THE BETA STEWARD PROXY REVIEW 2021

Progressing Toward Authentic Value Creation

The Shareholder Commons

AUGUST 2021

ACKNOWLEDGEMENTS

THANK YOU TO EVERYONE WHO MADE THIS REPORT POSSIBLE.

A special thank you to our communications team (Matthew Davis, Sule Dedekarginoglu, and Dmitriy Ioselevich) and our funders (Omidyar Network and Ford Foundation).

ABOUT THE SHAREHOLDER COMMONS

The Shareholder Commons is an NGO helping investors work collectively to reduce the social and environmental costs that businesses create when competing for profits, using shareholder stewardship, thought leadership, and policy advocacy to catalyze systems-first investing and to create a level playing field for sustainable competition.

LEARN MORE AT

https://theshareholdercommons.com

FOREWORD

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Author of "*Universal Ownership in Practice: A practical Positive Investment Framework for Asset Owners*"

I am delighted to introduce The Shareholder Commons' inaugural annual report. TSC is a new NGO that is catalysing a paradigm shift in responsible investment.

Those who follow the financial markets closely may question the need for another NGO in this field. Isn't it chock-full already? And what would a new one add? It may seem as though we live in an era in which the worst excesses of capitalism have been tamed. Practices such as divestment and screening have proliferated, while shareholder engagement on social and environmental issues has spread widely. Companies propound the benefits of "stakeholder capitalism."

I truly wish it were so. While these developments have led to modest improvements according to various environmental, social, and governance (ESG) measures at some companies, they are not yet fit for the purpose of comprehensively addressing the catastrophic risks confronting an interdependent global economy that is approaching—and in many cases exceeding—critical social and ecological boundaries.

The root problem is that, as currently practiced, responsible investment and stakeholder capitalism are focused on identifying and mitigating ESG risks **to** the financial returns of individual companies or portfolios. Largely unaddressed are the ESG risks **from** company practices that everyone else bears. To take the next necessary step, investors must focus on ending corporate behaviour that externalises costs that others—including their own shareholders—internalise, whether through investments in diversified portfolios or through the lives they live.

TSC is founded on the principle that responsible investors must go beyond asking companies to "do well by doing good." They must also insist that companies stop doing bad, *even when bad creates the greatest internal financial return for the company over the short or long term*. (And make no mistake—that will often be the case.) Without forcing some companies to surrender financial value that relies on cost externalisation, there is no way to realistically address climate change, mass extinction, growing inequality, or pandemics, to name just a few major systemic risks. As important as regulation is in addressing these concerns, it would be the triumph of hope over experience to believe regulation can address the cost of externalities across the global economy on its own. Investors must work to complement regulatory efforts, in part by insisting that companies end political influence campaigns that interfere with needed regulation.

To meet this challenge, TSC has identified a group of potential heroes waiting in the wings. Universal owners—the large, diversified, long-term investors such as pension funds, sovereign wealth funds, and university endowments—control most global capital markets and bear the burden of these external costs. The success of any company or sector at the expense of the rest of the market runs counter to universal owners' interests. They ought to be able to pursue truly responsible investment practices that focus on preserving the systems in which all their investments are embedded and upon which all their beneficiaries depend.

This report details how TSC is empowering these investors. They are leveraging the power and incentives of universal owners and other diversified investors. In their first year of activity, they have begun to build a field of asset owners, asset managers, advisors, and civil society organisations who want a new toolkit to ensure that profits are aligned with social cohesion and environmental preservation. They have elevated a **systems-first mindset** that emphasises the importance of overall market performance, contrasting this approach with a company-first perspective that exacerbates systemic costs and risks. They have begun to develop tools for **beta stewardship** so that investors have a way of inducing companies to prioritise their impacts on social and environmental systems. TSC's journey is only beginning. Join me in celebrating this vital work and in committing to reshaping the investment industry to meet the needs of all flora and fauna on our fragile planet.

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01

INTRODUCTION

This is the first yearly edition of The Shareholder Commons' (TSC) Beta Steward Proxy Review, a progress report on how investors are reframing their shareholder engagement practices to prioritize beta stewardship. This concept represents a paradigm shift for most investors. We want this report to serve as a public resource for the investment community and other stakeholders on how beta stewardship works, why it's important, and what investors can do to better protect our shared social, environmental, and economic systems. All of this is in service of preserving long-term returns for beneficiaries.

The reality of modern capital markets is that every business decision has an impact. These impacts can be far-ranging in how they affect increasingly interconnected systems. What a company does to make a profit is often less important than how it affects people and the planet. This is true whether it's a fossil-fuel company contributing to climate change or a food company contributing to deforestation and biodiversity collapse.

Recent academic research shows individual company performance is responsible for at most 25% of the performance of a diversified portfolio. The rest is explained by market or "beta" factors.[1] That means investors have a vested interest in making sure individual company decisions don't negatively harm the economy as a whole, which would result in reduced portfolio returns.The best way to address this dilemma is to move from a company-first approach to shareholder engagement (i.e., alpha activism) to a systems-first approach (i.e., beta stewardship).

As we wrote in our June 2021 newsletter: "Even as environmental, social, and governance (ESG) activists lambaste shareholder primacy, they accept the basic message that a company's long-term financial return to shareholders is the ultimate measure of success for corporate executives. The movement is haunted by an unspoken assumption (and sometimes a bald assertion) that every company can adequately reform its behavior without having to accept reduced long-term financial return."[2]

This report directly challenges that faulty assumption. We cannot 'ESG our way to sustainability' by focusing on making incremental improvements at the company level.

> Universal investors are economic investors. They have interest in the social assets on which the economy and investment returns depend. The importance of these is apparent in a crisis, but vigilance is most critical during better times, when market-oriented voices are louder and the erosion of social assets can occur beyond investors' view… Universal investors must work together to develop standardised, fit-for-purpose tools that ensure their social assets are fully accounted for.
>
> **Susheela Peres da Costa**
> Head of Advisory at Regnan, chair of the Responsible Investment Association of Australasia (RIAA), and a Member of the Board of Directors for The Shareholder Commons[3]

1 Roger G. Iobbotson. "The Importance of Asset Allocation," Financial Analysts Journal, Vol. 66, No. 2, 2018, pp. 18-20, available at https://www.tandfonline.com/doi/abs/10.2469/faj.v66.n2.4.
2 The Shareholder Commons - June Newsletter." The Shareholder Commons, 30 June 2021, available at - https://archive.aweber.com/awlist5404792/0qnaw/h/The_Shareholder_Commons_.htm
3 Peres da Costa, Susheela. "COVID19 Shows Universal Owners Need Active Ownership to Safeguard Social Assets and Advocate for Principled Political Economy." Responsible Investor, Responsible Investor, 31 Mar. 2021, available at https://www.responsible-investor.com/articles/covid19-shows-universal-owners-need-active-ownership-to-safeguard-social-assets-and-advocate-for-principled-political-economy

Instead, we propose a better path forward. Beta stewardship has the potential to improve the returns of diversified shareholders while simultaneously protecting our critical social and environmental systems.

WHAT IS BETA STEWARDSHIP?

To understand beta stewardship, it's important first to understand how modern capital markets operate.[4]

Asset owners such as pension funds and sovereign wealth funds are expected to preserve their capital and earn sufficient returns to satisfy obligations to retirees and other liabilities. Asset managers, meanwhile, are hired to help investors optimize their returns based on an acceptable level of risk. For owners and managers alike, returns are the result of three variables:

- The return of the market overall to the classes of securities within a portfolio (beta);
- The performance of the portfolio above or below beta based on the securities selected to be in the portfolio (alpha); and
- Asset management costs and fees.

Until now asset owners and managers have focused on the second and third components. They have accepted beta as a factor over which they have no control and for which they have no responsibility. The increasing recognition that the social and environmental systems upon which the global economy depends are at risk from corporate behavior demonstrates the deep flaw in that thinking: corporate behavior with respect to social and environmental systems affects the economy as a whole, and overall economic performance is a critical determinant of beta.

