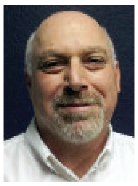
Helping Shareholders
Vote Their Values

[proxypreview]™

2018

ABOUT THE AUTHORS

Heidi Welsh, the founding executive director of the Sustainable Investments Institute (Si2), has analyzed corporate responsibility issues for 30 years. Starting at the Investor Responsibility Research Center in 1987, she provided detailed coverage of shareholder advocacy and monitored corporate compliance with a fair employment code in Northern Ireland for 16 years. In addition, she co-authored CDP's S&P 500 report in 2007, headed up sustainability research within a unit of what is now MSCI, and consulted on Global Reporting Initiative guidelines. Welsh is the lead author of three Si2 studies about corporate political activity governance and spending. She received her B.A. from Carleton College, cum laude, and an M.S. from the Institute for Conflict Analysis and Resolution at George Mason University.



Michael Passoff is the founder and CEO of Proxy Impact, a shareholder advocacy and proxy voting service for sustainable and responsible investors (SRIs). Michael has over 20 years of experience in corporate social responsibility, shareholder advocacy, and philanthropy. For more than a decade Michael served as the Senior Program Director for the As You Sow Foundation's Corporate Social Responsibility Program. In 2005 he founded the *Proxy Preview* to alert foundations, SRIs, pension funds, labor, and faith-based communities to upcoming shareholder resolutions that are relevant to their mission. Michael has led and participated in more than 300 shareholder dialogues and resolutions on environmental, social and governance issues. His shareholder advocacy work led him to be named as one of 2009's "100 Most Influential People in Business Ethics" by Ethisphere Magazine and he also received the Climate Change Business Journal award for a shareholder campaign that prompted greenhouse gas emission reductions and renewable energy development at public utilities.

SPONSORS

This report was made possible by the generous support of the following sponsors:

Proxy Promoter: Stu Dalheim and Shirley Peoples at Calvert Research and Management; Mary Jane McQuillen at ClearBridge Investments; Laura Campos at Nathan Cummings Foundation; Jonathan Scott at Singing Field Foundation; Jonas Kron, Lisa MacKinnon, and Matt Patsky at Trillium Asset Management.

Proxy Players: George Gay, Steven Scheuth, and Holly Testa at First Affirmative Financial Network; Aaron Bernstein at Global Proxy Watch; Fran Teplitz at Green America; Leslie Samuelrich at Green Century Capital Management; Brianna Harrington and John Harrington at Harrington Investments, Inc.; Dr. Marcy Murninghan at Murninghan Post; Joe Sinha at Parnassus Investments; Tony Hay, Andy Nichol, and Hugh Whelan at Responsible Investor; Tim Little, Tim Smith, and Steve Viederman at Rose Foundation for Communities and the Environment Foundation Partnership on Corporate Responsibility; Larissa Ruoff at Sustainability Group of Loring, Wolcott & Coolidge Trust, LLC.

Proxy Pals: Natasha Lamb at Arjuna Capital; Patricia Karr Seabrook at Miller Howard Investments; Catherine Cartier at Progressive Asset Management; Thomas Van Dyck at RBC Wealth Management; Patricia Farrar-Rivas at Veris Wealth Partners.

ACKNOWLEDGEMENTS

***Proxy Preview 2018* was made possible with the cooperation of the following proponents, either individually or through shareholder advocacy coordinators that include most prominently:** AFSCME, the Interfaith Center on Corporate Responsibility, the Ceres Coalition, the Center for Political Accountability and the Investors Environmental Health Network.

AFL-CIO, Amalgamated Bank, American Baptist Church, Amnesty International, Simon Billenness, Lily Bowles, Andrew Dale, Arjuna Capital, Azzad Asset Management, Baldwin Brothers, Benedictine Sisters of Boerne, Texas, Boston CAM, Calvert Investments, Catholic Health Initiatives, CB Wealth Generation, Change to Win, Christensen Fund, Clean Yield Asset Management, Domini Social Investments, Don Wichert, Edith P. Homans Family Trust, Elizabeth S. Bowles, Episcopal Church, Eve S. Sprunt, First Affirmative Financial Network, Flyers Rights Education Fund, Friends Fiduciary, George Gund Foundation, Green Century, Harrington Investments, Heartland Initiative, Holy Land Principles, Humane Society of the U.S., Illinois State Treasurer, Investors for Opioid Accountability, James McRitchie, Jantz Management, Jennifer H. McDowell, Jing Zhao, Kenneth Fink, Max and Anna Levinson Foundation, Mercy for Animals, Mercy Investment Services, Miller/Howard Investments, Missouri Coalition for the Environment, Myra K. Young, Nathan Cummings Foundation, NYSCRF, Norman Fulton, NorthStar Asset Management, NYC Pension Funds, Organization United for Respect, Oxfam America, Park Foundation, Patricia Silver, Pax World Funds, PETA, Philadelphia Public Employees Retirement System, Presbyterian Church (USA), Proxy Impact, Rhode Island Pension Fund, Richard M. Brown, Sam and Wendy Hitt Family Trust, Sarah Moore, School Sisters of Notre Dame, Central Pacific, Segal Marco Advisors, SEIU Master Trust, Sierra Club, Socially Responsible Investment Coalition, Sisters of Divine Providence, Sisters of St. Francis of Phila., Sisters of the Presentation BVM, Stephen Sacks, Stewart W. Taggart, Sustainvest Asset Management, The Sustainability Group, Trillium Asset Management, Trinity Health, UAW Retiree Medical Benefits Trust, Unitarian Universalists, UNITE HERE, United Church Funds, United Steel Workers, Ursuline Sisters of Tildonk, Walden Asset Management and Zevin Asset Management.

Research and editorial support were provided by As You Sow staff members Andrew Behar, Danielle Fugere, Conrad MacKerron, Betsy McMahon, Sarah Milne, Cody Mitcheltree, Cyrus Nemati, Zoey Olbum, Rosanna Landis Weaver, Austin Wilson and media consultant Stefanie Spear; Si2's research director, Robin Young and Si2 editor Carolyn Mathiasen.

In addition, the authors want to extend special thanks to those who contributed additional information or otherwise helped in the production, including John Opet at art270, Julie Wokaty of the Interfaith Center on Corporate Responsibility, who was invaluable in providing information about faith-based organizations' work, and Rob Berridge and Dan Mitler of Ceres.

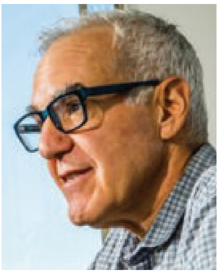
[proxypreview]™

TABLE OF CONTENTS

Updates on Information in *Proxy Preview*

Information about the proposals and companies mentioned in the *Proxy Preview* was accurate as of February 16, 2018. Many ongoing negotiations between companies and proponents, plus action at the Securities and Exchange Commission, will change the final tally of proposals that will appear in proxy statements for investors to consider. *Proxy Preview* is unable to provide updates about the ongoing staus of all 28 of all proposals—for updates on proposals at select companies, follow our Proxy Season Updates at www.proxypreview.org.

LETTER FROM THE PUBLISHER



Shareholder engagement has ratcheted up to a new level with enhanced collaborations and strategies, even as some corporate leaders determined to undercut basic shareholder rights have a sympathetic ear in Washington. Concurrently, the Trump administration continues to weaken government regulations that protect citizens from environmental harms and provide basic social rights. More than ever, it is clear that investors who use their voices as a powerful force for positive change can make a difference at companies that want to thrive and survive in the future.

New shareholder coalitions are responding to gaps in government action with Investors for Opioid Accountability, Farm Animal Investor Risk and Return, the Investors for Indigenous Peoples Working Group and the Human Rights Investor Network, to name just a few. Shareholders are engaging companies on issues from everyday headlines—guns, cyber security, modern slavery, sexual harassment, and climate change—all of which pose material risks for investors.

Last year's record high votes for shareholder resolutions are the result of major fund families—including BlackRock, Vanguard and State Street—finally losing patience with some companies' responses to climate risk. This is a good first step and affirms the long-held views of socially responsible investors about the risks energy companies pose to asset owners, the economy and the planet. However, if "success" is moving companies to reduce risk, increase brand value and work transparently with their shareowners, then celebrations are premature. Despite a majority vote at ExxonMobil, for example, its response has been an inadequate report that continues to rationalize business-as-usual and seems likely to ensure a 5°C world. One option some investors are considering is to take dissent further and vote against board members at companies that do not respond to material shareholder concerns, especially after a majority vote.

On the legislative front, basic shareholder rights are under attack in Congress; provisions in the Financial CHOICE Act, which passed the House of Representatives in June, would allow only ultra-large shareholders to file resolutions, all but eliminating innovative new ideas coming from socially responsible investors and the rank and file. This bill faces an uncertain future in the Senate but threatens shareholder voices. In addition, a new Securities and Exchange Commission Staff Legal Bulletin seems to open up new ways to limit shareholders' ability to file certain resolutions that have had substantial investor support for years. The full impact of the bulletin remains to be seen, but is also of significant concern.

On the positive side, corporations have made commitments in line with the Paris Climate Accord, even though the White House plans to withdraw from the treaty. Initiatives abound expressing the sentiment that "we are still in," with action by cities, foundations and universities, among others. Many companies also are adopting the UN Sustainable Development Goals (SDG), using its framework and common language that seeks a safe, just and sustainable world by 2030 in line with the aims of member states. The SDGs can be a powerful, unifying platform to solve our deepest problems.

Environmental, Social and Governance (ESG) investing continues its rise, as well, and now accounts for one out of every five dollars invested. Mainstream investment data providers including Bloomberg, Morningstar, MSCI, and Thomson Reuters offer ESG data for analysts to use when assessing companies. Credit ratings agencies like Moody's plan to include ESG and shareholder engagement metrics in their rankings. Clearly, the investment world believes ESG risks and opportunities are material to corporate fortunes.

Proxy Preview 2018 shows that shareholder proponents remain committed to hard-won gains that ensure transparency between corporations and their shareowners. Whatever the political winds of the moment, the markets are using ESG data to better determine risk and long-term return. The issues that shareholder proponents are raising this year, and the traction they have with investors at large, highlight key business concerns companies must consider. Restricting shareholders ability to alert companies to future risks and bring fresh ideas to the table would be a mistake with long-lasting implications.

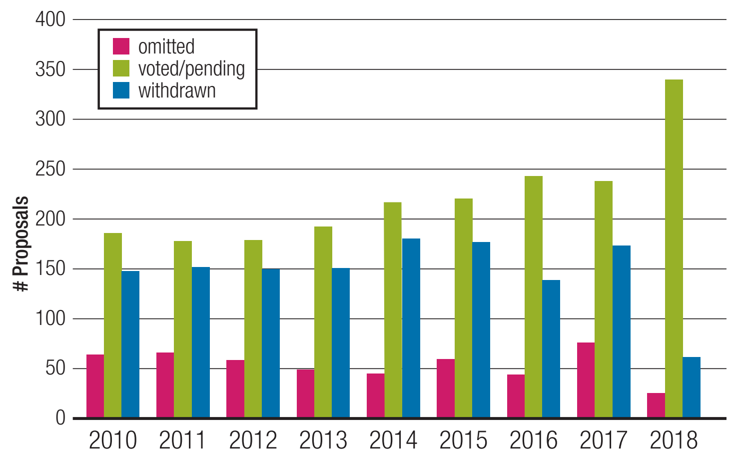
Now in our 14th year, *Proxy Preview* continues to focus on aligning investing with values and to spotlight how corporate policies affect every person and our planet, and how shareholder resolve can lead to long-term change. *Proxy Preview* is proud to continue its central role documenting this journey and bringing together a growing coalition of shareowner proponents who work with their companies to solve the most difficult issues of our time.

