

# Loring, Wolcott & Coolidge Trust, LLC

## 2023 Proxy Voting Guidelines

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## **1. Introduction**

Shareholders have the right to weigh in on the range of issues presented at a company's annual or special meeting. Some of these issues are presented by management, such as the election of the board of directors and the hiring of auditors, and some are presented directly by shareholders. The partners of Loring, Wolcott & Coolidge Fiduciary Advisors ("LWC") recognize the voting of shareholder proxies to be a central component of our responsibilities to clients.

LWC takes a rigorous, bottom-up approach to investing our clients' assets. Consistent with our investment philosophy of buying and holding the equities of high-quality, global growth companies selected on fundamental factors, we generally support those initiatives that enhance corporate accountability, increase transparency, and protect or expand the rights of shareholders.

### **1a. Our Process**

The Proxy Voting Committee of Loring, Wolcott & Coolidge ("Committee") is responsible for reviewing, updating, and overseeing the Proxy Voting Guidelines ("Guidelines") and for monitoring and advising the proxy voting process. The Committee has retained Glass, Lewis & Co. ("Glass Lewis") to provide research and voting services for the proxies it receives on behalf of LWC clients in accordance with our Guidelines.

The Guidelines are updated on an annual basis and approved by the partnership. The votes are executed by the LWC Proxy Administrator. While we seek to ensure our Guidelines are comprehensive, please note that the Guidelines are only intended to provide general guidance on voting. We closely examine the merits of each vote, and, in certain cases, our actual vote may vary from the position taken in the Guidelines. Similarly, we may abstain or vote against a proposal for specific reasons, including in cases when we may agree with the principle it seeks to advance. Further, we will make a case-by-case decision on the merits of resolutions that do not appear in our Guidelines. When resolutions not covered by our specific resolutions or the spirit of our Guidelines arise, they are referred by the Proxy Administrator to the Proxy Voting Committee, to be decided on a case-by-case basis.

As part of our service to our clients, we have retained proxy-voting responsibilities for client non-retirement accounts. We believe the positions taken in our Guidelines are in our clients' best interests as long-term shareholders. If a client believes their interests conflict with our

Guidelines, the client may contact us to discuss voting their shares separately. A copy of the Guidelines or information about proxy votes for clients is available upon request.

## **1b. Transparency**

At the very foundation of corporate governance and corporate responsibility is the gathering and timely dissemination of material information to all stakeholders. We believe that transparency is critical to the functioning of our market system and, therefore, apply a broad definition of materiality, one that includes—but also goes well beyond—issues related to the integrity of financial reporting. More specifically, we support robust reporting of environmental and social information. As such, the theme of enhanced transparency and disclosure—and our support for improvements in these areas—will recur throughout these Guidelines.

While we seek timely dissemination of information, we do not believe that all companies must provide earnings guidance on a quarterly basis. In fact, we believe doing so can be counterproductive to long-term sustainability and performance. Making short-term decisions to meet or beat guidance is likely to be value destructive in the long run.

With regard to disclosure of financial information, it is sometimes necessary for management to present non-GAAP (“Generally Accepted Accounting Principles”) measures to explain results. When this is the case, management should avoid obscuring GAAP results. It is important that all compensation, including equity compensation, be included in all GAAP and non-GAAP measurements of earnings.

In order to effectively assess publicly available information, we rely on clear, comparable, and comprehensive reporting on a company’s social and environmental footprint. As such, we support companies that disclose in accordance with industry standard guidelines including but not limited to the Global Reporting Initiative (“GRI”), the Sustainability Accounting Standards Board (“SASB”), the Task Force on Climate-related Financial Disclosures (“TCFD”), CDP (formerly known as the Carbon Disclosure Project), The Science Based Targets Initiative, and the Chemical Footprint Project (“CFP”).

In general, we support all resolutions that expand or enhance transparency around material issues. Specific examples of resolutions that we will support include but are not limited to the following:

- Promoting the disclosure of material environmental and social information even when disclosure of such information is not required (i.e. moving “beyond compliance” in order to increase the relevance, utility, and effectiveness of disclosure);
- Broadly disclosing material information where disclosure is not required but has already been gathered and reported to regulatory agencies (e.g. EEO-1 reports);
- Integrating environmental and social metrics and targets alongside financial ones into management decision-making and standard reports;
- Promoting efforts to enhance transparency related to executive compensation, including disclosure of all monetary and non-monetary compensation;
- Disclosing science-based greenhouse gas (“GHG”) emissions reduction targets and integrating them into management decision-making and standard reports;
- Publishing sustainability reports or integrated reports in accordance with GRI or other broadly accepted sustainability performance indicators and reporting guidance; and
- Disclosing results of sustainability-related assessments conducted by objective third-parties (e.g. racial equity audit).

## **2. Governance**

Good corporate governance serves to enhance the effective deployment of shareholder capital which ultimately contributes to growth and positive long-term performance. The quality of a company’s corporate governance infrastructure can provide a window into the effectiveness of the board of directors’ oversight both for the benefit of shareholders and for the long-term health of the company.

We believe that well-managed, high-quality companies are predicated on effective and accountable corporate governance structures. Without accountability to all stakeholders, qualified, diverse, and independent directors, compensation packages that incentivize long-term value creation, and an infrastructure that addresses and manages risk, companies cannot be successful in the long run. A robust corporate governance infrastructure enables a company—and investors—to better understand where risks can arise and how the company is positioned to address them. Further, as investors, we depend on companies to provide thorough disclosure of

their corporate governance practices. Without such transparency, we are incapable of making a fully informed decision in fulfillment of our fiduciary duties.

## **2a. Board of Directors**

At the center of strong corporate governance is an effective, independent, and objective board of directors. A strong, well-composed, experienced board of directors charts the course for a company and is imperative to its success. Shareholders rely on the board to have the requisite knowledge and ability to make informed long-term decisions about material risks—including environmental and social risks. As a result, the board must consist of individuals that have the necessary characteristics to carry out its responsibilities.

### **2a-1. Characteristics of Effective Individual Directors**

#### **Independent**

Directors' loyalty should be to the shareholders and the company. A board must not be beholden to the CEO or management. A significant majority of the board should be independent under the New York Stock Exchange rules<sup>1</sup> or similar listing standards.<sup>2</sup>

Directors should be strong and steadfast, independent minded, and willing to challenge constructively but not be divisive or self-serving. Collaboration and collegiality are also critical for a healthy, functioning board. See “Board Independence” below for a more detailed description of our expectations in this area.

#### **Knowledgeable**

A fundamental responsibility of every director is to be expertly knowledgeable about the company and the industry in which it participates. In order to maintain such knowledge, directors should have unfettered access to management. However, directors should also receive information from independent sources to become independently knowledgeable about company operations and not rely solely on information provided by management.

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<sup>1</sup> “Independent director” is one who the board “affirmatively determines” has no “material relationship” with the Company “either directly or as a partner, shareholder or officer of an organization that has a relationship with the company.” Independent directors must comprise the majority of board seats. NYSE Listed Company Manual §§ 303A.01 and 303A.02 (2013), *available at* [https://nyseguide.sro.rules.com/listed-company-manual/document?treeNodeId=csh-da-filter!WKUS-TAL-DOCS-PHC-%7B0588BF4A-D3B5-4B91-94EA-BE9F17057DF0%7D--WKUS\\_TAL\\_5667%23teid-69](https://nyseguide.sro.rules.com/listed-company-manual/document?treeNodeId=csh-da-filter!WKUS-TAL-DOCS-PHC-%7B0588BF4A-D3B5-4B91-94EA-BE9F17057DF0%7D--WKUS_TAL_5667%23teid-69).

<sup>2</sup> *See, e.g.*, Nasdaq listing requirements Rule 5605 (2020), *available at* <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules/nasdaq-5600-series>.

Ideally, in order to facilitate engaged and informed oversight of the company and the performance of its management, a subset of directors will have professional experiences directly related to the company's business. At the same time, however, it is important to recognize that some of the best ideas, insights, and contributions can come from directors whose professional experiences are not directly related to the company's business.

### **Capable**

Directors need to commit substantial time and energy to the role. Therefore, directors should maintain appropriate focus and not be distracted by competing responsibilities. In so doing, the board should carefully consider a director's service on multiple boards and other commitments.

Further, companies should conduct a thorough and robust orientation program for new directors, including background on the industry and the competitive landscape in which the company operates, the company's business, its operations (including sustainability-related programs and policies), and important legal and regulatory issues.

### **Diverse**

Directors should have complementary and diverse perspectives, skill sets, backgrounds, and experiences. Diversity along multiple dimensions is critical to a high-functioning board. Director candidates should be drawn from an intentionally diverse pool. See "Board Diversity" below for a more detailed description of our expectations in this area.

## **2a-2. Responsibilities of the Board**

### **Protect Long-Term Performance**

The board's place in the chain of accountability is essential: the Chief Executive Officer ("CEO") reports to the board, and the board, in turn, is accountable to shareholders. The board should also focus on big picture, strategic issues that impact the long-term health of the organization. In this pursuit, the board is responsible for overseeing the following:

- CEO evaluation, compensation, and succession planning;
- Creation of long-term shareholder value;
- Major strategic issues and long-term strategy, including sustainable, organic growth as well as all significant merger and acquisition activities;



- Significant risks, including reputational risks, to the company;
- Standards of performance, including maintaining and strengthening the company's culture and values;
- Material sustainability issues, including environmental, social, and governance performance; and
- Addressing and/or implementing shareholder resolutions and key shareholder concerns.

### **Oversee Chief Executive Officer**

The CEO is responsible to the board, and the board is responsible for setting the performance criteria for the CEO and reviewing the CEO's performance against those metrics. It is the board's responsibility to act on behalf of all shareholders to ensure that the right CEO is in that position and that CEO compensation is equitable and provides a proper incentive structure. The board is also responsible for CEO and director succession planning. Such planning should be disclosed to shareholders and include mechanisms for shareholder input.

### **Oversee Social and Environmental Risks and Opportunities**

Environmental and social impacts can be disruptive and materially affect financial performance, as well as provide market and growth opportunities. We believe the board must fully embrace oversight of ESG topics, including human rights, climate change and other environmental sustainability topics, and equity and diversity. We will assess individual director responsibility for environmental and social issues on a case-by-case basis. We will generally support resolutions asking companies to:

- Embrace, at the level of the full board, responsibility and oversight for social and environmental issues, risks, and opportunities;
- Nominate directors with expertise in relevant social and environmental issues;
- Establish board committees dedicated to overseeing material social and environmental issues;
- Incorporate sustainability reporting into the annual report; or
- Publish a report on a material ESG topic (e.g. deforestation or pay equity).

