



GLASS LEWIS

**2020
PROXY
SEASON
REVIEW**



Shareholder Proposals

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Executive Summary



Dear reader,

The 2020 proxy season brought unparalleled challenges for investors and companies alike – and put many of the issues typically addressed by shareholder proposals in a new light.

The pandemic was the elephant in the room during the 2020 proxy season, particularly when it came to shareholder proposals; because shareholder proposals are submitted months in advance of a meeting, they generally did not explicitly address some of the most pressing issues related to the coronavirus. Despite this omission, the pandemic and its effects colored the way that Glass Lewis approached our analysis of and vote recommendations for shareholder resolutions. However, unlike many other teams at Glass Lewis, we did not make any formal changes to our ESG guidelines in light of these developments, as our policies already factor in company-specific considerations and allow for a nuanced approach to most issues raised through the shareholder proposal process.



While the pandemic was one of the most pressing issues faced during the 2020 proxy season, it only served to strengthen many investors' focus on ESG-related matters and highlight the potential adverse impacts of non-financial risks on companies. As a result of the growing importance of these issues, Glass Lewis has been working to find ways to further integrate ESG considerations into our analysis. For a number of years, we have maintained a partnership with Sustainalytics and display their top-level information in our Proxy Paper reports. We also have included industry-level information from the Sustainability Accounting Standards Board ("SASB") in our research and consider their findings when determining what issues are financially material for a company. In addition, aside from a thorough review of issues raised in the shareholder proposal process, we have also expanded our research to account for how boards are overseeing ESG-related issues and how companies are incentivizing executives through remuneration plans to fulfill ESG-related objectives.

We have also extended our focus on ESG-related issues to our engagement with corporate issuers and other market participants. Prior to the most recent proxy season, Glass Lewis had conducted a record number of engagements with public companies, investors and shareholder proponents. These conversations help to refine our policies and our research and allow us to communicate our priorities and the issues that we believe hold the most importance to our clients and the market, more broadly. With respect to ESG, we have for several years maintained a focus in our engagements on two key issues: climate change and human capital management. These are, in our view, cross-cutting issues that have material impacts on all companies -- though how these impacts manifest themselves will vary significantly from company to company. These also happened to be some of the most dynamic issues during the 2020 proxy season.

One of the more interesting developments throughout the season was the growing number of climate-related shareholder proposals seen in markets outside of the United States. Companies in Japan, South Africa, the UK, and Canada all had climate-related proposals on their ballots. Some of these proposals were more contentious than others; several South African banks placed management proposals on the ballot outlining their approach to climate change, while Barclays, a UK company, had both a management and shareholder proposal on the ballot that effectively allowed shareholders a referendum on how it was managing climate-related issues. Perhaps more notably, climate proposals received majority support at a Canadian and Australian company and a separate proposal received very strong support at a Japanese bank.

Meanwhile, issues of human capital management have recently taken on new meaning. Throughout our engagements and in anticipation of the 2020 proxy season, human capital management had been viewed through the lens of a strong job market where companies were fiercely competing for the best talent possible. This picture has been upended given record levels of unemployment as a result of the pandemic. While our conversations with companies often dealt with issues of attracting and retaining employees, we are now focused on how companies are supporting and ensuring safe working conditions for employees who have very recently begun to be viewed as critical front-line workers.

It is with our continued focus on ESG and the developments of the 2020 proxy season in mind that Glass Lewis will begin to turn our attention back to an undoubtedly busy engagement season as well as updating our policy guidelines. While it does not appear that in-person meetings are in the near future, we look forward to our ongoing dialogues with companies and investors and hope to speak with many other market participants with whom we have not yet had a chance to engage.

For any public company or shareholder proponent wishing to engage with our research team, please send a request to our engagement team or through our website: <https://www.glasslewis.com/issuer-overview/>. Additionally, we always welcome feedback on our policy guidelines, which can be emailed to us at any time at guidelinescomments@glasslewis.com. We look forward to hearing from you!

Warm regards,

A handwritten signature in black ink, appearing to read 'CK', with a stylized flourish at the end.

Courteney Keatinge

Sr. Director, ESG Research

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REPORT METHODOLOGY

In this analysis, which covers shareholder proposals that went to a vote at U.S. companies with meetings between January 1 and June 30, 2020, all calculations regarding shareholder support for both management and shareholder proposals represent the total votes “for” a given proposal over the total votes “against” the proposal and exclude abstentions and broker non-votes. We have also excluded shareholder proposals at certain special and contested meetings, as those proposals are often duplicated or are highly specific to firm operations and management.

We have also excluded certain proposals related to specific business transactions (e.g., self-tender offers and termination of management and advisory agreements) as they are commonly transactional in nature and do not specifically relate to environmental, social, compensation or governance issues.

Lastly, we recognize that environmental, social, compensation and governance-related shareholder proposals are not always mutually exclusive. As such, we have attempted to classify proposals suitably, while acknowledging the existence of crossover classifications.

Overview



To say that the first half of 2020 was turbulent would be a dramatic understatement. By March, most of the world had entered a lockdown as a result of a global pandemic. Two months later, the United States was rocked by the death of George Floyd and the attendant social unrest as a result of systematic racism. Though these were the predominant issues facing companies and shareholders during the 2020 proxy season, none of these issues were explicitly addressed by shareholder proposals that went to a vote during the season. This is largely a function of timing, as shareholder proposals that go to vote during proxy season are often submitted by January. Accordingly, the most pressing issues of the day were not necessarily reflected in the proposals submitted by shareholders.

Although the events of the first half of 2020 were not necessarily on the ballot, they were front of mind for many investors during the most recent proxy season, as were other pressing ESG issues, including those related to climate change. Moreover, these issues are no longer just the purview of socially responsible investors or NGOs. Rather, mainstream investors have become increasingly vocal on many of these topics. For example, in January 2020, BlackRock, the largest asset manager in the world, became the latest signatory to the Climate Action 100+, an investor initiative aimed at encouraging the world's largest corporate GHG emitters to take action on issues related to climate change. For many, this signaled the potential that the asset manager, who had traditionally not supported the vast majority of climate-related proposals, may be more willing to back these resolutions. Another large asset manager took it one step further, submitting shareholder proposals for a vote at a number of highly-emitting companies; BNP Paribas submitted three proposals for a vote requesting that companies provide more reporting on how their lobbying efforts align with the goals of the Paris Agreement, one of which received majority shareholder support.

It was our expectation at the beginning of proxy season that shareholders would take into account the significant struggles faced by companies on account

PROPOSALS REVIEWED BY GLASS LEWIS DURING PROXY SEASON

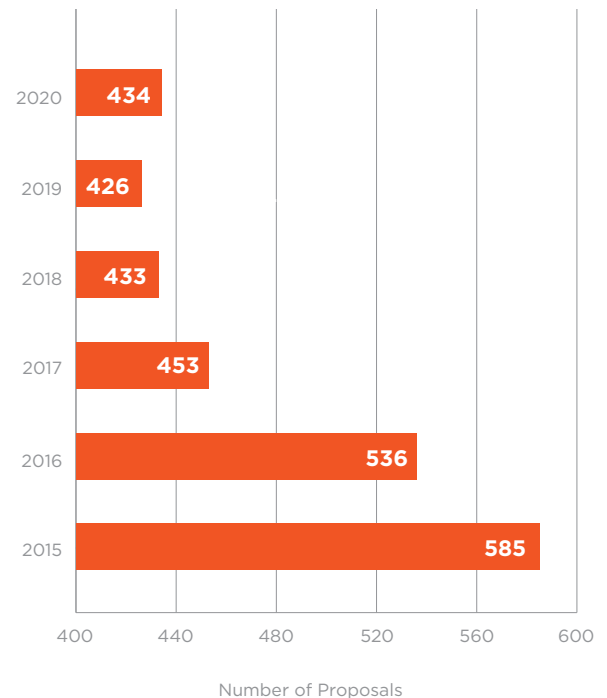


Figure 1.1

SHAREHOLDER PROPOSALS BY CATEGORY

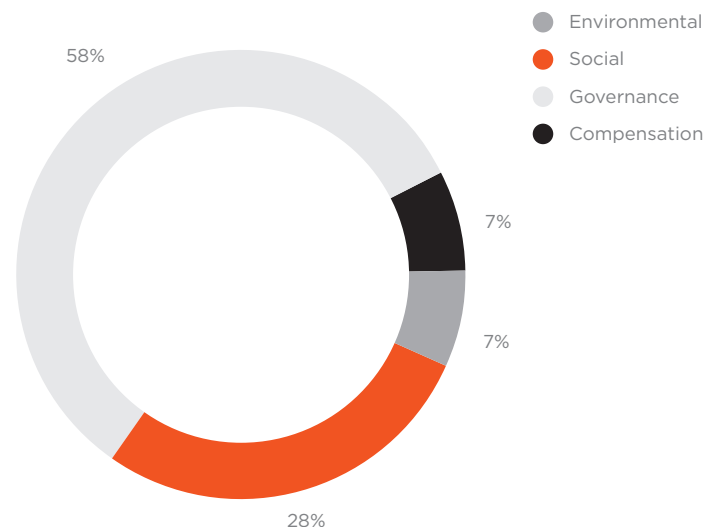


Figure 1.2

of COVID-19 when making proxy voting decisions on certain ESG issues. While this was absolutely a factor considered by many investors, what became clear was that there were certain ESG issues that transcended companies' short-term concerns. While Glass Lewis considered the immediate materiality of the issues raised by shareholder proposals when analyzing these resolutions, it is our belief, and one that many investors appear to share, that systematic risks, such as those related to climate change, are issues that companies need to manage even when they are faced with significant short-term challenges, such as those posed by the pandemic. This view was clearly demonstrated in the proposals that went to a vote in 2020; the number of climate-related proposals more than doubled and, on average, received significantly higher shareholder support than in the previous year (26% in 2019 versus 34% in 2020).

The impacts of recent events did have a more direct corollary to another important issue highlighted by investors in recent years: human capital management. For a number of years, companies have been touting their efforts to improve working conditions, foster diversity, and increase employee engagement as a way to attract and retain the best possible employees.

These platitudes, however, were put to the test once the impacts of COVID-19 were felt by companies. Throughout proxy season, headlines frequently painted a picture of essential workers at publicly traded companies, often putting their lives on the line, with insufficient personal protective equipment and pay that did not reflect the severity of the circumstances under which they found themselves working.

More recently, the systematic racism faced by many in the BIPOC community has also come into stark relief as companies are increasingly pushed to address and disclose information related to the diversity of their workforces, as well as the steps taken to ensure pay equity.

Investors were clearly cognizant of these issues during the 2020 season, as evidenced by the fact that these issues were often a focal point of investor campaigns waged against companies, such as Chipotle, Walmart, and Amazon, who were seen as not sufficiently addressing issues of human capital management. The degree of investor interest in ensuring that companies sufficiently address human capital management and diversity issues is further evidenced by the fact that six proposals on the topic received majority shareholder support this year.

Despite the increasing scrutiny of how companies are managing ESG issues, the composition of the proposals that went to a vote in 2020 was remarkably similar to those submitted in 2019. Last year, there were only 30 environmental proposals on corporate ballots, down from 48 in 2018. This year, there were 29. The proportion of social- proposals also remained relatively static (121 in 2019 versus 123 in 2020). In addition, the number of compensation-related shareholder proposals continued to decline, part of a larger trend since the introduction of a mandatory say-on-pay vote for U.S. companies in 2011.

Although many of the types of proposals going to a vote in 2020 were remarkably similar to what we saw the previous year, it is undeniable that the ground is shifting with respect to how investors are viewing shareholder proposals, and ESG-related issues, more broadly. As will be discussed throughout the rest of this report, we have witnessed changing views with respect to a variety of important issues and an increasing emphasis on materiality, employment practices, and companies' responses to climate change, among other important ESG-related issues. It is our view that these proposals will increasingly play a crucial role in investors' engagement with companies on important environmental, social, and governance issues.

SHAREHOLDER SUPPORT

Shareholders' understanding of the importance of many ESG-related issues has continued to mature and their commitment to ensuring that companies are performing in a financially, socially and environmentally responsible manner has grown in recent years. This trend has correlated with increasing support for a number of types of shareholder resolutions. Therefore, it was somewhat surprising that average support for shareholder resolutions declined from 32.9% in 2019 to 31.7% in 2020.

However, this marginal decrease may paint an inaccurate picture of how shareholders were ultimately voting on many ESG-related issues. For example, on the whole, environmental proposals received significantly higher shareholder support in 2020 relative to the previous year (25.1% in 2019 versus 31.2% in 2020). Further, we also witnessed increased support for proposals dealing with compensation-related issues (21.2% in 2019 versus 23.1% in 2020). On the other hand, shareholder support for social and governance proposals fell on a year-over-year basis. Much of this can be explained by the types of proposals that went to a vote during 2020. However, the de-

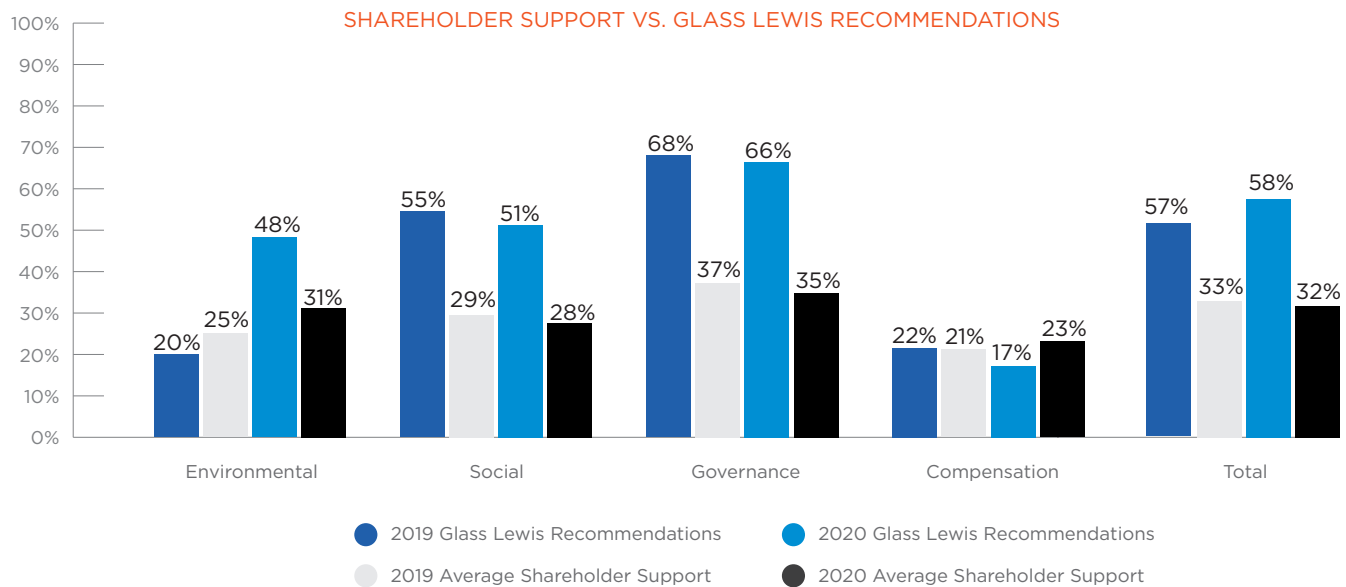


Figure 1.3

creased support does run contrary to the increased emphasis and importance placed on many of these issues.

In addition to decreased overall shareholder support for these resolutions, the proportion of proposals to receive majority shareholder support was also significantly lower than in the previous year. However, the composition of the proposals that received shareholder approval changed dramatically on a year-over-year basis.

In 2019, governance proposals comprised 81% of majority-supported proposals. This is fairly unsurprising. Proposals seeking best practice governance changes, for example to declassify the board, implement a majority voting standard for director elections, or eliminate supermajority voting requirements, often enjoy high support. Furthermore, in 2019, no shareholder proposals on environmental issues received over 50% shareholder support.

In 2020, however, the composition of majority supported proposals shifted significantly; only two-thirds of these proposals were governance-related, whereas nearly all of the remaining 33% of majority-supported proposals touched on environmental and social issues. Just one majority-supported proposal, which requested that Stericycle, Inc. adopt a claw-back provision, dealt with issues related to compensation; this is down from three majority-supported compensation-related proposals in 2019.

In total, 54 shareholder proposals received majority shareholder support, 17 of which were environmental or social in nature. To put these votes into perspec-

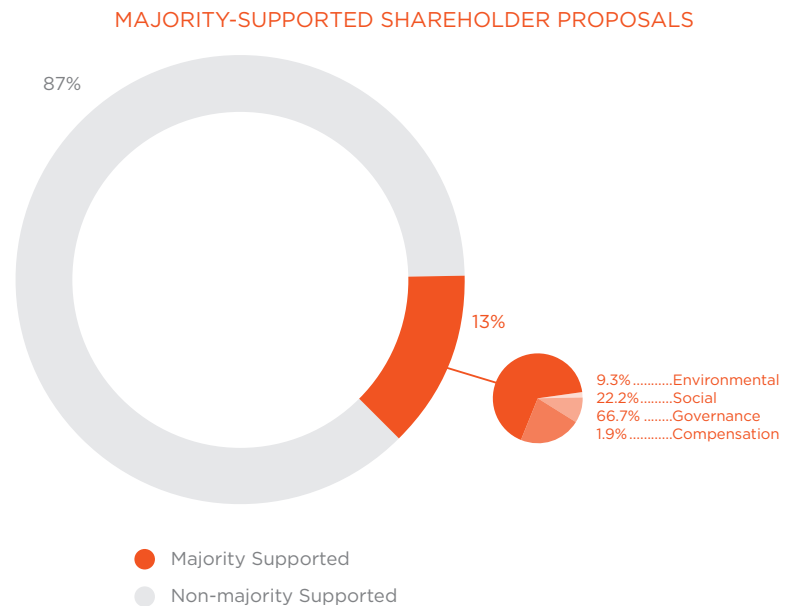


Figure 1.4

tive, just five short years ago, in 2015, only one environmental and social shareholder proposal received majority shareholder support. This further demonstrates the shifting landscape and investors' increasing focus on environmental and social issues.

Although overall support for shareholder proposals declined on a year-over-year basis, the proportion of shareholder resolutions for which Glass Lewis recommended in favor increased slightly from 57% in 2019 to 58% in 2020. However, when broken down by category, while our support for all other categories declined on a year-over-year basis, the only types of proposals for which Glass Lewis recommended a higher proportion were those dealing with environmental issues. Our support for this category of proposal increased substantially over the last year, from

20% in 2019 to 48% in 2020. As we will discuss later in the report, this is largely a function of the types and targeting of the proposals that went to a vote in the last year, as opposed to any significant shift in our policies or approaches.

PROPOSONENTS

As with previous proxy seasons, individual investors submitted the most shareholder proposals. In fact, the number and proportion of proposals submitted by individual investors has increased fairly substantially over the several years; in 2017 individual investors submitted just 128 proposals, while in 2020, this number grew to 164. However, average support for the proposals submitted by this group has decreased on a year-over-year basis. In 2019, proposals submitted by individual investors received 38% support, and in the last year, this average support has dropped to 35%. The drop may be largely explained by a new type of proposal requesting that companies receive shareholder approval for all bylaw amendments, which appeared 18 times this year and received very little support (see Requiring Shareholder Approval for Bylaw Amendments).