Andrew Behar
CEO, As You Sow

EXECUTIVE SUMMARY

As of February 16, 2018 proponents have filed at least 429 shareholder resolutions on environmental, social and sustainability issues for the 2018 proxy season, with at least 335 pending for votes as of February 16. Securities and Exchange Commission (SEC) staff have allowed omission of 27 proposals so far in the face of company challenges but have yet to decide on company objections to another 65. So far there have been 62 withdrawals. At this time last year, there were 430 filings, but by year's end the overall tally reached 494; 237 went to votes in 2017, 173 were withdrawn and companies omitted 77, the highest number of the decade. *(Bar chart)*

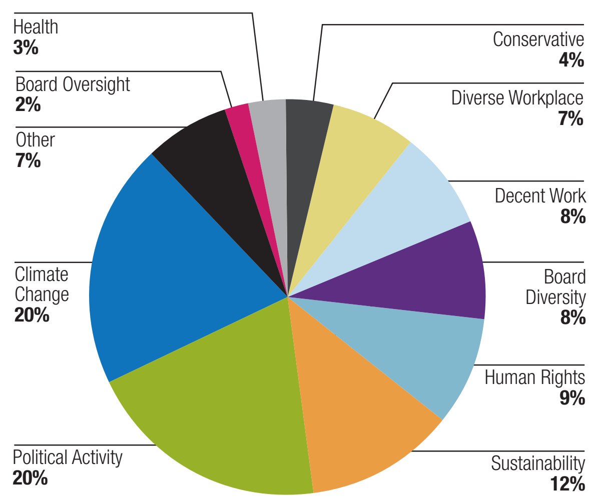
Environmental, Social & Sustainability Resolutions Since 2010



Excludes 48 not voted for other reasons, 1 in 2018 and 7 in 2017; data as of 2-16-18

Climate change, corporate political activity and sustainability account for a little more than half of the resolutions in 2018, as they did last year. Roughly another third divide into fairly even slices about human rights, board diversity, decent work and workplace diversity. Resolutions on health issues, board oversight, proposals from conservatives and a few miscellaneous subjects account for the final 16 percent. *(Pie chart)*

Environmental, Social & Sustainability Resolutions in 2018



n=429, as of 2-16-18

Key Developments for 2018

Mutual funds: A central outstanding question for the upcoming proxy season is what the impact will be of proxy voting by huge mutual funds that last year were responsible for unusually high shareholder majorities, including votes of 67 percent at **Occidental Petroleum** and 62 percent at **ExxonMobil** in favor of more climate disclosure.

SEC Challenges: Still unknown as of this writing is the impact of SEC Staff Legal Bulletin 14I, released November 1; it has the potential to upset longstanding interpretations of the shareholder proposal rule and exclusions based on the "ordinary business" and "significantly related" portions of the rule. At the same time, the bulletin encouraged companies to explain more about their boards' assessments of the issues at stake in challenges, and correspondence to the commission that invokes the bulletin's guidance shows that boards are discussing these issues, even if they seem to be mostly rubber-stamping management and legal department recommendations. If proponents are able to prompt more robust discussion by boards of environmental, social and sustainability issues, they may be on their way to winning the long game. Alternatively, this could also end up being another way for companies to exclude proposals.

expertinsight

WILL NEW SEC BULLETIN STIFLE SHAREHOLDER PROPOSALS?

SANFORD J. LEWIS
Attorney

The SEC's administration of the shareholder proposal process has entered an era of "disruptive ideas," some of which provide companies with new opportunities to exclude proposals from the annual proxy statement.

In June 2017, the US House of Representatives passed the Financial CHOICE Act. If it were enacted into law it would roll back Dodd-Frank consumer protections and one section of the bill would severely restrict shareholder democracy, confining the filing of shareholder proposals to only the wealthiest few shareowners. While the prospects are dim for that bill passing in the Senate in its current form, the pressure on the SEC to limit shareholder proposals persists from some factions of the corporate community.

A new SEC guidance issued in November (Staff Legal Bulletin 14I) seemed to open a *non-legislative* path to cut back on shareholder rights. Through the Bulletin, the SEC for the first time invites boards for directors to weigh in on whether particular proposals are "relevant" (Rule 14a-8(i)(5)) or address a "significant policy issue" for a company (Rule 14a-8(i)(7)).

Since investors have long used shareholder proposals to shed light on blind spots of boards and management, including risks of crushing liabilities or reputational damage, proponents are expressing grave doubts about when board opinions should receive deference.

The first SEC action on the new bulletin came when **Apple** filed challenges to four proposals that requested a human rights committee, an executive pay link to sustainability, a report on freedom of expression and a net-zero greenhouse gas emissions target. Apple and its board asserted all four proposals address only ordinary business and need not be included. In the end, three of the four were omitted (two for reasons not relevant to the bulletin).

Notably, Apple's board did not claim that the issues behind the proposals were not "significant" for the company, but only claimed that they delved into day to day issues for the company. The SEC staff disagreed with the board on the human rights proposals: "the board's analysis does not explain why this particular proposal would not raise a significant issue for the Company."

However, the SEC agreed that the proposal requesting net-zero greenhouse gases at Apple was excludable under the ordinary business rule. The proposal asked the company to evaluate the potential for achieving, by a fixed date, "net-zero" emissions of greenhouse gases… and prescribed how to account for "net zero." The SEC decision stated the proposal seeks "to micromanage the company by probing too deeply into matters of a complex nature upon which shareholders, as a group, would not be in a position to make an informed judgment."

After the Apple decisions in December, the SEC received numerous requests to exclude proposals; the challenges often used the Apple letters as a template, asserting boards' opinions that a particular proposal should be disallowed either as economically irrelevant, not a significant policy issue for the company, or micromanaging. In late February, the SEC extended the "micromanagement" exclusion to a proposal asking oil and gas company **EOG Resources** to set greenhouse gas reduction targets.

As we write this commentary, several important staff determinations are yet to come. Preliminary observations include:

1. Proposals that once were categorically non-excludable and "safe" to file are now subject to case-by-case analysis. Proponents must fend off challenges even on proposals with a long history of shareholder support at multiple companies.
2. Shifting SEC interpretations under the Bulletin and the rules:
    a. Extending "micromanagement" exclusions to proposals for target-setting on issues such as greenhouse gas reduction.
    b. Requiring proponents to prove economic harm to defend reputation risk management proposals.
    c. Allowing company proposals that merely ratify the status quo to substitute for a shareholder's proposal seeking reforms.

It is clear that the new Bulletin demands more, both from shareholders and from board rooms. After the season is over, all will be assessing the process and outcomes through which new SEC guidance and leadership has altered proxies in 2018.

Disclosure Statement: The author has represented proponents in defense of proposals during the current proxy season including the Apple net zero GHG proposal discussed here.

Company challenges to proposals are at a three-year high *(table, right)*. The figures for 2018 are incomplete as yet, of course, given where we are in the year, and more challenges still are likely to surface. But of note is the big jump last year in the proportion of resolution challenges accepted by the commission, which suggests proponents are right to be wary of outcomes this year.

SEC Challenges and Outcomes

	2016	2017	2018*
Resolutions Filed	433	494	429
# challenged	99	127	119
% challenged	23%	26%	28%
Of those challenged...			
% sustained	44%	58%	23%
% rejected	36%	18%	5%
% withdrawn before SEC response	17%	23%	16%

*Figures for 2018 are preliminary, as of 2-16-18

Issues

Climate change: The main question for this issue in proxy season is how votes on the climate change scenario analysis proposals will fare, given what seems to be increasing investor fervor for this type of disclosure. Amidst the usual complement of resolutions seeking reports on carbon asset risks alongside goals for reducing greenhouse gas emissions and increasing renewable energy, a new proposal asks auto companies about how they will transition to a decarbonized vehicle market.

Environmental management: Fulfilling a long-sought goal of shareholder proponents, **McDonald's** agreed to eliminate its use of polystyrene by the end of the year and As You Sow withdrew a proposal.

Gender pay and employment equity: As the #MeToo movement picks up steam, a few dozen financial sector companies face resolutions demanding action and disclosure on fair pay and workplace diversity. A new resolution on family leave is before three companies.

Health: The brand-new Investors for Opioid Accountability coalition, boasting backers with $2.2 trillion in assets, wants more disclosure and accountability from opioid makers, distributors and treatment medicine providers. It is starting with two resolutions this year on opioid distribution directly, with a number of others on corporate governance procedures. A report request at **AmerisourceBergen** earned 41.2 percent on March 1.

Human rights: Two companies—**Costco Wholesale** and **TJX**—are on the spot about goods made with domestic prison labor. Investors asked **Chubb** about the insurance it underwrites for gun owners' self-defense shootings and resolutions about gun safety were filed at weapons makers and sellers. In the wake of the Parkland, Florida massacre, **Chubb** said it would end its shooters' insurance and **Dick's Sporting Goods**—which faced a resolution—announced it will stop selling assault weapons.

Media and cybersecurity: The big-three social media companies—**Alphabet**, **Facebook** and **Twitter**—all face new questions about how their content management may carry business risks, in a subject that made it on the agenda at the World Economic Forum in Davos.

Board diversity: Nearly three dozen resolutions seeking more diverse boards have been filed, continuing a long-term campaign that generally produces a high percentage of company promises for action. A new wrinkle this year is a proposal from the New York City funds asking that board nominees' and board members' gender, race and ethnicity be disclosed.

Sustainability disclosure and management: The number of requests for sustainability reporting is on the rise and got significant affirmation from a 49.8 percent vote early in the year at **Acuity Brands**. These proposals are bolstered by 18 resolutions seeking links between a wide range of issues and executive compensation, in an expansion of efforts looking to link sustainability and pay.

Overview and New Issues in 2018

This section provides a summary of the main issues raised in each of the topics covered in this report, with special attention to new issues and key points of contention that have yet to be resolved concerning the SEC Staff Legal Bulletin 14I, issued last November.

Environment

The topic of climate change makes up the vast majority of resolutions filed on environmental topics and undergirds many other corners of shareholder activity this proxy season.

Climate change: Out of the 83 resolutions on climate, three-quarters raise familiar requests, seeking more information about how companies will report and manage carbon asset risk and set goals to reduce their greenhouse gas (GHG) emissions.

Carbon asset risk—A core request is for companies to explain how they will adapt to a low-carbon economy that is needed to prevent global temperature increase above 2 degrees Celsius, as agreed in the Paris climate treaty. Most of the 27 recipients are energy and utility companies that routinely get these requests in some form.

GHG emissions—On emissions management, there are another 27 proposals. In addition to the long-time request to set quantitative, time-bound reduction goals, some resolutions asked companies to report on net-zero GHG goals. But the SEC agreed with some companies that the net-zero resolutions were too detailed and there will be only one or two votes on this more specific request. A new resolution asks for a report from **Ford Motor** and **General Motors** about auto emissions regulation and a decarbonized vehicle market, which is being pushed off domestically by the Trump administration's move to relax what would have been much higher fuel efficiency standards set by the Obama administration.

The SEC has yet to weigh in on whether companies being sued about adverse climate change impacts such as **Chevron** may omit climate-related shareholder resolutions, since information adverse to the litigation might come to light from a response to the proposal. Given the burgeoning number of suits being filed against energy companies, proponents are watching the Chevron challenge closely.

Unconventional fossil energy—Methane is the primary concern of resolutions about unconventional oil and gas operations, where there are 11 proposals. A new resolution to **JPMorgan Chase** also seeks information on its financing of energy-intensive Canadian tar sands extraction.

Energy solutions—On renewable energy, proponents simply want to see more of it and they are asking utilities, communications companies, retailers and others to set goals. A few companies argue that these resolutions are excludable under the new legal bulletin, contending this amounts to "micromanagement," an ordinary business concern, and because energy costs account for only a small part of their expenses. The SEC concurred in late February, casting a shadow on the future of these proposals.

Forests—Deforestation proposals address the impact of commodities supply chains on food companies, including new proposals at **US Foods Holding** and **Bunge**, the world's biggest palm oil firm. These raise human rights issues, as well.

Environmental management: These 15 proposals relate to recycling, water and nuclear power, with a new resolution raising old issues about the Bhopal disaster 34 years ago.

Recycling and waste—As You Sow scored what it sees as a major victory to reduce ocean plastics when **McDonald's** agreed to eliminate polystyrene from its global operations including one billion coffee cups each year, prompting a withdrawal. A few weeks later, **Dunkin' Brands** agreed to stop using one billion foam cups each year, without a corresponding shareholder resolution this year. Other companies now face pressure to match these actions.

The new legal bulletin came up again at **Dunkin' Brands**, where last year the SEC disagreed with the company's argument that a resolution on K-Cups could be omitted; this year, the company says the proposal doesn't meet the "significantly related" standard. **Amazon.com** also says a food waste proposal, considered last year at **Whole Foods**, is insignificant. The SEC agreed at **Dunkin' Brands** but has yet to respond to **Amazon.com**.

Water—Water stewardship is on the agenda at two new companies—**Blue Buffalo Pet Products** and **B&G Foods**, a packaged foods firm, while a resubmitted proposal to **Tyson Foods** has earned 15.8 percent, a high vote at the closely held company.

Nuclear power and Bhopal legacy—Shareholders will get the chance to vote about whether **DTE Energy** should explain the economic impact of an early closure of its controversial Fermi 2 nuclear plant, since the proposal survived an SEC challenge. They may also vote on the legacy of Bhopal and how that might affect **DowDupont's** plans for expansion in India.

Industrial agriculture: There are eight proposals for 2018 on industrial agriculture.

Antibiotics—Chicken producer **Sanderson Farms** still disputes that antibiotics in animal feed have a negative impact on human health and investors voted 43 percent in support of a phase-out resolution in early February; it earned 31 percent last year. Proponents also want antibiotic-free meat supply chains—including beef and pork—and have gone back to **McDonald's** on this issue and added **Denny's**.

Pesticides—There have been two withdrawals related to pesticides, with **Tractor Supply** agreeing to conduct a risk assessment; one resolution is still pending on protecting pollinators by cutting pesticide use in the **Dr Pepper Snapple** supply chain.