## **2a-3. Board Independence**

### **Director Evaluation and Tenure**

We support a robust director evaluation process and ongoing board refreshment. Regular evaluation and refreshment of directors help to ensure independence. The board should establish preparation, participation, and performance expectations for the board as a whole, for the committees, and for individual directors. Directors should have a robust process in place to evaluate themselves on a regular basis. This process should be overseen by the independent chair or lead independent director and should be disclosed to shareholders. Re-nomination should be contingent upon meeting these expectations. Further, the board should have the fortitude and latitude to replace all ineffective directors. We believe that board evaluation and refreshment also provide opportunities to examine and strengthen efforts to increase diversity of directors. As such, we will generally support resolutions that strengthen board evaluation processes and enhance disclosure.

Board refreshment should always be considered in order to ensure that the board's skillset and perspectives remain sufficiently current and broad when dealing with fast-changing business dynamics. New voices and fresh thinking can shed light on valuable strategic issues, and boards should strive to balance the expertise of their incumbent members with that of new nominees. In addition to voting in support of, or in opposition to, individual directors, we will generally vote in favor of resolutions that seek to strengthen a board's culture of independence and ask for a review of a board's composition to evaluate whether it has the knowledge, experience, skills, and diversity needed to fulfill its duties.

We will consider any tenure-related resolutions on a case-by-case basis, including mandatory retirement ages for directors and management. We will take into account the average tenure of the board, the evaluation processes in place, and whether the resolution could lead to an increase in board diversity. Generally, we will withhold from re-nominating incumbent governance and nominating committee members where the average board tenure is over 12 years and where no new nominees have been put before shareholders in the last 3 years.

## **Financial and Personal Independence of Directors**

An independent director is one whose objectivity and fiduciary responsibility to shareholders are not compromised by a relationship with the company or its managers. An independent director's relationship with the company is generally limited to a seat on the board and ownership of stock (though not enough to constitute a controlling or significant interest). In determining whether an individual director has a material financial or personal relationship which could compromise independence, we embrace a three to five year look back period and definitions of independence used by Glass Lewis.<sup>3</sup>

## **Board Independence**

We believe that a majority of directors should be independent and will generally oppose slates of directors without at least a majority of independent directors. Further, we believe that a company should aim to have a board composed of at least two-thirds independent directors and will, on a case-by-case basis, oppose non-independent directors if this standard is not met. Generally, we will support resolutions asking companies to do the following:

- Disclose and/or strengthen definitions of independence used by the board;
- Nominate directors that would result in at least two-thirds of the board being independent; or
- Ensure the independent directors meet at least once a year without the CEO present.

## **Committee Independence**

While the board will meet as a full entity, board committees are often the primary instrument through which the board carries out its responsibilities. For this reason, committee independence is essential. Typically, boards have audit, nominating, governance, and compensation committees, among others. All boards should have a well-developed committee structure with clearly defined and articulated responsibilities for members. Disclosure to shareholders should describe the structure, function, responsibilities and areas of oversight, and members of each committee.

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<sup>3</sup> See Glass, Lewis & Co., 2023 Policy Guidelines (2022), available at <https://www.glasslewis.com/wp-content/uploads/2022/11/US-Voting-Guidelines-2023-GL.pdf>.

Key committees—including the audit, nominating, governance, and compensation committees—hold a great deal of influence, and therefore the board, not the CEO, should appoint committee members and chairs. Committees should be able to select their own third-party service providers, and most committee meetings should be held with only the committee members present.

We will generally oppose the election of non-independent directors if they serve on key committees, including the audit, nominating, governance, and compensation committees. If any of these committees does not exist—and the entire board serves that function—we will generally oppose all non-independent directors. We will also oppose the election of a director who sits on the compensation committee and is also the CEO of any public company. In most cases, we will support resolutions asking companies to:

- Ensure that key committees be composed exclusively of independent directors;
- Disclose duties and memberships of all committees, as well as the process for committee member and committee chair selection; or
- Periodically rotate the leadership and composition of all committees.

### **Chair Independence**

Generally, we believe that the board chair should be held by an independent director and that the roles of chair and CEO should not be combined. The board chair guides the culture of the board itself and should cultivate a culture of openness, responsiveness, constructive debate, and stewardship. We believe that this is significantly more achievable when the board chair is not the CEO but instead an independent director.<sup>4</sup> Further, the CEO is accountable to the board. This feedback loop is impaired when the CEO is also the board chair. For these reasons, we will generally support resolutions requiring that the board chair be independent though the adoption of a policy and amendment of governance documents as necessary.

If the roles of CEO and chair are combined, we would expect that a strong lead independent director be appointed whose responsibilities include the following:

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<sup>4</sup> Glass, Lewis & Co “believes that separating the roles of CEO (or, more rarely, another executive position) and chair creates a better governance structure than a combined CEO/chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals set by the board. This is needlessly complicated when a CEO chairs the board, since a CEO/chair presumably will have a significant influence over the board.” Glass, Lewis & Co., 2023 Policy Guidelines (2022), *available at* <https://www.glasslewis.com/wp-content/uploads/2022/11/US-Voting-Guidelines-2023-GL.pdf>.

- Serving as liaison between the chair and the independent directors;
- Presiding over board meetings at which the chair is not present;
- Having the authority to call meetings of the independent directors;
- Calling to order executive sessions of the board (to exclude all non-independent directors) at a minimum of once per board meeting;
- Presiding over executive sessions of the independent directors;
- Ensuring that the board has proper input into meeting agendas for the board;
- Guiding the annual board self-assessment;
- Guiding the board's consideration of CEO compensation; and
- Guiding the CEO succession planning process.

If the chair and CEO role is combined and there is not a lead independent director, we will oppose the nomination of the CEO to the board.

#### **2a-4. Audit Committee**

The roles of the auditor and audit committee are essential to ensuring good financial governance. We believe that at least one member of the audit committee should have recent and relevant financial experience. Audit committees should promote expanding the pool of auditors considered and should rotate them periodically. We support greater disclosure, including disclosure of communication between auditors and the audit committee, the policies in place to ensure good judgment, and sound disclosure in the annual report.

The audit committee must ensure auditor independence and eliminate the possibility of a conflict of interest. Shareholders should always be able to vote on the ratification of the auditor annually. We will oppose the ratification of an auditor and audit committee members in cases where:

- Non-audit consulting fees represent more than 25% of fees paid to auditor in the previous year;
- The auditor requires the company to sign an arbitration agreement; or

- Auditors allowed an alternative dispute resolution or included an inappropriate indemnification clause.

We will vote case-by-case on audit committee members and/or the full board if poor accounting practices become an obvious concern.

## **2a-5. Board Diversity**

In order for a board to maximize its effectiveness, directors should have complementary and diverse perspectives, skillsets, backgrounds, expertise, and experiences. Further, we believe that gender, race/ethnicity, culture, age, and geography, among other attributes, contribute to the diversity of experience, perspective, and expertise. Each individual director must have the ability to draw on a wide range of viewpoints, a trait we believe is essential for companies to thrive in a complex, global marketplace. We also believe that board diversity supports greater executive diversity, and that this diversity strengthens company-wide diversity and efforts to recruit, retain, and promote the most qualified and effective employees.

In the long-term, we expect all boards to reflect the gender and racial/ethnic diversity of society, and support the setting of targets and goals to continually push board diversity forward. We expect companies to commit to having a racially/ethnically and gender diverse slate of candidates in every new director and executive candidate search, and/or time-bound goals to increase diversity. We further expect that all companies disclose the self-reported gender and race/ethnicity of individual directors and Named Executive Officers (NEOs).

In fulfillment of these expectations, we will generally vote in the following manner:

- At all holdings, we will generally oppose nominating committee members failing to put forth a slate composed of at least 33% gender diverse nominees;
- At all holdings of U.S. domiciled companies, we will generally oppose nominating committee members:
  - Failing to put forth a slate of nominees composed of at least 33% people of color,<sup>5</sup> with particular attention paid to communities typically underrepresented in corporate America;

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<sup>5</sup> For these purposes, “people of color” includes individuals who self-identify in one or more of the following groups: (i) Black or African American; (ii) Hispanic or Latinx; (iii) Asian or Asian American; (iv) Native Hawaiian or Pacific Islander; (v) American Indian or Alaska Native, having origins in one of the original peoples of North America; (vi) Arabic or North African; (vii) Middle Eastern; and (viii) Two or More Races or Ethnicities, having a mixed racial or ethnic heritage. Companies may report based on similar self-identified racial/ethnic categories.

- When the self-reported gender and race/ethnicity of individual directors is not disclosed.
- In both cases of gender and racial/ethnic diversity, we will give consideration to new candidates, whether a diverse slate commitment or goal is in place, and the gender and/or racial/ethnic diversity of directors currently serving on said committee, in casting our vote.

While targets and minimums are useful for forcing evaluation, ultimately procedures and policies must also be adjusted to create a culture that values and prioritizes diversity of all kinds. To this end, we believe the board must be vocal and active in addressing a lack of diversity. We will generally support resolutions that:

- Encourage policies that would increase the diversity of the board and of senior management;
- Seek to include racially/ethnically and gender diverse candidates in director searches;
- Expand the director search beyond the executive suite to non-traditional environments as well as the company's own non-executive employees;
- Seek regular board refreshment and director evaluation;
- Seek regular reviews of board composition;
- Ask for a commitment to gender and racial/ethnic diversity to be formally included in governing documents such as the nominating committee charter;
- Evaluate board diversity against the demographics of key stakeholders such as customers and employees;
- Ask for racial equity or civil rights audits;
- Ask for greater disclosure, including the racial/ethnic diversity of board members and senior executives; or
- Encourage reporting on current policies, processes, and goals to enhance diversity and foster a more equitable workplace, including progress toward goals, and impediments to achieving them.

## **2a-6. Board Effectiveness, Accountability, and Performance**

We will hold directors accountable for their performance, dedication, and the decisions they make. We believe that management should take meaningful action whenever a significant percentage of unaffiliated shareholders vote in support or opposition to a resolution, or in opposition to a director nominee. We will keep this consideration in mind when evaluating the long-term responsiveness and oversight of the board.

