | ✓ | ✓ | | 3 |
| CSX | | | | ✓ | | | 1 |
| CVS Health | ✓ | | | | | | 1 |
| DaVita HealthCare Partners | | ✓ | | | | | 1 |
| Deere | | | | | ✓ | | 1 |
| Dell | | | ✓ | | | | 1 |
| Delta Air Lines | | ✓✓ | | | | | 2 |
| Devon Energy | ✓ | | | | | | 1 |
| Diamondback Energy | ✓ | | | | | | 1 |
| Dollar General | | | ✓ | | | | 1 |
| Dollar Tree | ✓ | | ✓ | | | | 2 |
| Dominion Energy | ✓ | | | | | ✓ | 2 |
| DTE Energy | | ✓ | | | | | 1 |
| Duke Energy | ✓✓ | ✓✓ | | | | | 4 |
| EastGroup Properties | | | ✓ | | | | 1 |
| Eli Lilly | | ✓ | | | | ✓ | 2 |
| Ensign Group | | | | | | ✓ | 1 |
| Entergy | ✓ | | | | | | 1 |
| Evergy (was Westar) | | ✓ | | | | | 1 |
| Expedia Group | | ✓ | | | | | 1 |
| ExxonMobil | ✓✓✓✓✓ | ✓✓✓ | | ✓ | ✓ | ✓ | 11 |
| Facebook | | | ✓ | ✓✓ | | ✓✓ | 5 |
| Fastenal | | | ✓ | | | | 1 |
| First Horizon National | | | | ✓ | | | 1 |
| First Solar | | | | | | ✓ | 1 |
| FirstCash | | | | | | ✓ | 1 |
| Fiserv | | ✓ | | | | | 1 |

*Continued on next page*

| Company | Climate/ Environment | Corporate Political Activity | Decent Work/ Diversity | Human Rights | Other | Sustainable Governance | Grand Total |
|---|---|---|---|---|---|---|---|
| Ford Motor | | ✓ | | | | | 1 |
| Fortinet | | | | | | ✓ | 1 |
| General Electric | ✓ | | | | | | 1 |
| General Motors | | ✓ | | ✓ | | | 2 |
| Genuine Parts | | | ✓ | | | | 1 |
| GEO Group | | ✓ | | | | | 1 |
| Gilead Sciences | | | ✓ | | | | 1 |
| Goldman Sachs | ✓ | | | | | ✓ | 2 |
| Halliburton | ✓✓ | | | | | | 2 |
| Hanesbrands | | | ✓ | | | | 1 |
| Hanover Insurance | | | ✓ | | | | 1 |
| HD Supply Holdings | ✓ | | | | | | 1 |
| Hertz Global Holdings | ✓ | | | | | | 1 |
| Hess | ✓ | | | | | | 1 |
| HollyFrontier | | | ✓ | | | | 1 |
| Home Depot | ✓ | | ✓ | ✓ | | | 3 |
| Honeywell International | | ✓ | | | | | 1 |
| Hormel Foods | ✓ | | | | | | 1 |
| Huntsman | ✓ | | | | | | 1 |
| Hyatt Hotels | | | ✓ | | | | 1 |
| Illumina | | ✓ | | | | | 1 |
| Intel | | | ✓ | | ✓ | | 2 |
| Int’l Flavors & Fragrances | | | ✓ | | | | 1 |
| IPG Photonics | | | ✓ | | | | 1 |
| J.B. Hunt Transport | ✓ | ✓ | | | | | 2 |
| Johnson & Johnson | | | | | ✓✓ | ✓ | 3 |
| JPMorgan Chase | ✓✓ | | ✓✓✓ | | ✓ | ✓✓ | 8 |
| Juniper Networks | | | ✓ | | | | 1 |
| Kellogg | ✓ | | | | | | 1 |
| Keurig Dr Pepper | | ✓ | | | | | 1 |
| Kohl’s | | | | ✓ | | | 1 |
| Kraft Heinz | ✓ | | | | | | 1 |
| Kroger | ✓ | | | ✓ | | | 2 |
| Lear | | | | ✓ | | | 1 |
| Liberty Broadband | | | | | | ✓ | 1 |
| LKQ | | | ✓ | | | | 1 |
| Loews | | ✓ | | | | | 1 |
| Luminex | | | | | | ✓ | 1 |
| Macy’s | | | | | ✓ | | 1 |
| Marathon Petroleum | ✓ | | | | | ✓ | 2 |
| Marriott International | | ✓ | ✓ | | ✓ | | 3 |
| Mastercard | | | ✓✓ | | | | 2 |
| Maximus | | ✓ | | | | | 1 |
| McDonald’s | | | ✓ | | | | 1 |
| McKesson | | | | | | ✓ | 1 |
| Merck | | | | | | ✓ | 1 |
| MetLife | | ✓ | ✓ | | | ✓ | 3 |
| MGM Resorts Int’l | | ✓ | | | ✓ | | 2 |
| Microsoft | | | ✓ | | | | 1 |