Animal products—Investors already voted on attending to animal welfare in the **Luby's** supply chain, giving a disclosure resolution there 9.4 percent on February 9. On a related front, People for the Ethical Treatment of Animals (PETA) seeks the elimination at **VF** of all animal-derived products, including down, wool and leather.

Social Issues

Animal welfare: Various resolutions on the ethics of using laboratory animals, selling glue traps and breeding orcas, most from PETA, appear unlikely to go to votes given pending SEC challenges; five proposals were filed.

Corporate political activity: The overall tally of resolutions about political influence spending has reached 80 this year, down from 90 in 2017, again with more on lobbying than election spending. In both cases, the enduring sticking point remains the requested and resisted disclosure of "dark money" spending by trade groups and other non-profits with company money. Forty-seven proposals are on lobbying, 27 are about election spending and few more raise related issues.

Critical question at the SEC—Most significant this year, on this topic, is whether companies will succeed in using the new legal bulletin to redefine the "significantly related" portion of the shareholder proposal rule. **Citibank**, **Eli Lilly**, **Goldman Sachs** and **Travelers** all are arguing their political expenditures are insignificant, with some also saying that investors are just not interested in the disclosure sought by proponents. If the SEC agrees, it will mark a sea change in policy that could significantly reduce the number of resolutions. Company challenges have noted that their boards met and agreed with management conclusions about the insignificance of political activity. The bulletin sought more information about boards' reasoning for rejecting resolutions, but so far appears largely to have elicited accounts of boards rubber stamping management conclusions.

Conservative copy-cats—New this year are proposals from the free market activist group the National Center for Public Policy Research (NCPPR) that use precisely the same resolved clause as the disclosure advocates on lobbying. In two instances so far these resolutions have pre-empted mainstream proposals filed later, on lobbying at **Duke Energy** and about election spending at **General Electric**, where the question turned on third-party spending groups.

Decent work: The #MeToo movement and its demand for equal treatment—and, implicitly, equal pay—underscores a continued surge of resolutions about gender pay equity. There are three dozen proposals, about half of them resubmissions, many at financial sector companies where women are particularly scarce in higher paying positions. Arjuna Capital is a key player and has negotiated agreements with four of the nation's five biggest banks—**Bank of America**, **Bank of New York Mellon**, **Citigroup** and **Wells Fargo**—to work on closing the pay gap between men and women. Other important proponents are Pax World Funds and the New York City pension funds which also address this issue through its numerous proxy access proposals. Gender pay often resolutions focus on women, but also raise differential pay rates for people of color. Unlike for many other subjects, there have been few SEC challenges.

Family leave—Zevin Asset Management filed new resolutions on family leave. The first had been slated for a vote at **Starbucks** on March 21, highlighting the lack of leave for fathers, adoptive and LGBTQ parents, but proponents withdrew it at the last minute, after the proxy statement was issued. A challenge from **Yum! Brands** invokes the new staff legal bulletin in its pending challenge to a proposal that highlight differences in benefits, which the company defends, for management and retail restaurant workers. The proposal is also before **CVS Health**.

Diversity in the workplace: Thirty-four resolutions seek disclosure of workplace diversity, with 26 looking for data about current workforce breakdowns and/or what companies are doing to provide for more equal representation by women and minorities. As with the pay disparity resolutions, most of these are at companies in the financial sector; half are resubmissions from last year. Proponents so far have reached agreements with four companies—**Dollar General**, **Discover Financial Services**, **SunTrust Bank** and **Morningstar**.

Health: Brand-new this year are resolutions that seek to hold companies to account for the opioid crisis ravaging the country. Mercy Investments and the UAW Retirees Medical Benefit Trust launched a new campaign, Investors for Opioid Accountability (IOA), in October. It brings together faith-based investors, state treasurers and other institutional investors including trade unions—who together manage $2.2 trillion in assets—and is asking for information at drug makers, distributors and treatment manufacturers. Resolutions use a corporate governance lens regarding board oversight and pay clawback questions, but also questions of potentially undue political influence; they have survived several challenges at the SEC. The first vote at distributor **AmerisourceBergen** was 41.2 percent on March 1 and another is slated for an additional company not yet disclosed for the same proposal later in the year.

Other health proposals seek reports on drug pricing and tobacco harm reduction. New proposals ask about the discriminatory impact of small airline seats on overweight and tall travelers, although the two airlines have challenged them. A proposal to **Dr Pepper Snapple** about risks related to sugary drinks and obesity risks also has been filed.

Human rights: In a big change from last year, there are hardly any conflict zone proposals since the three-year Holy Land Principles campaign regarding fair employment for Palestinians and Israelis appears to have been suspended after low votes.

Supply chain labor—Other evergreen concerns remain, though, and account for a total of 31 proposals. These raise concerns such as ethical recruitment at about half a dozen companies and goods from domestic prison labor at **Costco Wholesale**, a new issue that received 4.8 percent in January. That resolution is also at **TJX** but the company has changed its policy and argues it is moot. Continuing the theme of anti-exploitation, five proposals about human trafficking at trucking companies and airlines have produced three withdrawals so far, while a **Monster Beverage** proposal asking for a report on forced labor and slavery in its supply chain is heading for a vote.

Risk assessment—NYSCRF has filed a proposal new to **Tesla Motors** seeking a human rights risk assessment because of problems in the company's workplace alleging discrimination and harassment.

Indigenous rights—Proposals about indigenous peoples' rights at two banks and **Marathon Petroleum** have returned but have been withdrawn after an agreement at **Citigroup** and a challenge at **Bank of America**. A proposal by Proxy Impact and As You Sow at **Wells Fargo** asks for a policy that includes the free, prior and informed consent of indigenous communities. The proposals come in a changed policy landscape, in which the Dakota Access Pipeline cancelled by Obama has been approved by Trump, and as new pressure comes to bear on Native Americans facing expanding resource extraction threats to their lands.

Weapons— A new resolution at **Chubb** expresses concern about the insurer's underwriting of CarryGuard policies for gun owners worried about liability costs incurred from shooting people in self-defense has been omitted on technical grounds but Chubb announced in February it was ending its underwriting for the product. ICCR members also are looking for reports from two weapons makers (at **American Outdoor Brands**, the former Smith & Wesson, and **Sturm**, **Ruger**) and retailer **Dick's Sporting Goods** about gun safety and harm mitigation. All these proposals carry special piquancy given the bloody start to the year with many school shootings and the massacre in Parkland, Florida on Valentine's Day. Indeed, Mercy Investments withdrew its proposal at Dick's once the company said it would end assault weapons sales following the shootings; nuns had met with company executives even before the Parkland tragedy.

Conflict zones—**Chevron** is arguing a proposal to report on its anti-genocide policy is too vague since investors would not be able to determine where genocide occurs. The resolution notes the plight of the Rohingya people and the company's business in Burma. Another detailed conflict proposal is at **First Solar**, seeking information about doing business in "situations of belligerent occupation."

Media and cybersecurity: Illustrating once again that proxy season reflects dominant issues of public policy contention, investors suggest that "fake news," Russian meddling in U.S. elections and violent online postings present risks to social media platform companies. The concept of shareholder involvement in this area earned praise from British Prime Minister Theresa May at the Davos summit in January. Proposals are at **Alphabet**, **Facebook** and **Twitter**, from NYSCRF, Arjuna Capital and co-filers and seek better content management to mitigate risks. Facebook faces special attention given the Federal Bureau of Investigation's findings that its platform was key to spreading dissonance throughout the United States.

The UAW Retirees Medical Benefits Trust wants information on cybersecurity from hacked credit reporting company **Equifax**, while NYSCRF wants a similar risk mitigation report from prescription manager **Express Scripts**—and faces a pending SEC challenge.

Sustainable Governance

Board diversity: Almost all the 30-plus companies with board diversity resolutions have never received a proposal before; the identity of many of the companies had yet to be disclosed at the time of this writing. Resolutions, as in the past, seek either adoption of policies that would ensure women and minorities are in the pool of board nominees or ask for diversity policy disclosure. A resubmission at **Cognex** earned 62.7 percent in 2017.

New is a resolution to **ExxonMobil** and **NRG Energy** from the New York City pension funds, which they also filed at an as-yet undisclosed additional number of companies. It wants companies to report the race, gender and ethnicity of board directors and nominees, as well as other strategically relevant attributes, in a matrix. ExxonMobil says it is too vague and concerns ordinary business; the SEC has yet to respond to its challenge. *(A conservative copy of the proposal with the same resolved clause that says racial, ethnic and gender diversity is immaterial has been filed at **Facebook**, as noted below.)*

Board oversight: Ten proposals ask for specific types of board oversight and three more request particular types of board member expertise—reprising familiar concerns from past proxy seasons. **JPMorgan Chase** is fighting one of these, which asks for a board committee on indigenous rights, invoking the staff legal bulletin and saying among other arguments that it would constrain potential business opportunities.

Sustainability oversight and disclosure: The number of proposals seeking sustainability reports is rising again after falling for several years and there are two dozen resolutions, almost all to new recipients. Ten of them include GHG goals as part of the disclosure request; one of these scored a near-majority at **Acuity Brands** early in the year, with 49.8 percent support.

This year there are some new, specific reporting resolutions, as well. One pending at **Amazon.com** wants a report on ESG impact risk management, noting the wide-ranging impact the company is having on American society, although it faces an SEC challenge. Also pending is a first-ever proposal to **Tesla Motors** asking it to use ESG metrics in its financial reporting.

ESG pay links—In a big shift, this year there are 18 resolutions seeking reports on links between a variety of issues and executive compensation, reflecting many of the issues raised in this report—drug pricing, executive diversity, sustainability in general, cybersecurity and data privacy, fossil fuel reserves accounting and risky financial practices. Most are at new targets, and companies have pending challenges at the SEC.

Proxy voting—Two repeat proposals ask for reports about proxy voting at mutual funds companies; a new recipient is **Cohen & Steers**. **BlackRock's** expanded plans to address social and environmental concerns in proxy voting forms the backdrop for these resolutions, which suggests a new norm that could significantly shift the balance of power in shareholder resolution voting, as occurred in 2017.

Ethical Finance

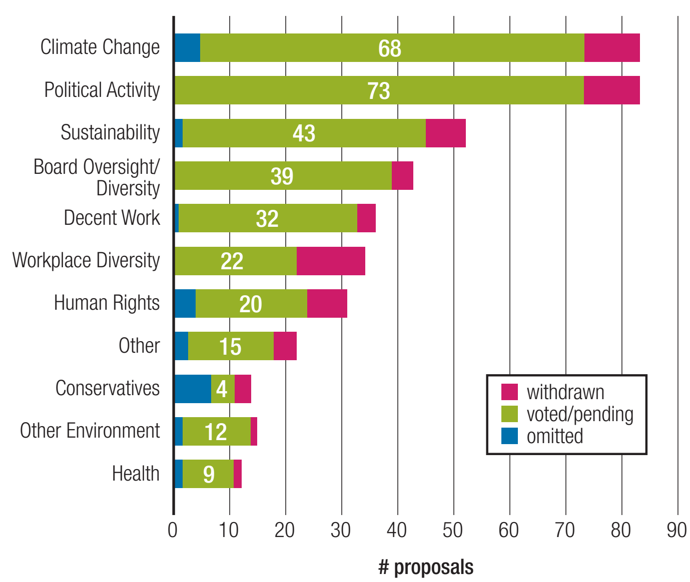
Three proposals raise old issues about consumer fraud and compensation for risky banking practices at **Wells Fargo**, student loans at **Navient** and tax fairness at **Nike**. A vote looks likely at Wells Fargo but is uncertain at the other two companies.

Conservatives

Continuing their efforts to persuade investors of the merits of a free market approach, conservatives have filed a range of proposals—mostly on social issues. The effort to get companies to report on their free speech policies has struck out at the SEC, omitted on ordinary business grounds, but resolutions lauding corporate support for the American Legislative Exchange Council at **Duke Energy** and **General Electric**, mentioned above, will be on proxy statements. Otherwise, proposals that ask media companies to "tell the truth" seem likely to be omitted, as have similar resolutions in the past.

As noted above, the copy-cat technique in play for lobbying is being used by one proponent in a request for a board diversity report that emulates the New York City "matrix" reporting resolution.

