BETA STEWARD: THE SHAREHOLDER COMMONS VOTING GUIDE

April 29, 2021

Welcome to TSC's guide to voting as a beta steward!

As the 2021 proxy season continues to heat up, developments on proxy voting around the world emerge every day. This weekly digest keeps you informed of upcoming votes that lend themselves to a systems-first investing approach. **Please follow this link to sign up for Beta Steward and stay on top of this proxy season.**

If you're not familiar with beta stewardship, we cover that at the end of this newsletter.

Pending Votes

The following votes are noteworthy opportunities to create value for diversified investors by strengthening the social and environmental systems upon which their portfolios rely. We **strongly recommend** you vote for and publicly support these proposals and no-votes. Further details are provided in the sections that follow.

- **Goldman Sachs (NYSE: GS)**—April 29, 2021
  - *Vote against Chair/CEO David M. Solomon (climate change)*
  - *Vote against Independent Lead Director Adebayo O. Ogunlesi (climate change)*
  - *Item 7: Support public benefit corporation conversion*
  - *Item 8: Conduct racial equity audit*
- **Valero Energy (NYSE: VLO)**—April 29, 2021
  - *Vote against Chair/CEO Joseph W. Gorder (climate change)*
  - *Vote against Lead Director Robert A. Profusek (climate change)*
- **AT&T (NYSE: T)**—April 30, 2021
  - *Vote against Chair of Public Policy and Corporate Reputation Committee Glenn H. Hutchins (racial justice)*
- **Berkshire Hathaway (NYSE: BRK-A/B)**—May 1, 2021

  - *Vote against Chair/CEO Warren E. Buffett (climate change)*

- **Aflac (NYSE: AFL)**—May 3, 2021
  - *Vote against Corporate Governance Committee member Barbara K. Rimer (racial justice)*
  - *Vote against Corporate Governance Committee member Katherine T. Rohrer (racial justice)*
- **Evergy (NYSE: EVRG)**—May 4, 2021
  - *Vote against Chair Mark A. Ruelle (climate change)*
- **General Electric (NYSE: GE)**—May 4, 2021
  - *Report on net-zero GHG goals*
- **S&P Global (NYSE: SPGI)**—May 5, 2021
  - *Item 5: Support public benefit corporation conversion*
- **PepsiCo (NYSE: PEP)**—May 5, 2021
  - *Item 6: Report on public health externalities*
- **Duke Energy (NYSE: DUK)**—May 6, 2021
  - *Vote against Chair/CEO Lynn Good (climate change)*
  - *Vote against Independent Lead Director Michael G. Browning (climate change and racial justice)*
- **Equifax (NYSE: EFX)**—May 6, 2021
  - *Vote against Chair of Corporate Governance Committee Mark L. Feidler (racial justice)*
- **Rio Tinto (ASX: RIO)**—May 6, 2021
  - *Align with Paris agreement*
- **Tractor Supply (Nasdaq: TSCO)**—May 6, 2021
  - *Item 4: Support public benefit corporation conversion*
- **Entergy (NYSE: ETR)**—May 7, 2021
  - *Vote against Chair/CEO Leo P. Denault (climate change)*
  - *Vote against Lead Director Stuart L. Levenick (climate change)*

- **Occidental Petroleum (NYSE: OXY)**—May 7, 2021
    - *Vote against Independent Chair Stephen I. Chazen (climate change)*
- **3M (NYSE: MMM)**—May 11, 2021
    - *Item 6: Support public benefit corporation conversion*
- **ConocoPhillips (NYSE: COP)**—May 11, 2021
    - *Vote against Chair/CEO Ryan M. Lance (climate change)*
    - *Vote against Lead Director Robert A. Niblock (climate change)*
- **Phillips 66 (NYSE: PSX)**—May 12, 2021
    - *Vote against Director Julie L. Bushman (climate change)*
    - *Vote against Director Lisa A. Davis (climate change)*
- **Invesco (NYSE: IVZ)**—May 13, 2021
    - *Vote against Chair of Nomination and Corporate Governance Committee Sarah E. Beshar (racial justice)*
- **UPS (NYSE: UPS)**—May 13, 2021
    - *Item 8: Support public benefit corporation conversion*
- **FirstEnergy (NYSE: FE)**—May 18, 2021
    - *Vote against Chair Donald T. Misheff (climate change)*
- **JPMorgan Chase (NYSE: JPM)**—May 18, 2021
    - *Item 6: Conduct racial justice audit*
    - *Vote against Chair of Corporate Governance & Nominating Committee Todd A. Combs (racial justice)*
- **Motorola Solutions (NYSE: MSI)**—May 18, 2021
    - *Vote against Governance and Nominating Committee member Gregory K. Mondre (racial justice)*
    - *Vote against Governance and Nominating Committee member Joseph M. Tucci (racial justice)*
- **State Street (NYSE: STT)**—May 19, 2021
    - *Item 4: Conduct racial justice audit*