*Continued on next page*

| Company | Climate/ Environment | Corporate Political Activity | Decent Work/ Diversity | Human Rights | Other | Sustainable Governance | Grand Total |
|---|---|---|---|---|---|---|---|
| Monster Beverage | | ✓ | | | | | 1 |
| Morgan Stanley | ✓ | | ✓ | | | | 2 |
| Motorola Solutions | | ✓ | | | | | 1 |
| Natus Medical | | | ✓ | | | | 1 |
| Navient | | | | | | ✓ | 1 |
| Netflix | | ✓ | | | | | 1 |
| Neurocrine Biosciences | | | | | | ✓ | 1 |
| Newmont | ✓ | | | | | | 1 |
| NextEra Energy | | ✓ | | | | | 1 |
| Noble Energy | ✓ | | | | | | 1 |
| Nordstrom | | | ✓ | | | | 1 |
| Northrop Grumman | | | | ✓ | | | 1 |
| Northwestern | ✓ | | | | | | 1 |
| Nucor | ✓ | ✓✓ | | ✓ | | | 4 |
| Occidental Petroleum | ✓ | | | | | | 1 |
| Old Republic Int’l | | | | | | ✓ | 1 |
| Olin | | | | ✓ | | | 1 |
| O’Reilly Automotive | | | ✓ | | | | 1 |
| Ormat Technologies | | | ✓ | | | | 1 |
| PACCAR | ✓ | | | | | ✓ | 2 |
| Pattern Energy Group | | | ✓ | | | | 1 |
| PayPal | | ✓ | | | | | 1 |
| Pfizer | | ✓ | ✓ | | ✓✓ | ✓ | 5 |
| Phillips 66 | ✓ | ✓ | | | | | 2 |
| Pilgrim’s Pride | ✓ | | | ✓ | | | 2 |
| PNM Resources | ✓✓ | | | | | | 2 |
| PPG Industries | | | | ✓ | | | 1 |
| Progressive | | | | | ✓ | | 1 |
| Puma Biotechnology | | | | | | ✓ | 1 |
| Republic Services | ✓ | | | | | | 1 |
| ResMed | | ✓ | | | | | 1 |
| Rockwell Automation | ✓ | | | | | | 1 |
| Rogers | | | ✓ | | | | 1 |
| Ross Stores | ✓ | | | | | | 1 |
| Royal Caribbean Cruises | | ✓ | | ✓ | | | 2 |
| Salesforce.com | | | | | ✓ | | 1 |
| Sanderson Farms | ✓ | | | ✓ | | | 2 |
| Sarepta Therapeutics | | | ✓ | | | | 1 |
| SBA Communications | | | | | | ✓ | 1 |
| SeaWorld Entertainment | | | | | ✓ | ✓ | 2 |
| Sempra Energy | ✓ | | | | | | 1 |
| Sherwin-Williams | ✓ | | | | | | 1 |
| Simon Property Group | | ✓ | | | | | 1 |
| Skechers U.S.A. | | | | ✓ | | | 1 |
| Skyworks Solutions | ✓ | | | | | | 1 |
| Sonoco Products | ✓ | | | | | | 1 |
| Southern | ✓ | ✓ | | | | | 2 |
| Southwest Airlines | | ✓ | | | | | 1 |
| Spire | ✓ | | | | | | 1 |