Current Status of Proposals by Topic



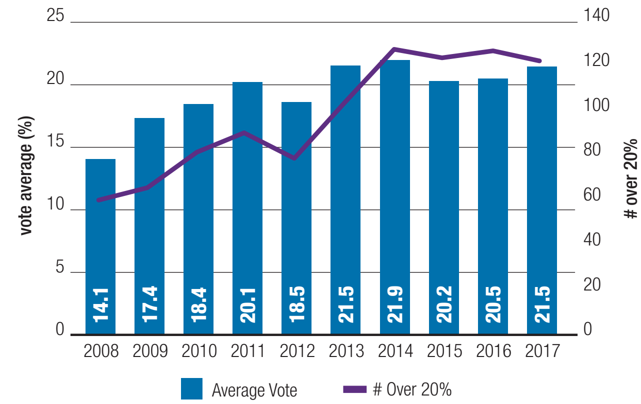
INTRODUCTION

Key Shareholder Proposal Trends

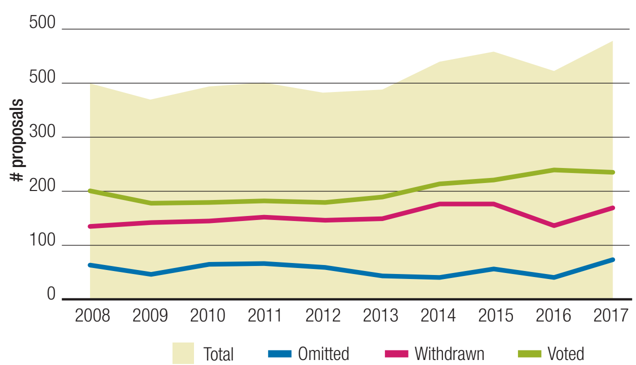
The total number of social, environmental and sustainability shareholder resolutions filed reached a new peak in 2017. Overall average vote has been about the same for the last five years, but is above earlier levels *(top chart)*. After a dip in withdrawals in 2015, they rebounded in 2017 to similar recent levels. The number omitted after company challenges at the SEC last year also rose, after dropping in 2016 *(left graph, below)*.

As of mid-February 2018, 330 were headed for votes, although historically about 14 percent will be omitted and another 33 percent will be withdrawn. This is about the same number as were pending at this time last year. (Eleven already have been voted on.)

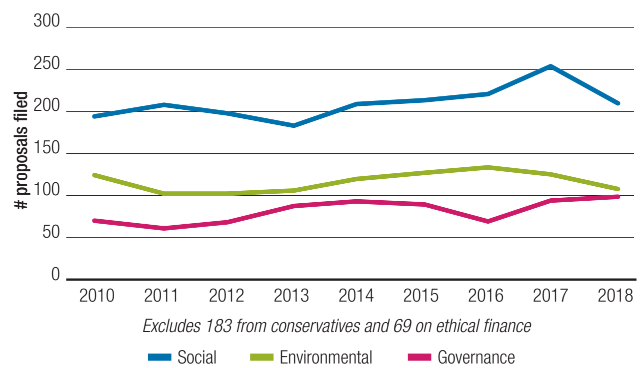
Votes Averages and High Scoring Proposals



Environmental, Social & Sustainability Proposals Filed, 2008-2017



ESG Trend Since 2010



ESG trend: Since 2010, there have been more proposals about social issues than concerning the environment, but the long-term trend shows growth in sustainable governance. This year marks a drop in social resolutions, and a convergence between the environment and governance *(right graph, above.)*

THE 2018 PROXY SEASON

This section of the report presents information on the 429 social and environmental proposals investors have filed for the 2018 proxy season that have surfaced so far.[1] Additional proposals for spring votes will show up as the season progresses and a dozen or so more are likely to be filed for meetings that occur after June. About 30 proposals are included in the aggregate totals but are not described in detail since they have yet to be made public. Consequently, the *Proxy Preview* encompasses the vast majority of social and environmental resolutions that shareholders will raise in 2018.

Topic categories: Information is presented in six different categories—Environmental Issues; Social Issues and Sustainable Governance, Ethical Finance, Other Governance and Conservative Groups. The first three sections comprise nearly all of the proposals and corresponds with environmental, social, and governance (ESG) categories commonly used by investors. Ethical Finance includes a few more that raise questions about ethics and probity in financial dealings. Other Governance highlights key governance issues, such as high CEO pay, being raised by the investor community that this report does not track but is of interest to many shareholders. Investors with a conservative perspective also file a few resolutions opposing ESG reforms and those are discussed separately.

PROXY VOTING 101
Learn how to vote your proxies and file shareholder resolutions at Proxy Voting 101 www.proxypreview.org.

expertinsight

THE PROXY VOTING LANDSCAPE IS CHANGING

MARK E. BATEMAN
Director of ESG/SRI Research, Aperio Group

There was a time when the three-legged stool of socially responsible investing (the now ancient definition of "SRI") was thought of as screening, proxy voting and community investing. Over the last 20 years, these concepts and labels have evolved. We now talk about "ESG" (environmental, social and governance) rather than SRI; we talk about "materiality" instead of "values"; we talk about "impact"; and we scoff at exclusions as "old school."

But through this evolution, the importance of proxy voting has reemerged. Formerly the purview of religious institutions and SRI mutual funds, disclosure of proxy voting by mutual funds was first required in 2004. This transparency provides a better view of how mutual fund managers view various issues within their investment portfolios. Increased transparency also has fueled some advocacy seeking different proxy voting policies by large mutual funds.

Recently, major mutual fund managers have spoken publicly of the responsibility of companies and investors and, in many cases, implying a new era in their approaches to voting proxies. Larry Fink, CEO at **BlackRock**, wrote in late 2017: "Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate. Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders."

While some may be skeptical of the commitment articulated in such a letter, the fact that Fink felt compelled to speak publicly on these issues, and used phrases often found among the true believers in the responsible/sustainable investment community ("license to operate"), is evidence of the marketplace's higher level of interest in these concepts.

Certainly, many people have seen the *Fearless Girl* statue facing down Wall Street's bull statue. What most observers may have missed was the announcement **State Street** made at the time it unveiled the statue—that it was changing its proxy voting policy: specifically, if necessary, it would withhold its proxy votes from the chair of nominating or governance committees where no women serve on the board of directors.

Whether these statements by big firms represent beliefs of the converted or attempts to greenwash, they indicate a sea change. The new emphasis on the importance of proxy voting provides a significant prompt to any firm not taking its voting rights seriously. When big players like **Vanguard** and BlackRock vote in favor of climate change disclosure resolutions at **ExxonMobil**, it becomes more difficult for small firms to defer to management.

It also becomes more difficult for the same large firms to generally oppose other social and environmental resolutions. Critics have pointed out the inconsistent proxy voting behavior on climate change issues by firms like BlackRock and other big funds—supporting a resolution at ExxonMobil while still opposing resolutions at other fossil fuel companies. One recent headline summarized the rate of change—"BlackRock and Vanguard's climate change efforts are glacial."

But remember, glaciers change landscapes.

[1] Not included in this tally are proposals filed by the New York City Comptroller's office asking for the right to nominate directors using the company proxy statement—known as "proxy access." These proposals are prompted by social, environmental and governance concerns but their inclusion is beyond this report's scope. Some resolutions asking about executive pay clawbacks after opioid-related settlements, and for independent board chairs, also are not included in this report.

Proposal details: We note how many proposals have been filed in each category, which are now pending, how many have been withdrawn for tactical or substantive reasons after negotiated agreements with companies, and the disposition of challenges to the proposals at the Securities and Exchange Commission (SEC) under its shareholder proposal rule. Rule 14a-8 of the 1934 Securities and Exchange Act allows companies to omit proposals from their proxy statements if they fall into certain categories such as dealing with "ordinary business" issues. *(See box, previous page, for a link to a page online with more details on the rule.)* The analysis focuses on the resolved clauses and how these compare to previous proposals. The report notes previous support if a resolution has been resubmitted and identifies new developments. We pay special attention in 2018 to potential reinterpretations of the omission rules, given the release on Nov. 1, 2017, of SEC Staff Legal Bulletin 14I, which set out new views on how the SEC may assess whether a resolution concerns "ordinary business" or is "significantly related" to company business.

Key information—Within each section, at-a-glance information is presented in tables that list each company, the resolution, the primary sponsor and the projected month for each company's 2018 annual meeting, based on last year. Confirmed dates will become available to investors in their proxy statements, which companies issue four to six weeks in advance of their annual meetings.

Voting eligibility—To vote on proposals, investors must own the stock as of the "record date" set by the company, about eight weeks before the meeting. Companies provide this date in each proxy statement.

Proponent and expert commentary: Additional insights, information and opinions from 38 experts in the field and shareholder proponents appear throughout the report.

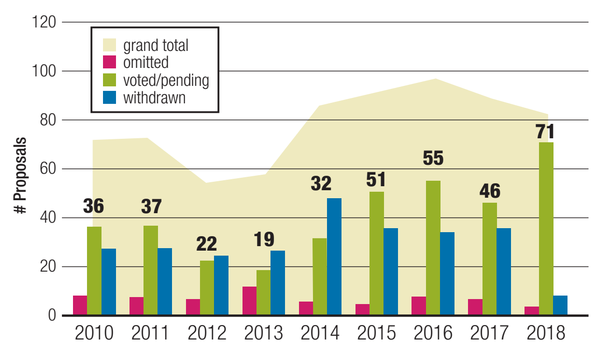
Environmental Issues

Climate change continues to be the primary focus of shareholder proposals that raise environmental issues. The climate conversation in the proxy process is still all about carbon asset risk and greenhouse gas emissions management, with 82 resolutions on these topics (the same as on this date in 2017 and down from 90 in 2016). Other environmental management topics included 15 proposals this year, down from 31 last year and two dozen in 2016. Another eight proposals address industrial food production.

(The section on Sustainable Governance, p. 60, examines related reporting proposals, most of which also request more transparency from companies about environmental management at their own operations and in their supply chains, in conjunction with reporting on social and other issues.)

CLIMATE CHANGE

Climate Change Resolutions Since 2010



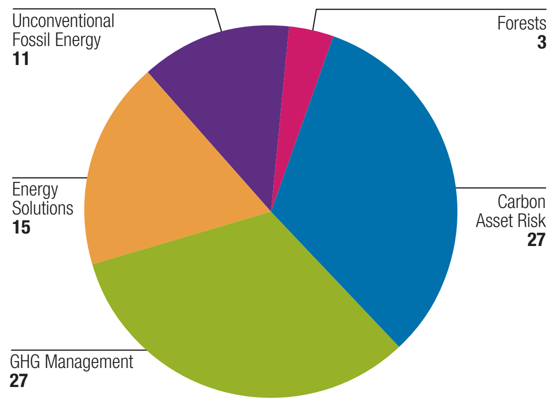
Excludes 8 not voted for other reasons.

The Trump administration continues to roll back environmental regulations and previous commitments to address climate change. Policy casualties include U.S. commitments made in the UN Paris climate treaty and the Obama Administration's Clean Power Plan, the treaty's main expression in domestic U.S. policy. The administration is pursuing more oil and gas development around the country, trying to undermine previous priorities that aimed to boost clean energy development. Yet the realities of extreme weather and associated political and economic disruption, as well as disruptions in far-flung global supply chains, are not affected by who sits in the White House. The chasm between the currently dominant views of Congressional leaders and the concerns by many on Wall Street about climate change impacts has never been more apparent. It was clearly on display in spring 2017 when the four of the largest mutual funds, including the $5.7 trillion fund **BlackRock** and the $4 trillion fund **Vanguard**, lent their support to two shareholder resolutions seeking more climate disclosure at some of the world's biggest energy companies and produced unprecedented, healthy majority votes. Many large institutional investors are firmly convinced companies and governments must take urgent action to address climate risks and opportunities; they continue to evaluate their portfolio companies' performance on these metrics, and to demand that their investment managers do the same. Shareholder resolutions in 2018 will continue to be affected by these dynamics, which lend urgency to longstanding interaction between proponents and their companies.

Proponents are focused mainly on carbon asset risks, looking for more oversight, management and disclosure of stratgy—with 27 resoutions. They have filed 27 more resolutions about greenhouse gas emissions management, with almost all asking companies to set goals. Fifteen are seeking clean energy solutions, mostly goals for using more renewable energy sources but also attending to energy efficiency. Unconventional fossil fuel energy production and its associated methane releases are the subject of 11 more proposals. The slate is rounded out by three about deforestation. *(See pie chart, right.)*

The Ceres coalition coordinates nearly all these proposals, working with its Investor Network on Climate Risk (INCR) and a broad coalition of institutional investors, including many members of the Interfaith Center on Corporate Responsibility (ICCR) and some individuals. Undergirding many of the resolutions, and the strategic concern of long term investors, is the sense that regulatory regimes that favor lower-carbon fuel sources will leave stranded carbon assets that account for a large part of the market value claimed on the balance sheets of oil, gas and coal companies. Proponents also contend that utilities dependent in large part on fossil-fuel powered electricity will be caught short if they do not aggressively manage the transition to lower carbon-intensive power generation.

Climate Proposals in 2018



$30 TRILLION SHAREOWNER INITIATIVE PARTNERING WITH BIGGEST GREENHOUSE GAS EMITTERS

DIVYA MANKIKAR
Investment Manager, Sustainable Investments Program, CalPERS

advocacyposition

Climate Action 100+ is a new five-year investor initiative designed to engage with the world's largest corporate greenhouse gas emitters in curbing their emissions, strengthening related financial disclosures and improving governance on climate change. The initiative launched publicly last December 2017 at the One Planet Summit in Paris and now 256 investors, representing nearly $30 trillion in assets, have signed on as members.