As shareholders, one of the primary tools at our disposal is to oppose directors who take actions against the best interests of the company and its owners. If our proxy advisor (Glass Lewis) recommends shareholders oppose an individual director, we will generally do so. On a case-by-case basis, we will oppose individual directors, committee members, or the entire board if the board fails to:

- Take meaningful action on a shareholder resolution that was approved by a significant percentage of votes cast;
- Address an issue(s) that caused significant shareholder opposition to a director in the previous election;
- Ensure fiduciary responsibility, transparency, and risk oversight, including environmental and social risks; or
- Put a proxy access resolution on the proxy ballot that generally aligns with the SEC recommended structure.

We will generally oppose the election of an individual director who:

- Was CEO or a member of the audit committee when the company was required to issue a financial restatement due to fraud, misrepresentation, noncompliance, or accounting error;
- Is responsible for a management vote recommendation that we oppose;
- Committed egregious actions while serving on other boards, thereby casting doubt on the director's ability to carry out duties on the board of the company in question; or



- Has attended less than 75% of the aggregate of board and committee meetings, unless acceptable reasons are disclosed, or if insufficient information is disclosed to determine the 75% threshold.

In most cases, we will oppose nominating committee members who:

- Nominate a slate of candidates lacking gender or racial/ethnic diversity (see “Board Diversity”);
- Nominate an individual with a conflict of interest or whose actions demonstrate a lack of integrity; or
- Nominate an individual who received greater than 50% opposition the prior year, and the company failed to respond or the underlying issues have not been addressed.

We will generally oppose the chair of any committee that did not meet during the previous year. Should any of the key committees (audit, nominating, governance, and compensation) not exist, we will vote against the entire board. Audit committee accountability is discussed in more depth above under “Board Responsibilities.” A more in-depth discussion of compensation committee accountability is included in the section on compensation.

We seek a balance between protecting directors from excessive litigation and holding directors accountable for their actions and decisions. We will oppose resolutions seeking to indemnify directors for all acts. We will support resolutions that maintain director liability for acts of a serious or illegal nature.

## **2a-7. Board Structure**

### **Board Size**

While we believe boards need to be large enough to allow for a variety of perspectives, as well as to manage required board processes, they generally should be as small as practical so as to promote an open dialogue among directors.

The board should periodically review and make suggestions regarding its ideal size. We oppose management or board actions that govern the size of the board without seeking shareholder approval. We support resolutions that fix the size of the board and will consider case-by-case

resolutions that change the size of the board, with special attention to the impact a change in board size could have on board diversity.

### **Annual Election of Directors**

In order for boards to be truly accountable, shareholders must have the ability to express their support for or opposition to each director annually. We will oppose resolutions to classify or stagger the board of directors and will support resolutions that give shareholders the right to vote for each director annually. When a board is classified, we will consider on a case-by-case basis whether to oppose the nominees who are up for election in a particular year. For example, if the director(s) responsible for a practice we determine to be problematic are not up for re-election that year, we may choose to vote against those directors who are.

### **Time Commitment**

To be effective, board members must have the time needed to give the role its necessary attention. An overcommitted director can pose a risk to a company, especially during times of crisis when they are most needed. The demands on a director's time have also grown over the past decade, making limits on "over-boarded" directors more important. We will support management and shareholder resolutions to adopt and disclose guidelines to address competing time commitments when directors serve on multiple boards. In addition, in most cases, we will oppose individual directors who sit on more than four public company boards in total or, in the case of a public company CEO, more than two public company boards in total.

## **2b. Shareholder Rights**

As shareholders, we have the responsibility to our clients to monitor company performance and engage when necessary. We do so directly but also by voting our shares for the individuals and policies we believe best serve the long-term interests of the company. We generally vote in favor of resolutions that support shareholders' ability to raise issues with the company.

### **2b-1. Proxy Access**

At the very core of shareholder rights is access to the proxy ballot. Proxy access refers specifically to a shareholder's ability to nominate directors to the ballot. This right has become standard practice in recent years, and a consensus has now emerged: A shareholder (or group of up to 20 shareholders) who continuously holds a minimum of 3% of the company's outstanding

shares for a minimum of three years is eligible to include on the company's proxy statement nominees for 20% of the company's board seats.

As this consensus emerged, modest variations on this standard have been adopted by some companies. For example, the SEC recommended that up to 25% of the board can be access-nominated. We support proxy access resolutions that are generally in line with the standards described above, as long as any variation from the consensus does not materially limit shareholder access to director nominations.

When a resolution seeks to amend the existing proxy access bylaws, we will determine on a case-by-case basis whether the amendment would result in a meaningful improvement in shareholder access.

### **2b-2. Dual Class Voting Structures**

We believe that all outstanding shares of a company should carry identical voting rights. So-called "dual" or "multiple class" voting structures, whereby certain classes of shares hold more voting power than others, is not a best practice. We support the principle of one vote per share and will oppose efforts to create separate share classes.

If a company has multiple classes of shares for the stated purpose of protecting the company from short-term events, the company should create and disclose specific sunset provisions based upon a time or a triggering event, which would eliminate dual class voting.

### **2b-3. Vote Counting**

The way in which proxy votes are counted is a foundational issue of good governance. In general, we are in favor of voting requirements that strengthen shareholder access and increase board accountability.

#### **Simple Majority Vote**

We firmly believe this should be the standard for most matters that are brought to a shareholder vote unless shareholders have approved higher thresholds or applicable laws or regulations determine otherwise. A simple majority does not include abstentions in the calculation of support or opposition. An abstention is a decision not to express an opinion and should not be counted as a vote in favor or in opposition. Similarly, broker non-votes, or when the entity holding shares on behalf of others does not vote or does not have the authority to vote, should not be counted. A

simple majority election method is also best practice in uncontested director elections. The alternative—the plurality election method in which a director only needs to receive more votes than a competing nominee to be elected—is only acceptable in contested director elections.

### **Supermajority Vote**

If a supermajority provision is in place, a resolution needs to receive two-thirds of votes cast in order to pass. We will oppose supermajority voting requirements and will support resolutions seeking to reduce supermajority shareholder vote requirements.

### **Cumulative and Bundled Voting**

Cumulative voting gives shareholders the ability to “stack” all of their votes behind one or a few directors rather than being evenly allocated across all directors on the ballot. Cumulative voting can be a useful tool in contested elections or where insiders control a significant portion of the stock, and we will generally support such resolutions.

Specific proxy items should not be bundled. We believe that shareholders should always have the ability to vote separately on issues and will generally support resolutions to eliminate bundling.

Furthermore, we support a “universal” proxy card on which all nominees in a contested election are named and given equal prominence. Voting records should be kept confidential from the company unless a shareholder requests otherwise.

### **2b-4. Approval Rights**

Shareholders have the right to approve significant actions taken by management and the board, including the sale or pledge of corporate assets, mergers and acquisitions, debt issuance, share repurchases, new share issuance, poison pill approval, and significant related party transactions. We will oppose directors if the board amends the company’s bylaws or charter without shareholder approval in a manner that materially diminishes shareholder rights or could adversely impact shareholders.

### **2b-5. Accessible Shareholder Meetings**

Accessibility is an important element of board accountability. When boards unilaterally limit shareholder participation, we may take those actions into account when voting. In addition,

shareholders have the right to carry out actions without waiting for a scheduled meeting or facing restrictions. As such, we support the right to call special meetings if a shareholder meets a minimum threshold of 10 percent ownership. We also support the right for shareholders to carry out actions by written consent.

## **2c. Executive Compensation**

Executive compensation has long been a widely debated topic among shareholders and proxy advisors. We believe the pay gap between the highest paid executives and the typical employee is unsustainable for companies as well as the economy and society: it is costly to a company's reputation and undermines a motivated and engaged workforce, while the associated rise in economic inequality slows economic growth and invites regulation. In egregious situations, compensation can rise to such levels that shareholders are diluted or investment in a company is diverted to pay executives.

The widening chasm in pay between the highest paid executives and typical workers has been driven by several factors, including the growth in stock-based compensation for executives. As a result, we believe this warrants a re-assessment of the outsize role at-risk compensation plays in the current model.

In 2022, Equilar and the Associated Press reported that median total compensation for CEOs included in their study totaled \$14.5 million, representing a 17.1% increase from the year prior, and the second consecutive year with a record high.<sup>6</sup> Bloomberg reported in 2021 that “the number of issued CEO awards worth at least \$25 million has grown four-fold since 2016.”<sup>7</sup> Further, according to the Economic Policy Institute, the inflation-adjusted pay of a typical worker in the United States grew by a total of 18.1% from 1978 to 2021, while the pay of a typical CEO grew 1,460%.<sup>8</sup>

Following the 2009 financial crisis, legislation was enacted to give shareholders the right to weigh in on executive compensation and golden parachutes on a regular basis. As a result, management must place an Advisory Vote on Executive Compensation (also referred to as “Say-

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<sup>6</sup> “CEO Pay Study 2022”, Equilar & Associated Press (May 26, 2022), *available at* <https://www.equilar.com/reports/92-equilar-associated-press-ceo-pay-study-2022>

<sup>7</sup> Anders Melin, “Highest Paid U.S. CEOs: Elon Musk’s Outrageous Moonshot Award Catches on Across America”, Bloomberg (August 4, 2021) *available at* <https://www.bloomberg.com/graphics/2021-highest-paid-ceos/>.

<sup>8</sup> Josh Bivens & Jori Kandra, “CEO pay has skyrocketed 1,460% since 1978”, Economic Policy Institute (October 4, 2022), *available at* <https://www.epi.org/publication/ceo-pay-in-2021/>

On-Pay”) on the proxy statement under management proposals. While the SEC has given companies the option of reporting every one, two, or three years, annual Say-On-Pay has become the standard. We believe that anything beyond an annual vote increases the risk of inappropriate or egregious awards.

Additionally, the SEC’s Final Pay Ratio Rules became effective in 2018. These rules codify the portion of the Dodd-Frank Act requiring companies to disclose three data points in annual filing: (1) the annual total compensation of the company’s CEO; (2) the median of the annual total compensation of the company’s worldwide employee population (excluding the CEO); and (3) the ratio of the median annual total compensation of the employee group to the annual total compensation of the company’s CEO.