*Continued on next page*

| Company | Climate/ Environment | Corporate Political Activity | Decent Work/ Diversity | Human Rights | Other | Sustainable Governance | Grand Total |
|---|---|---|---|---|---|---|---|
| Sprint | | | | | ✓ | | 1 |
| Starbucks | ✓ | | ✓ | | ✓ | | 3 |
| Steel Dynamics | ✓ | | | | | | 1 |
| Stryker | | | | | | ✓ | 1 |
| Sturm, Ruger | | ✓ | | ✓ | | | 2 |
| SunPower | | | | | | ✓ | 1 |
| SVB Financial Group | | | ✓ | | | | 1 |
| Syneos Health | | | ✓ | | | | 1 |
| T. Rowe Price Group | | | | | | ✓ | 1 |
| Tesla Motors | | | ✓ | ✓ | | | 2 |
| Texas Instruments | ✓ | | | | | | 1 |
| TJX | ✓ | | ✓ | ✓✓ | ✓ | | 5 |
| T-Mobile US | | | | | | ✓ | 1 |
| Tractor Supply | | | ✓ | | | | 1 |
| TransDigm Group | ✓ | | | | | | 1 |
| Travelers | | | ✓ | | | | 1 |
| Tribune Publishing | | | | ✓ | | | 1 |
| Twitter | | | | | | ✓ | 1 |
| Tyson Foods | ✓ | ✓ | | ✓ | | | 3 |
| Ulta Beauty | | | ✓ | | | | 1 |
| Union Pacific | ✓ | | | | | | 1 |
| United Airlines | | ✓✓ | | | | ✓ | 3 |
| United Parcel Service | ✓ | ✓ | | | | | 2 |
| United Technologies | | | ✓ | | | | 1 |
| Vanguard Mutual Funds | | | | | | ✓ | 1 |
| Verizon | | ✓ | | ✓ | ✓ | ✓ | 4 |
| Vertex Pharmaceuticals | | ✓ | | | | ✓ | 1 |
| Visa | | | | ✓ | | | 1 |
| Walgreens Boots Alliance | | | | | ✓ | | 1 |
| Walmart | ✓✓ | | ✓ | | ✓ | ✓ | 5 |
| Walt Disney | | ✓ | ✓ | | ✓ | | 3 |
| Waste Management | ✓ | | | | | | 1 |
| Wells Fargo | ✓ | | ✓✓ | | | | 3 |
| Wendy's | ✓ | | | | | | 1 |
| Western Union | | ✓ | | ✓ | | | 2 |
| Westlake Chemical | ✓ | | | | | | 1 |
| Williams Companies | ✓ | | | | | | 1 |
| Williams-Sonoma | | | ✓ | | | | 1 |
| World Fuel Services | | | | | | ✓ | 1 |
| Wyndham Destinations | | | ✓ | | | | 1 |
| XPO Logistics | | | ✓ | | | | 1 |
| Xylem | | | | | | ✓ | 1 |
| Yum Brands | ✓✓ | | ✓ | | | | 3 |
| **Grand Total** | **85** | **75** | **71** | **46** | **30** | **62** | **369** |

*(Excludes proposals not yet public.)*

# ABOUT PROXY PREVIEW

## *PROXY PREVIEW 2020* IS A COLLABORATION BETWEEN

**As You Sow** is a nonprofit organization dedicated to increasing environmental and social corporate responsibility. Founded in 1992, As You Sow envisions a safe, just, and sustainable world in which environmental health and human rights are central to corporate decision making. Its Energy, Environmental Health, Waste, and Human Rights programs create positive, industry-wide change through corporate dialogue, shareholder advocacy, coalition building, and innovative legal strategies. www.asyousow.org