We also saw an unfortunate increase in the number and proportion of undisclosed shareholder proponents. It appears that, on an increasing basis, companies are failing to provide the identity of shareholder proponents. While some companies argue that, by identifying shareholder proponents, they satisfy proponents who would like to “see their names in lights,”

TYPES OF SHAREHOLDER PROPONENTS

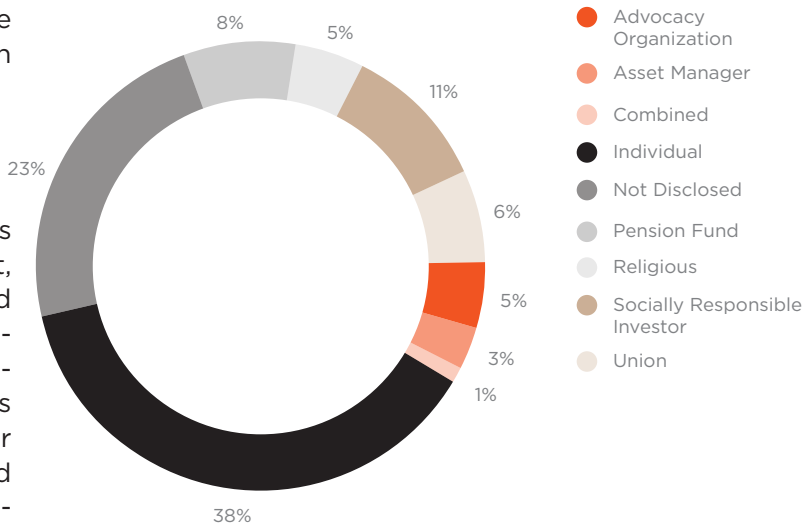


Figure 1.5

we believe that disclosing the identity of the proponent provides investors with crucial information as to the nature and ultimate intention of the proposal being submitted to a vote. Accordingly, we view this increasing lack of transparency to be somewhat concerning, particularly given the increasing importance of the role of shareholder proposals in investor communication and engagement with portfolio companies.

Asset manager proponents had the highest support of any of the groups. However, this group also submitted the fewest proposals, and their propos-

TYPES OF PROPOSALS BY PROPONENT

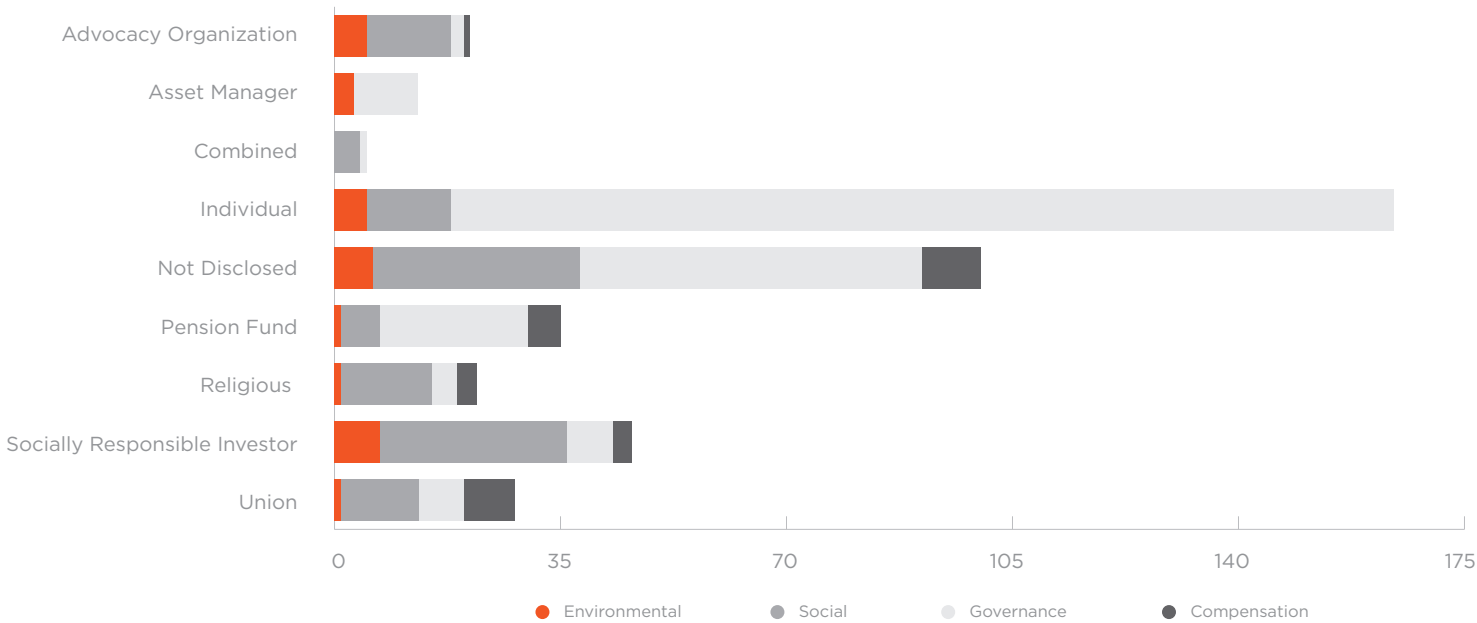


Figure 1.6

SHAREHOLDER SUPPORT BY PROPONENT

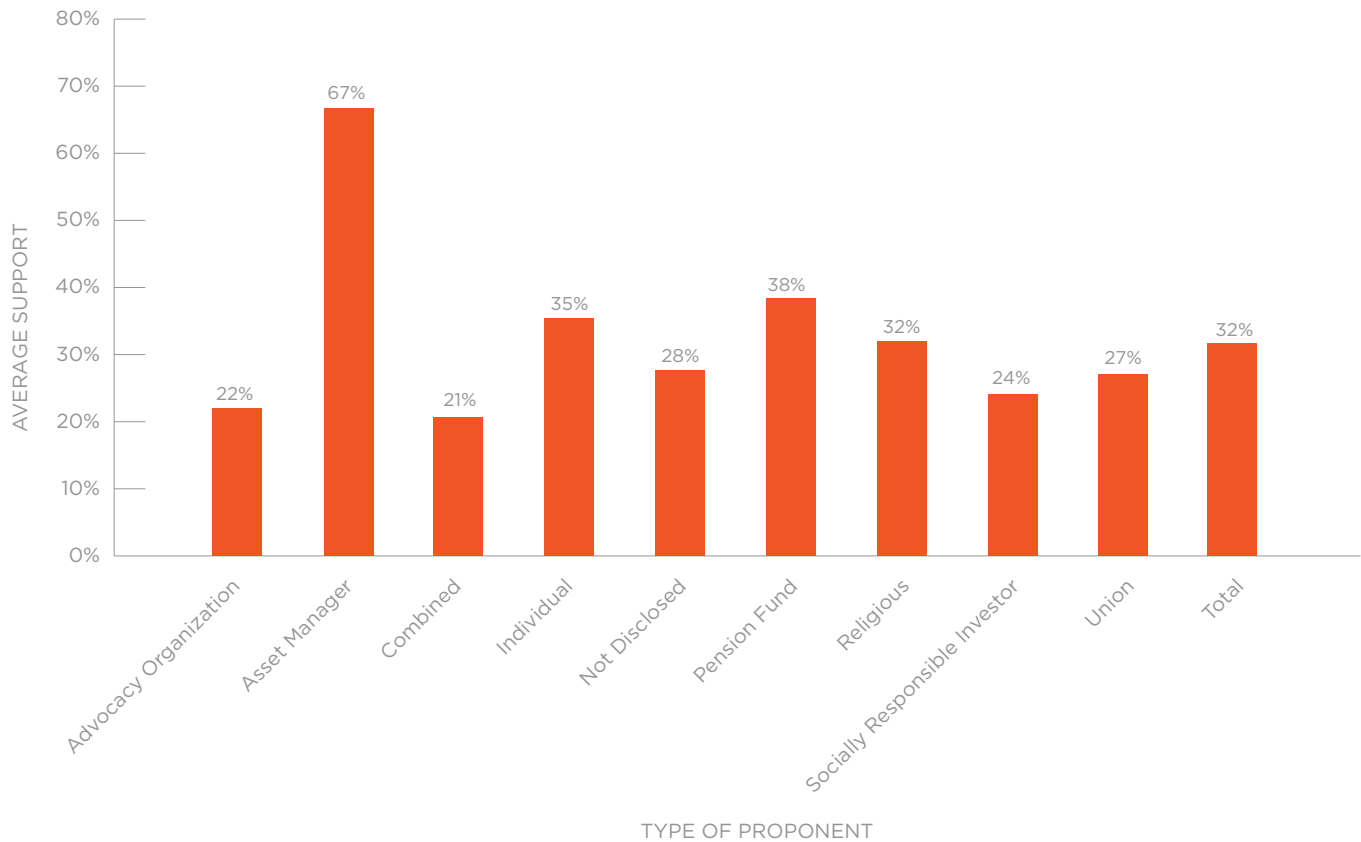


Figure 1.7

als were predominately governance-related, often in the form of an activist campaign. For example, there were a number of proposals requesting that directors stand for annual election and that they adopt a majority voting standard. These proposals often receive significant support, especially in the context of a contested situation. Notably, there were also a number of proposals submitted by this group on environmental and social issues. For example, BNP Paribas targeted three companies with a request for more information on how their lobbying activities are aligned with the Paris Agreement, receiving majority shareholder support at Chevron. The second-highest average support was received by proposals submitted by pension funds. However, it should be noted that support for these proposals has decreased steadily over the last several years, from 51% average support in 2016 to 38% support in 2020.

Governance



BOARD COMPOSITION

Over the past several years, investors have increasingly focused on board composition. This focus has expanded from board gender diversity to include issues of tenure, age, diversity of thought and experience, and outside director commitments. This issue has also become a primary concern of investors looking to ensure that boards adequately represent the diversity that has been shown through academic research to promote shareholder returns. In addition, many investors also contend that advancing women and minorities, in particular, in positions of corporate leadership is a welcome additional societal benefit.

DIRECTOR SKILLS MATRICES

The focus on board diversity has also resulted in a focus on director skills matrices. Beginning in 2018, there was a proliferation of corporate disclosure concerning director skills and experiences, much of which was presented in a skills matrix. Although there has been some reluctance on behalf of companies and investors in placing race and gender next

to skills and expertise, under the premise that gender and race are not “skills,” many investors have embraced enhanced disclosure on the issue of how directors’ skills, background and attributes are assessed and considered in the context of a company’s strategic goals and priorities.

GOVERNANCE SHAREHOLDER PROPOSALS

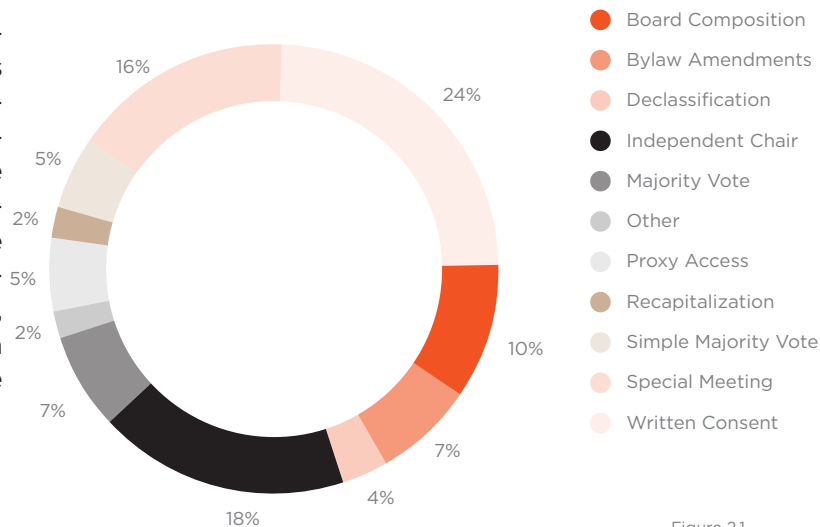


Figure 2.1

AVERAGE SUPPORT FOR GOVERNANCE PROPOSALS

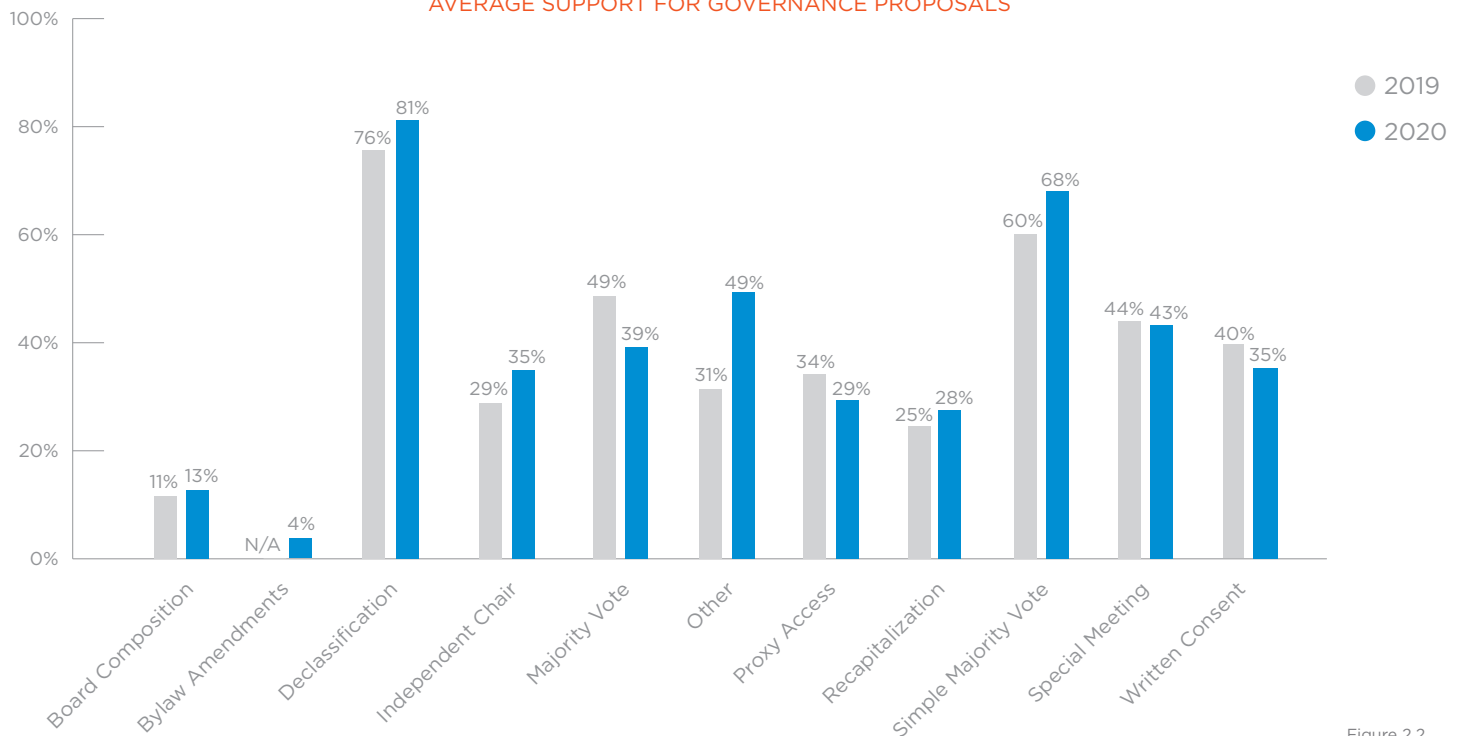


Figure 2.2

Despite this focus on board skills and diversity, there have only been a handful of shareholder proposals addressing this topic. In 2018 and 2019, the New York City Comptroller filed a shareholder proposal requesting that **Exxon Mobil Corporation** provide a board skills matrix, which received 16.5% and 29.8% support, respectively. However, this proposal was co-opted in recent years by a group typically known for its Trojan Horse proposals, the National Center for Public Policy Research (“NCPPR”). In 2019, the NCPPR submitted a proposal that mimicked the NYC Comptroller’s by requesting a board skills matrix setting out the minimum board qualifications – but one which would also include the nominees’ ideological perspectives, along with skills and experience. The attempt to insert ideology into board composition was submitted at seven companies in 2019, and four in 2020. It has not been strongly embraced. While it received 13.2% support this year at **The Boeing Company**, this may reflect overall investor discontent as a result of recent controversies surrounding safety issues with its 737-MAX planes; the remaining 2020 proposals all received under 1.4%, in line with 2019 when support ranged from 1.0% to 2.7%. (For more information on the NCPPR please see Trojan Horse Proposals.)

BOARD DIVERSITY

Despite the significant focus from investors on board diversity, there have typically been only a handful of shareholder proposals on the topic, and 2020 was no exception. In the last year, Glass Lewis reviewed four board diversity-related shareholder proposals, two of which, at **Expeditors International of Washington, Inc.** and **National HealthCare Corporation**, received majority shareholder support. The latter proposal requested that National HealthCare report on if and how it is taking steps to enhance broader diversity on the board. The remaining three proposals all requested that the companies adopt a policy requiring that the initial lists of candidates from which new management-supported director nominees and CEOs include qualified female and racially/ethnically diverse candidates. Also known as the “Rooney Rule,” the policy that was being requested by the proponent originated and resulted in enhanced diversity with the National Football League and has been broadly accepted by investors as one that has the potential to result in the same effect on corporate boards.

In both 2019 and 2018, we also reviewed only four diversity-related proposals, just one of which, submitted in 2019 at **Gaming and Leisure Properties Inc.**,

received majority shareholder support. Support for these proposals has varied significantly, largely as a result of the targeting of these proposals; nearly half of the proposals in the last three years have been submitted at companies with either a large inside owner or dual-class share structures, both of which have the effect of depressing support levels for shareholder resolutions. In 2019, average support for these proposals was 43%, up significantly from the year prior when they received 25% average support. In 2020, however, average support for these proposals again declined to 37.2%.

Diversity will likely continue to be a topic at the forefront of issuers and investors minds. Moreover, the number of companies without women on their boards has dropped significantly in the past several years, thanks, in part, to large asset managers such as BlackRock and State Street, which have implemented voting policies targeting boards that are not sufficiently gender diverse. However, given the relative dearth of proposals on this topic going to a vote, it may be that issues of diversity are being more effectively addressed through engagement and voting on director elections than through the shareholder proposal process.