> We argue that maximization of shareholder welfare is not the same as maximization of market value. We propose that company and asset managers should pursue policies consistent with the preferences of their investors. Voting by shareholders on corporate policy is one way to achieve this.
>
> **Oliver Hart**
> professor at Harvard University and a co-recipient of the Nobel Prize in Economic Sciences, in his research on why "Companies Should Maximize Shareholder Welfare Not Market Value"[5]

Shareholder activism in other areas demonstrates that shareholders can indeed affect behavior across corporations through voting and engagement. 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 reasonable attempts to improve a critical facet of return.

WHAT DOES TSC DO AROUND SHAREHOLDER STEWARDSHIP?

TSC supports investors in a number of ways, from providing education and facilitating co-creation on shareholder stewardship to developing proxy-voting guidelines and catalyzing the development of investment guardrails in both public and private markets. TSC also helps investors file shareholder resolutions with a beta stewardship lens. While each proposal is unique, TSC can play a supporting role in one or more of the following:

- Identifying a systemic risk relevant to a public company
- Drafting proposal language with supporting evidence on the potential risks to investor portfolios and the broader economy
- Collaborating with one or more shareholders to file the proposal
- Interfacing with company management and/or financial regulators to push the proposal forward
- Engaging with other shareholders and proxy advisors to build support for the proposal
- Monitoring and reporting the results of the shareholder resolution

TSC's level of involvement is up to the investor, and can range from leading the entire process, especially for investors new to shareholder stewardship, to working side by side with the existing investment team. This flexibility is designed to make it easy for shareholders of any size to raise these systemic issues. Our funders support this work, which we provide at no cost to our investors.

We also work to influence policy and litigation, to change the rules that govern investors in support of a more sustainable approach, and we practice public advocacy and field building to catalyze the development of infrastructure that will be needed to inform, uphold, and reinforce a systems-first approach over time. Visit our website at www.theshareholdercommons.com to learn more about our theory of change and strategic vision.

4 For more information on beta stewardship, please visit The Shareholder Commons website page dedicated to the topic, available here: https://theshareholdercommons.com/beta-stewardship/

5 Hart, Oliver. & Zingales, Luigi. "Companies Should Maximize Shareholder Welfare Not Market Value." Journal of Law, Finance, and Accountancy, 2017, 2: 247-274, available at https://scholar.harvard.edu/files/hart/files/108.00000022-hart-vol2no2-jlfa-0022_002.pdf

WHAT WERE THE RESULTS OF THESE SHAREHOLDER PROPOSALS DURING THE 2021 PROXY SEASON?

As of June 30, 2021, we provided support for 24 shareholder proposals, one of which we withdrew after reaching an agreement with the target company (YUM! Brands). Details on that agreement are below. Of the remaining 23 proposals, three received at least 10% support from shareholders, six were excluded by the Securities and Exchange Commission (SEC), and seven reached the 3% threshold necessary for us to be able to provisionally file again in 2022.[6] A full overview of these results can be found on pages 9-12, and we have also provided three detailed case studies on pages 13-21 that provide a first-hand look at how the shareholder engagement process works and the lessons we learned along the way.

Given this was the first year that TSC was an active voice during the proxy season, we are motivated by the results to date. It's also the first time that companies and financial regulators such as the SEC have encountered systems-first proposals with no enterprise-risk element. We recognize shareholders, company management, and regulators still need more education and market-building around the concept of beta stewardship to ensure everyone understands why these issues demand their attention. As these ideas begin to take hold, we believe we are moving from the "innovators" stage to the "early adopters" stage.[7]

We are also encouraged by the growing support from proxy advisors and other shareholder engagement leaders, which play an important role in advising investors how to vote on different shareholder proposals. We look forward to building on these relationships in the years ahead, with a particular eye toward engaging in a dialogue with the world's two most prominent proxy advisers—Glass Lewis and ISS.

WHAT'S NEXT FOR TSC AND BETA STEWARDSHIP?

While the 2022 proxy season is still months away, we are already building a broad coalition of supporters who recognize the importance of addressing a wide range of systemic risks, with a specific focus on the risks that we believe will most resonate with the investor community. We are also working on several off-cycle shareholder proposals for autumn 2021.

> Fiduciary duty should be adjusted to provide better guardrails within which asset owners can operate. It seems that fiduciary duty, with its current high bar in financial primacy and poor air-cover for trustees, is fast becoming an anachronism in a world now focused on sustainability and wider responsibility. Fiduciary duty varies by jurisdiction but using the UK's fairly typical pension system as an example, there appears to be a fundamental disconnect between the government's legal net-zero obligations and asset owners' ability to help fulfil these. In order to be fit-for-purpose fiduciary duty probably requires a statutory override that accommodates net-zero commitments. This form of guardrail could help asset owners avoid the prisoners' dilemma, of acting singly and selfishly, and instead act collectively and with solidarity as a better path for all. It seems that only through collective action, and doing what we can with what we've got, that the investment industry can step up and avoid potentially irreversible damage occurring to our most important systems.
>
> **Roger Urwin**
> co-founder of the Thinking Ahead Institute, a nonprofit launched by Willis Towers Watson that "aims to mobilize capital for a sustainable future"[8]

The key to our strategy is reframing the conversation on shareholder engagement from a company-first to systems-first approach. Engagement on systemic issues such as climate change and public health can have a more important positive impact on investor returns than engagement on company-specific issues by raising the returns of the benchmark returns for both actively and passively managed portfolios.

In the months ahead, we plan to continue to build this field by publishing research and newsletters, speaking at events and webinars, educating investors and proxy advisors, and engaging with the SEC and other public officials. We recognize how much work remains to be done and are grateful for the support of our funders, partners, and allies in pushing this conversation forward.

6 There is an active lawsuit led by a group of investors including ICCR and As You Sow to reverse the SEC's 2019 amendment to the 14a-8 rule that raised the threshold required to resubmit a shareholder proposal from 3%, 6%, and 10% for matters voted on once, twice, or three or more times in the last five years with thresholds of 5%, 15%, and 25%.

7 Our work on beta stewardship is partly inspired by the "diffusion of innovations" theory, which is the process by which a social or technological innovation is spread over time among participants in a particular population or social system (in this case institutional investors or universal owners). Research suggests that an innovation can reach critical mass via successively higher rates of adoption, starting with Innovators (2.5% adoption) and followed by Early Adopters (another 13.5% adoption), Early Majority (34%), Late Majority (34%) and Laggards (16%). Based on the 2.5% threshold, we are at the Innovators stage of adoption. Learn more about Diffusion of Innovation theory here: https://corporatefinanceinstitute.com/resources/knowledge/other/diffusion-of-innovation/

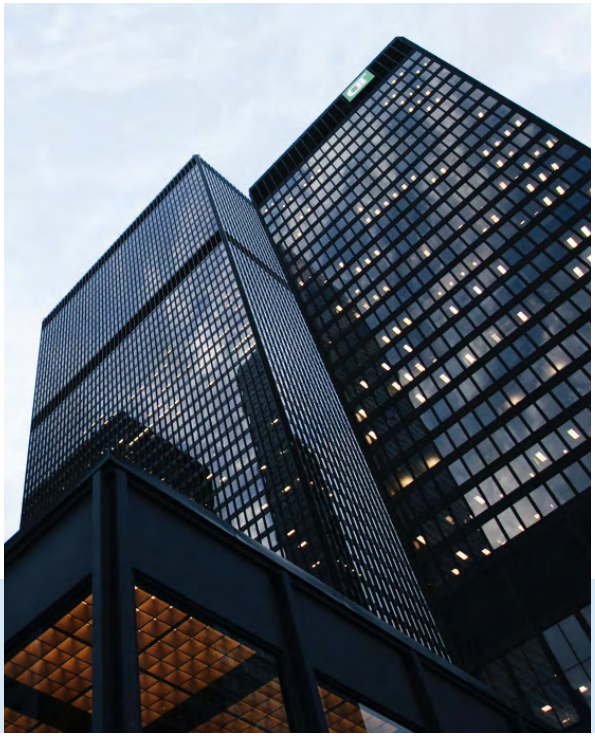
8 Urwin, Roger. "The net-zero challenge." Top1000Funds.com, 8 July 21 available at https://www.top1000funds.com/2021/07/the-net-zero-challenge/

WHAT IS UNIVERSAL OWNERSHIP THEORY?