As a result of increased scrutiny, many compensation committees are taking steps to justify executive compensation packages, from making performance metrics more rigorous and quantifiable to narrowing the definitions used to identify peer groups. However, the need for increased scrutiny remains prevalent among public companies.

Shareholders have several ways to oppose executive compensation: (1) opposing the Advisory Vote on Executive Compensation, or “Say-on-Pay”; (2) opposing the election of all members of the compensation committee; (3) opposing specific board members, including the CEO; or (4) supporting shareholder resolutions related to executive compensation. Below is a summary of our views on current best practices related to executive compensation, followed by a summary of our general voting disposition. In evaluating executive compensation plans, we consider the following:

### **2c-1. Components of Executive Compensation**

We believe that all executive compensation plans should be equitable and advance the long-term performance of the company. We also believe that total compensation should be set within the context of the company’s workforce as a whole. We will apply additional scrutiny to one-time awards.

Further, the rise in executive compensation levels has been driven primarily by the variable components of pay packages (generally equity and generally performance-based components).<sup>9</sup>

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<sup>9</sup> Kevin J. Murphy and Michael C. Jensen, “The Politics of Pay: The Unintended Consequences of Regulating Executive Compensation,” USC Gould School of Law Center for Law and Social Science (April 18, 2018).

This shift over the last 25 years has also made compensation plans increasingly complicated to decipher. To address both the upward spiral in levels and growing complexity, we believe that compensation committee members should pay closer attention to the mix of variable and fixed components, and in most cases make efforts to simplify compensation plans.

### **Pay-for-Performance and Metrics**

We believe that all compensation plans should address long-term performance over at least a five-year time horizon, and any performance hurdles should align the interests of management with those of all shareholders. In so doing, compensation plans should utilize multiple performance metrics, and those metrics should be beyond the reach of executive manipulation, based on GAAP rather than non-GAAP figures, agreed to ahead of time, and disclosed publicly. We also look for the inclusion of quantifiable non-financial performance metrics in the awards to all NEOs. The compensation committee should also provide an explanation of how each metric and each component of compensation contributes to long-term performance objectives.

### **Peer Relative Analysis**

All companies should disclose how much of compensation is based on peer group analysis, and how much is based on other criteria. Peer group comparisons should be disclosed for each element of compensation and the peers included—and rationale for inclusion—should be disclosed annually. If the peer group changes from the prior year, those changes and their rationale should be disclosed.

Increases in executive compensation should not be justified simply through benchmarking. Additionally, we will focus on companies where inappropriate peer group and/or benchmarking issues arise or executive pay relative to peers is not justified by outstanding company performance.

### **Short-term Incentive Plans**

Short-term incentives, such as cash bonuses based on 12-month performance, are generally an acceptable component of compensation, but we expect and will consider the following:

- Incentives are tied to performance and are primarily objectively measurable;
- Target and maximum awards achievable should be clearly disclosed;

- Any changes to targets or other criteria should be thoroughly explained;
- Awards granted despite poor performance should be thoroughly justified; and
- Discretionary or one-off payments should not be made in lieu of short-term awards.

### **Long-term Incentive Plans**

Long-term, equity-based incentives are an important component of executive compensation packages. Incentives can be time-based or explicitly performance-based. When performance-based, metrics, targets, and peer groups should be chosen to strengthen the link between pay and performance. Modifications to in-flight performance-based awards should be fully explained. We scrutinize whether changes to a compensation plan's design serve to increase the rigor of the plan, and may vote to oppose a compensation package or members of the compensation committee if they loosen thresholds, lower targets, or make award payouts easier for NEOs to achieve.

Long-term incentives should have the following features:

- Individual limits should be expressed as a percentage of base salary;
- Time horizons should support a long-term perspective: equity grants should vest over a period of at least five years, and performance periods should be at least five years;
- Unvested equity should not have voting rights;
- Awards should be granted at the same time every year and should not coincide with the release of material non-public information;
- Stock awards should not be payable based solely on attainment of tenure requirements;
- Upon change-in-control, unvested equity should not accelerate but should convert into the equity of the newly formed company; and
- Trading by directors and employees should be governed by clear rules, and no one should benefit directly or indirectly from insider knowledge.

Disclosure of long-term incentives should include the following:

- Types of incentives used (options, restricted stock, performance shares, etc.);



- The size, distribution, and vesting requirements;
- Grant timing; and
- Equity stock ownership guidelines, multiples, and holding requirements should be disclosed annually.

### **Retirement Plans**

All retirement plans for executives should be disclosed annually. We believe that supplemental executive retirement plans should be an extension of the retirement program covering other employees and should therefore not include special provisions that are not offered under plans covering other employees. Investment alternatives offered under deferred compensation plans for executives should mirror those offered to employees in broad-based deferral plans.

### **Severance Agreements**

Severance agreements should reward executives for performance and assist in retaining executives during a change-in-control but not be structured in such a way as to reward M&A activity when such activity is not in the best interest of all shareholders. In evaluating such agreements, we look at whom it covers, time periods, total management compensation, size of payout, quality of management, hurdles or triggers, and definitions of cause.

### **Option Re-pricing and Exchanges**

Stock-option exchanges allow employees—typically high-level employees—to trade nearly worthless options in for new options or restricted stock. Such allowances change the nature of the bargain struck between shareholders and the company. Executives should bear risks similar to those of shareholders in order to align interests. We generally oppose option exchange and re-pricing plans, except in very limited circumstances such as needing to retain employees. We also oppose option backdating, spring-loading, and bullet-dodging as blatantly unfair actions and will take action against a board that supports these policies.

### **Tax Gross-ups**

We do not believe that tax gross-ups, whereby employees are reimbursed for income or capital gains taxes, are appropriate in most circumstances and will support very limited gross-up policies on a case-by-case basis. If such policies exist, they must be applied to all employees or all

management and not just executives and must be limited to certain specific situations like relocation.

### **Golden Parachutes**

Egregious or excessive golden parachutes have become commonplace. Disclosure should be robust and include both tabular and narrative explanations. When evaluating plans, we will take into account, among other aspects, the following:

- The nature of the change-in-control transaction;
- The ultimate value of the payments on an absolute basis or compared to the value of the transaction;
- The amount of cash severance (considering anything greater than three (3) times salary and bonus to be excessive);
- Any excise tax gross-up obligations;
- The tenure and position of the executives in question before and after the transaction;
- Any new or amended employment agreements entered into in connection with the transaction; and
- The types of triggers involved—the event(s) that set in motion such payments, often change-in-control and termination. If only one occurs, it is a single trigger, and if both occur, it is double triggered. We will apply additional scrutiny to single- or modified single-trigger cash severance and single-trigger acceleration of unvested equity awards.

### **2c-2. Voting Recommendations Related to Executive Compensation**

In most cases, we will vote against the Advisory Vote on Executive Compensation (“Say-on-Pay”) proposal and members of the compensation committee when either of the following conditions is met:

- Glass Lewis recommends a vote “Against” the Advisory Vote on Executive Compensation proposal; or

- Glass Lewis gives the Advisory Vote on Executive Compensation proposal a score of either a “D” or an “F”.<sup>10</sup>

For those companies where Glass Lewis does not recommend a vote “Against” or give a score of a “D” or “F”, we will vote against the Say-on-Pay proposal when three or four of the following conditions are met, and vote against both the Say-on-Pay proposal and members of the Compensation Committee when five or more are met:

- Glass Lewis gives the Advisory Vote on Executive Compensation proposal a score of a “C”;
- The total compensation of any NEO exceeds that of the S&P 100 median;<sup>11</sup>
- The average total compensation of all named executives exceeds that of the S&P 100 median;<sup>12</sup>
- The ratio of the highest-paid NEO’s total compensation to the average NEO total compensation exceeds that of the S&P 100 median;<sup>13</sup>
- The previous Say-on-Pay vote received support below that of the S&P 100 median (excluding non-votes and abstentions);<sup>14</sup> and
- Frequency of the Advisory Vote on Executive Compensation proposal is anything other than one year.

In the future, as data availability improves, we expect to apply additional scrutiny during voting to whether long-term equity award time horizons meet or approach our expectation of a minimum of five years.

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<sup>10</sup> Glass Lewis applies a letter grade to compensation packages relative to a company’s peers, using a proprietary methodology developed in partnership with CGLytics that considers both country-based and sector-based peers, and also incorporates each company’s self-disclosed compensation peer group. Each component of pay and performance is considered on a weighted basis and is subject to size-based ranking and screening. Pay-for-Performance (“P4P”) grades reflect the relationship between a company’s percentile rank for pay and its percentile rank in performance. “A” and “B” are underpaying executives; “C” means the gap between compensation and performance rankings is not significant; “D” or “F” are overpaying executives.

If Glass Lewis does not assign a score for the year in review, we will assess this condition on a case-by-case basis.

<sup>11</sup> Using Bloomberg data as of 12/30/2022, this value was approximately \$23.4M.

<sup>12</sup> Using Bloomberg data as of 12/30/2022, this value was approximately \$11.5M.

<sup>13</sup> Using Bloomberg data as of 12/30/2022, this value was approximately 2.0x.

<sup>14</sup> Using Bloomberg data as of 12/30/2022, this value was approximately 90.9%.

## **2d. Other Compensation Matters**

### **2d-1. Director Compensation**

Director compensation plans should remunerate directors for their time, expertise, and leadership and ensure the independence and objectivity of non-executive directors and their alignment with shareholder interests. The annual disclosure in the proxy statement should include the philosophy behind and processes for setting director pay. Disclosure is particularly important in this area, as directors are responsible for setting their own pay.

In general, we believe director compensation plans should have the following features:

- Total compensation to outside directors should not exceed \$200,000 per year;
- Fees should be competitive but not excessive and will be evaluated against peers;
- The annual retainer should be the only form of cash compensation and can vary depending on the individual director's duties;
- Compensation should be a combination of cash and stock in the company;
- Equity-based awards should not be performance-based and should fully vest on the grant date in order to foster an immediate alignment of director and shareholder interests as well as independence and objectivity; and
- Director stock ownership guidelines and holding requirements should be in place to ensure directors' interests are aligned with those of shareholders.