EMPLOYEE REPRESENTATION ON BOARDS

In recent years, investors have taken an increased interest in ensuring that boards are adequately considering employee perspectives and experiences in their decision-making. For example, alongside a push from a number of groups to increase the minimum wage paid to employees, U.S. companies are now required to disclose how the CEO’s compensation stacks up against median employee wages. It is not surprising that there has been enhanced interest in ensuring boards are provided with input from employees, including by placing employee representatives on boards. These issues have become heightened in the wake of the COVID-19 pandemic, particularly given allegations that some companies have failed to provide sufficient safety precautions for certain front line and essential workers. Already the subject of increased focus in the UK and other European markets, these ideas are also gaining purchase within U.S. politics, where notable progressives have made board-level employee representation part of their presidential policy platforms. For example, Elizabeth Warren proposed that corporate boards be required to ensure employee representation, akin to the board structure of German compa-

nies. Further, Bernie Sanders introduced one of the shareholder proposals on this topic at **Walmart Inc.**'s annual meeting. For more information on the global context, please see our special report *Worker Participation*.

In total, we reviewed eight proposals regarding employee representation on boards. The requests varied from company to company. For example, some proposals requested that boards reserve a seat for an employee representative director, while others requested that companies provide a report describing opportunities for the company to encourage the inclusion of non-management employee representation on their boards. Despite the varied requests and the significant attention paid to this issue, these proposals did not receive significant shareholder support; levels ranged from 1.9% at Walmart to 7.6% at **AT&T Inc.**

DIRECTOR EXPERTISE, OVERSIGHT AND THE CREATION OF A COMMITTEE

Some proposals related to board composition have requested the formation of a board committee (typically focused on issues such as human rights or climate change), or the appointment of a director to the board with specific expertise. These proposals have not fared well with shareholders, receiving 10.5% and 8%, respectively, in 2020 (compared to 9% and 7%, respectively, in 2019).

Glass Lewis generally has not supported shareholder proposals concerning the specific composition of the board. In most cases, we do not believe that companies should be required to appoint a director who may not have a holistic understanding of a company or industry and its attendant risks based on a potentially deep but narrow experience. Further, we generally believe that the construction of board committees is a task better exercised by the board, and typically give boards wide latitude with respect to this issue.

However, there are certain instances when we will recommend shareholders vote in favor of these proposals. For example, in 2019, Glass Lewis recommended in favor of one of the six proposals on these topics, requesting that **Tesla Inc.** establish a public policy committee of the board. In 2020, however, we recommended in favor of half of the six proposals that went to a vote. Two of these proposals were at **Facebook, Inc.**, where proponents requested that the board (i) appoint a director candidate who has a high level of human and/or civil rights expertise and

is widely recognized as such; and (ii) provide a report on the board-level oversight of civil and human rights risks. When making our recommendation on both proposals, we considered Facebook's wide reach and the myriad controversies that have plagued the company in recent years, many of which have resulted in regulatory threats and legal action. While the latter proposal simply requested a report, which we viewed as a reasonable ask, the former proposal was more problematic. Specifically, it requested that the individual appointed to the board, as well as being a civil and/or human rights expert, be independent according to NYSE listing standards. However, Facebook is listed on NASDAQ, meaning that NYSE rules are moot for its purposes. We viewed this as a significant enough flaw to recommend against the same proposal at **Alphabet Inc.** (which is also listed on NASDAQ). However, given Facebook's aforementioned controversies as well as other board independence concerns, we believed that appointing any qualified and independent director, regardless of area of expertise, would benefit the company.

While we did not recommend support for the proposal requesting the appointment of a director at Alphabet, we did recommend in favor of a proposal requesting that the board establish a human rights risk oversight committee. Although Alphabet had implied some level of human rights-related oversight through its audit committee, we believed that its significant exposure to legal, reputational, and regulatory human rights-related risks warranted additional oversight. This proposal ended up receiving 16.3% support, the highest of any of the proposals in these categories.

BOARD DECLASSIFICATION

Over the last decade, the boards of most large companies have moved from a classified structure to one where every director stands for election on an annual basis. Companies that have not adopted a declassified board structure are often viewed as outliers in this regard, and shareholders are often very willing to support proposals that call for a move to an annual election structure.

Given the dwindling number of classified boards, there are generally only a handful proposals seeking declassification in any given year, and it is typical for these proposals to receive overwhelming majority support from shareholders. In fact, since 2018, every board declassification proposal that went to a vote has received at least 50% favorable votes.

It is common for boards to either recommend that shareholders vote in favor of the resolutions or that boards provide no vote recommendation as to how shareholders should vote. For example, in 2018, only two of the seven board declassification proposals were not explicitly opposed by management. In 2019, all but one of these proposals received either no recommendation or a favorable recommendation from the board. However, in 2020, only one of the nine declassification proposals, at **Daseke, Inc.**, was not explicitly opposed by the board. While Daseke's lack of a vote recommendation on the proposal resulted in the highest shareholder support for this type of proposal (97.6%), the rest of the proposals still received significant shareholder support, with the lowest support being at **Alarm.com Holdings, Inc.** where it received 62% support.

Glass Lewis recommended in favor of all but one of the board declassification proposals in 2020. We recommended that shareholders vote against the proposal at Daseke, as management had simultaneously submitted a proposal to shareholders that would declassify the board. We believed that support for the advisory resolution was unnecessary, given that approval of the management proposal, for which we recommended in favor, would result in the annual election of directors beginning at the company's 2021 meeting.

ELIMINATION OF SUPERMAJORITY VOTE PROVISIONS

Glass Lewis is of the belief that most items should be subject to a simple majority vote standard. We find that supermajority vote requirements can prevent shareholders from implementing important governance measures that are in their best interests. Shareholders generally agree with this sentiment; proposals requesting that companies eliminate their supermajority vote standards commonly receive significant shareholder support.

These proposals are generally popular with shareholders, but it's notable that average support had decreased in the past four years, from 75% in 2017 to 64% in 2018 to 60% in 2019. Average support in 2020, however, increased to 68%. The likely reason for the somewhat depressed vote results in the past several years largely rests on the targeting of these proposals: in a number of instances, these proposals have been submitted at companies that either did not have problematic supermajority voting provisions, were simultaneously eliminating their supermajority vote provisions with management proposals, or had

dual-class voting structures (where support is usually depressed by insiders with significant voting power). Last year, which saw the lowest average support level, also saw a spike in the number of proposals submitted, to 25. This year there were 13 proposals, and in each of the last four years, we saw fewer than 17 submitted.

Another likely reason for the increased support for these proposals in 2020 was as a result of, in four instances, the board either recommending in favor of or not providing a vote recommendation on the resolution (which generally acts as implicit approval from the board, significantly driving up shareholder support). While only 12% of companies made such a recommendation in 2019, over 30% of these proposals were not board-opposed in 2020.

In instances where a dual-class voting structure is present, or where companies have a controlling shareholder, Glass Lewis did not recommend in favor of eliminating supermajority vote requirements. We were concerned that allowing these companies' governance documents to be amended by a majority of votes or shares outstanding would give outsize control to insiders and could allow insiders to effect important changes to these documents with little or no outside support. Accordingly, we recommended against these proposals at **Pegasystems Inc.**, **Fitbit, Inc.**, and **Discovery, Inc.** Further, the proposals at these three companies were the only ones that received below 53% support in the past year.

INDEPENDENT CHAIR

For the past several years, shareholder proposals requesting that companies appoint an independent chair have been among the most frequent governance-related proposals voted on at annual meetings, and 2020 was no exception.

Evidence that the appointment of an independent chair leads to increased firm value is inconclusive. Accordingly, shareholders have various views on the issue, and typically consider a variety of factors when looking at these proposals. Average shareholder support for these proposals has remained around 30% for the past several years, increasing from 29% in 2019 to 35% in 2020. Similarly, Glass Lewis recommended in favor of an increased proportion of these proposals in 2020 (91%) than in 2019 (80%).

Glass Lewis will generally recommend in favor of these proposals unless the company has appointed (or has committed to appoint) an independent chair.

For example, we recommended against proposals at **Lincoln National Corporation**, **CVS Health Corporation**, and **Nuance Communications Inc.** on that basis. We also recommended against an independent chair resolution at **The Boeing Company**, which had come under intense scrutiny in the past year related to their grounded 737-MAX aircrafts. However, prior to Boeing's 2020 annual meeting, the company had separated the roles of chair and CEO and, in conjunction with the removal of the former chair and CEO, Dennis Muilenburg, had appointed an independent director as chair of the board. Despite the change in leadership, we still had serious concerns regarding Boeing's handling of the 737-MAX issue, and, accordingly, recommended that shareholders vote against members of the board on account of how they handled this issue. However, we did not believe that adopting a provision requiring an independent chair would necessarily effect any change to the board's leadership structure, or serve to address the significant concerns regarding how the company was managing issues related to safety and risk, and thus refrained from recommending in support of that resolution. Although none of these proposals had received majority shareholder support since 2017, the proposal at Boeing ended up being one of two such resolutions that received majority shareholder approval in 2020, with the other being at **Baxter International Inc.**

MAJORITY VOTE FOR DIRECTOR ELECTIONS

Majority voting in director elections is a shareholder right supported by the vast majority of investors, and shareholder proposals on this topic often receive significant shareholder support. Glass Lewis strongly supports majority voting in director elections, and, as was the case in 2019, recommended in favor of all such proposals in 2020. Further, it is common for companies to either recommend in favor of these proposals or for companies to provide no vote recommendation to investors, further contributing to shareholder support for these measures. Yet average support has declined significantly in the last two years: in 2018, these proposals received 78% average support, but in 2019, this support dropped to only 49%. In 2020, average support continued to decline to 39%.

The declining average support for proposals requesting majority voting for director elections largely reflects the disproportionate number of these proposals being submitted to companies with dual class share structures. Further, in many of the cases where the targeted companies didn't have dual class share

structures, there was often significant inside ownership. This had a dramatic impact on the proportion of majority-supported proposals. In 2018, only one proposal did not receive majority shareholder support (the only proposal to receive less than 71% support). However, in 2019, 14 of the 26 majority vote proposals failed to receive majority support; and in 2020, only 4 of the 18 proposals were approved by shareholders.

PROXY ACCESS

In 2015 and 2016, shareholder proposals requesting that companies adopt a mechanism for large, long-term investors to nominate director candidates to management's proxy (proxy access) were the most popular shareholder proposals submitted to a vote. However, in the past four years the number of these proposals has dropped precipitously: in 2016 we reviewed 81 proxy access shareholder proposals, and only 13 such proposals in 2020. Similarly, shareholder support for these proposals has declined significantly. While 65% of all proxy access proposals received majority support in 2017, only 33% and 13% of such proposals received majority support in 2018 and 2019, respectively. In 2020, however, no proxy access proposals received majority support.

This decline in support is largely a result of the types of proposals that have been submitted to a vote. Prior to 2020, proxy access proposals had taken two forms: (i) those requesting that companies adopt a proxy access right for shareholders; and (ii) those requesting that companies amend their existing proxy access bylaws to conform more closely with the original SEC rule on the topic ("fix it" proposals). The vast majority of companies who have adopted proxy access have coalesced around a standard "3/3/20/20" bylaw amendment, whereby these companies would allow a group of up to 20 investors owning 3% of shares for 3 years to nominate up to 20% of the board. In comparison, the original SEC rule would have allowed an unspecified (thus presumably unlimited) number of shareholders owning 3% of shares for 3 years the ability to nominate 25% of the board.

Although it differs from the proposed rule, it appears that investors are generally comfortable with the 3/3/20/20 bylaws adopted by most companies. This is evidenced by the significantly lower support for "fix it" proposals. For example, in 2019, proposals requesting that companies adopt proxy access received average support of 55% while "fix it" proposals received average support of only 29%.

However, perhaps as evidence of the widespread adoption of proxy access, no proposals that went to a vote in 2020 requested that companies adopt proxy access. Rather, they all requested adjustments to existing bylaws. Consistent with 2019, these “fix it” proposals received 29% average support, with none receiving majority shareholder support (the highest was 37.1% at **Citigroup Inc.**).

Glass Lewis is generally supportive of proposals requesting that companies adopt proxy access. However, we did not recommend support for any of the “fix it” proposals that went to a vote in 2020, as we found that the targeted companies had all adopted reasonable proxy access bylaws which, in our view, did not unnecessarily restrict shareholders’ ability to exercise this right.

As the proposals have shifted in the past several years, so too has the profile of the proponents. While pension funds historically submitted proxy access resolutions, the “fix it” proposals have been exclusively submitted by individual shareholder proponents, mostly John Chevedden or Kenneth Steiner.

REQUIRING SHAREHOLDER APPROVAL FOR BYLAW AMENDMENTS

In 2020, a relatively new type of proposal was introduced, requesting that any amendment to companies’ bylaws that is approved by the board would then be subject to a non-binding shareholder vote. Glass Lewis recommended against all 18 proposals on this topic that went to a vote during the 2020 season. Although we believe that shareholders should be afforded the chance to approve certain fundamental changes to bylaws, particularly those that have the potential to limit shareholders’ rights, we were concerned that this proposal would go beyond material amendments and require that routine or housekeeping amendments to be put to a vote. Moreover, we were concerned that the proposed changes would not allow boards to act unilaterally on matters that would serve to protect shareholders or enhance their rights. On balance, we did not believe that adoption of this resolution would necessarily benefit shareholders, and investors generally agreed: these proposals received only 4% average shareholder support. The highest support was at **The AES Corporation** (17.5%) and the lowest was **Flowserve Corporation** (0.7%).

SPECIAL MEETINGS

Since 2018, there has been a particular emphasis on shareholder proposals requesting that companies

SPECIAL MEETING SHAREHOLDER PROPOSALS

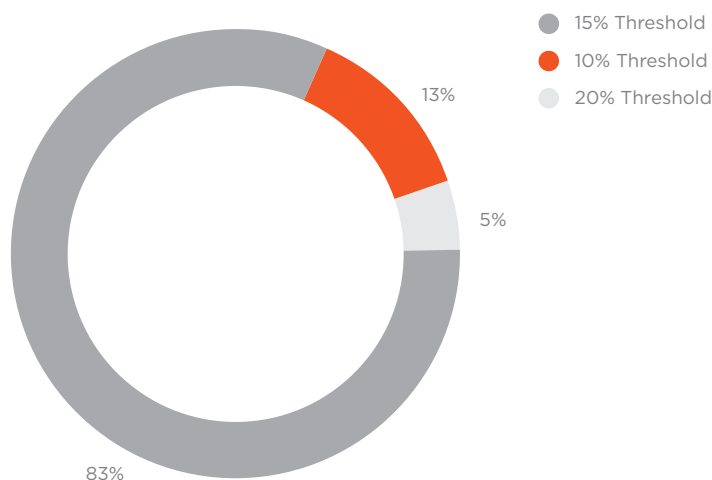


Figure 2.3

either provide shareholders the right to call special meetings, or (where that right already exists) lower the ownership threshold required to do so. In 2018, 62 shareholder proposals on this topic went to a vote, and in 2019 the number dropped significantly, to 23. In 2020, we reviewed 40 of these proposals.

The vast majority of these proposals requested that companies either adopt a threshold of, or lower their existing special meeting thresholds to, 10%. However, a handful of these proposals requested a 15% threshold, and two of these proposals requested that companies adopt a 20% threshold.

In addition to setting or lowering special meeting thresholds, many of these proposals had certain other derivations. For example, proposals submitted to **AutoNation, Inc.** and **General Dynamics Corporation** (among others) were intended to lower the threshold to 10% in normal circumstances, but allow for a higher 20% threshold to apply if the company had a 10% shareholder. There were also proposals, such as those submitted to McDonald’s Corporation and American Tower Corporation, that asked to remove the one-year holding period requirement for calling a special meeting, in addition to lowering these companies’ existing ownership thresholds.

The companies targeted with these proposals had a wide variety of existing special meeting provisions. The vast majority of companies had existing 25% special meeting ownership requirements, and only two of the companies had no existing or proposed special meeting rights. Glass Lewis prefers to see a 10-15% special meeting threshold. In most cases, when companies have no special meeting rights or a special meeting above the desired levels, we will

recommend support for the resolution. Despite our general support for these measures, Glass Lewis only supported 80% of these proposals in 2020, down from 87% the previous year.

There were a wide variety of reasons why we recommended that shareholders vote against certain of these resolutions. For example, we recommended against proposals at **Pinnacle West Capital Corporation**, **Chevron Corporation**, **Lowe's Companies, Inc.**, and **Exxon Mobil Corporation** that were requesting the adoption of a 10% special meeting threshold, as all of these companies had already adopted a 15% special meeting threshold; we recommended against a similar proposal at **AMN Healthcare Services, Inc.**, as the board was introducing a management proposal to lower the special meeting threshold to 15%.

Lincoln National Corporation also faced a proposal requesting that it adopt a 10% special meeting threshold with no holding period requirements. Lincoln National had already adopted a 10% special meeting threshold, though it did require those shares to be held for one year. We viewed this as a reasonable protection against unnecessary abuse and, thus, recommended against the resolution. We also recommended against a proposal asking for a reduction in **Howmet Aerospace, Inc.**'s 25% special meeting ownership requirement, as we were concerned that a shareholder-proposed 10% threshold could be too low for the company, given that Elliott Management owned 9.6% of the Howmet's shares. In consideration of Elliott's history of activism and the totality of the company's circumstances, we believed that in this case a higher threshold may be warranted.

WRITTEN CONSENT

Glass Lewis strongly supports the right of shareholders to act by written consent, provided the provision specifies that a majority of outstanding shares must support the requested action. We believe that this is a reasonable threshold that will prevent abuse and the waste of corporate resources while enabling shareholders to take action on important matters that arise between annual meetings. Glass Lewis typically supports measures that protect shareholder interest and that make boards more accountable to shareholders, and, thus, will generally recommend in favor of these proposals.

That said, written consent is not the only mechanism to empower shareholders to act outside of an annual meeting. In advance of the 2019 proxy season, we revised our policy concerning written consent share-

holder proposals so that, in instances where companies had adopted both (i) a 15% or lower special meeting threshold; and (ii) proxy access, we would generally recommend against such proposals. This change in our policy resulted in a fairly significant drop in our recommended support for these proposals. Prior to 2019, we had generally recommended in favor of approximately 95% of these proposals in any given year. However, in 2019 we recommended in favor of only 78% of these proposals, consistent with what our support levels would have been in 2018 under our new policy. In 2020, this recommended support level dropped to 72%, as many of the targeted companies already had robust mechanisms for shareholders to act between annual meetings.

We also refrained from recommending support for proposals at certain Virginia-based companies, including **Norfolk Southern Corporation** and **Dominion Energy, Inc.** as a result of a recent regulatory change. In the last year, the Virginia Stock Corporation Act was amended to prohibit shareholder action by less than unanimous written consent if a company allows less than 30% of its shareholders to call a special meeting. In each instance, the Virginia-based companies had established special meeting rights below 30% (though in each instance the special meeting rights were all above the desired 10-15%). Given these regulations, and the existing special meeting rights, we did not view it as appropriate to require the company to raise the ownership threshold required to call a special meeting in order to establish a more shareholder-friendly written consent provision. Accordingly, we recommended that shareholders refrain from supporting those resolutions.

Shareholder support for many of these proposals has been relatively strong over the past several years. Just two written consent shareholder proposals received majority shareholder support in 2015, and no such proposals passed in either 2016 or 2017. However, in 2018 and 2019, six and seven proposals, respectively, received majority shareholder approval. A further four resolutions, out of the 56 proposals reviewed, received majority support in 2020. Despite this support for certain written consent proposals, average shareholder support has been declining, from 45% in 2017 to only 35% in 2020.