- **Home Depot (NYSE: HD)**—May 20, 2021
  - *Vote against Chair of the Nominating and Corporate Governance Committee Helena B. Foulkes (racial justice)*
- **McDonald's (NYSE: MCD)**—May 20, 2021
  - *Item 5: Report on public health costs of antimicrobial resistance*
- **Amazon.com (Nasdaq: AMZN)**—May 26, 2021
  - *Vote against Nominating and Corporate Governance Committee Chair Jamie S. Gorelick (racial justice)*
- **BlackRock (NYSE: BLK)**—May 26, 2021
  - *Item 5: Support public benefit corporation conversion*
- **Chevron (NYSE: CVX)**—May 26, 2021
  - *Item 6: Support public benefit corporation conversion*
- **ExxonMobil (NYSE: XOM)**—May 26, 2021
  - *Contested election—see **Engine No. 1 Proxy Statement** (racial justice)*
- **Facebook (Nasdaq: FB)**—May 26, 2021
  - *Item 9: Support public benefit corporation conversion*
- **Southern Company (NYSE: SO)**—May 26, 2021
  - *Vote against Nominating, Governance, and Corporate Responsibility Committee member Ernest Moniz (racial justice)*
- **Alphabet (Nasdaq: GOOG, GOOGL)**—June 2, 2021
  - *Item 11: Support public benefit corporation conversion*
- **Yelp (NYSE: YELP)**—June 3, 2021
  - *Item 4: Support public benefit corporation conversion*

TSC-Supported Resolutions

TSC is assisting various shareholders with proposals that either (1) ask companies to convert to benefit corporations, or (2) ask companies to disclose external social and environmental costs of their business practices.

Public Benefit Corporation Conversion

Proposals at **BlackRock**, **Caterpillar**, **Salesforce**, **Facebook**, **Alphabet**, **UPS**, **Tractor Supply**, **S&P Global**, **3M**, **Goldman Sachs**, **Citigroup**, **Wells Fargo**, and **Chevron** request that the companies *amend or consider amending their certificates of incorporation to become public benefit corporations*, in light of their adoption of the Business Roundtable's Statement on the Purpose of a Corporation (BRT Statement). A similar proposal at Yelp hinges on that company's recent proclamations of its intention to oppose racism and foster "an inclusive culture." The proposals note that current law precludes authentic commitment to the stakeholder model acclaimed in the BRT Statement, unless the corporations adopt benefit corporation law.

But the amendment would not just benefit stakeholders. It also provides a better structure for diversified shareholders. Conventional corporation law requires corporations to prioritize the interests of their shareholders, but this company-first approach fails to recognize that an individual company may profit from activity that undermines the social and environmental fabric upon which the vast majority of diversified shareholders depend. Beta stewardship goes hand-in-hand with the PBC structure.

We are filing exempt solicitations for these resolutions in which we make an expanded case for the value a "yes" vote would deliver to diversified shareholders. These are currently available for Citigroup, Wells Fargo, Goldman Sachs, Chevron, Tractor Supply, S&P Global, UPS, and 3M.

We **strongly encourage** shareholders to vote FOR these resolutions and to work with their advisors and outside managers to raise the profile of this important issue. If these fiduciaries are not supporting this measure to move the market toward a systems-first model, they are not fully serving the interests of their diversified clients.

Externalities Disclosure

Proposals were filed at **McDonald's** and **YUM! Brands** requesting a report on the *external public health costs associated with antimicrobial resistance (AMR) that arises from excessive use of antibiotics in their meat supply chains*. The proposal cites studies that calculate economic losses from AMR at $54 trillion by 2050.

We reached an agreement to withdraw the proposal at Yum! after it became the first public company to agree explicitly to disclose the impacts of its practices on the global economy and the portfolios of diversified shareholders. You can see the full agreement here, and our press release about the agreement here. McDonald's has declined to discuss a similar agreement and has not sought to exclude the proposal from its proxy, so we expect this resolution to go to a vote at the golden arches.

