BETA STEWARD: THE SHAREHOLDER COMMONS VOTING GUIDE

May 14, 2021

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

With the 2021 proxy season in full swing, 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.

Breaking News

We're delighted that Legal & General Investment Management (LGIM) has publicly announced its intention to vote in favor of our resolution asking **McDonald's** to commission an independent report on the external public health costs it imposes on its diversified shareholders by sourcing meat from animals that were excessively treated with antibiotics (further details below). While this may increase internal financial returns at the company itself, it's a bad trade for investors, who still absorb the broader costs associated with antimicrobial resistance. It's high time for an honest conversation between companies and their shareholders about the tradeoffs involved in corporate activities that damage the vital systems upon which thriving economies and diversified portfolios depend. Between LGIM and Amundi (one of the resolution's proponents), we have more than $3.4 trillion in assets under management (AUM) in support of this resolution, second only to the AUMs of BlackRock and Vanguard.

Governance advisor Pensions & Investment Research Consultants (PIRC) has recommended votes in favor of the resolution asking **Chevron** to become a public benefit corporation. PIRC appears to have properly understood that without a change in corporate form, conventional corporations are legally precluded from the sort of stakeholder primacy they purport to practice. As such, conventional corporations are locked in to behaviors that increase internal financial return, even at the expense of vital systems that undergird economies and drive the greatest proportion of diversified portfolio value.

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 as follows and publicly support these proposals and no-votes. Further details are provided in subsequent sections of this report.

- **FirstEnergy (NYSE: FE)**—May 18, 2021
  - *Vote against Chair Donald T. Misheff (climate change)*
- **JPMorgan Chase (NYSE: JPM)**—May 18, 2021
  - *Vote for 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
  - *Vote for 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
  - *Vote for 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
  - *Vote for Item 5: Support public benefit corporation conversion*
- **Chevron (NYSE: CVX)**—May 26, 2021
  - *Vote for Item 6: Become public benefit corporation*
- **ExxonMobil (NYSE: XOM)**—May 26, 2021
  - *Contested election—see **Engine No. 1 Proxy Statement** (racial justice)*
- **Facebook (Nasdaq: FB)**—May 26, 2021

  - *Vote for 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
  - *Vote for Item 11: Support public benefit corporation conversion*

- **Yelp (NYSE: YELP)**—June 3, 2021
  - *Vote for Item 4: Support public benefit corporation conversion*

- **Caterpillar (NYSE: CAT)**—June 9, 2021
  - *Vote for Item 6: Support public benefit corporation conversion*

- **salesforce.com (Nasdaq: CRM)**—June 10, 2021
  - *Vote for Item 5: 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

Alphabet, BlackRock, Citigroup, Facebook, 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.

Some of these have already gone to a vote, with the following results:

- Bank of America: 2.6%
- Wells Fargo: 3.0%
- Citigroup: 2.5%
- Goldman Sachs: 2.4%
- S&P Global: 3.9%
- Tractor Supply: 3.4%
- 3M: 3.3%

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 this resolution is going to a vote at the golden arches.

As noted above, LGIM and Amundi with a combined $3.4 trillion in AUM are voting in favor of this resolution. ShareAction has also included this resolution on its 2021 Resolutions to Watch list, and encourages investors to vote in favor. You can read our rebuttal to McDonald's opposition statement here, where we make the broader case for this proposal.

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 went to a vote, earning 12.2% support.

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 1.5° 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.

A proposal requesting a racial equity audit remains pending at **State Street**. Click here to find letters laying out the broader case.

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.