In 2020, we also reviewed a new iteration on written consent proposals. Five proposals, at **Northrop Grumman Corporation**, **The Home Depot, Inc.**, **CVS Health Corporation**, **Gilead Sciences, Inc.**, and **JP Morgan Chase & Co.**, requested that these companies reduce the ownership threshold required to

act by written consent. Specifically, these proposals requested that the targeted companies reduce the ownership threshold for initiating written consent, which in each instance was between 20-25%, to instead allow either 3% of shareholders or any shareholder (depending on the proposal) to initiate written consent.

When reviewing these proposals, we understood that there could be potential harms from abuse of the written consent process. However, written consent is very infrequently used in activist campaigns, thus, we were ultimately unconvinced that these concerns were so great as to require a significant percentage of shares to initiate an action through written consent. Accordingly, we believed that removal of the ownership thresholds would benefit shareholders, particularly as there are certain inherent aspects of action by written consent that would prevent abuse of the right harming shareholder value, as a majority of outstanding shares (at a minimum) would still need to approve any proposals submitted to shareholders for written consent.

Compensation

For the past several years, compensation-related shareholder proposals have been on the decline. Between 2015 and 2020, the number of compensation-related shareholder proposals we reviewed has dropped from 86 to just 29 (down from 37 in 2019). This could signal a broad move away from the shareholder proposal process as a means of effecting change in companies' compensation plans. This move is likely to do the combination of two factors: (i) the 2011 introduction of shareholders' ability to vote on say-on-pay proposals; and (ii) the significant rise in shareholder engagement. It appears that many of the issues that were once addressed by shareholders through the shareholder proposal process are now being addressed through engagement.

Another notable trend in compensation-related shareholder proposals is that they are increasingly related to environmental or social issues. While the majority of compensation-related shareholder proposals have historically addressed issues such as stock retention requirements or change in control policies, these proposals are now encouraging companies to establish a link between compensation and environmental and social issues, or are seeking to ensure that companies' compensation policies have socially responsible considerations. This appears to follow a broader trend of investors' growing interest in environmental and social issues.

COMPENSATION SHAREHOLDER PROPOSALS

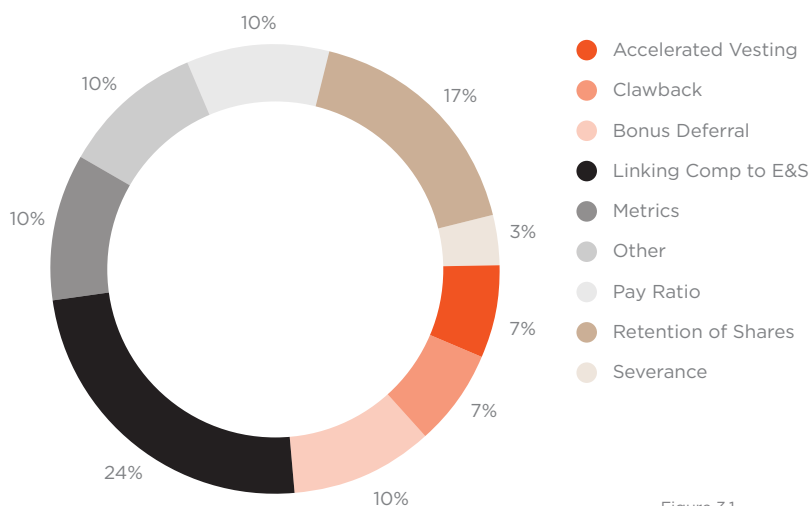


Figure 3.1

Compensation is still a pressing issue to which investors pay close attention. However, as a result of say-on-pay proposals, shareholders have grown more comfortable evaluating companies' compensation programs, and companies have enhanced policies to conform with investors' expectations. As such, it appears that the new frontier in compensation-related activism is how companies are incentivizing and rewarding sustainable corporate performance. This trend is likely to only intensify in coming years, as issues related to the COVID-19 pandemic have significant negative impacts on companies' employee

AVERAGE SUPPORT FOR COMPENSATION PROPOSALS

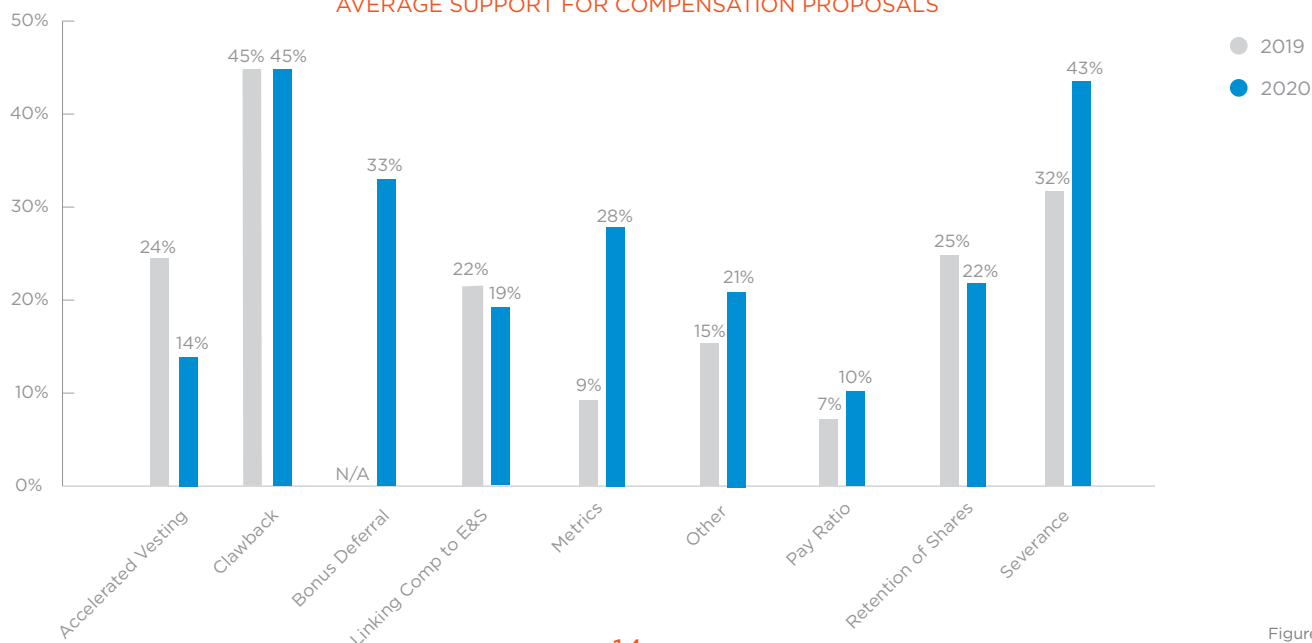


Figure 3.2

bases and financial performance. Although this issue was not highlighted in the form of shareholder proposals in 2020, it will undoubtedly be an issue raised by investors in corporate engagements and will likely result in shareholder proposals at companies who are not sufficiently linking pay with performance and whose executive compensation levels are not adequately linked to potentially severely negative outcomes for the broader employee base.

ACCELERATED VESTING OF SHARES FOLLOWING A CHANGE IN CONTROL

Traditionally one of the more popular compensation-related shareholder proposals has requested that companies prohibit the accelerated vesting of equity awards upon a change in control. As with other types of compensation-related shareholder proposals, we have seen a steep decline in the number of these proposals: from 29 in 2015 to just 28 proposals in all of the past four years, including two proposals in each 2019 and 2020.

Glass Lewis generally recommends in favor of these proposals if a company has a single-trigger change in control provision, whereby shares automatically vest upon a change in control even if executives retain their jobs. Conversely, if a company has adopted a double-trigger change in control policy (requiring executives to lose their jobs as a result of a change in control for payouts to occur), we will often refrain from recommending in support of these proposals. We recommended in favor of 40% these proposals in 2014, and 20% in 2017. However, in the past three years, we have not recommended in favor of any proposals requesting that companies prohibit the accelerated vesting of shares upon a change in control. This significant reduction in recommended support follows a broader trend of companies adopting more comprehensive change in control provisions, and, in particular, the growth of double-trigger policies: during the 2020 proxy season, only 31% of companies had a single-trigger vesting provision. By contrast, in 2015, 48% of companies had single-trigger change in control provisions.

This reduction in single-trigger change in control policies has also impacted shareholder voting. While average support for these measures had consistently remained between 31% and 35% from 2013 to 2017, support for these proposals was only 24% in 2018 and 2019. This year, average support dropped to just 14%. Given that these recent proposals were submitted exclusively at companies with double-trigger change

in control policies, it is unsurprising that shareholder support continues to decline.

BONUS DEFERRAL

During the 2020 proxy season, we reviewed three shareholder proposals requesting that any annual cash incentive bonus program that is measured for under one year and that is based on financial measurements will not be paid in full for a period of time following the award. We believed that these bonus deferral policies, which are popular in other markets, could help to protect shareholder interests by servicing as a deterrent to excessive risk taking. We believed that this consideration was especially important given the companies that were targeted with this proposal. **AmerisourceBergen Corporation, Eli Lilly and Company, and Walgreens Boots Alliance, Inc.**, all had experienced controversies related to issues such as drug pricing, opioid distribution and product safety. Further, we believed that adoption of this policy could serve to enhance and increase the efficacy of these companies' clawback policies.

We did have some reservations concerning the proposals, as the proposed policy was relatively novel for the U.S. market and could thus potentially result in certain employee attraction and retention risks. However, we ultimately believed that the request was sufficiently broad to allow significant discretion in its implementation, and thus that support was warranted. The proposal at Walgreens was withdrawn on account of corporate commitments and the proposals at AmerisourceBergen and Eli Lilly received 35% and 31%, respectively.

CLAWBACKS

Following the high-profile sales practices controversy at **Wells Fargo Corporation**, and with the #MeToo movement rattling companies such as **Wynn Resorts, Limited** and **CBS Corporation**, issues related to clawback policies have become increasingly relevant to companies and shareholders. Clawback policies generally allow the compensation committee to review and determine whether to seek recoupment of incentive compensation that has already been paid, typically in cases of misconduct. Despite the increased attention placed on this issue, like other types of compensation-related proposals, the number of proposals on this topic has dropped quite significantly over the last two years. In 2018, we reviewed nine of these proposals, compared with five in 2019 and only two in 2020.

One of the proposals, submitted to **Eli Lilly and Company**, requested that it adopt a policy that it will disclose annually whether it recouped any incentive compensation from any senior executive or caused a senior executive to forfeit all or part of an incentive compensation award as a result of applying its clawback policies. Glass Lewis supported this proposal, as it is our belief that clawback policies are only meaningful and effective when used, and that shareholders generally benefit from increased disclosure with respect to the actions that companies have taken in connection with their clawback policies.

The second clawback-related proposal was submitted to **Stericycle, Inc.**, requesting that it amend the scope of its clawback policy to potentially apply if a senior executive: (i) engaged in conduct that resulted in a violation of law or company policy and that caused financial or reputational harm to the company; or (ii) failed in their responsibility to manage conduct or risks, and such failure contributed to financial or reputational harm to the company. We also recommended support for this resolution. As has been seen with other corporate scandals, companies and their shareholders can face material losses as a result of many forms of executive misconduct. Given that Stericycle's existing clawback policy, like that of many U.S. companies, was limited only to behavior that resulted in a financial restatement, we believed that expanding its policies to include financial and reputational harm was warranted. However, this is a departure from several years ago, when we generally did not recommend in favor of such proposals. The change reflects the current regulatory environment; we previously believed that the clawback rules promised under Dodd-Frank would provide for fairly robust protections and, with SEC regulations pending, we did not believe that it was especially useful for companies to adopt policies requested by shareholder proposals. However, under the current administration, these clawback rules are not moving forward. With no regulatory solution on the horizon, we believe that companies should reevaluate their clawback policies in light of new market standards and trends.

These types of proposals often receive significant shareholder support. In 2019, average support was 45%, up from 38% in 2018 and 14% in 2017. Both of these proposals also received strong shareholder support in 2020: 35% support at Eli Lilly, and 55% at Stericycle (making it the only majority-supported compensation proposal during the 2020 proxy season).

LINKING COMPENSATION TO SUSTAINABILITY

As has been the case over the past three years, during the 2020 proxy season the highest proportion of compensation-related proposals dealt with tying executive compensation to certain environmental or social factors. However, none of these proposals received significant shareholder support and average shareholder support dropped from 22% in 2019 to 17% in 2020. The lowest support (7.8%) was for a proposal at **Marathon Petroleum Corporation**, requesting that it link executive compensation to its community impacts. The highest support (31%) was for a proposal at **Verizon Communications Inc.**, which requested that it tie executive compensation to data privacy.

Glass Lewis reviews proposals requesting that companies establish a link between compensation and environmental or social factors on a case-by-case basis. When making a vote recommendation, we consider a number of factors, including the target company's current executive compensation plan, the specific request of the proposal, and the company's exposure to environmental or social risks. Giving consideration to all of these factors, we recommended in favor of one such resolution, at **XPO Logistics, Inc.** This proposal requested that XPO report on whether (and how) it plans to integrate ESG metrics into the performance measures of executive officers. XPO had faced significant controversy concerning its treatment of employees, having been accused of permitting sexual harassment and gender discrimination. We viewed this as a material issue and one that could pose further financial risks to the company. In addition, the company had a history of problematic compensation practices, as evidenced by less than 67% approval for its 2019 say-on-pay proposal. Given these concerns, we believed that adoption of this proposal was in shareholders' best interest. Ultimately, however, the proposal only received 21% support.

METRICS USED IN EXECUTIVE COMPENSATION

In the years since say-on-pay votes were introduced, there has been an increased focus on the metrics used to measure performance in executive compensation plans. In 2020, three companies (down from six in 2019) faced proposals on the topic, two of which requested that the board adopt a policy that it provide an explanation and rationale each time the company adjusts or modifies any GAAP financial performance metric. Glass Lewis did not support either

of these proposals, submitted at **Abbott Laboratories** and **The Boeing Company**, as we believed that each company's existing disclosure of GAAP adjustments were sufficient.

We also saw a proposal, submitted to **FLEETCOR Technologies, Inc.**, requesting that it exclude the effect of share repurchases in its GAAP adjustments. Given our general reluctance to dictate the metrics used by companies in their executive compensation plans, and a lack of evidence that it had acted egregiously with respect to how it was performing GAAP adjustments, we also did not recommend in favor of this resolution.

Support for these resolutions increased significantly on a year-over-year basis. In 2019, similar resolutions received average support of 9%. However, the proposals at Boeing and Abbot received 26% and 31% support, respectively. The proposal at FLEETCOR, which received 19% support in 2019 received 27% in 2020.