	Modern Portfolio Theory (MPT)	Universal Ownership Theory (UOT)
How is idiosyncratic risk addressed?	– Diversification – Company stewardship	– Diversification – Company stewardship
How is systematic risk and overall market performance addressed?	– Not addressed	– Beta stewardship
Measure of success	– Performance vs. benchmark	– Absolute performance – Satisfaction of asset owner liabilities – Remaining within social and ecological boundaries – Performance vs. (improved) benchmark
Role of security selection	– Seek to outperform benchmark	– Seek to outperform (improved) benchmark
Role of stewardship	– Increase alpha	– Increase beta and alpha
View of externalized costs	– Not accounted for unless eventually internalized by company	– Accounted for when beneficiaries are harmed
Treatment of conduct by portfolio companies that increases company return but harms overall returns	– Rewarded	– Discouraged

02

2021 RESULTS



TSC supported 24 shareholder resolutions at 23 companies during the 2021 proxy season. The complete results of these resolutions are included in the chart on page 10.

We worked on two distinct types of shareholder resolutions:

01 DISCLOSURE OF THE COSTS IMPOSED ON SOCIETY (I.E., EXTERNALIZED) BY A COMPANY'S CONTRIBUTION TO SPECIFIC SYSTEMIC RISKS.

These risks include antimicrobial resistance, inequality, corporate governance failures, public health threats, and inadequate voting policies. It's our hope that these disclosures will provide the basis for a "gap analysis," in which companies compare their ability to reduce a negative social or environmental impact under the constraint of optimizing their internal financial returns with their ability to reduce that impact if optimizing for systemic health. The goal behind disclosure is to provide investors, regulators, and policymakers with information needed to address systemic risks and to illustrate the gap between current investment perspectives and what could be achieved under a systems-first model.

02 CONVERSION TO A PUBLIC BENEFIT CORPORATION (PBC) STRUCTURE.

PBCs are a type of for-profit entity that allows the directors of a company to better serve the interests of diversified shareholders by prioritizing impacts on society, workers, communities, and the environment when those impacts are more likely to be important to such investors than the financial returns of that company. We specifically targeted companies that were signatories to the Business Roundtable Statement on the "Purpose of a Corporation,"[9] which suggested corporate America is refocusing on the interests of stakeholders.The goal behind these proposals is to demonstrate that investors can be aligned with a more stakeholder-oriented management style, but that such a re-alignment requires understanding the fiduciary duty to shareholders as encompassing the full range of their interests, including as diversified investors.

9 "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'." Business Roundtable, 19 Aug. 2019, available at https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

Target Company	Beta Issue	Proponent of Resolution	Company Response	Public Support	Shareholder Response (% votes in favor)
3M (MMM)	PBC	John Montgomery	Challenged and not excluded	PIRC	3.3%
Alphabet (GOOGL)	PBC-DCS	Myra K. Young	Challenged and not excluded	PIRC	1% (2.6% without class B)[10]
Bank of America (BAC)	PBC	Harrington Investments	Not challenged	PIRC	2.6%
BlackRock (BLK)	PBC	James McRitchie	Not challenged	PIRC	2.3%
Caterpillar (CAT)	PBC	Myra K. Young	Not challenged	PIRC	2.9%
Chevron (CVX)	PBC	Arjuna Capital	Not challenged	PIRC	3.0%
Citigroup (C)	PBC	Harrington Investments	Not challenged	PIRC	2.5%
CVS (CVS)	ED-PH	Myra K. Young	Challenged and excluded	–	–
Exxon Mobil (XOM)	PBC	Arjuna Capital	Challenged and excluded	PIRC	–
Facebook (FB)	PBC-DCS	James McRitchie	Not challenged	PIRC	1% (3.3% without class B)[10]
Goldman Sachs (GS)	ED-MTS	James McRitchie	Challenged and excluded	–	–
Goldman Sachs (GS)	PBC	Harrington Investments	Not challenged	PIRC	2.4%
JPMorgan Chase	ED-MTS	James McRitchie	Challenged and excluded	–	–
Marriott International (MAR)	ED-I	Myra K. Young	Challenged and excluded	–	–
McDonald's (MCD)	ED-AMR	Trinity College, Cambridge; Amundi Asset Management	Not challenged	LGIM; ShareAction	12%
PepsiCo (PEP)	ED-PH	John Montgomery	Challenged and not excluded	ShareAction	12.18%
S&P Global (SPGI)	PBC	Myra K. Young	Not challenged	PIRC	3.9%
Salesforce (CRM)	PBC	Change Finance	Not challenged	PIRC	3.40%
State Street (STT)	MMD	James McRitchie	Challenged and excluded	PIRC	–
Tractor Supply (TSCO)	PBC	James McRitchie	Challenged and not excluded	PIRC	3.38%
UPS (UPS)	PBC	Myra K. Young	Not challenged	PIRC	3.5%
Wells Fargo (WFC)	PBC	Harrington Investments	Not challenged	PIRC	3.0%
Yelp (YELP)	PBC	James McRitchie	Not challenged	PIRC	11.80%
YUM! Brands (YUM)	ED-AMR	Paul Rissman	Withdrawn	–	Agreement reached

ED-AMR = externalities disclosure: antimicrobial resistance (2)
ED-I = externalities disclosure: inequality (1)
ED-MTS = externalities disclosure: underwriting multi-tier share IPOs (2)
ED-PH = externalities disclosure: public health (2)
MMD = market materiality of voting policies disclosure (1)
PBC = transition to a Public Benefit Corporation (14)
PBC-DCS = transition to a Public Benefit Corporation contingent on elimination of dual-class share structure (2)

10 Class B shares have ten votes per share and are typically held by corporate insiders, so a more accurate measure of investor support for a shareholder proposal would not include class B shares.

ANALYSIS OF RESULTS

We view these results as both encouraging and educational. While only one shareholder proposal (YUM! Brands) was taken up by company management, the more important result right now is growing awareness among shareholders about the importance of addressing a range of systemic risks.

This is especially true of public health issues such as antimicrobial resistance (AMR) and the production and marketing of food and beverage items that are linked to obesity and other health-related concerns. Beyond the YUM! proposal, which had an obvious public health focus, we also received strong shareholder support for our other AMR proposal at McDonald's (12%) and for our proposal asking PepsiCo to produce a "report on the external public health costs created by the food and beverage business" (12.18%).[11] This is well above the current threshold of 5% needed to resubmit a first-time proposal, although it's possible that threshold will be reduced back to 3% before the next proxy season. (See the chart on page 12 for more information.)

This development is especially important in light of the growing interest in public health issues, in part due to the COVID-19 pandemic. It revealed major shortcomings in our global health system. Between shortages in supplies and medical beds to the challenges of distributing a vaccine on a global scale, these are issues borne by the economy as a whole, and therefore relevant to the interests of diversified shareholders. While no single company bears full responsibility for these issues, there are multiple corporate practices that can be directly linked to them.

This is what we mean by a systems-first approach to investing. Changing one company's practices may not make much of a dent in something as complex as public health, but targeting a set of companies with the goal of establishing a shared understanding of how business practices are contributing to something like AMR can push far-ranging progress towards addressing the root cause of the issue.