A proposal at **PepsiCo** requests a report on the *public health costs of its food and beverage business and how those costs affect market performance*, in light of the fact that the World Health Organization has assessed the unpriced social burdens of obesity at nearly three percent of annual GDP. The company sought to exclude the resolution on the same ordinary business and vagueness grounds as the preceding two companies. We submitted a response to PepsiCo's exclusion request, arguing that publicity around PepsiCo's targeting of Black children in its advertising campaigns and participation in trade groups that block public health legislation demonstrates the importance of the policy issue behind the proposal. The SEC rejected PepsiCo's argument, and this resolution will go to a vote. ShareAction has included this resolution on its 2021 Resolutions to Watch list, and encourages investors to vote in favor. You can read our rebuttal to PepsiCo's opposition statement here, where we make the broader case for this proposal.

Beta Stewardship in Action

Diversified shareholders have the incentive, power, and responsibility to insist that the companies they own reject financial return that is based on exploitation of common resources and vulnerable populations. To make this work in a free-market system that relies upon competition to price and allocate resources, shareholders must establish the basic rules for companies on environmental and social matters, which we call "guardrails."

Proxy Voting for a 1.5º C World

Majority Action's Proxy Voting for A 1.5 °C World campaign exemplifies the guardrails concept. The campaign goes beyond disclosure and risk management requiring specific action by companies with a significant carbon footprint, regardless of the business case at any individual company. Majority Action explains the risk to diversified shareholders clearly:

> ***The physical and financial risks posed by climate change to long-term investors are systemic, portfolio-wide, unhedgeable and undiversifiable.*** *Therefore, the actions of companies that directly or indirectly impact climate outcomes pose risks to the financial system as a whole, and to investors' entire portfolios. In order to manage this systemic portfolio risk, investors must move beyond disclosure and company-specific climate risk management frameworks, and focus on holding accountable the relatively small number of large companies whose actions are a significant driver of climate change.*

The campaign goes beyond precatory proposals and asks that shareholders withhold votes from directors at companies that are failing on climate. The campaign is supported by the Illinois Treasurer and CalPERS, among other important stewardship voices.

We **strongly recommend** that diversified shareholders vote their proxies, or insist that their advisors and managers vote proxies, in line with Majority Action's recommendations. We've listed the votes for companies that have issued their proxy statements in the "Pending Votes" section above.

Proxy Voting for Racial Justice

In a similar vein, Majority Action's Proxy Voting for Racial Justice campaign is a newly announced example of guardrails in action. Rather than focusing narrowly on enterprise risk and the effects racial injustice may have on individual companies, this campaign focuses on systemic racism in our corporate and financial systems and the damage it wreaks. Majority Action explains the risk to society and diversified shareholders clearly:

> *Systemic racism in our corporate and financial systems goes far beyond the unacceptable prevalence of all-white corporate boards, or boards with one tokenized person of color. It is embedded in unchecked corporate behavior—from financing pipelines that run through Indigenous lands, to backing corporate directors with known histories of anti-Black racist harm, to funneling political donations to elected officials championing voter suppression efforts, and much more. This harm is at the core of the United States' economic model that was built upon the slavery economy.*
>
> *The consequences of an economy rooted in systemic racism ripple out beyond the immeasurable harm experienced by Black and brown communities. Systemic racism creates material portfolio-wide and company-specific risks for investors. Analysis from Citigroup showed that failure to address racial wealth gaps in wages, investment, and housing cost the U.S. economy $16 trillion over the last 20 years.* ***Uprooting the systemic racism endemic to our economic system—and protecting long-term investors from its risks—will require a fundamental reevaluation of all aspects of corporate behavior and governance from a racial equity perspective.***

This campaign also goes beyond precatory proposals and asks shareholders to withhold votes from directors at companies that are failing on racial justice. We **strongly recommend** that diversified shareholders vote their proxies, or insist that their advisors and managers vote proxies, in line with Majority Action's recommendations. We've listed the votes for companies that have issued their proxy statements in the "Pending Votes" section above.

Other Shareholder Resolutions for Beta Stewards

Adding Systemic Effects to the Voting Calculus

Beyond proposals aimed directly at beta stewardship, many matters that will come to a vote this season will implicate the systems-first approach that a diversified shareholder must consider in order to optimize returns. In considering how to vote on proposals and other matters, shareholders should, in addition to weighing the vote's effect on a single company, consider the system-wide costs and risks of social and environmental impacts. Among other matters, such votes may address:

- disclosure of the external costs of company activity;
- compensation that fails to address such risks and costs; and
- the systemic effects of political influence.