Environmental & Social



ENVIRONMENTAL PROPOSALS

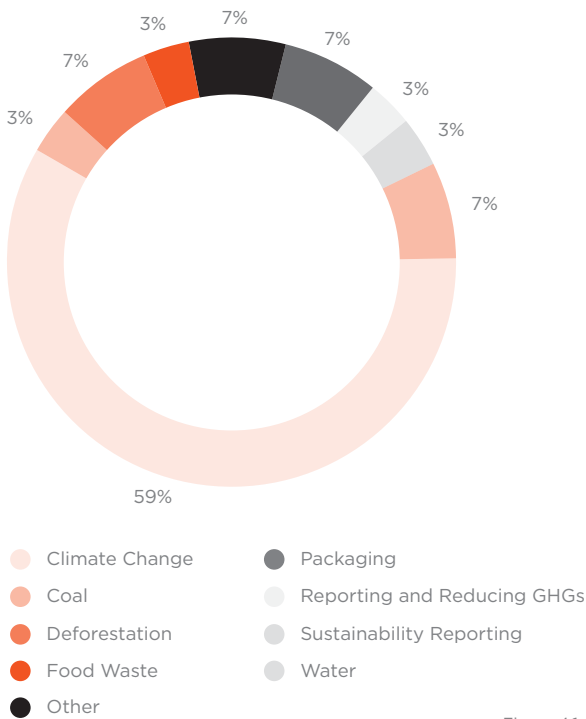


Figure 4.1

SOCIAL PROPOSALS

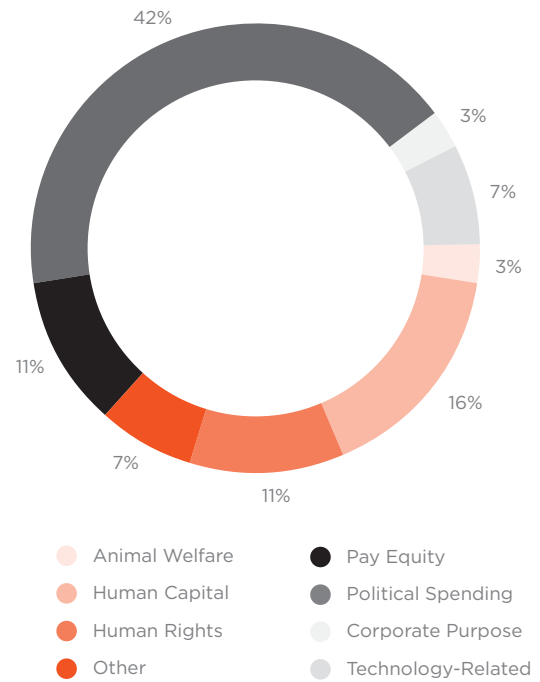


Figure 4.2

AVERAGE SUPPORT FOR ENVIRONMENTAL PROPOSALS

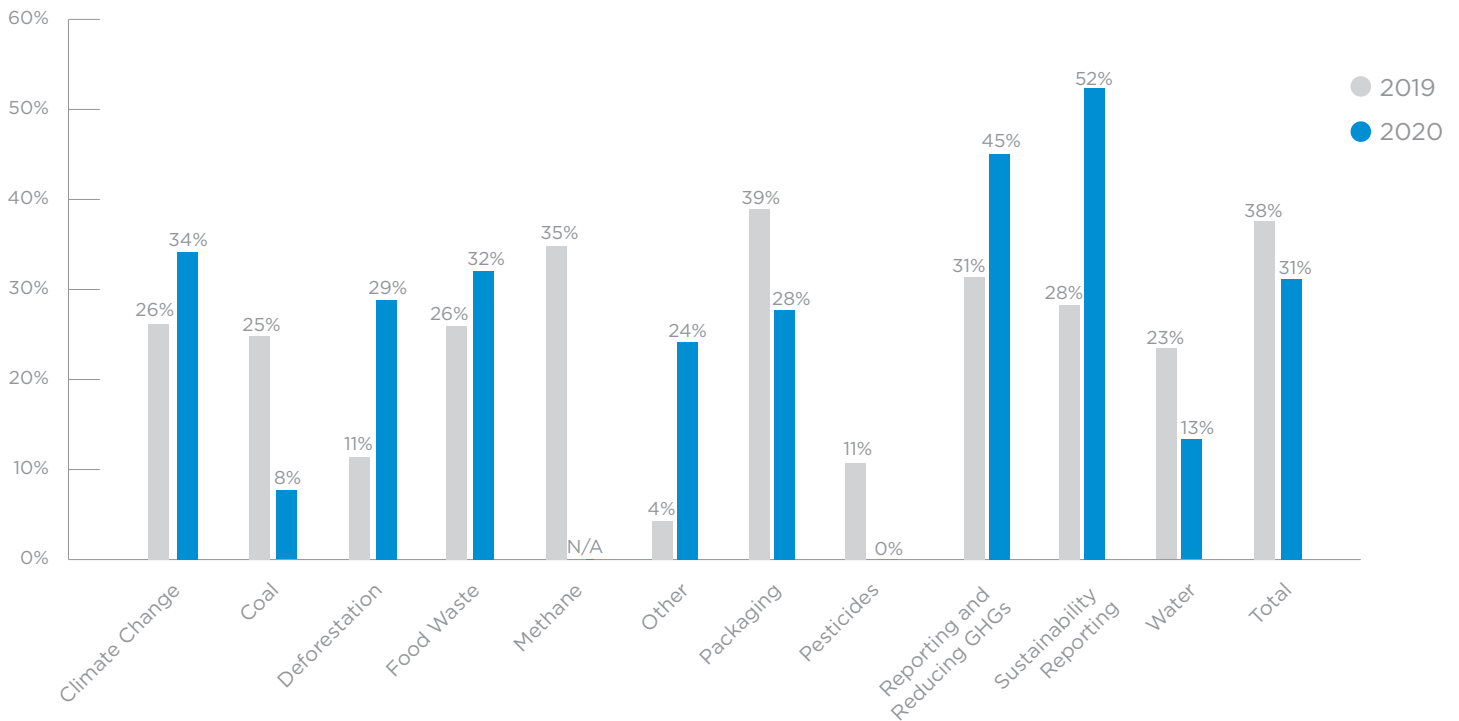


Figure 4.3

AVERAGE SUPPORT FOR SOCIAL PROPOSALS

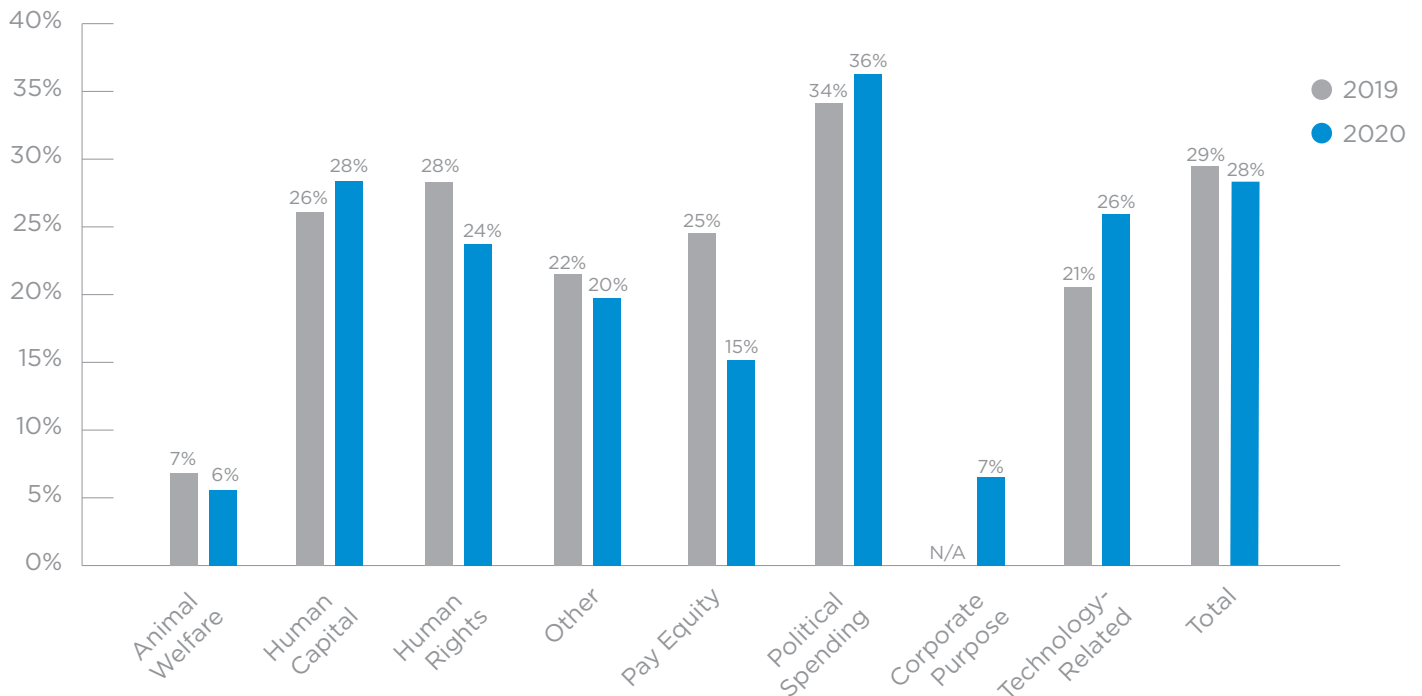


Figure 4.4

SASB MATERIALITY

Prior to the 2019 proxy season, Glass Lewis announced a partnership with the Sustainability Accounting Standards Board (“SASB”), whereby we would be formally considering their definitions of materiality when conducting our analysis on certain environmental and social shareholder proposals.

We looked to include information on the SASB-defined topics that are financially material to companies in our analysis of proposals that had specific reference to environmental and social issues. For example, we would include this information for proposals asking for reporting on a company’s management of coal ash, but we would not include this information for our analysis of a proposal asking a company to produce a sustainability report. In the former instance, there is or is not a clear link to SASB’s defined material aspects, whereas a broader interpretation of sustainability does not lend itself to these metrics. When applying these metrics, we looked at SASB’s materiality considerations more narrowly and liter-

ally than broadly. For example, if we were reviewing a proposal on a company’s GHG emissions, we did not include the topic of “energy management” as encompassing GHG emissions. Therefore, we would have concluded that GHG emissions were not a material topic for that industry.

In total, we applied SASB’s material map to 77 shareholder proposals, down from 85 in 2019. The largest proportion of these proposals were social, followed by environmental, governance then compensation. Compensation-related proposals would include proposals to link compensation to specific environmental criteria, such as cybersecurity or diversity. Governance-related proposals typically requested that companies create a specific committee of the board or appoint directors with a specific expertise, such as human rights or climate change.

In total, we found that 48% of shareholder proposals touched on a SASB-defined material topic, up from 43% in 2019. However, there were certain instances where we disagreed with the topics deemed mate-

SASB MATERIALITY

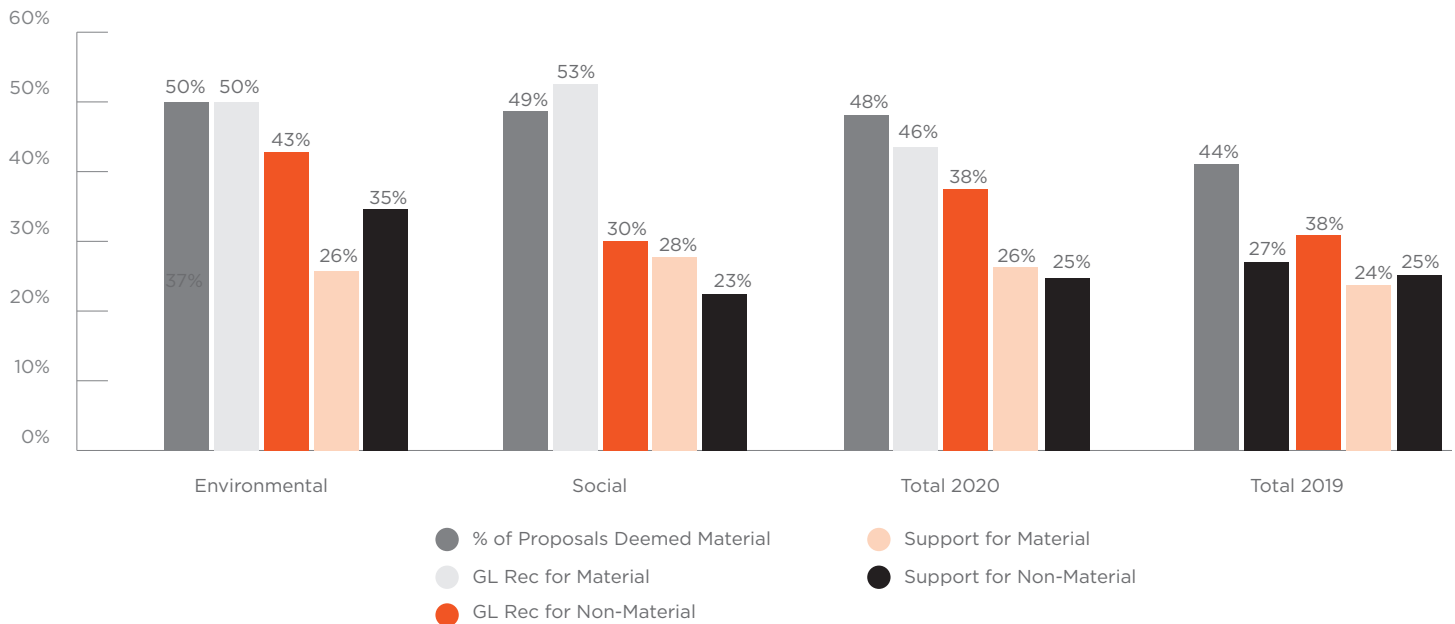


Figure 4.5

rial by SASB. For example, **The TJX Companies, Inc.**'s primary SASB industry is listed as Apparel, Accessories & Footwear. Accordingly, management of chemicals in products is listed as one of four financially material topics for the company. However, unlike many companies in TJX's industry, it does not produce its own products. Rather, it solely sources products from other manufacturers. Moreover, its universe of manufacturers, retailers and other vendors totaled more than 21,000 individual vendors. Further, there was no evidence that TJX had faced any kind of scandal, fine, controversy or punitive action as a result of its chemical footprint. On balance, we did not view the management of chemicals in products as a pressing issue for the company, particularly in light of its struggles as a result of COVID-19.

Further, there were a number of instances where Glass Lewis deemed an issue material that was outside the scope of the SASB material topics. For example, we viewed issues of human and civil rights to be material for a company like **Facebook, Inc.**, where a proposal went to vote requesting that it report on the board oversight afforded to such issues. However, according to SASB, this issue is not deemed material for companies in Facebook's industry. Rather, SASB lists

key topics as: (i) environmental footprint of hardware infrastructure; (ii) data privacy, advertising standards & freedom of expression; (iii) data security; (iv) employee recruitment, inclusion & performance; and (v) intellectual property protection & competitive behavior. Our view, however, was that issues of human rights were material to Facebook's operations given its involvement in issues such as the dissemination of misinformation and hateful messages, the genocide in Myanmar, and its exposure to issues such as child sexual exploitation and discriminatory advertising.

The discrepancy between materiality and our vote recommendations can be explained by a variety of reasons. One of the most significant is as a result of nuances in companies' operations that could not be addressed in a broadly applicable materiality standard. For example, most technology companies do not have the business model, popularity, ubiquity or reach of Facebook that results in its having potential human rights-related impacts. Further, it is also reasonable to assume that the discrepancy between materiality and our vote recommendations could also reflect the impact of increased engagement, as companies are hearing more about material topics earlier in their conversations with shareholders – and


in some cases, taking action that may make shareholder proposals less necessary. A good example of this would be a proposal on climate change at **Union Pacific Corporation** (see “Climate Change”). Although GHG emissions and climate change were material topics for the company, it had, in our view, substantially addressed the request of the proposal, thus we recommended shareholders vote against the resolution.

We find SASB to be an invaluable tool in assessing companies’ material risk exposure – but in light of the above, our vote recommendations and shareholder support for proposals were not always aligned with issues that SASB had deemed material. In total, we recommended supporting 46% of proposals in instances where a material topic was addressed by the shareholder proposal, up significantly from 27% in 2019. Consistent with 2019, we also recommended in favor of 38% of proposals where the topic of the proposal was not deemed to be material as defined by SASB. Also consistent with 2019, shareholder support for these proposals was relatively consistent regardless of whether the proposal was dealing with a material or non-material topic (26% and 25%, respectively).

We recognize that issues of materiality are incredibly complex and require shareholders to look closely at companies’ operations. That being said, we find SASB to be an extremely helpful tool in assessing how companies’ operations are exposed to environmental and social factors. As such, we will continue to review SASB’s materiality considerations when assessing shareholder proposals and other social and environmental factors. However, we will also continue to provide contextual, company-specific considerations and analysis in our research and recommendations.

CLIMATE CHANGE

For a number of years, shareholders have proposed resolutions requesting additional disclosure and actions with respect to companies’ contributions to and the impacts of climate change. In 2015, Glass Lewis reviewed 14 shareholder proposals requesting additional reporting on climate-related issues. However, by 2017, 21 such shareholder proposals went to a vote, receiving average shareholder support of 40%. Moreover, prior to 2017, no climate change-related shareholder proposal had ever received majority support, but that year three such proposals received over 50% approval. This increased support is indicative of the interest and support behind a number of these initia-



CASE STUDY #1: Banking on Targets

How Japanese shareholders introduced **climate-related proposals** and influenced further action on **climate risk**

The coal industry has been viewed as low-hanging fruit for environmental activists and investors looking to mitigate climate-related risks. Not only does it represent one of the most emissions-intensive industries, but it is also becoming increasingly obsolete as energy producers move rapidly away from coal-fired generation and toward cleaner sources of power.

Despite these risks, until recently, a number of large Japanese banks have remained relatively bullish on coal. However, in the wake of growing risks and persistent investor demands over the last few years, Sumitomo Mitsui, Mitsubishi UFJ, and Mizuho have all published policies limiting their exposure to the coal industry.

In June 2019, Mizuho developed a sector-specific policy for coal-fired power generation, limiting its financing and investment to projects that meet a set of international and domestic guidelines and that, in principle, adhere to high-efficiency standards. In April 2020, Mizuho substantially amended its coal policy, by setting a quantitative target to reduce its outstanding credit balance for coal-fired power generation facilities to zero by fiscal 2050, with an interim target to halve it by fiscal 2030. Notably, the policy added a stipulation allowing Mizuho to finance coal projects that are “essential to the relevant country’s stable energy supply and will contribute to reduction of greenhouse gas emissions by replacing an existing power plant.”

A group of NGOs, including the Kiko Network, were unimpressed by Mizuho’s updated climate policy, noting its loopholes. Ultimately, this led to the Kiko Network filing the first climate-related proposal to go to a vote at a Japanese company, for Mizuho’s 2020 annual meeting. Specifically, the proposal requested that the bank annually report on a plan outlining its business strategy, including metrics and targets, to align its investments with the goals of the Paris Agreement. The board opposed the resolution, citing its sustainable lending efforts, coal financing policy, and TCFD-aligned climate disclosure. However, the Kiko Network was primarily concerned with Mizuho’s coal exposure and attendant transition risk.

As is customary with Japanese shareholder proposals, this was a binding proposal that, if implemented, would result in an amendment to the bank’s articles. Despite the binding

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tives and the growing realization that issues related to climate change pose significant risks to investors and the companies in which they invest.

As a result of this strong interest in and support of climate change reporting, beginning in 2017, we witnessed the rapid adoption of enhanced climate risk reporting by companies in the utilities and energy sectors. During the 2017 season, only a handful of companies had produced any type of reporting concerning these issues. However, by the beginning of the 2018 season, the three companies that received majority support on shareholder proposals in 2017 produced thorough climate reports, and a number of other companies had also begun to provide similar disclosure.

The rise in disclosure was aided by the reporting recommendations produced by the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD"). These recommendations, which were finalized in July 2017, provided companies with a framework for voluntary, consistent, climate-related financial risk disclosure for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The recommendations center around four areas: (i) disclosure of an organization's governance of climate-related risks and opportunities; (ii) disclosure of the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material; (iii) disclosure of how the organization identifies, assesses, and manages climate-related risks; and (iv) disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Given the support for TCFD reporting and the overwhelming success of many climate change initiatives since 2017, many companies have taken note and have begun producing climate reporting, thus negating the necessity of submitting proposals on this topic. In 2018, only eight climate proposals made it to corporate ballots, two of which (submitted at **The AES Corporation** and **Chesapeake Energy Corporation**) were withdrawn prior to going to a vote. In 2019, the number of proposals going to a vote dropped to seven. Further, only one of these proposals, at **Continental Resources, Inc.**, requested that the company perform a two-degree scenario analysis. Although we did see a rise in the overall number of climate resolutions that went to a vote in 2020 (17 proposals), we also only saw one two-degree scenario analysis resolution, submitted to **Cheniere Energy, Inc.** Spec-

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nature of the proposal, we determined that, as worded, the resolution was not overly onerous, particularly given the company's existing suite of climate-related disclosure, commitments, and targets. Given that Mizuho is one of the largest financial institutions in Japan, we were also of the belief that shareholders would benefit from an understanding of how the bank's business could fare in a Paris-compliant economy. Further, as a signatory to the Principles for Responsible Banking, Mizuho has already committed to aligning its business strategy with the Paris Agreement.

The proposal ultimately received 34.5% support from shareholders, a striking result for the first Japanese climate-related shareholder proposal and a clear indicator of how investors feel about continuing to support coal projects amidst a quickly-evolving understanding of climate risk.

cifically, this proposal requested that Cheniere prepare a report discussing price, amortization and obsolescence risk to existing and planned liquid natural gas capital investments posed by carbon emissions reductions of 50% or higher applied to Scope 2 and 3 emissions by 2030 as well as net zero emissions targets by 2050. Although we are strongly supportive of enhanced disclosure of climate-related risks, Glass Lewis recommended against this proposal, as Cheniere had committed to releasing a corporate social responsibility report that it expected to be aligned with TCFD and SASB, among others. We believed that this reporting would bring the company more in line with that provided by its peers and would ensure that shareholders had meaningful information concerning its climate risks. While these types of climate proposals often receive very strong shareholder support, this proposal only received 28% support, likely as a result of Cheniere's aforementioned commitments.

Although the proposal at Cheniere received moderately low support, there were four climate proposals that did receive shareholder approval. Two of them, submitted at **Dollar Tree, Inc.** and **J.B. Hunt Transport Services, Inc.**, demonstrated how shareholders have started to widen the scope of companies that they are engaging on these issues. Rather than submitting these proposals to more emissions-intensive extractive companies, the proponents requested that a discount retailer and logistics company report on how they intend to align their respective operations and business strategy with the constraints posed by climate change and attendant regulations. Given that climate change is an issue that impacts all companies in some form, Glass Lewis believed that support for these resolutions, which received 73.5% and 54.5% support, respectively, was warranted, as we believe that it is in shareholders' best interests that companies are considering and dis-

closing to shareholders how they plan to tackle the myriad challenges and opportunities of operating in a changing climate.