The **Sustainable Investments Institute (Si2)**, a nonprofit research organization based in Washington, D.C., conducts impartial research and publishes reports on organized efforts to influence corporate behavior on social and environmental issues. Si2 closely follows shareholder resolutions proposed by investor advocates, but does not making voting recommendations. Instead, it provides the tools and in-depth reports that enable investors to make their own informed, independent decisions on the contentious public policy issues raised during proxy season. Si2 also conducts research into emerging sustainability issues to better help investors and the general public understand the implications they hold for companies and their key stakeholders. Recent reports assess corporate political activity, hydraulic fracturing, integrated reporting, nanotechnologies and sustainable governance issues. Si2 is supported by leading institutional investors, including public and private pension funds, college and university endowments, foundations and fund managers. www.siinstitute.org

**Proxy Impact** is a progressive proxy voting and shareholder engagement service for foundations, faith-based and sustainable, responsible and impact (SRI) investors. We provide affordable proxy voting based on environmental, social, and governance (ESG) guidelines. Proxy Impact also offers a full range of shareholder engagement services on ESG issues. This includes research, corporate dialogues and filing shareholder resolutions. Our unique consulting service will identify the links and advocacy opportunities between a client's stockholdings and their organization's mission, programs and/or grantees. This allows clients to leverage their shares to support their values and core programs, and provides strategic options for how to address key issues through their investments or grant making. www.proxyimpact.com

# SPONSORS

**Arjuna Capital** empowers our clients to sustainably align their investments for profitability and impact. Arjuna is a one-stop shop for creating high-impact investment portfolios across markets and asset classes—from public to private, to equity to debt. Arjuna Capital's investment strategies seek competitive financial returns while promoting a more vibrant economy, healthier environment, and more just society. Our team brings decades of experience considering the financial impact of environmental, social and governance (ESG) risk and opportunity factors. We strive to offer the most diverse, sustainable, profitable and high-impact investments available, build and preserve our clients' wealth, and influence sustainable change through enlightened investing. www.arjuna-capital.com

**Boston Trust Walden** is a pioneer in sustainable and responsible investment (SRI), working in this arena for close to 50 years. Boston Trust Walden has engaged portfolio companies since 1975 urging them to strengthen their corporate responsibility and accountability. As long-term investors, we believe that effective shareholder engagement can lead to improved corporate policies, more sustainable business practices, and greater transparency and accountability. We also recognize that companies take time to implement changes. www.bostontrustwalden.com

**Calvert Research and Management** (Calvert) is a global leader in Responsible Investing. Calvert sponsors one of the largest and most diversified families of responsibly invested mutual funds, encompassing active and passively managed equity, income, alternative and multi-asset strategies. With roots in Responsible Investing back to 1982, the firm seeks to generate favorable investment returns for clients by allocating capital consistent with environmental, social and governance best practices and through structured engagement with portfolio companies. Headquartered in Washington, D.C., Calvert manages assets on behalf of funds, individual and institutional separate account clients, and their advisors. For more information, visit www.calvert.com.

**ClearBridge Investments** is a leading global equity manager with $154.5 billion in assets under management (as of December 31, 2019). We are committed to delivering long-term results through authentic active management and offer investment solutions that emphasize differentiated, bottom-up stock selection to move our clients forward. Owned by Legg Mason, ClearBridge operates with investment independence from headquarters in New York and offices in Baltimore, London, San Francisco and Wilmington.