As for the other systemic risks featured in our proposals, there is clearly a need for more education and coalition—building around ideas such as the systemic benefits of the PBC structure and the systemic costs and risks of multi-class equity offerings (see the case studies on page 13-21 to learn more). Just as it took many years for a majority of shareholders to take climate risks seriously—which has led to several high-profile wins at the company level—we recognize how much work remains to be done at the systems level. However, just as is the case with climate change, there is no time to waste in lifting up these systemic risks in corporate boardrooms and at shareholder meetings.

One specific pain point in this process is the role of governance advice, which has an outsized influence on the outcome of most shareholder proposals. A countless number of institutional investors rely on both internal and external experts for guidance on how to vote on a range of shareholder proposals.

However, most proxy advisors and governance professionals only consider the effect of a proxy vote on the individual security and ignore the effect on the diversified portfolio in which the security is held. This is a disservice to their clients, whose portfolios are affected more by systemic risks than individual company outperformance. Because our proposals focused on portfolio-level effects, neither ISS nor Glass Lewis—the two biggest and most powerful proxy advisors—supported any of our proposals in 2021, despite both firms continuously increasing support for ESG-oriented proposals.

Fortunately, there are several proxy advisors and shareholder advocates that can see past individual company returns and have strongly supported our work, including Alliance Advisors, PIRC Limited, ShareAction,[12] and others. We're proud to have their support and look forward to building an even broader coalition that includes civil society advocates, institutional investors, investment consultants, public officials, and regulators.

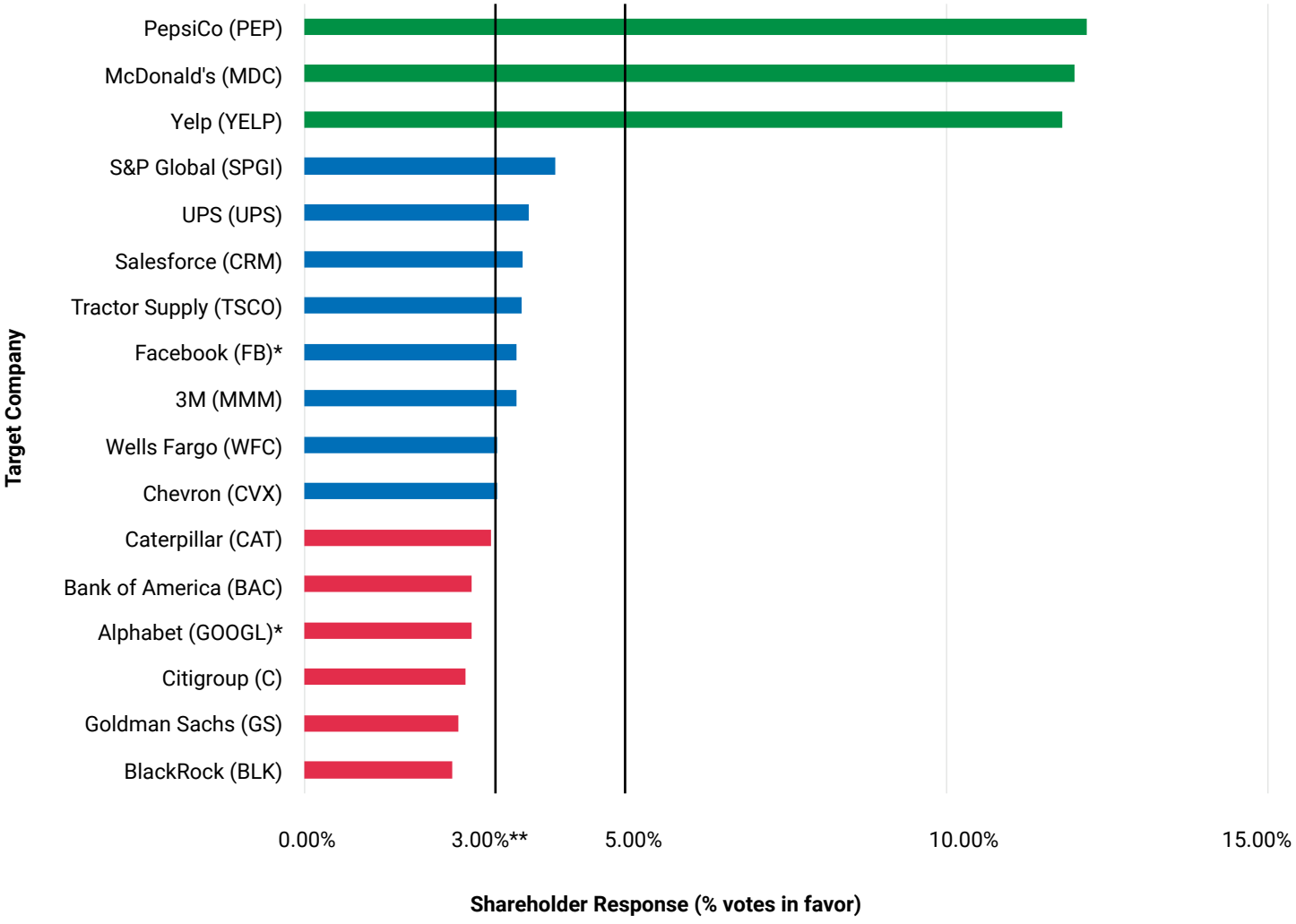
> **Diversification is meant to be one of our risk-management tools. But if you're facing systemic risk, you can run, but you can't hide. In other words, we can decide not to hold a company that's producing emissions — that's the divestment case. However, if the emissions continue, we're still exposed to the risk of climate change.**
>
> **Anne Simpson**
> Managing Investment Director for Board Governance & Sustainability at CalPERS, the largest pension fund in the U.S., in a recent interview with The New York Times[13]

11 "PEP – PepsiCo Corporation: Rule 14a-8 Proposal, November 19, 2020." The Shareholder Commons, available at https://theshareholdercommons.com/wp-content/uploads/2021/02/PEP-Proposal-ED-PH.pdf

12 Chuah, Kevin, et al. "Another Link in the Chain: Uncovering the Role of Proxy Advisors." ShareAction, Aug. 2019, available at https://shareaction.org/wp-content/uploads/2020/02/Another-Link-in-the-Chain-Uncovering-the-Role-of-Proxy-Advisors.pdf

13 Aguirre, Jesscia Camille. "The Little Hedge Fund Taking Down Big Oil." The New York Times, 23 June 2021, available at https://www.nytimes.com/2021/06/23/magazine/exxon-mobil-engine-no-1-board.html

2021 PROXY SEASON RESULTS



* Class B shares have ten votes per share and are typically held by corporate insiders, so a more accurate measure of investor support for a shareholder proposal would not include Class B shares. Alphabet (GOOGL) shareholder response is 1% (2.6% without Class B); Facebook (FB) shareholder response is 1% (3.3% without Class B)

** 65% of proposals met vote percentage required by the SEC for resubmission or for provisional resubmission in light of the lawsuit described in footnote #6.

03

CASE STUDIES ON BETA ISSUES

Three case studies show how public companies are responding to different systemic risks TSC raised during the 2021 proxy season.

> Antimicrobial resistance is a complex challenge which requires action by governments, NGOs, and corporations. We are all happy to see Yum! take this important step and hope to see more companies begin to align their AMR strategies explicitly with the needs of the global health system and planet.
>
> **Professor Dame Sally Davies**
> Master of Trinity College, Cambridge University
> in TSC's press release about the YUM! Brands agreement[15]

01 ADDRESSING ANTIMICROBIAL RESISTANCE BY REDUCING THE USE OF ANTIBIOTICS IN THE SUPPLY CHAIN

(featuring YUM! Brands + McDonald's)

Getting a hamburger or a bucket of fried chicken to the dinner table involves a complex set of actions and actors, working together to turn resources and raw materials (including cows and chickens) into finished products. Among the key ingredients in this supply chain are antibiotics, which are used to protect factory-farmed animals from disease, increasing production and profits for the purveyors of meat products. But there is a danger to the overuse of antibiotics. They threaten global health by reducing the effectiveness of antibiotic drugs for other diseases that can affect not just animals, but also human beings.