A similar proposal, for which Glass Lewis also recommended in favor, was submitted to **United Parcel Service, Inc.** This proposal only received 30% support. However, it should be noted that UPS is a dual-class share company, thus vote results were artificially depressed. **Union Pacific Corporation** also received a similar resolution, but Glass Lewis refrained from offering our support for this resolution and it received only 19% support. Unlike Dollar Tree and J.B. Hunt, Union Pacific had already provided somewhat substantial reporting on climate-related issues and had committed to setting a science-based GHG emissions reduction target.

The two other majority-supported proposals dealt with how **Chevron Corporation** was lobbying on issues related to climate change (see “Climate Lobbying”) and how **Phillips 66** was managing the public health risks of expanding petrochemical operations and investments in the Gulf Coast. The proposal submitted to Phillips also went to vote at **Exxon Mobil Corporation** and Chevron. The latter company had established a joint venture with Phillips, CPChem, which was the reason for the targeting of this proposal. Glass Lewis recommended in favor of all three resolutions. With respect to CPChem, we believed that, although it had provided disclosure concerning its efforts to mitigate its emissions, its significant investments in the Gulf Coast necessitated a more full-some accounting of the public health risks related to unplanned chemical releases due to extreme weather events, which have become more frequent and severe as a result of climate change. While the proposal at Phillips received 54.7%, the proposals at Chevron and Exxon failed to receive majority approval (46% and 25% support, respectively).

One of the more high-profile meetings during the 2020 proxy season was held by **JPMorgan Chase & Co.**, and included two climate-related proposals. The first requested that the bank describe how it plans to respond to rising reputational risks and questions about its role in society related to its involvement in Canadian oils sand production, oil sands pipeline companies, and Arctic oil and gas exploration and production. We were not convinced that adoption of this proposal, which received 15% support, was warranted given JPMorgan’s existing policies and disclosures. However, we did recommend in favor of a resolution



CASE STUDY #2: Climate Activists Target European Oil Majors Over Reduction Targets

ShareAction targets European oil and gas companies to strengthen their commitments to reducing GHG emissions

2020 has proven to be a busy year for three of Europe's largest oil and gas companies. Equinor, Shell, and Total all received similar shareholder proposals requesting that the firms set Scope 1, 2 and 3 GHG reduction targets aligned with the goals of the Paris Agreement. Critically, the inclusion of Scope 3 targets would mean that, if adopted, the firms would be setting targets to limit customers' emissions from the use of their fossil fuels.

The resolution at Shell's AGM, proposed by Follow This, was submitted prior to several major announcements from the oil major, including its ambition to be net zero on all emissions from the manufacture of its products, Scope 1 and Scope 2, by 2050 at the latest. Shell also stated that it would reduce the net carbon footprint of the energy products it sells to customers by 30% by 2035 and 65% by 2050, while also claiming that it will pivot toward serving businesses and sectors that also adhere to net-zero emissions by 2050. Further, Shell's short-term targets, as well as its medium- and long-term ambitions, were calibrated against a range of 1.5 degree scenarios. Shell's actions were lauded by the influential investor group Climate Action 100+, and, in our view, represented a meaningful response to the proposal. Given Shell's commitments and responsiveness, we did not recommend that shareholders vote in favor of the proposal, which ultimately received 14.4% shareholder support.

In a remarkably similar turn of events, the shareholder proposal at Total was submitted before the firm made significant new commitments. In this case, Total published a joint statement with Climate Action 100+ announcing its goal "to get to Net Zero by 2050 together with society." To achieve its ambition, Total stated that it would target operational net zero Scope 1 and Scope 2 emissions by 2050, net zero across its production and energy products used by customers in Europe by 2050 (Scope 1, 2, and 3),

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requesting that JPMorgan issue a report outlining if and how it intends to reduce GHG emissions associated with its lending activities in alignment with the Paris Agreement.

Companies with lending and financing activities have a unique risk exposure to issues related to climate change. Changing regulations, weather patterns and market trends can all drive down the value of the underlying assets of the companies for which it is providing financial services. Therefore, it is important that companies who are engaged in lending and financing take into account issues related to climate change. We believed that an accounting of these risks was of particular importance to JPMorgan, which had come under scrutiny for these issues; an NGO report had named it as the top banker of fossil fuels and the top banker of 100 top companies expanding fossil fuels. It was also identified as the top banker of tar sands oil, arctic oil and gas, ultra-deepwater oil and gas, coal mining, and liquefied natural gas, and the number-two banker of fracking. We believed that such reporting would allow shareholders to better understand the risks facing the company and how it is monitoring and managing the risks associated with its lending activities, especially given the public scrutiny surrounding its carbon-intensive lending portfolio.

In total, Glass Lewis recommended in favor of 59% of climate resolutions, up from 43% the prior year. Similarly, overall shareholder support for these measures rose from 26% to 34% in 2020. These increases are largely explained by the composition of the proposals that went to a vote in each year. It is our view that these proposals, for the most part, have been consistently improving with respect to their asks and targeting. Although investor interest in issues related to climate change has undoubtedly grown, the quality of related shareholder proposals is an extremely important voting consideration on these resolutions.

CLIMATE LOBBYING

Shareholder proposals concerning how companies are spending treasury funds for electioneering or lobbying purposes have been one of the most popular types of shareholder resolutions that have gone to a vote over the last decade. Investors have increasingly been concerned with and engaging companies on how their money is being spent and whether or not it is being used to further stated corporate goals. For example, one concern that has arisen in recent years is that companies may be outwardly proclaiming their environmental sustainability, while at the

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and 60% or more reduction in the average carbon intensity of energy products used worldwide by its customers by 2050, with intermediate steps in 2030 and 2040 (Scopes 1, 2, and 3). Total also made other commitments, such as reviewing its targets every five years and stress-testing its portfolio, including new material CapEx investments, to evaluate consistency with the Paris goals. Considering these actions and Total's commitment to refine its targets in the future, we also refrained from recommending support for the proposal, which received 16.8% shareholder support.

Finally, Norway's state-controlled oil firm, Equinor, had already established a range of climate-related targets. Specifically, Equinor aimed to have carbon-neutral global operations by 2030, set a quantitative target to reduce the carbon intensity of its upstream oil and gas by 2025, and to achieve at least a 50% reduction of net carbon intensity and near-zero absolute GHG emissions in Norway. In a 2019 joint statement with Climate Action 100+, the firm also made a public commitment to explore ways to reduce its Scope 3 emissions. As we found Equinor's ambitions to be substantially aligned with the request of the proposal, we did not recommend support for the proposal, which received only 3.2% support from shareholders.

We recognize that the thrust of these proposals was to directly tie the firms' climate "ambitions" and targets to aims of the Paris Agreement. That being said, in each case we were unconvinced that the firms neglected setting meaningful targets to reduce their greenhouse gas emissions, while admittedly treading lightly on Scope 3 ambitions. However, given the significant operational implications of setting such ambitions, we believed that these goals should ultimately be determined by management and the board.

same time indirectly funding lobbying efforts aimed at curbing climate regulations through their membership in trade associations.

There have been several attempts to ensure companies' values are aligned with their political spending. In particular, investors have sought to learn about companies' indirect spending, namely that conducted through companies' trade association memberships. Proponents often state in supporting statements that they are concerned regarding how the target company's money is being spent to lobby against progressive climate legislation, and even the Climate Action 100+ has taken on the issue of engaging with companies on this issue. However, the actual asks of the lobbying resolutions have not substantially changed to address this issue.



CASE STUDY #3: Dueling Barclays Proposals

Barclay's counters a shareholder proposal on their climate-related policies with a management proposal detailing how they plan to mitigate their climate impacts

Over the past few years, investors and other stakeholders have increasingly sought to hold financial service providers accountable for climate change, asking them to evaluate their lending activities against their purported commitments to the Paris Agreement.

At its 2020 AGM, Barclays' shareholders were presented with proposals from both management and a group of shareholders coordinated by ShareAction seeking to address the firm's climate change strategy. Adoption of management's proposal would have required it to set an ambition to be net zero in Scopes 1, 2, and 3 by 2050, set targets to align its financial services with the goals and timelines of the Paris Agreement, and to report annually on its progress. Alternatively, the shareholder proposal requested that Barclays set and disclose targets to phase out the provision of financial services to the energy sector and gas and utility companies not aligned the Paris Agreement, to align the phase-out with the Paris goals, and to report annually on its progress.

Although the proponents recognized Barclays' progress on climate change, they remained concerned that it continued to allow financing of companies that are highly dependent on coal as well as tar sands and arctic oil and gas projects, all of which have been criticized for being carbon-intensive. The proponent also argued that the firm's recently-amended policies on fracking and oil sands would have no material impact.

Further, the proponents were skeptical of management's plan to become net-zero by 2050 using the IEA's Sustainable Development Scenario ("SDS") as a starting point, a climate scenario which has been criticized for not adhering to a Paris-aligned 1.5°C target. Barclays maintained that the SDS was already widely used and

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The issue of how companies are indirectly lobbying on climate-related issues has been a popular topic of shareholder proposals in Australia since 2017. However, prior to 2020, climate-related lobbying concerns have merely been implicit in the shareholder proposals submitted to U.S. companies. This year, three proposals went to a vote at **Chevron Corporation**, **Delta Airlines, Inc.** and **United Airlines Holdings, Inc.** These proposals requested that the companies issue reports describing if, and how, their lobbying activities (both direct and through trade associations) align with the goals of the Paris Agreement. The proposals also asked that the requested report address the risks presented by any misaligned lobbying and the companies' plans, if any, to mitigate these risks.

When considering our vote recommendations, we were cognizant of diverting resources given the hardships faced by these companies, particularly the airlines, on account of the COVID-19 pandemic. However, we ultimately recommended support for all three proposals, as we believed that production of the requested reports would ensure the company was transparent in its policy objectives and would provide shareholders assurance that these companies' funds were being spent in a manner that furthered their stated objectives. We were also concerned with other risks attendant with these companies' lobbying activities. Given that many industries, airlines included, were likely to receive taxpayer bailouts on account of the global pandemic, we believed that these companies' spending, on lobbying or otherwise, would come under increased scrutiny. Accordingly, we believed that an accounting of how that money was being spent could help mitigate reputational risks for the companies.

These proposals all received significant support, with the resolutions at Delta and United receiving 46% and 32%, respectively. The proposal at Chevron ended up receiving majority shareholder support, 54%, which is a relatively uncommon occurrence for a first-time proposal such as this. However, given investors' strong support for both lobbying and climate resolutions, the support garnered by these proposals is relatively unsurprising, despite their novelty.

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had a dataset that would enable it to immediately begin aligning its portfolio, but that it would update its planning as other approaches and pathways were developed.

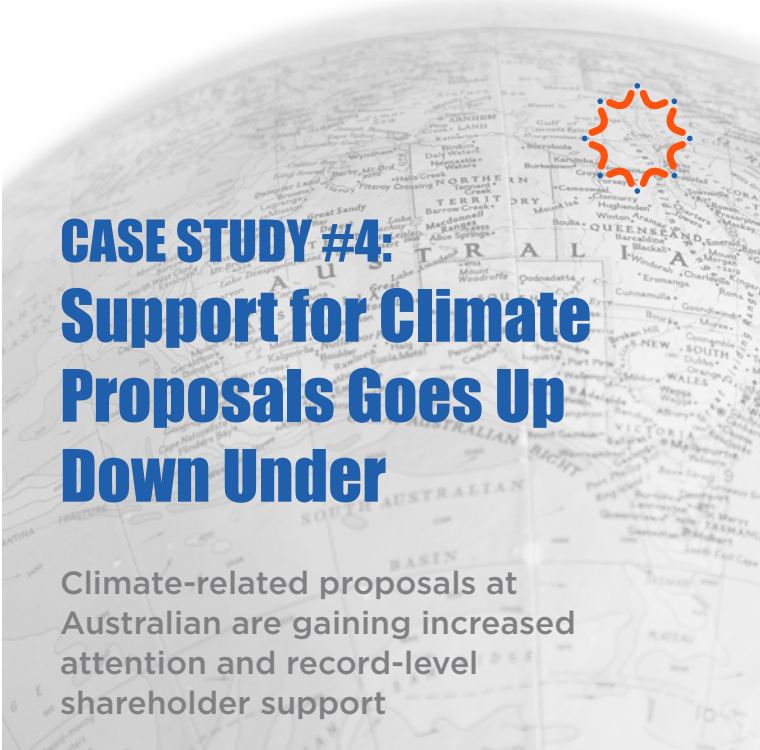
While the board made its opposition to the shareholder proposal clear, it refrained from offering an official recommendation, opening the door for shareholders to vote in favor of both the management and shareholder proposals. However, we were ultimately concerned that the binding shareholder proposal did not give sufficient latitude to the board in carrying out its ambitions. Meanwhile, we viewed management's proposal, which was also binding, as being sufficiently responsive to shareholder concerns regarding how Barclays is addressing climate change.

Ultimately, management's proposal received 99.93% votes in favor, while the shareholder proposal received 23.95% shareholder support. Although the shareholder proposal didn't pass, in light of the significant support, Barclays stated that it intends to continue engaging with shareholders and stakeholders as it continues to develop its climate strategy and the metrics for measuring its progress, as well as the targets against which it will report.

REPORTING AND REDUCING GHGS

For many years, shareholders have proposed resolutions requesting that companies adopt GHG reduction targets. Particularly given the increased focus on issues related to the environment and climate change, it is unsurprising that shareholders are continuing to press companies to take steps to minimize their environmental impacts. However, there has been a shift in how shareholders are approaching this issue, the most notable of which is the targeting of these proposals. Several years ago, these proposals had been targeted almost exclusively at companies operating in the oil and gas industry or in heavily emitting industries, such as utilities. More recently, however, proponents have begun submitting proposals at less emissions-intensive companies. In fact, in 2019 only one of the proposals was targeted at a company where SASB had deemed GHG emissions to be a financially material topic.

Although we generally recommend support for shareholder requests to improve disclosure on material sustainability issues, Glass Lewis typically believes that shareholders should not be involved in the day to day management of a company's business. Given this belief, we often find that shareholder proposals requesting that companies set emissions reductions goals overstep the boundary between the purview of shareholders and that of the board. However, Glass Lewis reviews these proposals on a case-by-case ba-



CASE STUDY #4: Support for Climate Proposals Goes Up Down Under

Climate-related proposals at
Australian are gaining increased
attention and record-level
shareholder support

Australia has quickly become one of the fastest growing markets for shareholder resolutions. In recent years, proposals have started garnering higher levels of support, particularly as investors commitment to and interest in ESG grows.

Australia's large energy companies are often the subject of these proposals, and 2020 was no exception. This year, both Santos and Woodside Petroleum faced proposals from the Australasian Centre for Corporate Responsibility ("ACCR") requesting that they report annually on targets to reduce Scope 1, 2, and 3 emissions and justify their exploration and CapEx in alignment with the Paris Agreement. The proposals also requested details on how the companies' remuneration policies would incentivize progress against these targets.

For both companies, the proponent expressed concerns that their growth strategies and emissions targets were inconsistent with Paris Agreement goals. Santos, for example, intended to increase gas production contrary to the IPCC's Special Report on Global Warming of 1.5°C. Meanwhile, despite Woodside Petroleum's Scope 3 emissions comprising the majority of its carbon footprint, the proponent noted that it planned to increase Scope 3 emissions in the medium term. The proponent also stated that the companies should demonstrate how CapEx, including material investments in oil and gas, are aligned with the Paris Agreement and should also reassess their strategies based on the absence of commercially viable carbon capture and storage.

The proposals were opposed by the boards of both companies, with Santos arguing that its growth portfolio continues to be economically resilient

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sis, taking into account the materiality of emissions to the company in question, as well as the specific wording of the resolution and what it requests. In certain circumstances, particularly when emissions present a material issue for companies, setting GHG emissions reduction targets can significantly affect the way a company operates. We reviewed five of these proposals in 2019, but only one in 2020. The sole 2020 proposal was a repeat from the prior year, at **TransDigm Group Incorporated**, a company that designs, produces and supplies aircraft components.

TransDigm had attempted to exclude the proposal from its 2019 AGM using the no-action process. However, instead of challenging the proposals' exclusion with the SEC, the proponent, the New York City Comptroller, filed suit against the company in the United States District Court for the Southern District of New York, alleging that TransDigm attempted to illegitimately block the shareholder proposal. Prior to its 2019 annual meeting, TransDigm settled with the Comptroller, and agreed to allow the proposal to go to a vote at the 2019 annual meeting. This year, TransDigm refrained from petitioning for no-action relief, and allowed the proposal on the ballot.

We recommended in favor of the proposal at TransDigm in both 2019 and 2020. We had a number of concerns with the proposal, the most notable of which was that it did not represent a financially material issue for the company. However, in our assessment, we found that TransDigm's level of disclosure was insufficient to allow shareholders to know whether it was managing environmental issues with any level of detail or rigor. Moreover, when reviewing this proposal during the 2020 proxy season, we noted that TransDigm had failed to sufficiently enhance their disclosure on a year-over-year basis, despite relatively strong shareholder support for this initiative in 2019. We also had significant ongoing concerns with the company's compensation program and governance, including its lack of an independent chair or independent lead director. Accordingly, we believed that support for the policy was warranted, as its adoption would, to some extent, ensure that the company was considering and accounting for environmental issues

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under various low carbon scenarios. Santos maintains three medium-term targets toward achieving net zero emissions by 2050, including growing LNG exports, reducing economic emissions in its operations, and pursuing technologies to reduce emissions. Santos further defended the necessity of its investment in natural gas to replace coal and lower emissions. Woodside Petroleum also aimed to be net zero by 2050 and maintained a strategy focused on limiting its own emissions, managing physical climate change impacts on its assets, maintaining and growing a long-term resilient portfolio, and advocating for a competitive lower carbon economy. Both companies already included environmental performance in their remuneration frameworks.

Given that SASB identifies management of GHG emissions as being a material concern for the industry, and that the precatory resolutions were sufficiently broad to allow the companies flexibility in implementation, we found the resolutions to be reasonable. Despite Santos' emissions targets, they did not appear to be aligned with the goals of the Paris Agreement, and Woodside Petroleum appeared to have set targets only for the short-term. Accordingly, we recommended that shareholders vote in favor of both proposals.

Australian securities law currently only allows for the submission of binding proposals. Accordingly, as is often the case, formal votes on the shareholder proposals would only be counted if the accompanying resolutions to allow for voting on nonbinding proposals were approved by shareholders. Ultimately, neither proposal was formally put to Santos or Woodside Petroleum's AGM as the proposals to allow for voting on nonbinding resolutions failed to receive majority support at either company. However, the proposal received 43% support at Santos and more than 50% support at Woodside Petroleum, marking a watershed moment for proposals in the Australian market.



CASE STUDY #5: A Tale of Two Markets: An Off-Limits Proposal Goes to a Vote in Canada

A Canadian company receives majority shareholder support for a proposal that U.S. regulators would not allow to go to a vote at a number of oil and gas companies

In October 2019, Canadian oil and gas company Encana announced that it would move to the U.S. and change its name to Ovintiv; effective January 2020, Ovintiv officially incorporated in Delaware, and held assets in the U.S. and Canada. At its 2020 annual meeting, Ovintiv received a shareholder proposal requesting that it disclose and annually report on medium- and long-term emissions targets aligned with the Paris Agreement.