Why this and why now?

The Paris Accord indicates that we must halt the rise of gas emissions by 2020 and then cut them by 80 percent by 2050 to achieve the goals of the Paris Agreement. A just transition for those employed in impacted sectors must also be pursued. CalPERS ran a carbon footprint analysis in response to the UN PRI's Montreal Pledge, in which investors agreed to annually disclose their portfolios' carbon footprints, and learned that around 80 companies out of the 10,000+ in its portfolio are responsible for 50 percent of its portfolio's carbon emissions. We realized many institutional investors likely have a similar concentration of carbon risk and began building a global coalition. Climate Action 100+ is designed to help investors and companies partner towards achieving a shared goal - reducing emissions in line with the Paris Agreement to well below 2 degrees above pre-industrial levels.

What impact can Climate Action 100+ have?

Climate Action 100+ investor members will engage companies with a common framework, seeking disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This framework requests disclosure on governance, strategy, risk management and metrics/targets related to climate change.

The business planning of the top emitters, as identified by Climate Action 100+, are key to enabling the global economy to make a low-carbon transition in line with the Paris Agreement. Climate Action 100+ is so named because initially investors will focus on partnering with 100 of the world's largest corporate greenhouse gas emitters, taking into consideration CDP data on their scope 1 (direct emissions from the companies' assets), scope 2 (indirect emissions from electricity they purchased) and scope 3 emissions (indirect emissions not included in scope 2 that occur in the firm's value chain).

How is the initiative organized?

The regional partner organizations who collaborate as the Global Investor Coalition on Climate Change coordinate Climate Action 100+— the Asia Investor Group on Climate Change, Ceres in North America, the Investor Group on Climate Change Australia/New Zealand and the Institutional Investors Group on Climate Change in Europe – along with the Principles for Responsible Investment.

To inform Climate Action 100+ with an investor perspective, institutional investors including **Australian Super**, **HSBC Global Asset Management**, **Ircantec**, **Manulife** and CalPERS formed a steering committee.

The effort is truly global - 38 of the firms are headquartered in Europe, 32 in North America, 27 in Asia and the remainder in South America, Australia and Africa.

Additional companies that investors consider to be particularly exposed to climate-related risks will be added to the focus list next year. We encourage more investors to sign on to the initiative by visiting www.climateaction100.org.

Mounting concern over climate risk by large institutional investors also has led to new shareholder campaigns that are focused on those companies with the most significant climate impacts. Climate Action 100+ is comprised of 256 global investors with $28 trillion in assets under management that are engaging one hundred companies responsible for about 85 percent of total climate greenhouse gas (GHG) emissions. The 50/50 Project works with the largest pension funds and endowments to build climate competent boards at the 50 publicly traded companies with the largest carbon footprint.

(Sections below on Environmental Management, p. 29 and Sustainable Governance, p. 60, contain information on proposals about topics that touch on both climate change and additional environmental and social matters.)

Carbon Asset Risk

Proponents have gone back to fossil fuel producers and utilities, again seeking explanations for how these firms will do business in a world retooled for only a 2-degrees Celsius temperature increase as envisioned by the Paris Agreement, with variations about the physical and regulatory impacts, company strategy and assets potentially stranded by stricter regulation. Several challenge the producers to reveal more about their capital expenditure plans, positing as they did last year that substantial investment in expensive carbon-based fuel production does not make sense if public policies will cut demand and make it impossible to follow through on extraction. Some ask more generally about carbon asset risk, without too many details requested. A total of 23 resolutions are pending, investors have withdrawn just three so far and one has been omitted. Thirteen are resubmissions.

Carbon Asset Risk

Company	Proposal	Lead Filer	Status
Oversight, Management and Disclosure			
AES	Report on 2-degree analysis and strategy	Mercy Investment Services	April
Ameren	Report on 2-degree analysis and strategyReport on	Mercy Investment ServicesPresbyterian	April
American International Group	2-degree analysis and strategy	Church (USA)	withdrawn
Anadarko Petroleum	Report on 2-degree analysis and strategy	As You Sow	May
Chesapeake Energy	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
Chevron	Report on changed carbon asset mix options	Arjuna Capital	May
CMS Energy	Report on 2-degree analysis and strategy	Srs. of the Presentation BVM	May
Devon Energy	Report on 2-degree analysis and strategy	George Gund Foundation	June
Dominion Energy	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
DTE Energy	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
Exxon Mobil	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	withdrawn
Exxon Mobil	Report on changed carbon asset mix options	Arjuna Capital	May
FirstEnergy	Report on 2-degree analysis and strategy	As You Sow	May
Great Plains Energy	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
Hawaiian Holdings	Report on climate-friendly business model options	Stewart W. Taggart	omitted
Kinder Morgan	Report on 2-degree analysis and strategy	Zevin Asset Management	May
MGE Energy	Report on 2-degree analysis and strategy	Don Wichert	May
Noble Energy	Report on 2-degree analysis and strategy	Presbyterian Church (USA)	April
PNM Resources	Report on 2-degree analysis and strategy	Max and Anna Levinson Foundation	May
PNM Resources	Report on stranded carbon asset risks	Sam and Wendy Hitt Family Trust	May
SCANA	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	April
Southwestern Energy	Report on 2-degree analysis and strategy	New York State Common Retirement Fund	May
WEC Energy	Report on 2-degree analysis and strategy	School Srs. of Notre Dame, Central Pacific	May
Coal			
Ameren	Report on coal ash risks	School Srs. of Notre Dame, Central Pacific	April
Duke Energy	Report on coal risks	As You Sow	May

Oversight, Management and Disclosure

2-degree scenario analysis: Most of the resolutions seek analysis about the potential impacts on company portfolios of a low-carbon economy. At 13 companies where the resolution is pending, the resolved clause is concise and, with very slight variations, asks for "an assessment…of the long term impacts on the company's portfolio, of public policies and technological advances that are consistent with limiting global warming to no more than two degrees Celsius over pre-industrial levels." It is a resubmission at six companies where votes last year were above 40 percent—**AES** (40.1 percent in 2017),

Ameren, (47.5 percent), **Dominion Energy** (47.8 percent), **DTE Energy** (44.9 percent), **FirstEnergy** (43.4 percent) and **PNM Resources** (49.9 percent); it is new at seven others—**Chesapeake Energy**, **CMS Energy**, **Great Plains Energy**, **SCANA**, **Southwestern Energy**, **WEC Energy** and one more undisclosed company.

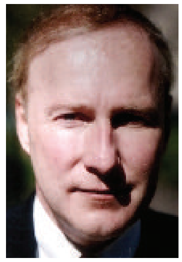
The New York State Common Retirement Fund (NYSCRF) has withdrawn at **ExxonMobil**, where last year it earned unprecedented 62 percent support for a 2-degree scenario analysis proposal. This year, the resolution reiterated the 2017 request, seeking:

> beginning in 2019… an annual assessment of the long-term portfolio impacts of technological advances and global climate change policies… The assessment can be incorporated into existing reporting and should analyze the impacts on ExxonMobil's oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2 degree target. This reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond, and address the financial risks associated with such a scenario.

Exxon Mobil released a report on February 5, but as *Inside Climate News* observes, it reiterates its previous conclusions that it can keep producing from current and new fossil fuel reserves even if there is a clean energy revolution. A similar proposal is still pending at **Devon Energy**, however, with the same resolved clause. Last year, the resolution earned 41.4 percent support at Devon.

As You Sow wants **Anadarko Petroleum** to provide a similar assessment of impacts a 2-degree world will have on it; the proposal says the report "should outline the resilience of the company's reserves and resource portfolio in response to multiple demand and price scenarios and explain how capital planning and business strategies incorporate the financial risks posed by such scenarios." As You Sow had withdrawn a similar proposal last year after the company agreed to discuss the suggested analysis but was disappointed with the results and refiled.

advocacyposition



EXXON STILL IN CLIMATE DENIAL DESPITE SHAREHOLDER CALLS FOR STRATEGY

PATRICK DOHERTY

Director - Corporate Governance, State of New York, Office of the State Comptroller

In December 2015, 195 nations reached agreement at the 21st Conference of the Parties to the UN Framework Convention on Climate Change (COP21) to limit global average temperature rise to well below 2 degrees Celsius, with a stretch target of 1.5 degrees Celsius. The Paris Agreement went into effect on November 4, 2016, and requires signatories to submit progressively stronger Nationally Determined Contributions (NDCs) every five years seeking to restrict warming to well below 2 degrees.

ExxonMobil noted the Paris Agreement's new goals in its 2016 10-K and states its projections are consistent with the signatory NDCs. However, ExxonMobil did not acknowledge that COP 21 aimed to keep warming significantly below 2 degrees Celsius, and that to reach that goal reductions beyond current NDCs must occur.

Subsequently, in the wake of Paris, the New York State Common Retirement Fund and the Church of England jointly filed a resolution requesting that Exxon analyze the impact on its operations of a prospective radical reduction in greenhouse gas emissions. Scores of major investors in the U.S. and Europe joined the initiative, representing over $10 trillion in assets under management

The passage of our resolution at Exxon's 2017 AGM by a more than 62 percent majority sent a shockwave throughout the industry, marking a monumental shift on climate disclosure among fossil fuel companies and their investors. It showed that investors will wait no more for boards who fail to grasp the speed of the energy transition, and that they will go against board recommendations when companies fail to meet the new climate risk disclosure norm of 2-degree stress testing. The clear message is companies must respond to the Paris Agreement.

Early this February, when Exxon released its 2-degree Paris scenario report, we welcomed it as the most complete disclosure on climate change impacts from the company to date, and it offers a baseline for ongoing shareholder engagement. That said, the report has too many generalizations and too few specifics on how Exxon plans to participate in a low carbon economy. It relies on optimistic assumptions of undiminished growth in fossil fuel demand. Further, the company still has still not presented a detailed analysis to investors of how its own portfolio performs under a 2-degree or less scenario. Performing a proper analysis would critically inform a business strategy that meets ExxonMobil's objective of increasing energy access to the world's poorest without conflicting with the Paris Agreement. Going forward, we will discuss the report with Exxon officials, and will continue to push it and others to decarbonize—invoking support from the large majority of Exxon's shareholders that joined us to support the 2017 proposal.

Many leading companies have endorsed 2-degrees scenario analysis favored by the Financial Stability Board's Task Force on Climate Related Financial Disclosures—including **BP**, **ConocoPhillips**, **Royal Dutch Shell** and **Total**—and, more recently, **Duke Energy**, **Dominion Energy**, **DTE Energy** and **PPL**. Major asset managers like **BlackRock** and **State Street Global Advisors** also want these disclosures. And keep in mind that the credit markets do, too; **Moody's** Global Ratings includes low demand scenarios in its ratings analysis of companies in high-risk sectors such as the energy industry.

This proxy season, in addition to refiling our 2-degree scenario resolutions with Dominion, Duke Energy, and DTE (now withdrawn after agreements to conduct the analysis), we are expanding this initiative to five additional major portfolio companies—**Chesapeake Energy**, **Great Plains Energy**, **SCANA**, **Southwestern Energy** and **Westar**. These companies should fully evaluate and disclose to investors how they will transition to a low carbon economy.

At **Kinder Morgan** and **Noble Energy**, resubmitted requests look for similar reports by 2019 that "explain how capital planning and business strategies incorporate analyses of the financial risks of a low-carbon transition." At Noble, the proposal specifies the report should discuss the impact of "multiple, fluctuating demand and price scenarios on the company's existing reserves and resource portfolio." It is pending at Noble for the third year in a row and earned about 25 percent in 2017 and 2016, while at Kinder Morgan it received 38.2 percent in 2017.

The Presbyterian Church (USA) has withdrawn at the sole insurer to receive a 2-degree analysis resolution. The proposal, new at **American International Group** said:

> Given the profound societal impacts of climate change and our company's potentially critical role in mitigating harm to society, shareholders request that AIG, beginning in 2019, with board oversight, publish an assessment…of the plausible impacts of a climate change scenario consistent with a globally agreed upon target of limiting warming to 2 degrees Celsius, as well as additional scenarios reflecting higher global average temperatures.

The Presbyterians note that AIG has agreed to further dialogue about their concerns. It has not previously received any shareholder resolutions about climate change, although the insurance sector continues to grapple with the impacts of extreme weather in the last year such as the wildfires in California and hurricanes in the Caribbean and along the Gulf Coast.

Two final proposals are a bit different. An investor alliance called MGE Shareholders for Clean Energy wants **MGE Energy**, a utility in Iowa and Wisconsin, to disclose within a year of the annual meeting its "business operations strategy for aligning with the 2015 Paris Agreement's goal of limiting global warming to a maximum of 2 degrees Celsius by reducing the use of fossil fuels, while maintaining the provision of safe, affordable, reliable energy."