We believe authentic active management and high-conviction portfolios provide clients the best opportunities to earn superior investment results over the long term. Our active approach combines the market knowledge of long-tenured portfolio managers with the original research of a specialized group of sector and portfolio analysts and the deep diligence of a dedicated risk management team. The firm offers global strategies focused on three primary client objectives in our areas of proven expertise: high active share, income solutions and low volatility. We integrate ESG considerations into our fundamental research process across all strategies. As part of this integration, we assign ESG ratings to companies across our coverage universe and utilize those ratings to drive company engagement. www.clearbridge.com

**Domini Impact Investments LLC** is a women-led SEC registered investment adviser specializing exclusively in impact investing. We serve individual and institutional investors who wish to create positive social and environmental outcomes while seeking competitive financial returns. We apply social, environmental, and governance standards to all our investments, believing they help identify opportunities to provide strong financial rewards while also helping to create a more just and sustainable economic system. www.domini.com

**First Affirmative Financial Network, LLC**, a wholly owned subsidiary of FOLIOfn, Inc., is an investment advisory firm specializing in sustainable, responsible, impact (SRI) investing. We began conducting business in 1999 and believe that the ways in which people save, spend and invest can dramatically influence both the fabric and consciousness of society. We help investors make money and make a difference by combining innovative financial management with investment strategies that consider the environmental, social, and governance aspects of investments. We vote client proxies in accordance with detailed voting guidelines and actively engage with selected portfolio companies with the goal of creating a truly sustainable future. www.firstaffirmative.com

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Invest in a Green Future

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INVESTMENTS, INC.

**Miller/Howard Investments, Inc.** is a 100% employee-owned, independent, SEC-registered investment boutique that began managing equity portfolios for institutions and individuals in dividend-focused strategies in 1991. The firm invests in quality stocks with strong balance sheets, governance and fundamentals, and the ability to grow dividends. We integrate ESG analysis with financial analysis in our pursuit of companies with strong commitments to high operational standards, the environment, social responsibility, and good governance; we believe doing so provides a framework for achieving suitable risk profiles and long-term investment returns while building sustainable global economies and markets. As part of our Shareholder Advocacy and risk mitigation efforts, we actively engage companies on material ESG issues to help them seek a more sustainable future and long-term profitability. Visit us at www.mhinvest.com

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MP The Murninghan Post
*Building the transition to sustainable prosperity and justice*

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THE NATHAN CUMMINGS FOUNDATION

Founded in 1984, **Parnassus Investments** is a pioneer in socially responsible investments. Based in San Francisco, the firm invests responsibly to build wealth for its clients by selecting businesses that the investment team believes have increasingly relevant products or services, sustainable competitive advantages and quality management teams for their high conviction portfolios. Every investment must meet rigorous fundamental and environmental, social and governance (ESG) criteria. www.parnassus.com

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For more than 30 years, the SRI Wealth Management Group at RBC Wealth Management has been at the forefront of Sustainable, Responsible, and Impact (SRI) investing. For more than a century, **RBC Wealth Management** has provided trusted advice and wealth management solutions to individuals, families and institutions. We are a global organization, bringing our diverse expertise and deep knowledge to the sophisticated financial needs of our clients around the world. We are committed to earning our client's trust by building lasting relationships and confidence, putting your interests first in everything we do. Every interaction with us is defined through our core values and culture of doing what's right for our clients and the communities we operate in. Forward-looking, innovative and committed helping our clients thrive and communities prosper –you can depend on us to help you achieve your financial goals. www.rbcwealthmanagement.com

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ri responsible investor

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ROSE FOUNDATION for COMMUNITIES and the ENVIRONMENT

**The Singing Field Foundation** is a small family foundation, which began active grantmaking in 2004. The foundation's current grants budget is around $200,000. Grants are initiated by the foundation's directors and typically provide general support for environmental, animal welfare, health-related organizations, and other charities of interest to family members. The foundation's interest in mission-related investing and "active ownership" of the companies in which the foundation is invested reflects our desire to maximize our impact as a small foundation, by deploying "the other 95 percent" of our assets, and our personal values, which dictate that the foundation's investments should be aligned with the foundation's mission. The Singing Field Foundation's support for As You Sow flows directly from this interest and complements the foundation's other grantmaking.

Singing Field FOUNDATION

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the SUSTAINABILITY GROUP

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TRILLIUM ASSET MANAGEMENT®

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