The proponent, the Pension Plan of the United Church of Canada, argued that, while a number of Ovintiv's peers had disclosed climate-related targets, as one of the largest natural gas producers in North America, setting and disclosing targets would allow Ovintiv to assure investors that climate-related risks were being properly managed and mitigated. Meanwhile, Ovintiv argued that while it reports annually regarding its performance on climate-related issues and benchmarks that performance against peers, to require it to set targets attempting to anticipate how the commitments of the Paris Agreement would be achieved at the national and global level was unduly demanding.

The Canadian government requires companies in the oil and gas industry to reduce their methane emissions to increase the chances of the country meeting its Paris Agreement commitment. As such, we found Ovintiv to be already on track with partially meeting the request of the proposal as it had reduced its methane intensity from 2016-2018. Nonetheless, given the financial materiality of GHG emissions to Ovintiv's operations, we found the proposal to be reasonable and, thus, recommended that shareholders vote in favor.

This proposal draws a sharp contrast between the Canadian and U.S. market. Ovintiv's proposal was substantially similar to a proposal submitted to Chevron and Exxon Mobil in advance of the 2020 proxy season. In both cases, the companies had successfully

in the context of its operations. It appears that shareholders similarly noted TransDigm's lack of responsiveness to these issues, as support for this proposal rose from 35% in 2019 to 45% in 2020.

CORPORATE PURPOSE

In August 2019, the Business Roundtable ("BRT") amended its Statement on the Purpose of a Corporation to reflect an enhanced focus on stakeholders, rather than just shareholders. The document was signed by 181 CEOs, with additional signatures in the following months. These signatories, which comprised some of the largest U.S. companies, committed to, among other things: (i) deliver value to customers; (ii) invest in employees; (iii) support communities in which they work; and (v) generate long-term value for shareholders.

While many lauded the statement, others took a more skeptical view and raised fears that the acceptance of stakeholderism would insulate corporate leaders from shareholder pressures and make them less accountable.

During the 2020 proxy season, **Bank of America Corporation, BlackRock, Inc., Citigroup Inc., and The Goldman Sachs Group, Inc.** were asked to defend their support of the BRT statement. While each proposal varied slightly, the four large financial institutions were essentially asked to conduct a comprehensive review of their governance documents, making recommendations to the shareholders on specifically how the "Purpose of a Corporation" could be fully implemented by board and management, and recommending amendments to governance documents.

achieved exclusion through the SEC's no-action process, receiving significant scrutiny for attempting to quell shareholder voices. However, as Canadian securities law doesn't have a no-action process for these resolutions, Ovintiv's proposal went to a vote and provided a revealing temperature check for investor interest in the proposal's request.

The proposal received 56% support from shareholders, signaling that investors are warming to the idea of requiring oil and gas companies to take action independent from regulatory requirements to limit their emissions in order to meet the goals set out in the Paris Agreement. Notwithstanding Ovintiv's recent domicile change, the proposal can essentially be interpreted as the first majority supported climate proposal at a Canadian company.

Glass Lewis did not recommend in favor of any of these resolutions. It was our view that the proponent had failed to demonstrate that any of the companies had acted with disregard to the BRT statement or that the companies' current programs and initiatives were deficient or presented a risk to shareholder value. Shareholders were similarly unsupportive of these measures. The proposals received between 3.9% and 9.3% support.

HUMAN CAPITAL MANAGEMENT

Issues related to human capital management were at the forefront of the 2020 proxy season. In the last two years, we have seen an increased focus on how companies are managing and capitalizing on their workforces. With the momentum of the #MeToo movement and the urgency of the COVID-19 pandemic behind them, proponents challenged companies on the diversity of their workforces, their sexual harassment mitigation initiatives, and their workforce policies. On average these proposals, many of which were first-time proposals, received 28% support (up from 26% in 2019), which further indicates strong shareholder support and a significant continued investor interest in this issue.

PAY EQUITY

In 2016, a relatively novel shareholder proposal requesting additional information on how **eBay Inc.** was closing its gender pay gap received majority shareholder support. This result was all the more notable given that the proposal was first submitted at eBay just one year prior and received much lower support. It is fairly common for shareholder proposals to receive low support in the first years after they are introduced. Even the SEC has recognized this fact, and has lower resubmission guidelines for shareholder proposals in the first and second years they are presented at companies. Moreover, prior to 2015, the issue of gender pay equity had not been raised by a shareholder proposal since 2007. As such, it was a surprise when support for the eBay shareholder resolution shot up from 8.5% in 2014 to 51.2% just one year later.

In the subsequent three years, the proposal was submitted to several other companies in the tech industry as well as several large financial institutions. Although Glass Lewis was generally supportive of all of the proposals requesting that companies disclose their adjusted pay gaps, in 2019 proponents took a different approach. Last year, we reviewed 13 proposals concerning pay equity, the vast majority of them

requesting that companies disclose their median pay gaps. These proposals requested reporting on the percentage global median gap between male and female employees, rather than the adjusted gap. Many proposals also asked for the same information with respect to the racial pay gap.

Because of the critical difference in median versus adjusted pay gaps in the request of the proposal, we did not recommend in favor of any of these resolutions. Each of the companies where this proposal was submitted had provided information concerning how they were calculating and managing their adjusted pay gap, along with thorough disclosure about how they were working to advance women and minorities within their organizations. We were concerned that disclosure of the requested information could provide potentially misleading information and lead current and potential employees to assume the company maintained a pay gap that, once adjusted for title and location, was negligible. While adjusted pay equity information allows stakeholders and shareholders to ensure that equal work is receiving equal pay, a median pay gap could be influenced by the proportion of one gender in a specific type of role, and thus could paint a misleading picture of a company's pay policies such that employee morale, retention and recruitment are negatively (and inappropriately) impacted.

We took a similar approach in 2020, when we also reviewed 13 of these proposals. We did not recommend support for any of these proposals, with the exception of one proposal at **Facebook, Inc.** In this instance, for a number of years, the company had simply stated that it has no gender pay gap, but failed to disclose any information concerning how it has established its claims of pay equity or the processes that ensure that its pay remains equitable. Further, Facebook had made a glaring omission in that it failed to address racial pay equity, an issue that was addressed by the other companies who had received this proposal. Given this, as well as other governance issues we highlighted at the company, we believed that a more thorough disclosure was warranted.

Ultimately, median gender pay gap proposals received relatively strong support in 2019, with 25% on average. However, average support dropped to just 15% in 2020. Only two of these proposals, at **Pfizer Inc.** and **Cigna Corporation**, received over 20% support. Moreover, in instances where the proposal was resubmitted, at **Adobe Inc.** and **The Bank of New York Mellon Corporation**, support levels dropped precipitously (from 33% to 13% and 25% to 8%, re-

spectively). This drop in support is rather surprising, given that none of these companies had made substantial improvements in their disclosure on a year-over-year basis.

DIVERSITY

In 2020, Glass Lewis reviewed seven proposals related to employee diversity. Most of these proposals requested that the targeted companies provide more information concerning their workforce demographics. On average, these proposals received 55% support, up from 43% and 39% in 2019 and 2018, respectively. Further, while one such proposal, at **The Travelers Companies, Inc.**, received majority shareholder support in 2019, more than half of the proposals submitted to a vote in 2020 received more than 50% approval.

Two of the majority-supported proposals, submitted at **O'Reilly Automotive, Inc.** and **Genuine Parts Company**, requested that the companies describe their policies, performance and improvement targets related to material human capital risks and opportunities and that such reporting be informed by the metrics and guidelines for the companies' primary SASB industry. The other majority supported proposals, which went to a vote at **Fastenal Company** and **Fortinet, Inc.**, requested that the companies issue a report assessing the diversity of their respective workforces and their diversity and inclusion efforts.

Prior to the 2019 season, Glass Lewis revised its policy approach to these proposals in the context of increased investor stewardship obligations and expectations regarding board composition. In 2018, we had recommended in support of two of the seven proposals submitted to a vote. However, in 2019 and 2020, we recommended in favor of all but one of these proposals. The one exception in both years came at **The Home Depot, Inc.**, where we had actually recommended for the same proposal in 2018 due to the retailer's history of lawsuits and relatively minimal disclosure. However, we reversed our recommendation in 2019, largely as a result of the Home Depot's recently-adopted quantitative diversity disclosure. Despite this enhanced reporting, the proposal continues to receive relatively strong support: 33% in 2019 and 36% in 2020.

We also recommended in favor of a proposal at **IPG Photonics Corporation** requesting that it prepare a report on its assessment of the current state of its management team diversity and its plan to make its management team more diverse in terms of race, eth-

nicity, and gender. Given the potential benefits of ensuring diversity within IPG's leadership, we believed that the requested disclosure could benefit shareholders by allowing them to gain more insight as to how the company approached the issue of diversity in relation to both the current leadership team and the pipeline for future talent. This proposal received 44.9% support. We also reviewed one of these proposals in 2019, at **Newell Brands Inc.**, which received 56.6% support. This could indicate that shareholders are moving beyond the board and the broader employee base to more closely examine the composition of companies' management teams and that they are increasingly placing emphasis on that cohort of employees. Considering the concerns regarding women and minorities in executive and board positions, it is likely that shareholders will continue to examine and target companies where they believe that the pipeline of talent is not sufficiently diverse.

EMPLOYMENT PRACTICES

Consistent with 2019, issues related to sexual harassment represented a significant portion of the human capital management proposals we reviewed during the 2020 proxy season. For example, **Walmart Inc.** and **XPO Logistics, Inc.** were also recipients of repeat proposals dealing with sexual harassment issues. In 2020, this proposal was also submitted to **Delta Air Lines, Inc.** At each company, the proposal requested that the companies formalize the board's oversight responsibility, aligning senior executive compensation incentives and reviewing company policies on sexual harassment. Although we were sympathetic with the ultimate aims of these proposals, and noted that each company had faced some level of controversy on account of its treatment of women in the workplace, we had concerns about the specific request. In particular, we were concerned with the provision asking the companies to align senior executive compensation incentives with the prevention of workplace sexual harassment, as it was unclear how the proponent envisaged that this be accomplished. Accordingly, Glass Lewis did not recommend in favor of any of these resolutions. They received 19% support at XPO and 13% at Walmart, up from 18% and 11%, respectively, in 2019.

Only one proposal on employment practices received majority shareholder support. A proposal requesting that **Chipotle Mexican Grill, Inc.** prepare a report on the use of contractual provisions requiring employees to arbitrate employment-related claims received 51% support. Glass Lewis recommended in favor of this proposal, as we believed that the requested re-

port would help shareholders ensure that the issues were being thoroughly addressed by the board and management. We also believed that adoption of the proposal would present the additional benefit of providing reassurance to current and potential employees who may have concerns regarding how Chipotle's policies affected any of their employment-related claims.

Alphabet, Inc. and **Amazon.com, Inc.** also each received proposals concerning their employment practices. While both companies received proposals in 2019 concerning their policies related to sexual harassment, in 2020, the proponents shifted course. Alphabet received a proposal requesting a report on its use of contractual provisions requiring arbitration in employment-related claims. Specifically, the proposal asked Alphabet to specify the proportion of the workforce that is subject to such provisions; the number of employment-related arbitration claims initiated and decided in favor of the employee, in each case in the previous calendar year; and any changes in policy or practice Alphabet has made, or intends to make, as a result of California's ban on agreeing to arbitration as a condition of employment. We did not recommend in favor of this resolution, noting that the company had recently taken a number of steps to address some of the issues raised by this proposal, including eliminating the use of mandatory arbitration. In addition, a number of its subsidiaries also no longer required mandatory arbitration and it had removed workplace arbitration requirements from its direct agreements with its extended workforce. In light of these actions and Alphabet's existing disclosure, we did not believe support for the requested report was warranted. We also recommended against a different proposal at Alphabet, requesting that it evaluate its whistleblower policies and practices and that it assess the feasibility of expanding those policies and practices above and beyond current levels to cover, for example, information concerning the public interest or information contained in the United Nations Declaration of Human Rights. However, upon review, we found Alphabet's policies to be sufficient, in that they were in line with legal requirements and commensurate with the policies adopted by its peers.

We did recommend in favor of a proposal at Amazon requesting more information on promotion data within its organization. Specifically, it asked for public reporting on its promotion velocity rates, defined as the time it takes from the date of hire to promo-

tion, or between one promotion and the next. The proponent also requested that this information be broken down by title and level for different gender and racial identities. Although we acknowledged that the requested report would show only a narrow aspect of how issues related to advancing women and racial minorities within the organization are being managed, we believed that such information could paint an important picture for shareholders, particularly when viewed on a year-over-year basis. We also believed that, by reporting on the issue, shareholders would have some assurance that, at some level, the issue was being monitored and managed.

Glass Lewis also reviewed a unique proposal at **Comcast Corporation** requesting that the company undertake an independent investigation on sexual harassment within its organization. Comcast, which owns NBC Universal, had experienced significant controversy on account of the actions of several of its employees, most notably Matt Lauer, who had been accused of sexual assault by several employees. We recommended in favor of this proposal, despite the fact that Comcast had undertaken an internal investigation into these matters. We were concerned about inherent conflicts of interest that may manifest from such an investigation and believed that bringing in an independent party to conduct the requested investigation would allow for a more thorough accounting of the issues raised by the proposal.

We also believed that this investigation was of particular importance, as it could signal the seriousness with which the company takes this issue to the company's employees, and could ultimately help the company to foster a more open, diverse, and engaged workforce. This proposal ended up receiving only 13% support. However, support for this measure was artificially depressed given Comcasts' dual-class share structure.

We also saw four Trojan Horse shareholder proposals, submitted by the National Center for Public Policy Research ("NCPPr") on human capital management issues. One of these proposals, at Amazon requested that it issue a report evaluating the range of risks and costs associated with discriminating against different social, political, and religious viewpoints. The other three proposals requested that **Netflix, Inc.**, **Starbucks Corporation**, and **Twitter, Inc.**, which the proponent appeared to think could be suppressing conservative viewpoints, issue reports detailing the

potential risks associated with omitting “viewpoint” and “ideology” from its written equal employment opportunity policy. These proposals only received between 1.5% and 7.5% shareholder support.

For more information on Trojan Horse proposals and NCPPR, please see “Trojan Horse Proposals.”

HUMAN RIGHTS

In recent years, investors have increasingly been raising concerns regarding companies’ human rights-related risks and considerations, particularly with regard to supply chains. However, despite increased investor attention to these issues, only a handful of companies have faced shareholder proposals concerning human rights issues in the past several years. In 2020, we reviewed 13 proposals dealing with human rights-related issues, compared with 12 in 2019, 9 in 2018, and 10 in both 2016 and 2017.

Historically, these shareholder proposals have received very low shareholder support. In 2018, the highest support (19.9%) was for a proposal at **Monster Beverage Corporation** requesting that it report on the criteria and analytical methodology to determine its conclusion of “minimal risk” of slavery and human trafficking in its sugarcane supply chain. Further, of the eight other human rights-related proposals submitted to a vote in 2018, only two received over 10% shareholder support. In 2019, however, average support for these proposals increased to 28%; four proposals received between 30%-49% support, and one proposal, submitted at **The GEO Group, Inc.**, received 87.9% support. It should be noted, however, that the proposal at GEO Group was ultimately unopposed by management. It does appear that these resolutions are continuing to gain in popularity with investors. Although all proposals were opposed by management, in 2020, average support for these resolutions was 24% and, again, four proposals received between 30-49% support. Notably, two proposals, at **General Motors Co.** and **The Kroger Co.** each received 45% support.

Glass Lewis recommended in favor of three human rights-related shareholder proposals in 2020, representing approximately 23% of these proposals (five, or 42%, in 2019). Specifically, we recommended shareholders support proposals on human rights due diligence reports at **Tyson Foods, Inc.**, **Sanderson Farms, Inc.**, and **Pilgrim’s Pride Corporation**. The reason for the higher levels of support on behalf of

Glass Lewis, and shareholders more broadly over the last two years, is likely due to the improved construction and targeting of these proposals. In 2018, these proposals were often asking for very narrow reporting, on issues such as Indigenous People’s Rights (at **PayPal Holdings, Inc.**) and genocide-free investing (at **JPMorgan Chase & Co.**). However, in both 2019 and 2020, many of the proposals were asking for broader, more applicable reporting at companies that had faced controversy on account of their operations or their industry.

POLITICAL CONTRIBUTIONS AND LOBBYING EXPENDITURES

For the past decade, resolutions related to corporate political spending have been among the most frequent type of proposals to go to a vote. Given the attention paid to elections and corporate influence in politics, it is unsurprising that disclosure of companies’ political spending has been a significant focus of investors in recent years. Accordingly, shareholders have been consistently engaging companies on this issue and filing shareholder proposals requesting additional disclosure of their corporate political spending. The majority of the proposals filed on this topic request that companies produce a report on either their electioneering expenditures or their lobbying activities.

In 2020, 44% of all political spending proposals requested that companies provide a semi-annually updated report disclosing a specific accounting of political contributions and the policies and procedures related thereto (down from 60% in 2019, but

CORPORATE POLITICAL SPENDING PROPOSALS

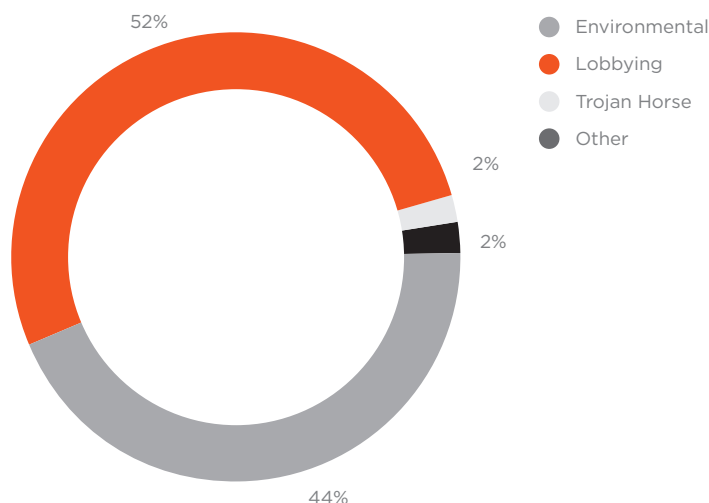


Figure 4.6

SUPPORT FOR CORPORATE POLITICAL SPENDING PROPOSALS

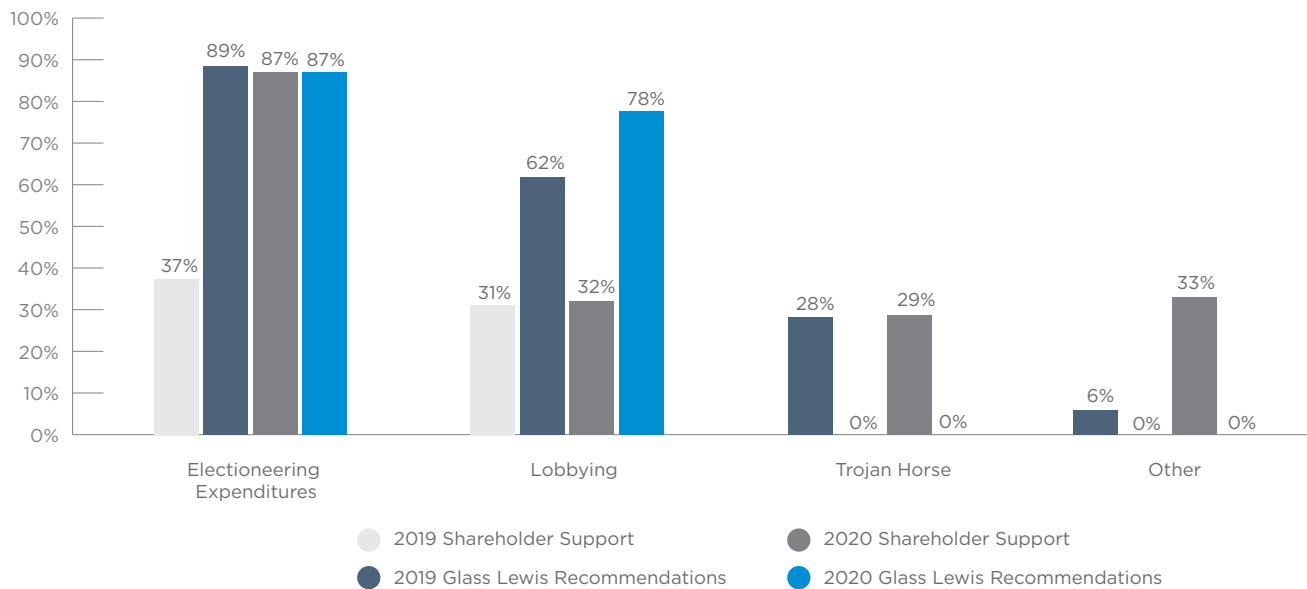


Figure 4.7

up from 38% in 2018 and 31% in both 2016 and 2017). The majority of these proposals requested that companies disclose monetary and non-monetary direct and indirect political contributions and expenditures, the identity of the recipient of such expenditures, the title of individuals responsible for decision-making, and any related policies and procedures that govern such contributions.