In a similar vein, Mercy Investment Services asked energy company **Valero Energy** to report by the end of the year about its "strategy for aligning its business plan with the well below 2-degree Celsius goal of the Paris Agreement, while continuing to provide safe, affordable and reliable energy." The company agreed to issue the report, so Mercy withdrew. It had suggested the report should include plans about advanced biofuels, fuel cells and electric vehicle charging infrastructure. (Earlier resolutions from Mercy to the company asking it to adopt GHG emissions goals in 2014 and 2015 received just under 40 percent support.)

Different business model options: As You Sow and Arjuna Capital are co-leading and reprising a request made at **Chevron** and **ExxonMobil**. It asks each to report,

> describing how the Company could adapt its business model to align with a decarbonizing economy by altering its energy mix to substantially reduce dependence on fossil fuels, including options such as buying, or merging with, companies with assets or technologies in renewable energy, and/or internally expanding its own renewable energy portfolio, as a means to reduce societal greenhouse gas emissions and protect shareholder value.

The proposal earned 26 percent last year at Chevron, which is challenging it this year, as discussed below.

Individual investor Stewart W. Taggart asked **Hawaiian Holdings**, a regional airline, to explain its plans for responding to climate change "to minimize reputational risk." He said the company report "should include how future aircraft design, biofuel and market measures each will contribute to Hawaiian's achievement of carbon neutral growth after 2020."

Stranded assets: The Sam and Wendy Hitt Family Trust wants **PNM Resources** to report, "identifying all generation assets that might become stranded due to global climate change within the next fifteen years, quantifying low, medium, and high financial risk associated with each asset." As noted below, the company has challenged it at the SEC. *(A resolution to link pay to reserves at **Devon Energy** is on p. 75.)*

SEC action: Companies for the most part have not sought SEC approval for omitting the 2-degree scenario proposals, but they are fighting others:

- **Chevron** contends the low-carbon transition proposal from Arjuna Capital relates to ordinary business, since it is being sued about alleged climate change harms and resolutions concerning litigation may be omitted, but the commission has yet to respond. If the SEC staff agrees, it could have wide-ranging implications for knocking out climate proposals at companies that are being sued about climate change impacts—such as the defendants in a suit filed by New York Attorney General Eric Schneiderman against Exxon and similar cases lodged more recently by New York City against other fossil fuel companies.
- **ExxonMobil** also has challenged the asset mix proposal, arguing it is moot given current reporting and relates to ordinary business because of its focus on product mix.
- **Hawaiian Holdings** successfully challenged its proposal at the SEC, which agreed the proponent failed to provide sufficient proof of stock ownership.
- **PNM Resources** last year unsuccessfully challenged a 2-degree scenario proposal at the SEC, which rejected its assertion that it was moot given information included in its regulatory filings and sustainability reporting. The company is reiterating its arguments about mootness, however.

PNM also is challenging the stranded asset proposal, contending it is moot given current disclosures but also because it duplicates the other climate-related proposal. (Last year, another stranded asset resolution earned 40 percent after the company unsuccessfully argued at the SEC that it concerned ordinary business and was too vague.)

Coal

Two resolutions reprise previous concerns about coal. At **Ameren**, the Schools Sisters of Notre Dame, Central Pacific, want information on coal ash risks, and a

> report on the company's efforts, above and beyond current compliance, to identify and reduce environmental and health hazards associated with past, present and future handling of coal combustion residuals, and how those efforts may reduce legal, reputational and financial risks to the company. This report should be available to shareholders within 6 months of the 2018 annual meeting…

A similar resolution received 46.4 percent in 2017. Previously, a 2012 resolution earned 10.8 percent, down from 52.7 percent in 2011. The proponent said the discrepancy between the two years' results arose from an Ameren-funded campaign for a "no" vote.

At **Duke Energy**, As You Sow has resubmitted a resolution about coal risks in general, which last year earned 27.1 percent support. It asks for

> a report assessing the public health impacts of its coal use on rates of illness, mortality, and infant death, due to coal related air and water pollution in communities adjacent to Duke's coal operations, and provide a financial analysis of the cost to the Company of coal-related public health harms, including potential liability and reputational damage. The report should be published by 2019…

Greenhouse Gas Emissions Management

This year is witness to a slight uptick from 2017 in resolutions asking companies to adopt or report on greenhouse gas emissions targets. Proponents want companies to track, manage and set quantified reduction goals. Companies have been successful in knocking out relatively new requests to set net-zero goals, however, so few of the eight resolutions filed with that language are likely to go to votes; still, 16 proposals seeking more general GHG emissions targets are pending, while one of these has been

SCIENCE-BASED GREENHOUSE GAS EMISSIONS REDUCTION TARGETS

AARON ZIULKOWSKI
Manager, ESG Integration, Walden Asset Management

A patient reports to his physician the good news that he reduced his consumption of red meat by two servings per week over the past six months. The doctor congratulates him, pauses and asks, "How many servings per week are you eating now?" Reluctantly, the patient replies, "Ten."

While it's a step in the right direction, it is clear that his progress is insufficient. The same is true of most corporate efforts to reduce greenhouse gas (GHG) emissions.

Forty-eight percent of the 2016 *Fortune* 500 now have a GHG, renewable energy, or energy efficiency target. However, CDP analysis of the 2017 climate survey indicates that less than 15 percent of the 1,000 largest publicly traded companies have set targets that align with climate science—commonly called science-based targets, or SBTs.

What is a science-based target (SBT)? According to the Science Based Targets Initiative, a joint initiative by CDP, the UN Global Compact, the World Resources Institute, and WWF, SBTs are "Targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered 'science-based' if they are in line with the level of decarbonization required to keep global temperature increase below 2°C when compared to pre-industrial temperatures, as described in the Assessment Report of the Intergovernmental Panel on Climate Change (IPCC)."

There are several methodologies companies can use to set science-based targets, ranging from simple to complex. On the simplest end of the spectrum, absolute-based models evenly divide the prescribed reduction of emissions by the number of years between the baseline year and the target year. For example, reducing emissions by 55 percent by 2050 from a 2010 baseline yields an annual reduction of 1.4 percent per year. On the other end of the spectrum are approaches that identify emission reduction targets based on the type of business. For example, the Sectoral Decarbonization Approach (SDA) uses modeling from the International Energy Agency (IEA) to identify the most economically efficient emissions reduction pathways for the heaviest emitting sectors.

With a sharpened understanding of the importance of science-based emissions reductions and armed with the knowledge of how to set such targets, the investor community and a growing number of businesses are taking action.

For example, 327 companies have publicly committed to align emission reduction targets with the goals of the December 2015 Paris Agreement. An additional 864 companies reported in their 2017 CDP climate questionnaire their intention to set a science-based emissions reduction target within the next two years.

In 2016, investor members of the Interfaith Center on Corporate Responsibility (ICCR) wrote to 106 US-based companies that indicated in their 2016 CDP response they may set a science-based GHG emissions reduction target within the next two years. ICCR members engaged with approximately one-third of the companies during 2017 and 30 companies set science-based emissions reduction targets. Twelve companies indicated that they no longer plan to set a science-based target. Shareholder resolutions will raise this issue at nearly 20 companies in 2018. We believe these actions will stimulate additional progress, either through successful negotiations to withdraw these resolutions or through strong investor support at the ballot box.

Greenhouse Gas Emissions Management

Company	Proposal	Lead Filer	Status
AES	Adopt GHG reduction targets	New York State Common Retirement Fund	withdrawn
AK Steel Holding	Adopt GHG reduction targets	NYC pension funds	May
Amazon.com	Report on net-zero GHG goals	Amalgamated Bank	May
American Electric Power	Adopt GHG reduction targets	New York State Common Retirement Fund	withdrawn
Apple	Report on net-zero GHG goals	Jantz Management	omitted
C.H. Robinson Worldwide	Adopt GHG reduction targets	Srs. of the Presentation BVM	May
Cooper Companies	Report on net-zero GHG goals	Amalgamated Bank	3/19/18
Deere	report on net-zero goals	Jantz Management	omitted
Emerson Electric	Adopt GHG reduction targets	Walden Asset Mgt.	39.0%
EOG Resources	Adopt GHG reduction targets	Trillium Asset Management	omitted
Flowserve	Adopt GHG reduction targets	NYC pension funds	April
Fluor	Adopt GHG reduction targets	New York State Common Retirement Fund	May
Ford Motor	Report on fleet GHG emissions and regulation	As You Sow	May
General Motors	Report on fleet GHG emissions and regulation	As You Sow	June
Genesee & Wyoming	Adopt GHG reduction targets	Calvert Investment Management	May
Illinois Tool Works	Adopt GHG reduction targets	Trillium Asset Management	May
J.B. Hunt Transport Services	Adopt GHG reduction targets	Trillium Asset Management	April
Kansas City Southern	Adopt GHG reduction targets	Calvert Investment Management	May
Lowe's	Report on net-zero GHG goals	Amalgamated Bank	June
Minerals Technologies	Adopt GHG reduction targets	Trillium Asset Management	May
PayPal	Report on net-zero GHG goals	Amalgamated Bank	May
Reliance Steel & Aluminum	Adopt GHG reduction targets	NYC pension funds	withdrawn
TJX	Report on net-zero GHG goals	Jantz Management	June
United Rentals	Adopt GHG reduction targets	Baldwin Brothers	May
United States Steel	Adopt GHG reduction targets	Mercy Investment Services	April
Verizon Communications	Report on net-zero GHG goals	Trillium Asset Management	May

withdrawn. As You Sow also has a new proposal to auto companies about emissions standards, reporting and regulation, although there is a pending company challenge.

Time-bound quantitative targets: Nine of the pending GHG goals resolutions ask each recipient to "adopt time-bound, quantitative, company-wide, science-based targets for reducing greenhouse gas (GHG) emissions, consistent with the goals of the Paris Climate Agreement, and report annually…[on] plans and progress towards achieving these targets."

This resolution is new to seven companies—**AK Steel Holding**, **Flowserve**, **Illinois Tool Works**, **J.B. Hunt Transport Services**, **Minerals Technologies**, **Reliance Steel & Aluminum** and one undisclosed company. At **C.H. Robinson**, it is a resubmission that appeared in the proxy statement in 2017 but did not go to a vote given what the proponents termed "ongoing dialogue," but the Sisters of the Presentation of the Blessed Virgin Mary refiled after judging there was no further progress in discussions. Mercy Investments withdrew a 2017 goals proposal at **United States Steel** after the company said it would restart reporting GHG emissions in fall 2017 but refiled after what they term disappointing discussions.

At eight more companies, the proposal seeks essentially the same thing, that each firm "adopt time bound quantitative, company-wide goals for the reduction of greenhouse gas (GHG) emissions, taking into consideration the goals of the Paris Climate Agreement, and issue a report [on] plans to achieve these goals." It is a resubmission at **AES** (40.1 percent last year), **Emerson Electric** (34 percent), **EOG Resources** (proponents withdrew a 2017 methane targets resolution), **Fluor** (36.6 percent); it is new to **American Electric Power**, **Genesee & Wyoming**, **Kansas City Southern** and **United Rentals**.

Vote—The first vote is in, 39 percent at **Emerson Electric**, which had its meeting on February 6.

Withdrawals—Proponents have withdrawn after reaching agreements at **AES**, **American Electric Power** and **Reliance Steel**.

SEC action—**AES** challenged the proposal at the SEC, arguing it was too vague and duplicates the proposal asking for an analysis of climate change impacts that it received first; NYSCRF withdrew before any SEC response. **EOG Resources** successfully argued it can be excluded because it concerns ordinary business, is moot and is misleading; resolutions to the company since 2010 have focused mainly on methane emissions and reductions and this is the first more general GHG goals proposal it has received. As noted above, this decision could have wide-ranging implications.

Net-zero goals: Amalgamated Bank, Jantz Management and Trillium Asset Management asked eight companies to report on the possibility of setting net-zero GHG emissions, a proposal that had first been broached at a few companies in 2016. The resolution asked, with slight variations, **Amazon.com**, **Cooper Companies**, **Lowe's**, **PayPal** and **Verizon Communications** for a report

> that evaluates the feasibility of the Company achieving by 2030 "net-zero" emissions of greenhouse gases from all aspects of the business directly owned and operated by the Company, including corporate office, fulfillment, sortation, delivery, warehouse operations, data center, customer service, and other facilities, as well as the feasibility of reducing other emissions associated with the Company's activities.

At **Apple**, **Deere** and **TJX** it was similar but asked only for "a fixed date," rather than the year 2030.

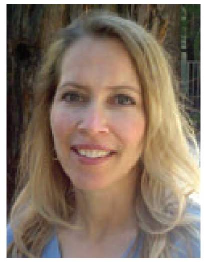
Most companies are challenging the resolution. The first, and perhaps the only one of the proposals that is likely to come to a vote is slated for **Cooper Companies** on March 19. The only other company not to challenge so far is **Lowe's**.