### **2d-2. Employee Equity Plans**

We support broad-based plans that include non-executive managers and employees. We will generally oppose plans that have been designed to achieve corporate goals other than promoting active employee ownership (for example, those used as a way to park stock to avoid a takeover). The proxy should include a table detailing the overhang represented by unexercised options and shares and a discussion of the impact on earnings per share. The equity dilution, intended life of an equity plan, and the expected yearly run rate of the equity plan should be disclosed.

We evaluate equity plans based on certain overarching principles:

- Plans should be comprised by options rather than stock units;

- Plans should not permit repricing of stock options;
- Companies should seek more shares only when needed;
- Requested share amounts should be small enough that companies seek shareholder approval every three to four years (or more frequently);
- If a plan is relatively expensive, it should not grant options solely to senior executives and board members;
- Dilution of annual net share count or voting power, along with the overhang of incentive plans, should be limited;
- The expected annual cost of the plan should be proportional to the business's value;
- The intrinsic value that option grantees received in the past should be reasonable compared with the business's financial results;
- Plans should not contain excessively liberal administrative or payment terms; and
- Plans should not count shares in ways that understate the potential dilution, or cost, to common shareholders. This refers to "inverse" full-value award multipliers.

### **2d-3. Compensation-related Accountability**

#### **Compensation Committee**

In order to make informed decisions, shareholders require clear and complete disclosure of all the significant terms of compensation arrangements on an annual basis. The compensation committee should be made up entirely of independent directors, and it is especially important that such committee members not be overcommitted, nor hold the position of CEO at other public companies, as decisions regarding a company's compensation design should be made without the appearance of conflicts of interest.

Compensation committees are responsible for choosing compensation consultants and ensuring their independence. Compensation consultants are engaged to provide objective, disinterested, expert advice to the compensation committee. When the consultant or its affiliates receive substantial income from providing other services to the company, we believe the potential for a

conflict of interest arises, and the independence of the consultant may be jeopardized. We will support resolutions asking companies to disclose their use of compensation consultants.

## **Clawbacks**

We believe that clawback rights (provisions that allow shareholders to recoup unearned executive bonuses or incentive pay) are an important protection for investors. We will evaluate proposals related to clawbacks on a case-by-case basis and usually support clawback provisions.

## **2e. Corporate Structure**

### **2e-1. Corporate Structure Considerations**

In addition to the many avenues discussed in these guidelines, converting to a public benefit corporation is an additional way to integrate stakeholder interests into the management of a company. We will generally support resolutions calling for a study or report on such a conversion, and will consider on a case-by-case basis proposals to convert to a public benefit corporation.

Reincorporation is considered on a case-by-case basis, taking into account improvements or decreases in governance structure and policies—particularly shareholder rights, the presence or absence of valid business reasons, and whether the company is seeking to avoid taxes or regulatory oversight. Increasingly, companies that were historically U.S. based are choosing to merge with foreign companies or reincorporate in lower-tax countries. We will likely oppose reincorporation outside the U.S. if shareholder rights will be negatively impacted or if tax avoidance is the driving factor behind such a move.

### **2e-2. Mergers and Acquisitions Considerations**

Mergers and acquisitions can fundamentally change the culture, strategy, and corporate governance at a company. As such, we will evaluate each merger and acquisition on a case-by-case basis. In addition to the financial considerations, we will take into account the impact on all stakeholders and will support resolutions that allow or require the board to do the same as well as the right to reject an offer it believes adversely impacts stakeholders. We will also consider:

- The relative environmental, social, and governance performance of the two companies individually and combined;

- The nature of change-in-control payments: They should be double-triggered (meaning there must be both a change-in-control and a termination) and effectively link executive pay with performance;
- The impact on employees (including changes in unionization rates), lay-offs, and post-merger investments in human capital;
- The acquiring company's history of acquisitions;
- Resulting levels of industry concentration; and
- Conflicts of interest.

### **2e-3. Takeover Defenses**

In some cases, mergers and acquisitions occur after friendly negotiation where a bidder offers to purchase a company for a set amount of stock and/or cash, and shareholders are then given the opportunity to approve the transaction. In some cases, boards reject direct offers, and interested parties put an offer directly before the corporation's shareholders. To help protect against unwanted takeovers, some companies adopt shareholder rights plans, or poison pills, which aim to make stock less attractive to the acquiring firm. However, because poison pills can insulate management from possible takeovers and change the balance of power between shareholders and management, shareholders should have the ability to evaluate the specific details of such plans.

In some cases, a takeover situation can bring to light a divergence between shareholder interests and the interests of the board. We will generally oppose directors if the board failed to act on takeover offers where the majority of shares were tendered. A board can also implement takeover defenses that are not in the interest of shareholders. We will likely oppose resolutions with the following features and may oppose the directors who put them forward:

- The company's shareholder rights plan/poison pill has a "dead-hand" or other similar feature that prevents the removal of the poison pill even if shareholders support the merger or acquisition;
- The board adopts a poorly structured poison pill without shareholder approval;
- The board makes a material adverse change to an existing pill without shareholder approval; or

- The payment of greenmail—an anti-takeover measure where the target company buys shares back at a premium from an entity seeking control to avoid the takeover—as it effectively discriminates against other shareholders.

#### **2e-4. Capital Structure**

All resolutions to change the capital structure of the company—whether through debt or equity issuance—should be put to a shareholder vote. The voting rights mentioned above are important for new stock offerings. We always support equal voting rights (one vote per share). All stock must specify voting, conversion, dividend distribution, and other rights. We evaluate new stock offerings on a case-by-case basis. We consider the amount of dilution and whether there is already a large amount of stock authorized but not issued, which could indicate a takeover defense.

We will oppose the creation of blank check preferred stock, that is, stock with a fixed dividend and preferential claim on company assets relative to common shares. The terms, including voting, dividend, and conversion rights, are set at a later date without any further shareholder approval.

#### **2e-5. Contested Elections**

Contested elections of directors frequently occur when a board candidate or slate runs for the purpose of seeking a significant change in corporate policy or control. Competing slates will be evaluated based upon the personal qualifications of the candidates, the economic impact of the policies that they advance, and their expressed and demonstrated commitment to the interests of all shareholders.

Votes in a contested election of directors are evaluated on a case-by-case basis, considering the following factors:

- Long-term financial performance of the target company relative to its industry;
- Management’s track record;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);



- Strategic plan of dissident slate and quality of critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates);
- Stock ownership positions; and
- Impact on stakeholders, such as job loss, community lending, equal opportunity, and impact on environment.

## **2f. Corporate Taxes and Tax Havens**

According to the International Monetary Fund, multinational corporations have invested \$12 trillion in tax havens globally, costing governments between \$500 billion and \$600 billion in lost tax revenues annually. By one measure, U.S. multinationals shift about 25-30% of gross profits into tax havens, a sharp increase from an estimated 5-10% in the 1990s.<sup>15</sup> This increase in the use of tax havens creates meaningful financial risk for companies as attention to the issue from governments and international organizations grows. As a result, we believe tax policies and practices must be disclosed so investors can assess the magnitude of risk. We will generally support resolutions asking companies to:

- Report in accordance with the Global Reporting Initiative Standard on Tax and Payments to Governments, which promotes country-by-country reporting;
- Adopt and disclose a set of principles to guide tax practices, including consideration of the impact of tax strategies on local economies and government services from which the company benefits;
- Conduct an assessment of financial and reputational risks and report findings;
- Review alignment between tax strategies and stated values or sustainability goals; or
- Report on policies that are in place to safeguard against the provision of financial services for corporate or individual clients that enable capital flight and result in tax avoidance.

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<sup>15</sup> Jannick Damgaard, Thomas Elkjaer, and Niels Johannesen, "Piercing the Veil," *Finance & Development* Vol. 55 No. 2, IMF, June 2018 available at <https://www.imf.org/external/pubs/ft/fandd/2018/06/inside-the-world-of-global-tax-havens-and-offshore-banking/damgaard.htm>; Nicholas Shaxon, "Tackling Tax Havens," *Finance & Development* Vol. 56 No. 3, IMF, September 2019, available at <https://www.imf.org/external/pubs/ft/fandd/2019/09/tackling-global-tax-havens-shaxon.htm>.

## **2g. Public Policy**

Through the years, corporations have spent enormous shareholder resources on political influence—both through direct political spending and lobbying. Such spending could subject companies to reputational risk, regulatory and legal risk, and financial risk. As a result, we believe it is imperative that companies disclose such spending and have accountability structures in place to ensure these expenditures are in the best long-term interest of shareholders.

### **2g-1. Corporate Election Spending**

In the wake of the U.S. Supreme Court’s *Citizens United v. Federal Election Commission* decision, corporations have the right to use unlimited funds from their treasuries to support or oppose candidates. Companies cannot directly spend treasury funds on federal candidates or national parties, but there are a number of other ways in which they can make their voice heard in Washington. We generally support resolutions asking companies to increase disclosure around political spending and the accountability structures in place which govern such spending.

### **2g-2. Lobbying and Values Congruence**

Companies can also directly influence legislation and the political process through lobbying. This can either occur directly through the hiring of lobbyists or indirectly through trade associations and other intermediaries. Lobbying at the federal level is disclosed, but the same cannot always be said for lobbying at the state level or through trade associations.

Trade associations in particular are a growing means to influence policy setting and elections. Trade associations and their members are rarely perfectly aligned on every position. As a result, it is possible that lobbying positions taken by an association could run counter to the business interests and stated policy positions of individual member companies. Just as in other areas of business strategy and operations, shareholders should be given the opportunity to review whether spending is in the best interests of the company and investors. An inconsistency in values across policies and actions indicates a potential reputational risk and possibly questionable leadership. In most cases, we will support shareholder resolutions asking companies to report on their federal, state, and local lobbying activities, including indirect lobbying by trade associations and other such entities, and grassroots lobbying.

### **2g-3. Disclosure and Oversight**

In light of the complexities surrounding political spending, enhanced transparency is necessary. We favor enhanced disclosure, increased board oversight, and better board and management decision-making processes with regard to all political spending and lobbying.

We believe that it is important for all companies to disclose policies and practices around lobbying positions and their processes to influence public policy. Therefore, we will generally support resolutions asking companies to disclose:

- Dues, contributions, or other payments made to trade associations and tax-exempt organizations, specifically the non-deductible portion;
- Payments to any other third-party organization, including but not limited to 501(c)(4) organizations, including the recipient and the amount;
- Any contribution or independent expenditure made directly by the company, including the recipient and the amount;
- All memberships in and payments to any tax-exempt organizations; or
- Provide the above information broken out at federal, state, and local levels.