Approximately 52% of all 2020 political spending proposals requested that companies provide semi-annual reporting regarding their lobbying activities and expenditures (up from 34% in 2019, but down from 58% in 2018 and 60% in 2017). Lobbying proposals generally request that companies disclose: (i) policies and procedures governing direct and indirect lobbying and grassroots lobbying communications; (ii) payments made for the purpose of direct or indirect lobbying or grassroots lobbying communications and the recipients of such payments; (iii) memberships in and payments to any tax-exempt organization that writes and endorses model legislation; and (iv) a description of the board and management oversight of lobbying expenditures.

Glass Lewis generally believes that increased disclosure of corporate political spending benefits shareholders by allowing them to weigh the risks and benefits of such spending. Further, we believe that companies should generally disclose information regarding the policies and procedures employed when they make these spending decisions, and believe that the board should maintain an active role in the oversight of the spending process. In 2020, we rec-

ommended in favor of 79% of all of these proposals, continuing an upward trend (compared to 37% in 2013, 55% in 2017, and 58% in 2018 and 75% in 2019). One of the reasons for this increased support over the past several years is the significantly higher proportion of political contributions proposals, which are often targeted at companies with far more limited disclosure than those companies targeted with lobbying proposals. In addition, the increased Glass Lewis support is in line with a larger trend of companies' enhanced disclosure of their corporate political spending, which further highlights outliers that have not provided clear disclosure on this issue. Given the dynamic environment surrounding political contributions disclosure, companies must carefully monitor their own disclosure relative to that provided by others in the industry in order to ensure that they are not lagging their peers.

We take a case-by-case approach in analyzing each proposal, resulting in varied voting recommendations. When evaluating these proposals, Glass Lewis considers, among other things: (i) the level of oversight afforded to corporate political spending; (ii) the disclosure currently provided by the target company; and (iii) the level of disclosure and oversight of political spending provided by a company's peers. For example, we would recommend support for a proposal if a company did not maintain explicit board oversight of its political spending. Conversely, we may have recommended voting against such a proposal if a company had disclosure that was in line with or superior to that provided by its peers.

Overall, in 2020 these proposals received an average of 36% support (34% in 2019 and 29% in 2018). Historically, on average, those proposals requesting a report on a company's electioneering expenditures have fared better with shareholders than those requesting reports on lobbying, and 2020 was no exception. Proposals requesting political contributions disclosure received 42% average shareholder support, and those requesting lobbying disclosure received 32% (37% and 31%, respectively, in 2019). Typically, a handful of these proposals receive majority shareholder support. While four political spending proposals received majority support in 2019, this year six of these proposals received majority shareholder support: political contributions proposals at **Illumina, Inc.**, **Centene Corporation**, **J.B. Hunt Transport Services, Inc.**, **Western Union Company**, and **Activision Blizzard, Inc.**, and a lobbying proposal at **Alaska Air Group, Inc.**

TECHNOLOGY-RELATED PROPOSALS

For the last two years, the companies that received the highest number of shareholder proposals have been the large tech companies, namely, **Facebook Inc.**, **Alphabet, Inc.**, and **Amazon.com, Inc.** Between just these three firms, shareholders voted on a total of 79 shareholder proposals over the last three years, with 30 of these proposals going to a vote in 2020. The topics of these proposals have varied widely, underscoring the scope of these companies and their pervasiveness in society.

A number of these proposals have requested traditional governance reforms, such as implementing a majority vote standard for the election of directors, or the appointment of an independent chair. However, there have been a number of topics that are unique to these companies' operations. For example, Alphabet faced a shareholder proposal requesting a report on the feasibility of disclosing, by jurisdiction, a list of delisted, censored, downgraded, proactively penalized, or blacklisted terms, queries or sites that the company implements in response to government requests. In addition, Facebook shareholders voted on a proposal asking it to report on the controversy surrounding political advertising and posts on the social network.

Both Facebook and Alphabet faced proposals dealing with the oversight of and director expertise in human and civil rights (see "Board Composition"), which is reflective of how intertwined these companies' operations are in society. Facebook shareholders voted on an additional proposal concerning how

it is mitigating risks associated with increased sexual exploitation of children as it develops and offers additional privacy tools, such as end-to-end encryption. Amazon was also targeted for its involvement in facial recognition technology, Rekognition, and the social implications of its video doorbell, Ring. Amazon also faced a proposal regarding its efforts to address hate speech and the sale or promotion of offensive products throughout its business.

Overall, the proposals at these three companies received average shareholder support of 18%, with the highest support for a proposal at Amazon requesting the right to call a special meeting (37%) and the lowest for a proposal at Alphabet requesting that shareholders be required to approve all bylaw amendments (0.9%). It should be noted, however, that both Facebook and Alphabet have dual-class share structures, thus depressing shareholder support for these measures. When we calculated support for these proposals without the impact of the dual-class share structure, five of these proposals received over 50% shareholder approval. At both Facebook and Alphabet, proposals regarding eliminating the companies' dual class share structure and proposals implementing a majority vote standard for director elections would have received majority shareholder support on a normalized "one share, one vote" basis. In addition, a proposal at Facebook requesting the appointment of an independent chair would have received 52% normalized shareholder support.

TROJAN HORSE PROPOSALS

Every year, shareholders vote on a handful of "Trojan Horse" or "antisocial" shareholder proposals. The most frequent proponent of these proposals is the National Center for Public Policy Research ("NCP-PR"), a "conservative think tank and public policy institute covering Congress, insider political information, global warming and the environment, legal reform, Social Security, and campaign reform." Last year also marked the entrance of a new group, Burn More Coal, a pro-coal electric utility shareholder activist group dedicated to promoting the increased use of coal as a fuel for energy generation. Generally, proponents of Trojan Horse proposals are critical of companies' progressive efforts with respect to environmental and social issues. As such, these proposals are generally aimed at curbing those efforts.

In the past year, 12 of these proposals went to a vote, consistent with the numbers reviewed in 2019, but up significantly from five such proposals in 2018. Historically, these proposals have received minimal share-

holder support. For example, the vast majority of the proposals submitted in 2017 did not even reach 3%, the support threshold required for a first-year proposal to be resubmitted the following year, and the most popular only received 4.7% support. However, in each of 2018 and 2019, two of these proposals received over 21% support and in 2020, one proposal received 29% shareholder support.

As discussed earlier in this report, many of these proposals were targeted at boards which had received criticisms concerning their lack of political and ideological diversity, including a large number of tech companies; they received between 1.0 and 1.4% support, with one outlier exception at **The Boeing Company**, where the proposal received 13.2% support. This outlier instance is likely as a result of the ongoing governance and operational problems at Boeing and a general lack of understanding or awareness on the part of shareholders as to the intentions and aims of the NCPPR.

Although Burn More Coal did not file any resolutions in 2020, its co-founder, Stephen Milloy did. The former tobacco lobbyist and Fox News contributor targeted two companies in 2020. At both **Xcel Energy Inc.** and **Exxon Mobil Corporation**, Milloy submitted proposals requesting that they annually report on the “actually incurred corporate costs and associated actual and significant benefits accruing to shareholders and the climate from [their] global climate-related activities that are voluntary and exceed government regulatory requirements.” These proposals only received 3.3% and 4.1% support at Xcel and Exxon, respectively.

As was the case in the past two years, in 2020, NCPPR again co-opted a proposal that closely mimicked lobbying proposals, which tend to receive relatively high shareholder support. This time around, the organization targeted **Chevron Corporation** (2019: **Eli Lilly and Company** and **Pfizer Inc.**; 2018: **Duke Energy** and **General Electric Company**). While this year’s NCPPR proposal looked substantially similar to other, more standard, lobbying proposals, the supporting statements differed significantly from those submitted by more mainstream shareholder proponents. For example, while investors have traditionally shown concern regarding companies’ membership in the Business Roundtable or the American Legislative Exchange Council (“ALEC”), the NCPPR proposal asserted that Chevron “should be proud” of its memberships in trade associations and non-profit

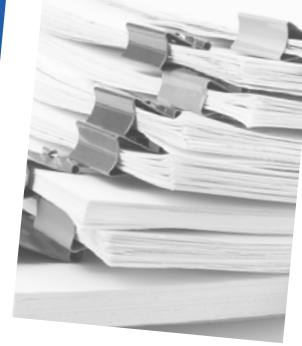
groups that promote pro-business, pro-growth initiatives. The NCPPR stated that Chevron’s memberships in groups such as ALEC “should be applauded and endorsed by shareholders,” and encouraged disclosure of the benefits of “involvement with groups that advocate for smaller government, lower taxes and free-market reforms.” In 2020, this proposal received 28.6% support, compared to a substantially similar proposal submitted by a more traditional shareholder proponent in 2018 that received 29.1% support.

Given this high support for proposals submitted by traditionally unpopular shareholder proponents, investors may be paying more attention to the message, rather than the messenger. Moreover, given the success of these proposals relative to other resolutions submitted by these groups, closely mimicking popular proposals could become a more common tactic of these Trojan Horse proponents. NCPPR’s Free Enterprise Project (“FEP”) essentially said as much in a report put out in advance of the 2020 proxy season:

Under SEC regulations, a corporation may exclude any resolution from its proxy materials that is substantially similar to one it has already received. The regulation makes sense: It prevents shareholders from having to vote more than once on the same proposal when multiple shareholders – unwittingly – ask for the same thing. We knew with a high degree of certainty that [As You Sow (“AYS”)] would target Chevron with one of its sham proposals attacking its membership in certain trade associations. So we filed a proposal – and did it early – that mirrored the same operative language that AYS normally uses, but we completely reversed the rationale. Rather than attacking Chevron’s business relationships, we implored the company to stand up against AYS and to extol the virtues of working with groups such as the Chamber and ALEC.

...FEP will continue its efforts to block AYS proposals that target legitimate pro-business organizations during 2020 and beyond.

Appendix



Ticker	Company Name	Proposal Type	GL Rec.	Mgmt. Rec.	2020 Support	2019 Support	Proponent
COMPENSATION							
SRCL	Stericycle, Inc.	Clawbacks	For	Against	54.5%		The International Brotherhood of Teamsters General Fund
ENVIRONMENTAL							
DLTR	Dollar Tree, Inc.	Climate Change Reporting	For	Against	73.5%		Jantz Management, LLC on behalf of Christine Jantz
JBHT	J.B. Hunt Transport Services, Inc.	Climate Change Reporting	For	Against	54.5%		Trillium Asset Management, LLC on behalf of the Trillium Small/Mid Cap Fund, the Timken Matthews Family Foundation, and three others
CVX	Chevron Corporation	Climate Lobbying	For	Against	53.5%		BNP Paribas Asset Management
PSX	Phillips 66	Risks of Gulf Coast Petrochemical Investments	For	Against	54.7%		As You Sow, on behalf of Amy Devine and Douglas Triggs, and the Rita K. Devine Irrevocable Trust
ENPH	Enphase Energy, Inc.	Sustainability Report	For	Against	52.3%		Not disclosed
GOVERNANCE							
EXPD	Expeditors International of Washington, Inc.	Board and CEO Diversity	For	Against	52.9%		The Comptroller of the City of New York
NHC	National HealthCare Corporation	Board Diversity	For	Against	59.2%		The Comptroller of the State of New York, Thomas P. DiNapoli
DSKE	Daseke, Inc.	Declassification of the Board	Against	Undet.	97.6%		Lyons Capital, LLC
NYCB	New York Community Bancorp, Inc.	Declassification of the Board	For	Against	84.8%		Kenneth Steiner
AAXN	Axon Enterprise, Inc.	Declassification of the Board	For	Against	84.8%		James McRitchie
BLMN	Bloomin' Brands, Inc.	Declassification of the Board	For	Against	84.5%		Kenneth Steiner
NFG	National Fuel Gas Company	Declassification of the Board	For	Against	73.2%		GAMCO Asset Management Inc.
ALRM	Alarm.com Holdings, Inc.	Declassification of the Board	For	Against	62.0%		James McRitchie and Myra K. Young through their designee, John Chevedden
ETFC	E*TRADE Financial Corporation	Eliminating Supermajority Vote Requirement	For	Undet.	99.4%		John Chevedden
MPC	Marathon Petroleum Corporation	Eliminating Supermajority Vote Requirement	For	For	98.5%		John Chevedden
RTX	Raytheon Technologies Corporation	Eliminating Supermajority Vote Requirement	For	Undet.	97.3%		John Chevedden
DUK	Duke Energy Corporation	Eliminating Supermajority Vote Requirement	For	Undet.	94.2%		John Chevedden
CNC	Centene Corporation	Eliminating Supermajority Vote Requirement	For	Against	93.9%		John Chevedden
ABT	Abbott Laboratories	Eliminating Supermajority Vote Requirement	For	Against	84.9%		John Chevedden
NFLX	Netflix, Inc.	Eliminating Supermajority Vote Requirement	For	Against	73.5%	88.0%	John Chevedden

Ticker	Company Name	Proposal Type	GL Rec.	Mgmt. Rec.	2020 Support	2019 Support	Proponent
MAR	Marriott International, Inc.	Eliminating Supermajority Vote Requirement	For	Against	66.9%		The AFL-CIO Reserve Fund
K	Kellogg Company	Eliminating Supermajority Vote Requirement	For	Against	52.8%		Not disclosed
SGRP	SPAR Group, Inc.	Filling Board Vacancies	Against	Against	92.8%		Majority shareholders
BAX	Baxter International Inc.	Independent Chair	For	Against	55.0%	29.1%	Kenneth Steiner
BA	The Boeing Company	Independent Chair	Against	Against	52.9%	34.8%	Not disclosed
ABEO	Abeona Therapeutics Inc.	Majority Vote for Director Elections	For	For	99.6%		California Public Employees' Retirement System
ALCO	Alico, Inc.	Majority Vote for Director Elections	For	Undet.	95.5%		California Public Employees' Retirement System
TGTX	TG Therapeutics, Inc.	Majority Vote for Director Elections	For	Against	68.4%	38.9%	California Public Employees' Retirement System
LPCN	Lipocine Inc.	Majority Vote for Director Elections	For	Against	60.1%	41.2%	California Public Employees' Retirement System
SGRP	SPAR Group, Inc.	Removal of Directors	Against	Against	92.8%		The Majority Stockholders
IBM	International Business Machines Corporation	Removal of Directors	For	Against	54.5%		James McRitchie and Myra K. Young
SGRP	SPAR Group, Inc.	Special Meeting	Against	Against	97.3%		The Majority Stockholders
FLT	FLEETCOR Technologies, Inc.	Special Meeting	For	Against	78.9%		Not disclosed
SON	Sonoco Products Company	Special Meeting	For	For	70.2%		Not disclosed
CDNS	Cadence Design Systems, Inc.	Special Meeting	For	Against	54.5%		John Chevedden
LH	Laboratory Corporation of America Holdings	Special Meeting	For	Against	53.4%		John Chevedden
VZ	Verizon Communications Inc.	Special Meeting	For	Against	52.3%		Not disclosed
OGE	OGE Energy Corp.	Written Consent	For	Against	79.8%		John Chevedden
BERY	Berry Global Group, Inc.	Written Consent	For	Against	54.5%		Myra K. Young
SWK	Stanley Black & Decker, Inc.	Written Consent	For	Against	51.0%		John Chevedden
HPQ	HP Inc.	Written Consent	Against	Against	50.0%		John Chevedden
SOCIAL							
FTNT	Fortinet, Inc.	Diversity Reporting	For	Against	70.0%		Nia Impact Capital
FAST	Fastenal Company	Diversity Reporting	For	Against	61.1%	41.4%	As You Sow on behalf of Alan M. Ramo 1989 Trust Restated 07/20/2011
GPC	Genuine Parts Company	Human Capital Management Reporting	For	Against	79.1%		Not disclosed
ORLY	O'Reilly Automotive, Inc.	Human Capital Management Reporting	For	Against	66.0%		As You Sow, on behalf of Terry L Miller and Debra Shank Miller
ALK	Alaska Air Group, Inc.	Lobbying Report	For	Against	52.3%		The Trustee of the Service Employees International Union (SEIU) Pension Plans Master Trust
JNJ	Johnson & Johnson	Opioids	For	Against	60.9%		The Bright Start College Savings Trust, c/o Max Dulberger from the Illinois State Treasurer's Office
ATVI	Activision Blizzard, Inc.	Political Contributions	For	Against	58.6%		James McRitchie and Myra K. Young
WU	The Western Union Company	Political Contributions	For	Against	53.3%	44.3%	John Chevedden
JBHT	J.B. Hunt Transport Services, Inc.	Political Contributions	For	Against	53.2%	31.7%	The International Brotherhood of Teamsters General Fund
CNC	Centene Corporation	Political Contributions	For	Against	51.4%	41.6%	Friends Fiduciary Corporation
ILMN	Illumina, Inc.	Political Contributions	For	Against	50.0%	37.7%	James McRitchie
CMG	Chipotle Mexican Grill, Inc.	Use of Arbitration in Employment-Related Claims	For	Against	51.0%		The Comptroller of the City of New York

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