SEC action—The companies are having none of it and have a sympathetic ear at the SEC. All but three have challenged and so far **Apple** and **Deere** have prevailed with their contention that the resolution seeks to micromanage the companies and suppliers in its specificity, even though the SEC staff last year rejected a similar argument from **PayPal**. The decision is one of the first significant SEC responses to follow SEC Staff Legal Bulletin 14I, which called for more board input about whether proposals should be omitted on "ordinary business" and "significantly related" grounds. Omissions are likely at **Amazon.com**, **PayPal**, **TJX** and **Verizon Communications** since they are using the same arguments that succeeded at Apple and Deere even before publication of the new legal bulletin.

Investors have been lukewarm about these resolutions when they went to votes, giving only 7 percent to 8 percent support to requests to *adopt* net-zero goals in 2016 at **Deere** and **Coach** (now Tapestry). Requests for *reports* on such goals have earned more—in 2017, 23.8 percent at **PayPal** and 15.8 percent at **Netflix**. The idea also seemed to have some traction at companies—prompting withdrawals at **Amazon.com**, **CarMax** and **GameStop** last year after the companies agreed to discussions.

Auto emissions standards: As You Sow is trying a new approach. It proposes that **Ford Motor** and **General Motors** each report, "describing whether our company's fleet GHG emissions through 2025 will increase, given the industry's proposed

advocacyposition



ARE U.S. AUTO COMPANIES DRIVING BACKWARD?

DANIELLE FUGERE
President, As You Sow

The automotive sector has a key role to play in helping to moderate climate change. Transportation accounts for more than 27 percent of U.S. greenhouse emissions. Given the accelerating pace of climate change and its devastating impacts, greenhouse gas emission reductions by the auto sector—a key contributor of these gases—must accelerate and must occur in the short term.

Unfortunately, the U.S. auto industry is driving in the wrong direction. Shareholders are highly concerned about the automotive industry's recent attempts to weaken U.S. Corporate Average Fuel Economy (CAFE) standards for the critical years of 2021 to 2025 – years in which forward progress in greenhouse gas reductions is absolutely crucial.

This concern is underscored by a recent University of Michigan study finding that the window for climate action by automakers could close as early as 2025, after which it may be too late to stave off a global climate tipping point. The study further finds that abatement costs for emissions reduction action by automakers are likely to increase sharply with every year of delay beyond 2020.

While the administration and certain lawmakers are willing to give U.S. automakers a break in their greenhouse gas reduction obligations, this does not serve shareholders well. A warming globe is costly for the economy and a drag on shareholder portfolios; U.S. auto companies are increasingly subject to reputational damage for seeking weakened standards; and U.S. auto companies risk becoming globally uncompetitive by slowing their focus on near term, fleetwide greenhouse gas reductions.

Lost competitiveness is a crucial issue for company success. Developing nations such as China and India offer large markets, but are tightening fuel efficiency requirements and supporting low carbon vehicle technologies. Many international automakers are announcing plans in line with this decarbonizing vehicle market. In contrast, both **General Motors** and **Ford Motor** appear to be slowing their progress on fleetwide greenhouse gas emissions reductions. Ford has announced a significant reallocation of capital from cars to trucks and sport utility vehicles, a move that will likely increase fleetwide greenhouse gas emissions, while GM has also been growing its large vehicle lines. Both companies have announced plans to expand future electric vehicle development, but have failed to give specific targets and timelines, or indicate the percentage of planned electric drive vehicles. Currently electric vehicles make up a small portion of both company's fleet sales.

Coupled with lobbying to weaken CAFE standards, Ford and GM's actions raise serious questions about whether these companies will retreat in reducing fleet greenhouse emissions, especially through 2025, the critical window of opportunity for the industry to meet climate goals. This uncertainty exposes the companies to reputational harm, public controversy and the potential to quickly lose global competitiveness.

Given the importance of these issues, As You Sow and other shareholders are seeking clarity on the companies' greenhouse gas emissions under weakened CAFE standards, including whether the companies plan to retain emissions consistent with, or better than, existing CAFE standards to ensure their products are sustainable in a rapidly decarbonizing global vehicle market.

weakening of [Corporate Average Fuel Economy] standards or, conversely, how GM plans to retain emissions consistent with current CAFE standards, to ensure its products are sustainable in a rapidly decarbonizing vehicle market." The resolution notes outside the resolved clause that electric vehicles make up a small part of the companies' product mix and that they have lobbied to weaken auto fuel economy standards. Obama-era regulations were set to double the standard for passenger cars to 54.5 miles per gallon by 2025, but President Trump has opened a review of the standards and seeks to roll this goal back, as discussed in an October 2017 opinion piece in *The New York Times* by former Environmental Protection Agency head William K. Reilly and Kenneth Kimmel of the Union of Concerned Scientists.

SEC action—GM has challenged the proposal at the SEC, arguing that it concerns ordinary business, given its focus on product characteristics, and is moot because of GM's sustainability reporting and programs. The SEC has yet to respond and no challenge has surfaced so far from Ford.

Unconventional Fossil Energy

Proponents are continuing their efforts to persuade companies to pay more attention to methane emissions and control leaks, which is a key concern with natural gas extraction and other unconventional oil development. *(See the latest edition of the proponents' report, Disclosing the Facts, which focuses on methane.)* Just one resolution also has been filed about financing oil extraction from Canadian tar sands deposits, at **JPMorgan Chase**.

advocacyposition

MANAGING METHANE WILL PROTECT CLIMATE AND REDUCE INVESTOR RISK

LUAN JENIFER
Chief Operating Officer, Miller/Howard Investments

A warming planet, which we've seen these past few decades, is linked to systemic risks to portfolios, operational and financial risks to companies, and existential risks to human health and life on Earth.

What gives? Science tells us that there are gases that contribute to the "greenhouse effect," which traps heat that would otherwise escape from Earth's atmosphere and keeps it circulating, creating a warming effect. These greenhouse gases (GHGs) include water vapor, nitrous oxide, carbon dioxide and methane.

NASA calls GHGs "a blanket around the Earth" – presumably for their ability to smother, not snuggle – and highlights the Intergovernmental Panel on Climate Change's conclusion that there's a greater than 95 percent chance that human-produced GHGs "have caused much of the observed increase in Earth's temperature over the past 50 years."

Each GHG plays a role in the greenhouse effect, but methane, the primary component of natural gas, has an outsized impact. While methane is present in lower quantities than carbon dioxide in the atmosphere, it packs a bigger punch: it has *86 times the warming potential of carbon dioxide over a period of 20 years*.

For investors, methane's powerful warming potential intensifies concerns are:

- **First**, methane emissions can expose companies to reputational and/or market share risk by reducing the environmental advantages of natural gas over other carbon-intensive fuels such as coal. Some estimate the environmental benefit threshold for methane is a leakage rate of merely 3.2 percent, after which point natural gas may lose its environmental edge.
- **Second**, methane emissions generally represent lost product resulting from imperfect systems that fail to bring natural gas to market: somewhere along the value chain, in extraction, transportation, storage or processing, the product leaves the system. This possibly leads to environmental damage and risks shareholder value. One study estimated that the "sector loses $30 billion globally each year from leaked or vented methane at oil and gas facilities."
- **Third**, though companies may assert *"compliance with existing laws and regulations,"* regulatory compliance does not necessarily ensure sufficient management of emissions. Considering current political trends, it seems likelier that regulations will be retracted rather than drafted, weakened rather than enforced. We believe that inattention on the policy level does not indicate an absence of risk on the operational, environmental, or investment levels. Regardless, *minimum regulatory compliance will not help investors identify leaders or innovators*.

Methane as Risk; Methane as Opportunity

You've heard the phrase, 'canaries in the coal mine?' It is tied to methane: Before technology existed to warn miners about the presence of dangerous gases such as odorless, colorless methane, canaries were the detectors. The question, *"Is methane present?"* was answered with: *"is the canary still breathing?"*

If you want to keep the canaries singing, you may wish to support strong methane management systems by supporting proposals that encourage companies to *manage emissions transparently and reduce them ambitiously*. *That* is what companies situated to lead in a lower-carbon future can do, to the benefit of their investors.

Unconventional Fossil Energy

Company	Proposal	Lead Filer	Status
Anadarko Petroleum	Report on methane emissions/reduction targets	Miller/Howard Investments	May
Chevron	Report on methane emissions/reduction targets	Park Foundation	May
Devon Energy	Report on hydraulic fracturing/shale energy risks	Miller/Howard Investments	June
Dominion Energy	Report on methane emissions/reduction targets	Arjuna Capital	May
DTE Energy	Report on methane emissions/reduction targets	As You Sow	withdrawn
Energen	Report on methane emissions/reduction targets	Miller/Howard Investments	withdrawn
EQT	Report on methane emissions/reduction targets	Miller/Howard Investments	April
Exelon	Report on methane emissions/reduction targets	As You Sow	withdrawn
JPMorgan Chase	Report on oil sands financing	ProxyImpact	May
Kinder Morgan	Report on methane emissions/reduction targets	Miller/Howard Investments	May
Range Resources	Report on methane emissions/reduction targets	Unitarian Universalists	May

Emissions

Ten resolutions (down from 15 last year at this time) seek more information about how companies are measuring, managing and seeking to cut their methane emissions.

The proposal to **Chevron** is the only one to mention hydraulic fracturing, but it also is concerned about methane, seeking a report with quantitative indicators "on the company's actions beyond regulatory requirements to minimize methane emissions, particularly leakage, from the company's hydraulic fracturing operations."

At **Anadarko Petroleum**, **DTE Energy** and **Exelon**, the request is for annual reports with "quantitative indicators, the company's policies and practices beyond regulatory requirements to monitor and minimize methane emissions, particularly leakage, from the company's operations." At DTE and Exelon it adds a request for "a quantitative methane intensity reduction target" for company operations.

At **Dominion Energy**, the resolution wants a report "reviewing the Company's policies and plans to measure, monitor, mitigate, and set quantitative reduction targets for methane emissions resulting from natural gas storage assets." (A similar 2017 proposal earned 23.7 percent support at the company, while a narrower 2016 proposal on methane was omitted after the company successfully argued it was moot since it had provided a detailed report. The commission rejected a 2017 challenge that also argued it was moot.) At **Kinder Morgan**, the proposal is similar to Dominion's but specifies the report should cover "all operations, including storage and transportation, under the Company's financial or operational control." It is a resubmission that earned 40.6 percent in 2017 and 33 percent in 2016.

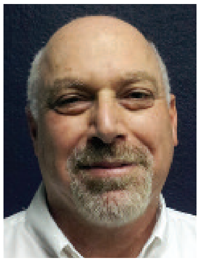
The most detailed proposal is to **Energen**, **EQT** and **Range Resources**, asking each to report by September 2018 with a review of the "Company's policies, actions and plans related to methane emissions management, including efforts to: measure, monitor, mitigate, disclose, utilize leak detection and repair (LDAR) technologies (including frequency, scope, and methodology)." At Energy and EQT, it also asks each to "set quantitative reduction targets for methane emissions resulting from all operations under the Company's financial or operational control."

Withdrawals: As You Sow withdrew at **DTE Energy**, saying the company had agreed to describe its methane leak detection efforts and related risk management in more detail, beyond regulatory requirements, as well as steps to resolve problems. As You Sow also noted the company had agreed to develop quantitative methane emission intensity reduction targets. Miller/Howard also withdrew at **Energen** after company commitments.

SEC action: So far there have been just two challenges:

- **Chevron** is arguing it concerns ordinary business since it deals with issues currently pending in litigation against it; as discussed above, the company is making the same argument with regard to a 2-degree scenario proposal. The SEC has yet to respond.
- **DTE** had argued the proponents were not eligible to submit the resolution and that the proposal concerned ordinary business since it was too prescriptive. The challenge invoked SEC Staff Legal Bulletin 14I, discussed above, but the withdrawal came before any response from the SEC.

advocacyposition



JPMORGAN CHASE COMMITS TO WORLD'S DIRTIEST FUEL: INVESTORS ASK WHY?

MICHAEL PASSOFF
CEO, Proxy Impact

JPMorgan Chase (JPM) has positioned itself as an industry leader on climate change. CEO Jamie Dimon voiced strong, public opposition to President Trump's plan to withdraw from the Paris Climate Agreement. The bank also plans to use renewable power for 100 percent of its global energy use by 2020 and has committed to facilitate $200 billion in clean energy financing through 2025 - the largest pledge in the financial sector. Further, it plans to reduce loans for coal mining and restrict financing for coal power.

So why is the bank *increasing* its financing for tar sands oil extraction?