In addition to membership and payment disclosure, sound policies and specifically board oversight are key to evaluating a company's full political spending. In most cases, we will support resolutions asking companies to:

- Publicly disclose policies and procedures (including name(s) and title(s) of the individuals responsible) for making contributions and expenditures—both direct and indirect—to (1) participate or intervene in any political campaign on behalf of, or in opposition to, any candidate for public office or (2) influence the general public with respect to an election or referendum;
- Provide an advisory shareholder vote on policies and future plans;
- Analyze the congruency of the company's values and policies with expenditures and a rationale for any contributions found incongruent;
- Disclose the board's role in current policies and procedures; or

- Adopt board oversight for all political spending.

We are in favor of companies embracing political nonpartisanship and refraining from making political contributions.

### **3. Environmental & Social**

#### **3a. Introduction**

Over the last three proxy seasons alone (2020-2022), shareholders have filed approximately 1,400 resolutions related to environmental, social, and sustainable governance issues, a notable 20% increase over the prior year. Climate change and corporate political influence remain the largest categories, joined by human rights, decent work and diversity topics.<sup>16</sup>

In general, we believe that companies must incorporate the impacts on all stakeholders—including but not limited to shareholders—into decision-making. This shift from shareholder primacy to stakeholder capitalism has gained considerable traction in recent years. We believe this approach is in the long-term interest of shareholders; incorporating material environmental and social factors into corporate planning and strategy promotes long-term stability. Well-managed companies use natural resources responsibly, ensure that their workforce—both company employees and contractors, as well as workers throughout the supply chain—is treated fairly, and provide transparency on operational impact and political giving. As such, we typically support environmental and social resolutions that encourage sustainable capitalism.

### **4. Environmental Resolutions**

#### **4a. Climate Change**

Climate change currently poses one of the largest threats, if not the single largest threat, to our planet and economy. One recent study estimated that inaction on climate change would reduce GDP by as much as \$178 trillion over the next 50 years, whereas achieving net zero emissions in the same time period could increase GDP by \$43 trillion.<sup>17</sup>

The magnitude of the climate change challenge demonstrates the degree of interconnectedness of many of the environmental and social issues addressed in these Guidelines. For example, the

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<sup>16</sup> As You Sow, Proxy Impact, and Sustainable Investments Institute, “Proxy Preview 2022: Helping Shareholders Vote Their Values” (2022).

<sup>17</sup> Pradeep Philip, Cedric Hodges, and Claire Ibrahim, “The Turning Point: A Global Summary” Deloitte (May 2022), *available at* <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/gx-global-turning-point-report.pdf>.

impacts of climate change are often borne disproportionately by already vulnerable populations, whether their vulnerability is due to economic inequality, systemic racism, location, or—as is often the case—multiple reasons. Resource management and pollution challenges are ultimately climate change challenges—and opportunities. The climate impact of the projected growth in plastics production is substantial; the plastics sector’s contribution to GHG emissions is expected to grow to 15% of the total annual carbon budget by 2050.<sup>18</sup> With each challenge there are opportunities: replacing just 20% of single-use plastic packaging with reusable alternatives is conservatively estimated to be an opportunity worth at least \$10 billion globally.<sup>19</sup>

As climate change forces us to reconfigure our lives and economies, we expect companies to adjust quickly, take responsibility for their contributions, and proactively seek climate change-related opportunities. We generally support the specific topics related to climate change covered below.

#### **4a-1. Transition Planning and Risk Assessments**

The Taskforce on Climate-related Financial Disclosure (TCFD) and Intergovernmental Panel on Climate Change (IPCC) frame climate-related risk as either physical (i.e. stranded assets, extreme weather) or transition (i.e. regulatory, technological). While the risks become more obvious every year, we also believe that the transition to a low carbon economy presents significant opportunities, and as such all companies should proactively integrate transition planning in line with Paris Climate Agreement scenarios into operations and strategy. These scenarios aim to keep global temperature rises at or below 1.5°C above pre-industrial levels. To credibly achieve a 1.5°C goal requires halving absolute global emissions from 2020 levels by 2030, reaching net zero by 2050 or sooner. Companies must provide thorough transparency of all such efforts. We will generally support resolutions asking companies to:

- Provide a long-term impact assessment of a 1.5°C or net zero by 2050 scenario on the company’s portfolio, operations, and business strategy;
- Report using quantifiable indicators on the risk of stranded assets, if applicable;

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<sup>18</sup> Ellen MacArthur Foundation and World Economic Forum, “The New Plastics Economy: Rethinking the Future of Plastics”, 2016, *available at* <https://www.ellenmacarthurfoundation.org/assets/downloads/The-New-Plastics-Economy-Rethinking-the-Future-of-Plastics.pdf>.

<sup>19</sup> Ellen MacArthur Foundation website, *available at* <https://archive.ellenmacarthurfoundation.org/explore/plastics-and-the-circular-economy>.

- Report on the impact of new technologies and public policy changes on operations and planning;
- Issue formally audited climate plans; or
- Embrace measures to facilitate decarbonization, including accounting metrics in energy units and transition planning reflective of carbon asset risk, where applicable.

#### **4a-2. Carbon Accounting, Targets, and Reporting**

We believe companies must report environmental information with the same rigor as financial information, and as such we will generally support resolutions requesting enhanced disclosure of material climate-related data and issues. More specifically, we continue to press for robust disclosure of a company’s full carbon footprint across its entire value chain, and ask companies to set absolute, science-based emissions reduction goals in line with a credible 1.5°C scenario.<sup>20</sup>

In general, we will support resolutions asking companies to:

- Disclose Scopes 1, 2, and 3 GHG emissions data;
- Respond to the CDP climate survey;
- Adopt both near-term and long-term absolute, science-based emissions reduction targets, ideally approved by the Science-Based Targets Initiative and in line with the Net Zero Standard;<sup>21</sup>
- Have all climate data formally audited and independently verified for accuracy;
- Adopt and disclose an internal price on carbon;
- Disclose the use of carbon offsets, including details such as type and verification, as well as how offsets are being used in place of absolute emissions reductions;
- Report in accordance with the TCFD and related frameworks; or

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<sup>20</sup> Examples include the Intergovernmental Panel on Climate Change (“IPCC”) or International Energy Agency (“IEA”) net zero GHG emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and where global emissions decline at least 50% below 2020 levels by 2030, reaching net zero by 2050 or sooner. Sector-specific interim targets, such as those of the One Earth Climate Model (“OECM”) are a key component of a net zero aligned goal, as they prioritize the immediate reductions necessary to avoid crossing dangerous climate tipping points.

<sup>21</sup> A company’s GHG reduction goals and interim targets can be independently verified for their alignment with credible 1.5°C pathways by the Science Based Targets Initiative (“SBTi”), the Partnership for Carbon Accounting Financials (“PCAF”), The Paris Agreement Capital Transition Assessment (“PACTA”), The Transition Pathway Initiative (“TPI”), the International Organization for Standardization (“ISO”), among others.

- Include climate-related information in mainstream reports, or prepare annual sustainability reports that include disclosure of all relevant data and quantifiable indicators.

#### **4a-3. Shale Production, Hydraulic Fracturing, and Transportation**

In line with the increased use of hydraulic fracturing, or “fracking,” there has been an increase in the number of shareholder resolutions related to the topic. A majority of these resolutions to date are related to the environmental and community risks and the impacts of leaks, spills, and explosions, as well as the shifting regulatory risks surrounding fracking. We will generally support resolutions asking companies to:

- Enhance disclosure on policies around hydraulic fracturing, shale energy development, and enhanced oil recovery methods, as well as the social and environmental impacts and associated risks of these activities;
- Report using quantifiable indicators on policies and plans to measure, monitor, mitigate, disclose, and set reduction targets for methane emissions on an annual basis;
- Report using quantifiable indicators on methane emissions risks and risk management strategies;
- Report on an annual basis, using quantifiable indicators, on actions beyond compliance with regulatory requirements to minimize methane emissions from operations, storage, and/or transportation; or
- Report on all associated risks as well as all mitigation efforts in place when a company is engaged in the transportation of hazardous materials like crude oil.

#### **4a-5. Energy Efficiency and Renewable Energy**

A successful transition to renewable energy is essential to reach net zero by midcentury. As discussed elsewhere in these Guidelines, disclosure is essential to understand the quality of emissions reductions and goals. We believe the transition to renewable energy should be achieved through methods that lead to the development of new renewable energy sources. In general, we will support resolutions asking companies to:

- Report on material energy efficiency policies or goals;

- Significantly increase investments in renewable energy sources; or
- Report on how energy efficiency and renewable energy goals contribute to absolute emissions reductions and the achievement of interim targets or net zero goals.

#### **4a-6. Governance Issues**

As described more thoroughly throughout the “Governance” section of this document, we support governance-related resolutions seeking to promote the integration of material sustainability issues into the overall strategy of companies. Examples of resolutions we will generally support include those asking companies to:

- Create the position of Chief Sustainability Officer to oversee all climate-related policies and practices and report directly to the executive team;
- Submit climate transition plans to an advisory vote of shareholders (“Say-On-Climate”), and we will evaluate transition plans put forward by shareholders or management on a case-by-case basis;
- Link and disclose some portion of executive compensation to quantifiable climate-related indicators, such as completion of a full GHG footprint analysis, setting emissions reduction goals, or progress towards achieving emissions reduction goals; or
- Create a sub-committee of the board of directors dedicated to the company’s policies and practices related to climate change.

#### **4a-7. Carbon Financing**

The role of banks, insurers and other financial institutions in addressing the climate crisis is significant, as are the potential impacts to these companies’ businesses. Financial institutions must also be adjusting their lending, investing, and insurance practices to be consistent with credible 1.5°C pathways, such as the International Energy Agency’s *Net Zero by 2050* scenario, which to meet with low or no overshoot, would require significant decarbonization by 2030.<sup>22</sup>

In general, we will support resolutions asking:

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<sup>22</sup> Globally, “energy-related and industrial process CO<sub>2</sub> emissions [must] fall by nearly 40% between 2020 and 2030.” International Energy Agency, *Net Zero by 2050: A Roadmap for the Global Energy Sector*, May 2021, available at <https://www.iea.org/reports/net-zero-by-2050>.