Here are some examples of pending shareholder resolutions for which proxy statements have been mailed. We will update this list as the season proceeds.

Systemic Impacts of Racial Inequality

CtW Investment Group and the Service Employees International Union (SEIU) have filed a series of shareholder proposals asking systemically important financial institutions to conduct a racial equity audit that identifies, prioritizes, and remedies the adverse impacts of the banks' policies and practices on non-white stakeholders and communities of color.

The finance industry has played a critical role in perpetuating unequal wealth distribution to communities of color. Whether it be modern day "redlining" techniques related to mortgage loans, excessive checking account fees, or—most recently—Payroll Protection Program distribution, communities of color have faced decades of discrimination as a result of the financial industry's policies and practices. According to the Economic Policy Institute, income inequality is slowing U.S. economic growth by reducing demand by 2-4%. Similarly, the Federal Reserve Bank of San Francisco determined that gender and racial gaps created $2.9 trillion in losses to U.S. GDP in 2019. Moreover, a recent report from Citigroup itself calculated that eliminating racial disparity would add $5 trillion to the U.S. economy over the next five years. This drag on GDP directly reduces the return on a diversified portfolio over the long term.

Major banks within the financial industry have all made recent commitments supporting the Black Lives Matter movement, but monetary pledges and verbal commitments alone are not sufficient to address the systemic racial disparities within the financial system. Banks cannot effectively address racial injustice and economic inequality without careful study of how the industry's products and services have contributed to this imbalance.

Proposals requesting a racial equity audit are currently pending at **Citigroup**, **Wells Fargo**, **Goldman Sachs**, **JPMorgan Chase**, and **State Street**. Click here to find letters laying out the broader case at each company.

Board Support for Paris Alignment and Net-Zero Targets

While it's still early days for this proxy season, we have already seen several instances of corporate boards recommending votes in favor of shareholder resolutions. While not unprecedented, this is a rare occurrence, and we are watching with interest to see if it might portend a growing trend. So far, these resolutions are still focused on company-first shareholder primacy, but beta stewards should nonetheless take notice, as the board support these have garnered could possibly be the leading edge of a paradigm shift.

At Australian mining company **Rio Tinto**, the board has backed a shareholder resolution asking the company to set greenhouse gas emissions targets consistent with the Paris agreement and suspend its membership in industry associations that lobby against climate action. And at **General Electric**, management has indicated its support for a resolution asking the company to report on whether or not its Scope 1-3 emissions are now or will be in line with a Paris-aligned goal of net-zero greenhouse gas emissions by 2050.

Beta Stewardship—A Primer

Pension funds and other asset owners must preserve their capital and earn sufficient return to satisfy obligations to retirees and other liabilities. Asset managers must help investors optimize their returns based on an acceptable level of risk. For owners and managers alike, returns are the result of three variables:

1. The return of the market overall to the classes of securities within a portfolio (beta);

2. The performance of the portfolio above or below beta based on the securities selected to be in the portfolio (alpha); and

3. Asset management costs and fees.

Historically, asset owners and managers have focused on the second and third components and accepted beta as a factor over which they did not have control and for which they had no responsibility. This perspective has become untenable, as irresponsible corporate behaviors pose systematic risks to the economy that will overwhelm any alpha that may be generated through engagement or security selection. Corporate conduct that harms social and environmental systems threatens not just people and planet—but also overall economic performance, a critical determinant of beta.

Beta stewardship is more than ESG integration. While investors and business have begun to address important systemic issues like climate change and racial injustice, almost all of their activity is conducted through the lens of increasing shareholder value at individual companies. While we can all celebrate the ability of corporations to "do well by doing good," it will not be nearly enough to address the systemic risks we face. Beta stewardship insists that companies stop "doing better by doing bad." Investors must sometimes insist that individual companies sacrifice long-term financial return for the good of the economy (and diversified portfolios) overall.

Shareholder stewardship in governance demonstrates that shareholders can indeed affect behavior across industries and corporations through voting and engagement. Thus, if shareholders can analyze the potential effects of their votes on corporate behaviors that affect the economy, they can—for the price of exercising a vote—make market-wide changes to corporate behavior that raise a critical facet of return.

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For more information on these initiatives, be sure to check out our Beta Stewardship platform. If you know of a shareholder resolution anywhere in the world that you think presents an opportunity to vote as a beta steward, please send details to sara@theshareholdercommons.com.

Please follow this link to sign up for Beta Steward and stay on top of this proxy season.