Antimicrobial resistance (or AMR) is one of the biggest public health issues of our time, far outstripping the social and economic impact of the COVID-19 pandemic. According to studies by the World Bank and the British government,[14] AMR could cause up to 10 million deaths a year by 2050. In addition to this staggering loss of life, AMR may decrease global GDP

14 Review on Antimicrobial Resistance, https://amr-review.org/
15 Read our announcement about the YUM! proposal at https://www.prnewswire.com/news-releases/the-shareholder-commons-announces-withdrawal-of-shareholder-proposal-after-yum-brands-commits-to-disclose-systemic-costs-of-antibiotic-use-301239878.html

3% by 2030, and almost 4% by 2050, amounting to economic losses by 2050 of $54 trillion in today's dollars.[16] The issue is of such importance that the United Nations hosted a High-Level Interactive Dialogue on AMR in April 2021.

AMR has also caught the attention of some of the world's largest institutional investors. In November 2020, 12 investors with a combined $7 trillion in AUM came together to back a coalition called Investor Action on Antimicrobial Resistance (AMR) with "commitments to scrutinise food and medicine companies' use of antibiotics before investing and to engage with businesses in which they already hold stakes to reduce misuse of the drugs."[17] [18]

> As AMR grows, it threatens to turn back the clock for mortality rates by one hundred years, making us unable to treat easily-controllable diseases like sepsis or undertake the majority of surgeries. This is crazily irresponsible behaviour.
>
> **Jeremy Coller**
> Founder of FAIRR & CIO Chairman of Coller Capital, in an announcement about the launch of the 'Investor Action on Antimicrobial Resistance'[19]

The Shareholder Commons supported AMR-focused shareholder proposals at two of the biggest food companies in the world—YUM! Brands (the parent company of KFC, Pizza Hut, etc.) and McDonald's—that both source meat from animals raised with antibiotics.[20] This is despite antibiotics being virtually unnecessary in regenerative farming systems. Studies show that it's the confinement system favored by big agriculture that forces animals into unhealthful living conditions that then make antibiotics necessary to maintain production.[21]

AMR is an example of a systemic risk that affects the entire market. While antibiotic use may be beneficial to the financial performance of individual companies in the food sector,—the potential public health risks caused by the overuse of these antibiotics negatively affects the long-term portfolios of diversified shareholders.[22] Based on current trends, scientists predict that humanity will experience a reversal of the public-health gains of the past century and the economic growth, development, and poverty reduction that these gains enabled.

TSC engaged with both YUM! and McDonald's on this issue, with the goal of getting company management to agree to do a 'gap analysis' that would include a report on the systemic effects of the use of antibiotics in its supply chain by the end of 2021. In March 2021, YUM! became the first public company to agree to disclose its impact on the broad economy and diversified shareholders.[23] Specifically, the company agreed to:

- Incorporate a study of the system-wide costs of antimicrobial resistance (AMR) into its public sustainability reporting
- Disclose its findings regarding how antibiotic use in animal husbandry threatens global health and well-being, as well as the global economy and diversified shareholder interests
- Discuss an optimal, global scenario for the food industry to eliminate or internalize AMR costs and address competitive concerns that would make progress more difficult without such an approach
- Describe how its policies and procedures—including those covering lobbying, political expenditures, and other forms of political influence—affect the realization of the global scenario

McDonald's decided to take a different approach. Despite our offer to withdraw the proposal if the company addressed our concerns, McDonald's management encouraged shareholders to vote the proposal down. The proposal still ended up getting 12% of votes in favor, significant for a first-time proposal.

We look forward to seeing how YUM! Brands follows through on our agreement, which we hope will inspire McDonald's and other companies that source meat from animals raised with antibiotics to tackle AMR at a systemic level.

16 "Drug-Resistant Infections: A Threat to Our Economic Future." World Bank, Mar. 2017, available at http://documents1.worldbank.org/curated/en/323311493396993758/pdf/final-report.pdf
17 "FT Health: Future of Antibiotics." Financial Times, Financial Times, 10 Feb. 2021, available at www.ft.com/reports/future-antibiotics
18 Investor Action on Antimicrobial Resistance, amrinvestoraction.org/
19 "First Investors Join Initiative to Unite Against 'Super-Sized' Threat of Antibiotic Resistance." Investor Action on Antimicrobial Resistance, 23 Nov. 2020, available at amrinvestoraction.org/article/first-investors-join-initiative-to-unite-against-super-sized
20 "McDonald's Corporation: Rule 14a-8 Proposal, December 10, 2020." The Shareholder Commons, available at theshareholdercommons.com/wp-content/uploads/2021/02/MCD-Proposal-ED-AMR.pdf and "YUM! Brands, Inc: Rule 14a-8 Proposal, December 3, 2020." The Shareholder Commons, available at theshareholdercommons.com/wp-content/uploads/2021/02/YUM-Proposal-ED-AMR.pdf
21 Landers, Timothy F, et al. "A Review of Antibiotic Use in Food Animals: Perspective, Policy, and Potential." Public Health Reports (Washington, D.C. : 1974), Association of Schools of Public Health, 2012, available at www.ncbi.nlm.nih.gov/pmc/articles/PMC3234384/
22 Jack, Andrew. "Investors Step up Pressure on Companies over Use of Antibiotics." Financial Times, Financial Times, 23 Nov. 2020, available at www.ft.com/content/2dfcb39a-e561-46cd-b422-f80a8394d488?emailId=604201a79419d3000492b6e0&segmentId=a8cbd258-1d42-1845-7b82-00376a04c08f
23 "The Shareholder Commons Announces Withdrawal of Shareholder Proposal after Yum! Brands Commits to Disclose Systemic Costs of Antibiotic Use." PR Newswire , The Shareholder Commons , 3 Mar. 2021, available at www.prnewswire.com/news-releases/the-shareholder-commons-announces-withdrawal-of-shareholder-proposal-after-yum-brands-commits-to-disclose-systemic-costs-of-antibiotic-use-301239878.html