- Banks and other financial services organizations to report on their financing or underwriting of carbon-intensive projects, such as those contributing to deforestation or to the exploration, extraction, and transportation of fossil fuels;
- Banks and other financial services organizations to take action, such as setting absolute reduction targets for their financed or underwritten GHG emissions, and curtailing exposure to new fossil fuel development, consistent with credible 1.5°C pathways;
- Banks and other financial services organizations to undertake a feasibility study related to the divestment of carbon-intensive assets; or
- Asset managers to align voting policies with their public positions or commitments on climate change and other sustainability-related issues.

#### **4a-8. Climate Change and Deforestation**

While many of the resource management and industrial agriculture issues addressed elsewhere in these Guidelines are directly relevant to climate change, we believe that deforestation has particular significance. Forests, especially virgin or old-growth forests, are the “lungs” of the world. Their destruction for forestry products or to make way for agriculture exacerbates climate change in addition to the human rights and environmental degradation risks. In general, we will support resolutions asking:

- Report to CDP on forestry practices;
- Adopt and/or enhance sustainable forestry practices, including the phasing out and eventual elimination of inputs from virgin or endangered forests;
- Report on efforts to phase out and eventually eliminate agricultural products produced unsustainably, such as palm, beef or soy;
- Report on efforts to reduce GHG emissions from deforestation and land use in direct operations and the supply chain; or
- Develop comprehensive policies and implement plans to eliminate deforestation from operations and the supply chain.

## **4b. Environmental Management**

We believe companies must ultimately transition to a circular economy model in which they extract as much value from resources for as long as possible, and then recover them at the end of the product lifecycle. Companies that embrace the shift from linear to circular economy can realize significant cost savings, capture new customers and markets, and reduce their environmental footprints.

### **4b-1. Water Use**

The need for good stewardship of this critical, finite natural resource is rapidly growing in urgency. Water scarcity and quality issues impact food production, increase the likelihood of global conflicts and human suffering, and can have significant, negative impacts on companies dependent on water for their operations. As concerns around water scarcity increase, so do the number of shareholder resolutions. We will generally support resolutions asking companies to:

- Report to CDP on water use;
- Report on water use risks and mitigation of water scarcity, including climate-related droughts;
- Adopt policies, strategies, and goals to improve water efficiency;
- Report on water pollution risks related to operations; or
- Adopt and implement water stewardship policies designed to reduce the risk of water contamination.

### **4b-2. Waste Management**

Corporations are continuing to make strides in waste management, understanding the link between good business practices and reducing their negative impact on the environment. The challenge of plastic waste management continues to garner attention from shareholders. We will generally support resolutions asking companies to:

- Report quantifiable indicators on recycling policies and efforts to increase recycling;
- Adopt or improve recycling policies and strategies;
- Report on impacts and risks of using non-recyclable packaging, where applicable;

- Redesign operational components, including packaging, to be fully recyclable;
- Make products more easily repairable, also known as the “right to repair”;
- Increase disclosure around food waste; or
- Develop policies and programs to reduce food waste.

#### **4b-3. Plastics**

Plastic production is expected to triple by 2050. This growth will exacerbate an already daunting challenge: 25% of plastic is made into packaging, yet only 14% of plastic packaging is recycled. Plastic waste often becomes plastic pollution that kills the animals that consume it and spreads toxins throughout the food chain. The climate impact of this growth is substantial: the plastics sector contribution to GHG emissions is expected to grow to 15% of the total annual carbon budget by 2050.<sup>23</sup> The circular economy model makes clear what is needed, from the elimination of non-recyclable packaging to designing products for repair rather than disposal. We will generally support resolutions asking companies to:

- Adopt policies and programs embracing the principle of producer responsibility to keep plastic waste out of waterways;
- Set targets for the transition away from non-recyclable plastic packaging and materials;
- Report on the impact of certain practices, such as the use of single-use plastic bags or the release of plastic pollution into the environment;
- Report on reputational risks associated with the use of plastics in products and contribution to plastic pollution; or
- Strengthen policies and practices overseeing the management of plastic waste in the supply chain.

#### **4c. Industrial Agriculture**

While we face global challenges related to feeding an expanding population, the negative impact of industrial agriculture on the environment and public health has been profound. Further, there

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<sup>23</sup> Ellen MacArthur Foundation and World Economic Forum, “The New Plastics Economy: Rethinking the Future of Plastics”, 2016, *available at* <https://www.ellenmacarthurfoundation.org/assets/downloads/The-New-Plastics-Economy-Rethinking-the-Future-of-Plastics.pdf>.

is a growing recognition that many industrial agricultural practices pose specific risks for companies, including supply chain vulnerability, reputational risks, and regulatory risks.

#### **4c-1. Environmental Impact**

Agriculture, particularly industrial agriculture, is resource intensive, causing scarcity issues around water and certain natural fertilizers such as potash (potassium) and phosphorous (phosphate). Additionally, commonly accepted practices have greatly reduced biodiversity and have contributed to deforestation, which has significant climate implications. In general, we will support resolutions asking companies to:

- Report on water quality risks associated with water use, including erosion, wastewater seepage, overflow, runoff, and use on fields;
- Adopt, implement, or strengthen policies to reduce water use and risks associated with water use;
- Report on the use of pesticides by the company and in its supply chain, including but not limited to glyphosate and neonicotinoids harmful to beneficial insects and efforts to reduce the use of harmful pesticides; or
- Report on efforts to ensure a company's agricultural supply chain is sustainable and take steps to minimize deforestation or desertification.

#### **4c-2. Public Health Impact**

The environmental risks associated with industrial agriculture lead directly to issues of human and community health. For example, methane emissions from large-scale dairies reduce air quality, and the presence of such an operation can be detrimental to all other economic activity in a rural community. In addition, the long-term impact of monoculture farming and prolonged use of synthetic fertilizers, pesticides, and herbicides on soil health in turn can mean that crops are less nutritious than in the past. We generally support resolutions asking companies to acknowledge the broad impact that their operations and supply chains may have on employees, clients and customers, and the communities in which they operate, and to enhance transparency of related issues, including the use of pesticides, genetically modified seeds and ingredients, and antibiotics.

### **4c-3. Animal Welfare**

Generally, we will support resolutions asking companies to end practices that bring about unnecessary pain and discomfort of animals through industrial agricultural practices and/or laboratory testing. Examples of resolutions that we would generally support include those asking companies to:

- Reduce or eliminate the use of confined systems;
- Report on risks associated with the use of antibiotics in animals and their food supply;
- Phase out the use of antibiotics in animals and their food supply both in operations and the supply chain;
- Implement anti-cruelty policies and practices both in operations and the supply chain;
- Disclose animal welfare policies and practices, reduce or end animal testing or the suffering of animal test subjects, and develop alternatives to animal testing; or
- Extend company animal welfare policies and practices to contracted laboratories, including those located overseas.

## **5. Social Resolutions**

### **5a. Decent Work and Diversity**

We generally support the concept of decent work as defined by the United Nations, including the notion that all workers deserve fair compensation or a “living wage”.<sup>24</sup> This concept guides our voting on the specific topics mentioned below.

We also believe that the decisions companies make about their workforces can impact income inequality, the rise of which has far-reaching, negative consequences for companies’ long-term growth and for society as a whole. This “system-level” understanding of the importance of decent work guides our voting on the specific topics mentioned below.

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<sup>24</sup> Per the United Nations Sustainable Development Goals, “Decent work means opportunities for everyone to get work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration.” <https://www.un.org/sustainabledevelopment/wp-content/uploads/2018/09/Goal-8.pdf>

### **5a-1. Workforce-Related Governance**

Beyond the integration of sustainability issues into governance broadly, we believe that additional attention to workforce-related issues is needed. We will generally support resolutions asking companies to:

- Incorporate worker input into board and executive decision-making;
- Improve board oversight of workforce diversity, inclusion and equity through the integration of these issues into board searches and recruitment, education, and board policies;
- Elevate the importance of human capital management reporting alongside financial reporting through improved disclosure of related issues, for example through adherence to relevant SASB standards;
- Disclose lobbying and political spending that challenges worker rights and protections; or
- Link executive compensation to broader employment relationships, taking into account the compensation earned by all classifications of workers.

### **5a-2. Pay Equity**

Underrepresentation of women and people of color, and the associated pay gaps, increase economic inequality and can reduce a company's long-term competitiveness. We will generally support resolutions asking companies to:

- Provide quantifiable indicators related to pay gaps based on gender and race, including both the "equal pay gap" and the "median pay gap"; or
- Report on policies and goals to address pay gaps based on gender and race.

### **5a-3. Income Inequality and Comprehensive Benefits**

Since the 1970s, income and wealth inequality in the U.S. have grown considerably. The stagnation of the minimum wage has contributed greatly to this trend. The last increase to the federal minimum wage occurred in 2009. After the longest period in history without an increase, the federal minimum wage in 2022 is worth 27% less than 13 years ago—and 40% less than in

1968.<sup>25</sup> Importantly, both wages and decisions on profit-sharing are within a company’s control. Generally, we will support resolutions asking companies to:

- Offer living wages and comprehensive benefits, including reproductive health and paid sick leave benefits, to all employees;
- Provide detailed information regarding benefits eligibility, whether temporary or full-time; or
- Support minimum wage reform, or report on the feasibility of doing so.

#### **5a-4. Diversity, Equity and Inclusion**

The business case for diversity at all levels of the company is clear. We will generally support resolutions asking companies to:

- Disclose the self-identified race/ethnicity of board members, executive leadership, and senior management;
- Disclose equal employment opportunity (“EEO”) data regarding diversity in the workplace and report on efforts to comply with federal EEO mandates;
- Report on efforts to increase board, executive, senior management and workplace diversity, for example by requiring that diverse candidates be included in all searches;
- Assess the effectiveness of diversity, equity, and inclusion policies and practices;
- Report on how diversity and inclusion programs work and their impact;
- Create, strengthen, or implement policies and programs to end discrimination in salary, wages, and all benefits; or
- Adopt a nondiscrimination policy for sexual orientation or gender identity.

We will generally oppose resolutions asking companies to eliminate protections related to gender identity and sexual orientation already afforded to workers.

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<sup>25</sup> David Cooper, Sebastian Martinez Hickey, and Ben Zipperer, Economic Policy Institute, The value of the federal minimum wage is at its lowest point in 66 years, July 14, 2022, *available at* <https://www.epi.org/blog/the-value-of-the-federal-minimum-wage-is-at-its-lowest-point-in-66-years/>

## **5a-5. Working Conditions**

Safe and respectful working conditions—and the right to organize to improve conditions—have taken center stage in recent years. The “#MeToo” movement has led to greater corporate and shareholder awareness of workplace harassment and abuse,<sup>26</sup> while workplace outbreaks of COVID-19 have brought new risks and the need for increased protections. We generally support resolutions asking companies to:

- Protect the rights of freedom of association and collective bargaining;
- Report on the impact of health crises on workers’ health and safety, as well as company actions to protect workers during a health crisis;
- Protect and strengthen whistleblower policies;
- Strengthen protections and recourse for victims of harassment and abuse, and improve disclosure of disciplinary actions (including mandatory arbitration), settlements, and use of concealment clauses;
- Report on risks associated with worker misclassification as contractors;
- Improve disclosure regarding worker exposure to toxic chemicals and ensure recourse to cover health costs and lost wages; or
- Commit to and/or improve transparency around accident prevention metrics and policies.

## **5b. Human Rights and Environmental Justice**

### **5b-1. Human Rights Policies**

A company’s responsibility to the individuals working throughout its operations and supply chain begins with robust policies and a commitment to human rights impact management.

Generally, we will support resolutions asking companies to:

- Conduct and disclose a human rights impact assessment;
- Adopt, strengthen, and/or implement human rights policies with specific statements on issues relevant to the company’s business and operations;

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<sup>26</sup> David A. Katz and Laura A. McIntosh, “Corporate Governance Update: Shareholder Activism is the Next Phase of #MeToo”, Harvard Law School Forum on Corporate Governance, September 28, 2018, *available at* <https://corpgov.law.harvard.edu/2018/09/28/corporate-governance-update-shareholder-activism-is-the-next-phase-of-metoo/>



- Support or follow third-party codes of conduct or principles addressing human rights issues, such as the U.N. Guiding Principles on Business and Human Rights;
- Work constructively with third-party organizations on reporting;
- Incorporate human rights issues into business planning;
- Create a Human Rights Committee of the Board of Directors;
- Create or strengthen human rights training for employees;
- Respect the right to healthcare, including reproductive healthcare; or
- Respect the human right to water, including the adoption of policies and programs to enhance access and affordability to safe drinking water and sanitation.

### **5b-2. Trafficking and Labor Standards**

Human trafficking and forced labor—modern slavery—are worldwide problems that receive little recognition in proportion to the size of the challenge. The International Labor Organization (“ILO”) estimates that at least 21 million people are in some form of modern slavery. We will generally support resolutions asking companies to:

- Strengthen and implement workplace codes of conduct by adopting a policy on trafficking, with specific statements on human trafficking, forced labor, child labor, and sexual exploitation of minors;
- Implement and report on adherence to the ILO codes of conduct; or
- Adopt international codes and policies to address this problem.

### **5b-3. Indigenous Rights**

We believe all people have the right to be consulted and to provide or withhold consent when their lives, cultures, and natural environments are impacted. We further believe that companies that integrate respect for all stakeholders will see the greatest long-term value creation. We will review related resolutions on a case-by-case basis and will generally support resolutions asking companies to:

- Establish, improve, or implement a formal written policy on the rights of Indigenous peoples, including Free, Prior, and Informed Consent;

- Follow and support the U.N. Declaration on the Rights of Indigenous Peoples, including the creation of a policy or program to implement this support;
- Report on potential risks associated with operations in indigenous territories; or
- In the case of financial services companies, report on financing of companies undertaking projects located in indigenous territories.

#### **5b-4. Repressive Regimes and Conflict Zones**

Companies operating in high-risk areas have an extraordinary responsibility to remain vigilant around human rights violations and labor standards. We will review related resolutions on a case-by-case basis and will generally support resolutions asking companies to:

- Cease business with regimes complicit in crimes against humanity, as defined by the U.N.;
- Increase disclosure on their investment in, continued operations in, or withdrawal from countries with a high risk of human rights violations and how the company can and is working to address human rights issues in these countries;
- Develop, strengthen, or implement policies to eliminate bribery and corruption; or
- Research and disclose how operations and/or products do or could limit freedom of expression or privacy.

#### **5b-5. Land Use, Procurement, and Deforestation**

A company's use of land can lead to degradation, deforestation, loss of biodiversity, disenfranchisement of indigenous communities, and human rights abuses. In most cases, we will support resolutions asking companies to:

- Enhance disclosure on all aspects of land appropriation and use in operations and in the company's supply chain;
- Adopt policies to ensure crops (e.g. palm, sugar, soy, etc.) are grown sustainably;
- Report on risks related to deforestation, especially in the company's supply chain; or
- Eliminate deforestation and related human rights issues from company operations and in the company's supply chain.

## **5c. Societal and Human Rights Impacts of Technology**

As technology plays a larger role in our daily lives, the societal implications and risks to both companies and individuals have become more urgent. Data breaches are expensive and damaging, regulatory expectations around data security and privacy rights evolve quickly, and the challenge of reducing problematic content remains unresolved. Association with controversial or risky products and services has become particularly significant.

Shareholders have become increasingly attentive to the civil and human rights risks of how technology is used, such as facial recognition software shared with or marketed to governments, discriminatory advertising, and government-mandated censorship. To mitigate and manage these risks, we believe that companies must respond with stronger policies and practices, increased transparency, and proper governance structures.

### **5c-1. Policies and Practices**

We will generally support resolutions asking companies to adopt transparent policies and practices, including:

- Strengthen privacy policies and disclosure;
- Report on business risks and take action related to illegal or problematic content such as online child exploitation, hate speech, and false information;
- Report on policies and practices that support or undermine net neutrality and an open internet; or
- Report on how the company is managing direct or indirect human rights risks and the societal impacts of its technologies or operations.

### **5c-2. Governance**

As more aspects of our lives are intermediated online, companies must have governance structures in place to manage the attendant impacts of the intended as well as unintended uses of technologies. We will generally support resolutions asking companies to:

- Improve board oversight by emphasizing human rights topics in director recruitment, board education, and board evaluation, through board and committee charters, and/or through the creation of a committee dedicated to societal risk oversight; or

- Create a C-suite level position and/or link executive compensation to internet and information security as well as the societal and ethical impacts of the business.

#### **5d. Toxics and Chemicals Management**

In our daily life, we are surrounded by countless chemicals and toxins, many of which are undisclosed by the source. Despite the risks to human health and to the environment that exposure can pose, transparency and risk management remains insufficient. Specific concerns include but are not limited to lead paint, nanotechnology, antibiotics, microbeads, and pesticides.

We will generally support resolutions asking companies to:

- Set public, time-bound goals to address the company's chemical footprint;
- Reduce the toxicity of known chemicals used in production and operations, and report on plans to do so; or
- Provide stakeholders with thorough transparency of the company's chemical footprint, including reporting to the Chemical Footprint Project.

#### **5e. Supply Chains**

Companies have influence over, and responsibility for, their supply chains and vendors and should use their influence to encourage improved practices and greater disclosure from all partners. We will generally support resolutions asking companies to:

- Engage vendors to raise standards rather than terminate contracts (though termination may be necessary if engagement proves to be ineffective);
- Report on potential and actual human rights risks of its supply chain and the human rights risks assessment process;
- Report on and implement policies and programs to address human trafficking in the supply chain;
- Adopt a policy to eliminate migrant worker recruitment fees and require supply chain verification;
- Report on and strengthen efforts to ensure the supply chain is free of forced labor, bonded labor, and child labor;

- Extend codes of conduct to vendors, franchisees, licensees, and agents that market, distribute, or sell the company's products or services;
- Implement or cooperate with independent monitoring programs to monitor supplier compliance with codes;
- Report on its supply chains' impact on deforestation and associated human rights risks;
- Monitor and report on supply chains' environmental records;
- Extend the principles of representation, diversity, nondiscrimination, and decent work described above to vendors and partners;
- Study, adopt, or implement consumer product safety policies and programs in the supply chain;
- Study, adopt, or implement workplace safety policies and programs in the supply chain;  
or
- Examine the practices of agricultural product suppliers and implement the principles of environmental stewardship, animal welfare, human health, decent work, and community impact described above.

## **6. Voting in Non-US Markets**

### **6a. Consistency & Best Practices**

The general principles guiding our proxy voting practices apply globally, and we will seek to apply these Guidelines consistently in all markets. However, there are significant differences between the U.S. and other markets that may require us to modify the application of these Guidelines for certain non-U.S. markets. Our policies will serve as the baseline, but where local best practices exceed our policies, we will apply the higher standard. In cases where our Guidelines do not address specific issues, we will follow Glass Lewis's recommendations.

### **6b. Availability of Information**

The availability of information necessary to make informed voting decisions varies widely in non-U.S. markets. It is common for European companies, for example, to seek shareholder approval of company financial statements. In many cases, however, companies fail to provide

their financial statements in a timely manner. Although this is considered a “routine” matter, where we are being asked to approve a report that has not been received, we will vote against the proposal.

Where we are being asked to vote on an item for which we have insufficient information to apply our guideline (such as auditor independence), we will abstain, unless it is clear market practice in that country to provide the required information, in which case we will vote against the proposal. As stated below, where we cannot determine the independence of a director, we will assume that director is not independent.

We will oppose any proposal asking for approval of a financial statement when the statement has not been provided for review.

#### **6c. Election of Directors**

We strongly believe that directors should be elected individually.

In other countries, where it is common practice to bundle these proposals, we will vote against the entire slate if we have reason to oppose any individual director, for example, if an individual non-independent director sits on a key committee or if the board does not include any gender diversity.

Due to the difficulty of obtaining information about the background of directors at non-U.S. companies and in consideration of the local context, we will not consider race/ethnicity when applying our board diversity guideline to foreign companies. We will oppose nominating committee members when the board slate is not comprised by at least 33% women.

In all markets, we will vote against the election or reelection of any director whose name is not disclosed. Where information is not provided to determine the independence of the director, we will assume the director is not independent. Where the board does not include an audit or remuneration committee, we will assume the entire board serves in that capacity. We will vote against any non-independent directors.