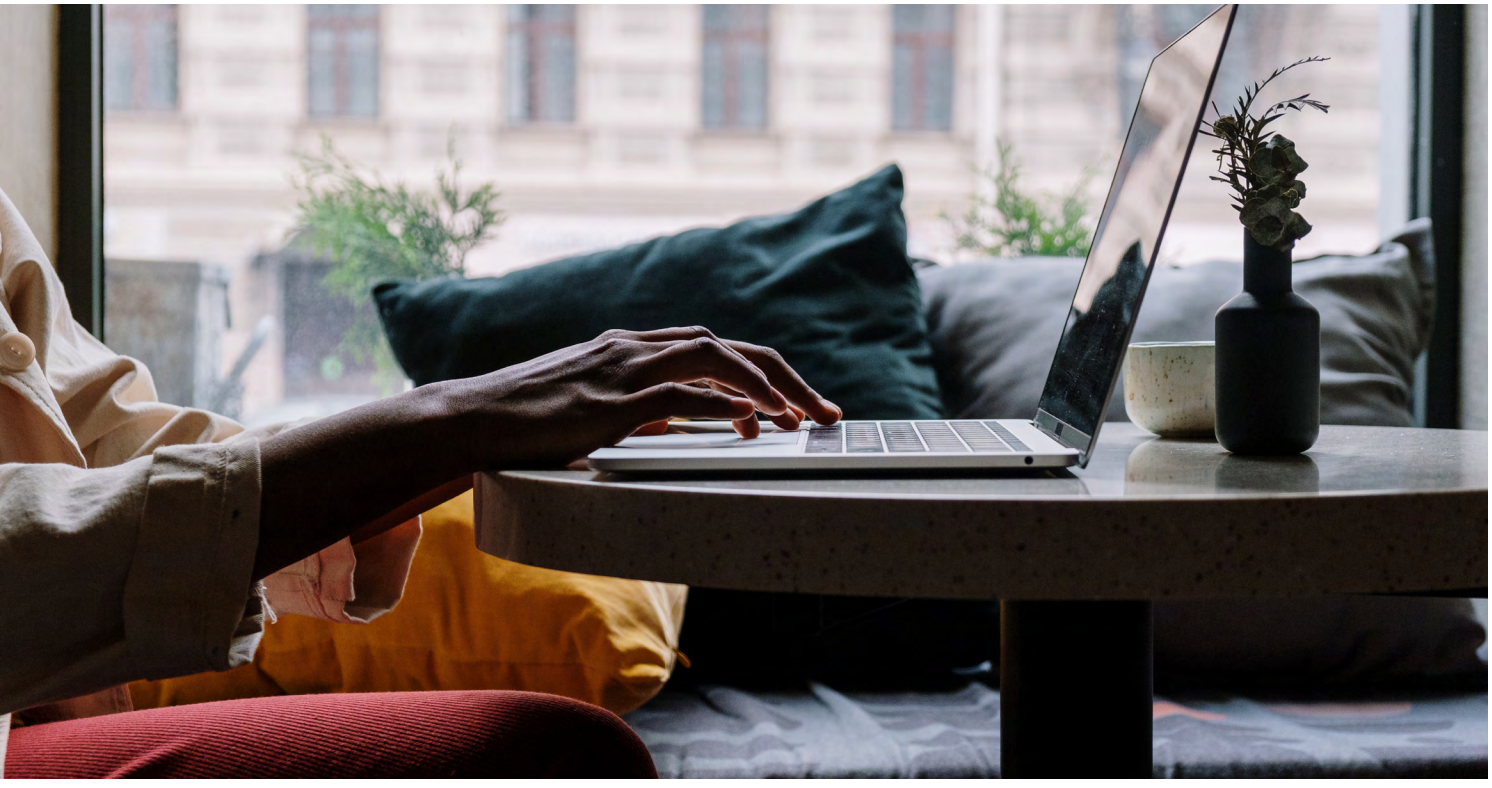
In light of the pandemic, investors are recognizing the critical role played by companies in shaping people's health, including people to whom they owe a fiduciary duty of care. This shareholder proposal sends a clear message to McDonald's and to its wider shareholder base about the systemic risks to health created by the abuse of antibiotics.

Catherine Howarth
Chief Executive of ShareAction.org, in TSC's announcement about the McDonald's proposal[24]

02 ENCOURAGING BUSINESS ROUNDTABLE MEMBERS TO CONVERT TO A PUBLIC BENEFIT CORPORATION STRUCTURE

(featuring Facebook + Salesforce)

The business and financial community reacted strongly in August 2019 when the Business Roundtable (BRT), a lobbying and advocacy group for America's largest businesses, adopted a new statement on the "purpose of a corporation," declaring that "companies should serve not only their shareholders, but also deliver value to their customers, invest in employees, deal fairly with suppliers, and support the communities in which they operate."[25]



24 Read our announcement about the McDonald's proposal at https://www.prnewswire.com/news-releases/the-shareholder-commons-to-present-shareholder-proposal-asking-mcdonalds-to-disclose-systemic-costs-of-antibiotics-use-in-their-supply-chain-301284556.html
25 "One Year Later: Purpose of a Corporation." Business Roundtable, 2020, available at purpose.businessroundtable.org/

This statement spawned news articles, think pieces, research papers, and punditry, with advocates celebrating the milestone as a sign of the changing times and critics blasting the move as either an empty public-relations tactic or a denigration of companies' duty to their shareholders.

Our reaction to the BRT Statement was a simple one: How can corporate management's new-found interest in stakeholders be aligned with fiduciary duty in order to protect investors' capital?

We believed that for businesses to protect the social and environmental systems upon which diversified shareholders rely, the fiduciary duties of directors must give them leeway to balance the interests of stakeholders whose lives are intertwined with those systems. The best way to do that is to transition to a public benefit corporation (PBC), a type of for-profit entity that allows company directors to better balance shareholder and stakeholder interests by prioritizing profits alongside positive impacts on society, workers, communities, and the environment.

There are numerous examples of companies prioritizing profits over social and environmental impacts in their business decisions, with the costs of these externalities being imposed on society rather than internalized into corporate practices. The most obvious example is fossil fuel companies, which rely on the extraction and burning of fossil fuels for revenue despite the clear systemic risks of greenhouse gas emissions. But practically every company faces potential trade-offs between profits and impact, from food and beverage companies selling unhealthy products to technology companies allowing their platforms to become havens for the spread of hate and misinformation.

Each company negotiates these trade-offs differently, but the advantage of a PBC structure is that company directors would have the legal flexibility to consider factors beyond just profits when making key decisions that may harm certain stakeholders. A growing number of companies are voluntarily choosing to adopt a PBC structure. There are now more than 10 listed PBCs in the United States, up from just one in the beginning of 2020, a trend that we foresee continuing as more companies adopt a stakeholder-centric business model.

> The public benefit corporation "puts legal force behind the idea that a business should have a positive purpose, commit to do no harm, seek sustainable wealth creation, and treat all its stakeholders with equal respect...Just one thing has to happen to make the benefit corporation model the dominant form of corporate governance in U.S. capital markets. The Business Roundtable and mainstream institutional investors must rally behind it.
>
> **Bob Eccles, Leo Strine, and Timothy Youmans**
> in a piece for Harvard Business Review
> on "3 ways to put a corporate purpose into action"[26]

> Embracing a legal commitment to balance stakeholder interests independent of financial return will ultimately benefit investors, ensuring companies' long-term commitment to stakeholders and a robust, equitable, and clean economy.
>
> **Natasha Lamb**
> managing partner at Arjuna Capital and proponent of a PBC shareholder proposal at Chevron, in a press release about TSC's PBC proposals[27]

26 Eccles, Robert G., et al. "3 Ways to Put Your Corporate Purpose into Action." Harvard Business Review, 13 May 2020, available at hbr.org/2020/05/3-ways-to-put-your-corporate-purpose-into-action

27 Read our announcement about the PBC proposals at https://www.prnewswire.com/news-releases/the-shareholder-commons-takes-action-to-force-companies-to-live-up-to-their-commitments-to-a-higher-purpose-with-growing-support-from-asset-managers-and-proxy-advisors-301297665.html

> We've seen that a sole focus on shareholder returns does not work for society, especially as corporations become larger and more powerful, particularly through the use and reach of technology.
>
> **Peter Gassner**
> CEO of Veeva Systems, which converted to a PBC as a public company [28]

We supported 16 PBC proposals in total, including 13 proposals targeting BRT members, making it the most common type of shareholder proposal we supported during the 2021 proxy season. The idea behind each proposal is that PBC directors would be expected to balance the interests of shareholders, stakeholders, and specified benefits, allowing the corporation to protect communities, even when it reduces financial return at the individual company in the long run.

While each proposal is worth discussion on its own merits, we wanted to focus specifically on two proposals targeting two very different but influential companies: Facebook and Salesforce.

28 Gassner, Peter. "Large Corporations Should Not Be Only about the Money." Medium, Medium, 10 Feb. 2021, available at medium.com/@peter.gassner/public-benefit-corporation-pbc-486e1e9508a6

IN OUR FACEBOOK PROPOSAL,[29] WE WROTE:

"The Company has unparalleled capacity to link people around the globe, with the potential to contribute to genocide, put democracy at risk, and undermine vaccination. Threats to international order, democratic principles, and public health could be prioritized at a PBC, even if it sacrifices return. These threats matter to shareholders, the vast majority of whom are diversified...Diversified shareholders lose when companies harm the economy, because the value of diversified portfolios rise and fall with GDP. While the Company may profit by ignoring costs it inflicts on society, its diversified shareholders ultimately internalize those costs."

The Facebook proposal received the support of 3.3% of the publicly traded Class A shares, representing about $20 billion in market value. We believe it's important to continue to raise this issue of corporate accountability for systemic risk with both Facebook management and Facebook's shareholders. The reality is that Facebook's 3 billion users give the company unique power, and power demands accountability. The "marketplace of ideas" defense used by Facebook CEO Mark Zuckerbeg ignores the serious social risks that Facebook has created.

Another PBC proposal focused on Salesforce, generally recognized as a company that takes stakeholder interests very seriously. Beyond his role as a signatory to the BRT Statement, Salesforce CEO Marc Benioff has also been very outspoken about stakeholder capitalism. In a much-discussed 2019 New York Times op-ed, Benioff wrote that "capitalism as it has been practiced in recent decades—with its obsession on maximizing profits for shareholders—has also led to horrifying inequality… To my fellow business leaders and billionaires, I say that we can no longer wash our hands of our responsibility for what people do with our products. Yes, profits are important, but so is society. And if our quest for greater profits leaves our world worse off than before, all we will have taught our children is the power of greed. It's time for a new capitalism—a more fair, equal and sustainable capitalism that actually works for everyone and where businesses, including tech companies, don't just take from society but truly give back and have a positive impact." [30]

These are big proclamations to make. We generally agree with Benioff's critique of capitalism as it's currently practiced. But this is the same CEO who early in the pandemic pledged to his company's workforce "not to conduct any significant layoffs over the next 90 days," and even encouraged other CEOs to follow his lead with a similar "no layoff" pledge. Benioff kept this word, but just two months after the expiration of the grace period, Salesforce announced that it had laid off around 1,000 people (or approximately 1.9% of the total workforce), despite posting record quarterly revenues of $5.15 billion.[31]

Salesforce has the opportunity to set an example by converting to a PBC and creating a corporate structure that reflects its focus on authentic value creation, rather than on profit at any cost.

IN OUR SALESFORCE PROPOSAL,[32] WE WROTE:

"The Company is a conventional Delaware corporation, so that directors' fiduciary duties emphasize the company and its shareholders, but not stakeholders (except to the extent they create value for shareholders over time). Accordingly, when the interests of shareholders and stakeholders such as workers or customers clash, the Company's legal duty excludes all but shareholders...That contradicts the commitment made in the Statement, as well the intention of management to run our Company for a purpose beyond maximizing financial returns. Consistent with the business philosophy of our founder, directors of a PBC 'balance' the interests of shareholders, stakeholders and a specified benefit, giving legal status to the Statement's empty promise."

29 "Facebook, Inc..: Rule 14a-8 Proposal, December 10, 2020." The Shareholder Commons, available at theshareholdercommons.com/wp-content/uploads/2021/02/FB-Proposal-PBC.pdf
30 Benioff, Marc. "Marc Benioff: We Need a New Capitalism." The New York Times, The New York Times, 14 Oct. 2019, available at www.nytimes.com/2019/10/14/opinion/benioff-salesforce-capitalism.html
31 Tilley, Aaron. "Salesforce Notifies Some Staff of Job Cuts." The Wall Street Journal, 26 Aug. 2020, available at www.wsj.com/articles/salesforce-notifies-some-staff-of-job-cuts-11598462934.
32 "Salesforce.com, Inc.: Rule 14a-8 Proposal, December 30, 2020." The Shareholder Commons, available at theshareholdercommons.com/wp-content/uploads/2021/02/CRM-Proposal-PBC.pdf.

Ultimately, this proposal received 3.4% shareholder support (more than $5 billion in market value), which we view as a positive result that sends a signal of support to Salesforce management and Mr. Benioff in particular to take strong action consistent with his vision for a "new capitalism."

We intend to continue filing PBC proposals in future proxy seasons, with a focus on building more support and awareness among both proxy advisors and diversified shareholders. We won the attention of key market watchers this year, including proxy advisor Alliance Advisors, which called our PBC campaign a "key theme" of the proxy season. We're also grateful for the support of PIRC Limited, a governance advisor that the Financial Times has called "the canary in the coalmine of corporate governance."[33]

We hope these early victories can give way to productive conversations with ISS and Glass Lewis, as well as the hundreds of investors that they advise on proxy votes.

> We are supporting PBC proposals because we consider that the inclusion of environmental and social objectives in the corporate purpose of corporations aligns companies, diversified shareholders and other stakeholders in a manner that a statement by the Chief Executive cannot. With a legal change, all stakeholders can see that the purpose of the corporation has truly changed. If there has been no such indication of an authentic commitment, shareholders have the right to ask if anything has meaningfully changed.
>
> **Francesco Navarrini**
> Head of Research at PIRC Limited, a corporate governance advisor, in a press release about TSC's PBC proposals[34]

03 LIMITING THE POWER OF CORPORATE INSIDERS BY RESTRICTING MULTI-CLASS EQUITY OFFERINGS

(featuring JPMorgan Chase + Goldman Sachs)

J.P.Morgan

Goldman Sachs

Our final case study is on a set of shareholder proposals that didn't make it to a vote, but that still provide a first-hand look at the tactics that companies use to reject corporate accountability and transparency to shareholders.

The issue at the heart of these proposals is financial institutions that underwrite multi-class equity offerings and the externalized costs of providing this service to clients. These types of equity offerings have become increasingly popular in recent years, especially among tech companies, as a way for founders to retain the majority of votes even if they own a minority of the shares.

For example, a company could go public with three classes of stock, Class A, B, and C, where B shares have the highest voting power (20 votes), A shares are common voting shares (1 vote), and C shares tend to have no voting power at all (0 votes). Outside investors would typically only be offered access to Class A or Class C shares, while corporate insiders would hold most if not all of the Class B stock. This severely limits the ability of shareholders to hold management accountable, a hallmark of poor corporate governance.

33 Cobley, Mark. "Shareholder group takes bank audit fight to Europe." Financial News, 8 July 2011 available at https://www.fnlondon.com/articles/pirc-auditors-barnier-20110708
34 Read our announcement about the PBC proposals at https://www.prnewswire.com/news-releases/the-shareholder-commons-takes-action-to-force-companies-to-live-up-to-their-commitments-to-a-higher-purpose-with-growing-support-from-asset-managers-and-proxy-advisors-301297665.html

This is a growing and troubling trend. In 2019, seven of the 10 largest IPOs issued shares with unequal voting rights, representing 36% of the $37 billion in IPO proceeds raised year-to-date. Between 2017 and 2019, more than 20% of new company listings had a dual class structure.

Every major investment bank offers this underwriting service, but we chose to target Goldman Sachs and JP Morgan Chase in our shareholder proposals because they are two of the largest underwriters of IPOs in the world.

Goldman Sachs itself published a report about the multi-vote share structure, which concluded that "using multi-class voting to insulate management from its own shareholders comes at a significant long-term cost."[35]

> [D]ual-class structures that grant insiders super-voting shares (typically 10 votes each) rob public shareholders of a meaningful voice in how the company is run. Over time, they can entrench management and blindside top executives to the need for change, even when they stumble.
>
> **Amy Borrus**
> Executive Director of the Council of Institutional Investors (CII) in an op-ed for Pensions & Investments[36]

IN OUR PROPOSAL TO GOLDMAN SACHS,[37] WE WROTE:

"In addition to the risk of poor returns for their own shareholders, these structures give unchecked power to insiders, whose concentrated interests are misaligned with the interests of typical diversified shareholders. As a working paper co-authored by a Nobel Laureate notes, "initial entrepreneurs are not well-diversified and so they want to maximize the value of their own company, not the joint value of all companies." By lending reputation and expertise to marketing governance structures that risk both underperformance and misalignment of corporate control with shareholder interests, the Company jeopardizes the viability of the one share, one vote governance model that creates significant economic wealth for shareholders and society. As a 2020 study noted, "if many similarly-situated companies [accept a higher cost of capital for multi-class shares], then the prevalence of dual class shares might have negative consequences for the economy as a whole…. The Company's facilitation of poor corporate governance across the economy is a social issue of great importance. A study would help shareholders determine whether to seek a change in corporate direction, structure, or form in order to better serve their interests."

We submitted an essentially identical proposal to JPMorgan Chase,[38] making the case for a study on the costs of this controversial underwriting practice. However, both companies filed No-Action Relief (NAR) letters with the SEC in an attempt to exclude the proposal from their annual shareholder meetings. The letter from Goldman Sachs[39] argued that the proposal may be excluded pursuant to Rule 14a-8(i)(7) because it "deals with matters relating to the Company's ordinary business operations." JPMorgan Chase made a similar argument in its NAR letter.[40]

35 Constable, Simon. "Goldman Sachs Warning: One-Share One-Vote Or Else The Stock Will Suffer." Forbes, Forbes Magazine, 30 Sept. 2019, available at www.forbes.com/sites/simonconstable/2019/09/30/goldman-sachs-warning-one-share-one-vote-or-else-the-stocks-shares-will-suffer/?sh=2aabff71da25.
36 Borrus, Amy. "Dual-class structures rob voices of shareholders." Pensions & Investments, 1 Apr. 2019, available at https://www.pionline.com/article/20190401/PRINT/190409997/commentary-dual-class-structures-rob-voices-of-shareholders
37 "Goldman Sachs Group, Inc: Rule 14a-8 Proposal, November 18, 2020." The Shareholder Commons, available at https://Theshareholdercommons.com/Wp-Content/Uploads/2021/02/GS-Proposal-ED-MTS.pdf.
38 "JPMorgan Chase & Co.: Rule 14a-8 Proposal, December 4, 2020." The Shareholder Commons, available at theshareholdercommons.com/wp-content/uploads/2021/02/JPM-Proposal-ED-MTS.pdf.
39 "Re: The Goldman Sachs Group. Inc. Shareholder Proposal of James McRitchie and Myra K. Young (John Chevedden) Securities Exchange Act of 1934 ('Exchange Act')-Rule l4a-8." The Shareholder Commons, 29 Dec. 2020, available at theshareholdercommons.com/wp-content/uploads/2021/02/GS-NAR-ED-MTS.pdf
40 "Re: Shareholder Proposal Submitted by James McRitchie." The Shareholder Commons, 11 Jan. 2021, available at theshareholdercommons.com/wp-content/uploads/2021/02/JPM-NAR-ED-MTS.pdf.

We expected this opposition and sent letters to the SEC in response. We encourage anyone interested in this topic to take the time to read through the letters, all of which are available on TSC's website.[41] [42] For the purposes of this case study, our argument is summarized as follows:

- Shareholder proposals involving significant social policies are not excludable if they involve issues that engender widespread debate, media attention and legislative and regulatory initiatives.
- The proliferation of multiclass IPOs is a significant policy issue that has resulted in major public controversy, with one Senator writing in a letter to the major stock exchanges that "If a company goes to the public markets to raise money, long-term ordinary common stock investors - a category that includes directly or indirectly millions of retirees and workers - should be entitled to certain basic rights. One of the most basic of those rights is one-share-one vote."[43]
- There is widespread investor opposition to multiclass structures and index modification, including by leading public pension funds such as CalPERS and CalSTRS as well as asset managers like Fidelity, State Street, T. Rowe Price and Vanguard; the Council of Institutional Investors (CII) in 2018 called multiclass voting and the 'founder knows best' approach a violation of the "bedrock corporate governance principle of 'one-share, one-vote.'"
- A growing body of research supports policy concerns, including a 2004 study published by the National Bureau of Economic Research found voting control by insiders can lead to management entrenchment that can have a negative impact on firm investment.
- The SEC has publicly addressed the broad social policy concerns created by dual class structures, with former Commissioner Kara Stein quoted as saying "Structures where a minority of insiders lock out the interests and rights of the majority may also have collateral effects on our capital markets. They may be harmful not just for those companies, their shareholders, and their employees, but for the economy as a whole."

Ultimately, the SEC sided with Goldman Sachs and JPMorgan Chase in allowing those companies to omit our proposals from their respective 2021 proxy materials. While we disagree with this decision, we are not surprised. Large corporations have sophisticated tools—and lawyers and compliance professionals—with which to fight back against shareholder proposals that they find irrelevant or potentially damaging. But shareholders have plenty of tools at their disposal as well, and good reason to use them.

We intend to continue to engage with SEC officials to make sure they understand why these kinds of proposals are consistent with current securities law and why they should be allowed to come to a vote.

> It could not be clearer: the Proposal requests a report on how giving entrepreneurs perpetual power over the governance of public companies (which leads to different perspectives between concentrated controllers with minority economic interests and diversified owners with majority interests) can lead corporations to engage in activities that lower GDP and thus lower the value of the owners of diversified portfolios, like the Company's three largest shareholders.
>
> **TSC response to Goldman Sachs' NAR letter[41]**

41 "Re: Shareholder Proposal to Goldman Sachs Regarding Underwriting Multiclass Stock on Behalf of James McRitchie." The Shareholder Commons, 22 Jan. 2021, available at theshareholdercommons.com/wp-content/uploads/2021/02/GS-NAR-ED-MTS-Response.pdf.

42 "Re: Shareholder Proposal to JPMorgan Chase & Co. Regarding Underwriting Multiclass Stock on Behalf of James McRitchie." The Shareholder Commons, 3 Feb. 2021, available at theshareholdercommons.com/wp-content/uploads/2021/02/JPM-NAR-ED-MTS-Response.pdf.

43 Letter from Elizabeth Warren, U.S. Senator, to John Carey, Vice President-Legal, NYSE Regulation, Inc. and NYSE Euronext & Edward Knight, Executive Vice President and General Counsel, NASDAQ OMX (June 5, 2013), https://www.warren.senate.gov/files/documents/Senator%20Warren%20letter%20to%20NYSE,%20Nasdaq%20-%206-5- 2013.pdf

04

CALL TO ACTION

This report is not about celebrating our successes such as they are, but about sharing with the market our experience in raising these important systemic issues.

We know there are many individuals and organizations out there—asset managers, asset owners, non-profits, academics, scientists, proxy advisors, service providers, and others—who care about and believe in the idea of beta stewardship. Taking these issues to the next level and beginning to effect real and lasting change requires more than a few committed system changers. It requires a movement.

We see our role as the catalysts of that movement, helping different market actors to understand their power and their responsibility in pushing these systemic issues forward. Our work on shareholder stewardship is just one piece of that puzzle. We are also engaged in policy and litigation to change the rules that govern investors in support of a more sustainable approach, and in public advocacy and field building to catalyze the development of infrastructure that will be needed to inform, uphold and reinforce a systems-first approach over time.

We have several off-cycle proposals in the works for later in the year. In the meantime, our focus is on building this movement and bringing in more motivated players who either own capital, manage capital, and/or advise on capital.

If you're a **shareholder** who wants to file or co-file a proposal, contact us to learn more about the process. We can do all the heavy lifting.

If you're a **shareholder** but you don't feel comfortable filing a proposal, please consider publicly supporting the proposal when it's introduced.

If you're a **proxy advisor** interested in beta stewardship, please contact us to learn more.

If you're an **academic or researcher**, let's partner on a project to help build the case for beta stewardship.

If you don't fit into any of these categories but still want to support beta stewardship, then sign up for our newsletter to stay in the loop on opportunities to contribute to our work.[44]

We're embarking on a fundamental transformation of our financial system to lock in its beneficiaries' prosperity. Investors have the power to work together to make this happen, to their mutual benefit.

Beta stewardship entails no tracking error, in that it presents no pressure to sell stocks. Instead, investors can keep their portfolios intact and get the whole market to change its strategy and improve overall returns of key benchmarks, and by extension, diversified portfolio value.

There are concrete steps we can take to make this happen and to secure our prosperity. Join the movement toward authentic value creation by sharing this report with your colleagues and following TSC to stay up to date on the latest developments.

44 Sign up to receive regular updates from The Shareholder Commons' guide to beta stewardship at http://eepurl.com/hEQRPj

theshareholdercommons.com
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