Tar sands oil is one of the dirtiest and most carbon-intensive fossil fuels. It has much higher greenhouse gas emissions than conventional oil production and is one of the highest CO_2 emitting sources of oil in the world on a per-barrel basis. The huge upfront capital expenditures its exploitation requires threaten to lock in intense carbon pollution for decades. Extraction destroys forests, pollutes land and water, and creates massive reservoirs of toxic waste. It impacts indigenous peoples' rights both at the point of extraction and along pipeline routes, through serial failures to secure free, prior and informed community consent.

JPM is the biggest U.S. lender and underwriter of tar sands producers and pipeline companies, with $8.4 billion in loans from 2014 through September 2017. This is more than double the sum from its nearest U.S. peer. In the first nine months of 2017, JPM's financing of tar sands increased almost 17 percent compared to all of 2016.

In contrast, here is how major energy and financial companies reacted to tar sands risks in 2017.

- **ExxonMobil** wrote off 3.5 billion barrels of tar sands oil reserves as not economically viable.
- **ConocoPhillips**, **Marathon Petroleum**, **Shell**, **Murphy Oil** and **Statoil** sold more than $24 billion of tar sands assets.
- **Suncor**, the largest tar sands producer, "pledged not to invest in oil sands for 'foreseeable future' and shares have surged," according to the *The Wall Street Journal*.
- French insurance giant **AXA Group** announced it was ending investments in 25 tar sands companies and three major pipelines, and withdrew insurance coverage worth €700 million from pipeline companies.
- **BNP Paribas**, the world's 8th largest bank, announced it "will no longer do business with companies whose principal business activity is the exploration, production, distribution, marketing or trading" of tar sands oil and will restrict financing for related projects.
- Eight other global banks have developed similar policies.

JPM is compounding the reputational and financial risk it faces by supporting four new controversial planned tar sands projects, via project or corporate financing: **Kinder Morgan's** Trans Mountain, **TransCanada's** Keystone XL, **Enbridge's** Line 3 pipelines and **Teck's** Frontier mine. All would result in significant climate and environmental impacts; affected indigenous communities strongly oppose each project. Tar sands development lost nearly $31 billion in revenue from 2010 through 2013, because of the plummeting price of oil that occurred alongside fierce grassroots opposition to tar sands development. These projects, like those before them, face the possibility of becoming stranded assets.

A shareholder resolution, led by Proxy Impact, asks JPM to report on the risks related to its financing of tar sands production and transportation. In an effort to block the proposal at the SEC, JPM asserts its lending for tar sands is just an ordinary business matter, And that, of course, is the problem - because there should nothing ordinary about violating indigenous rights and increasing financing for the world's dirtiest fuel.

Tar Sands

A new resolution this year is a detailed proposition from Proxy Impact at **JPMorgan Chase**. It asks for a report by September

on the reputational, financial and climate risks associated with project and corporate lending, underwriting, advising and investing for tar sands production and transportation. This report should include assessments of:

- Short- and medium-term risk of portfolio devaluation due to stranding of high cost tar sand assets.
- Whether JPMC's tar sands financing is consistent with the Paris Agreement's goal of limiting global temperature increase to "well below 2 degrees Celsius".
- How tar sands financing aligns with our company's support for Indigenous People's rights.
- Reducing risk by establishing a specific policy, similar to that of other banks, restricting financing for tar sands projects and companies.

The proposal reasons that a detailed report is needed because of public opposition to tar sands development and its potential for becoming stranded assets, and contends that the bank's support for the Paris Climate Agreement and renewable energy, and its statements on indigenous peoples' rights, is not consistent with its other position as the largest U.S. lender for tar sands producers and pipelines. Further, it cites examples of other leading banks that eschew such business given their climate commitments. Last year, proponents asked about coal financing at **Bank of America** but withdrew after discussions.

Energy Solutions

Most of the proposals that set out possible energy solutions to climate change challenges are about using more renewable energy; a couple ask about energy use, however.

Energy Solutions

Company	Proposal	Lead Filer	Status
Ameren	Report on renewable energy goals	Sierra Club	omitted
American Tower	Report on renewable energy goals	First Affirmative Financial Network	March
Apple	Report on energy efficiency efforts	Sustainvest Asset Management	omitted
Comcast	Report on renewable energy goals	Walden Asset Mgt.	June
Community Health Systems	Report on renewable energy goals	New York State Common Retirement Fund	May
Entergy	Report on distributed energy	Arjuna Capital	May
Expedia	Report on renewable energy goals	Nathan Cummings Fndn	August
General Dynamics	Report on renewable energy goals	New York State Common Retirement Fund	May
Gilead Sciences	Report on renewable energy goals	Boston CAM	May
Kroger	Report on renewable energy goals	As You Sow	June
MGE Energy	Report on renewable energy goals	MGE Energy Shareholders for Clean Energy	May
MGE Energy	Study/report on transportation sector electrification	MGE Energy Shareholders for Clean Energy	May
Red Hat	Report on renewable energy goals	Nathan Cummings Fndn	August
Rite Aid	Report on renewable energy goals	New York State Common Retirement Fund	July
Western Union	Report on renewable energy goals	Green Century	withdrawn

Renewable Energy

Thirteen proposals ask for reports from a jumble of companies—utilities, communications firms, retailers and others—about setting renewable energy use targets. Most are still pending.

The pending resolution at **American Tower**, **Comcast**, **Community Health Systems**, **Expedia**, **General Dynamics**, **Gilead Sciences** and **Rite Aid** says:

> To increase the benefits to our company and to society associated with use of clean energy resources, shareholders request that [the company's] senior management, with oversight from the Board of Directors, issue a report assessing the feasibility of adopting public, time-bound, quantitative, company-wide goals for increasing energy efficiency and use of renewable energy….within one year…

A resubmission to **Kroger** seeks a similar report about "assessing the climate change risk reduction benefits of adopting quantitative, time-bound, enterprise-wide targets for increasing its renewable energy sourcing." The proposal is a resubmission that earned 24.8 percent in 2017. It is substantially the same as one that earned 27.9 percent support in 2016. The same resolution has been withdrawn at **Western Union**. All the recipients save Kroger and **Ameren** (which had a related, omitted proposal discussed below) are new targets.

A shareholder group at **MGE Energy**, MGE Shareholders for Clean Energy, wants aggressive action on renewables uptake and proposes a report within 18 months on how it "can provide a secure, low cost energy future" for "customers and shareholders by eliminating coal and moving to 100 percent renewable energy by 2050 or sooner."

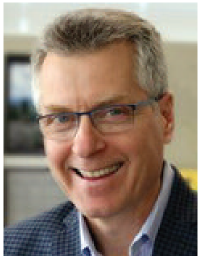
SEC action and withdrawal: A detailed proposal to **Ameren** was omitted because the company pointed out a similar resolution last year did not earn the 10 percent it needed for resubmission. (A similar version of this resolution earned 9.2 percent in 2017 and 11.2 percent in 2016.) The resolution asked for a report on how the company

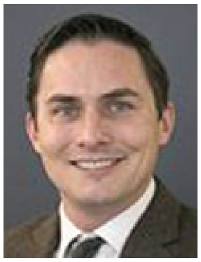
> could protect shareholder value and reduce the risk of stranded assets by aggressive renewable energy adoption including:
> 1. Increasing Ameren's energy mix to 50 percent renewable energy by 2030.
> 2. Increasing Ameren's energy mix to 100 percent renewable energy by 2050.
> 3. Propose changes to Ameren's strategic plans that could help Ameren achieve the targets identified in (1) and (2) of this resolution.

Comcast is arguing the proposal described above concerns ordinary business since it is about energy expense management and is not significantly related to its business because energy costs are not material to the company. The SEC has not yet responded.

The proponents withdrew at **Western Union**, citing an agreement, but the company also had challenged the resolution at the SEC, invoking SEC Staff Legal Bulletin 14I. The company said the proposal was not significantly related to its business because it owns only a handful of properties for which it could make decisions about energy use (most are leased).

advocacyposition





CORPORATE CLEAN ENERGY GOALS LEADING THE WAY TO A LOW-CARBON ECONOMY

DANIEL A. SELIGMAN
Senior Manager, Energy Efficiency, Ceres

WINSTON E. F. VAUGHAN
Senior Manager, Renewable Energy, Ceres

Investors increasingly recognize the challenges presented by climate change even as they search for opportunities to mitigate the risks. As **BlackRock's** Brian Deese said at the 2018 Investor Summit on Climate Risk in New York City in January, "if you're not a climate aware investor, you're not doing your job."

New York's Office of the State Comptroller recently advanced a promising way to contribute to climate solutions, while creating long-term value for shareholders. Last August, it won a strong 40 percent vote from **Michael Kors** shareholders on a resolution asking management to assess the feasibility of adopting "clean energy goals," defined as increasing both energy efficiency and procuring renewable energy.

Since then, several other investors have filed half a dozen similar proposals with companies in sectors ranging from telecoms to defense to pharmaceuticals.

Why are these "clean energy" proposals gaining traction?

- First, "clean energy" has deep appeal. Investors recognize the value of corporate action on clean energy and there is strong consumer support for it. According to a recent Gallup poll, – 86 percent of the general public favors faster clean energy deployment.
- Second, clean energy is increasingly cost-effective. In much of the United States, new renewables are less expensive than energy from fossil fuels while "big data" applications are quickly driving down the costs of saving energy.
- Third, by focusing on clean energy adoption, the resolution elevates the role of corporate energy consumers in driving demand for low-carbon energy supplies. This complements investor pressure on energy producers to reduce carbon asset risk.
- Fourth, the proposals help to establish clean energy "goals" as a best practice that both drives company performance and provides investors with essential insight.
- Finally, by focusing on both efficiency and renewables, managers have the flexibility to optimize a strategy to the needs of their company.

Conversations with companies asked to adopt clean energy goals suggest key follow-up steps:

1. *Establish baselines.* Companies new to the space typically have to collect energy-use data to quantify emissions and future progress.
2. *Assess the opportunity.* Companies then conduct assessments to prioritize opportunities to save energy and procure renewables available in their local markets.
3. *Adopt near-term goals.* Companies can then set goals aligned with competitors or sign up for initiatives like the U.S. Department of Energy's Better Buildings Challenge.
4. *Set "Business Optimal" Goals.* As companies gain experience, they can commit to invest in all efficiencies and renewables that are as profitable as investments in the core business.
5. *Take the Lead.* Companies poised for leadership can sign up for initiatives such as RE100 (and go 100 percent renewable), EP100 (for a 100 percent increase in energy productivity), or adopt clean energy goals aligned with science-based GHG reduction targets.

Companies that adopt goals use their market power to create demand for clean energy solutions while helping to bend the cost curve for all. They are accelerating change essential to the low-carbon economy of the future.

Entergy has challenged a proposal about distributed energy, which asks it to report

> describing how the Company could adapt its enterprise-wide business model to significantly increase deployment of distributed-scale non-carbon-emitting electricity resources as a means of reducing greenhouse gas emissions consistent with limiting global warming to no more than 2 degrees Celsius over pre-industrial levels.

Entergy is invoking Staff Legal Bulletin 14I and says the resolution can be omitted on ordinary business grounds since its focus on distributed energy constitutes "micromanagement." The company also argues that political battles over renewable energy subsidies are common and do not transcend ordinary business issues, and that its board met to consider the proposal and agrees with this perspective. The SEC has yet to respond. Previous proposals about distributed energy have survived SEC challenges and gone to votes. At Entergy, the resolution earned 35 percent in 2017 and 37 percent in 2016.

Rite Aid has challenged the resolution at the SEC, arguing it relates to ordinary business since it is about energy cost management and a specific type of technology. The challenge notes what it says is a precedent at CVS in 2016 for a renewable energy sourcing request, which was omitted on ordinary business grounds—but that proposal specified a year by which the goals were to be set.

Energy Use

Among the three proposals specifically on energy use, sustainvest Asset Management asked **Apple** to require its retail stores to keep their doors shut in the summer when using air conditioning, but the SEC agreed with the company's contention that it already has addressed the concern with its current policies.

The shareholder group at **MGE Energy** is reprising its 2017 proposal about electrified transportation options, which received 7.6 percent. It asks that the company

> lead a multi-party study of the electrification of the transportation sector in the MGEE service area. The study implementation plan… completed and reported to shareholders within 12 months of the annual meeting. The study implementation plan should include the Company's strategy to supply renewable energy to the electrified transportation sector, including analysis of long and short-term impacts on carbon reduction, utilization of new company-owned renewable energy, financial and operational opportunities, and risks.

Deforestation

Company	Proposal	Lead Filer	Status
Bunge Limited	Report on supply chain deforestation impacts	New York State Common Retirement Fund	May
Domino's Pizza	Adopt supply chain deforestation policy	New York State Common Retirement Fund	April
US Foods Holding	Adopt supply chain deforestation policy	New York State Common Retirement Fund	May

Deforestation

Only three proposals have surfaced so far about deforestation. One, a resubmission to **Domino's Pizza** from NYSCRF, earned 23.1 percent in 2017 and 26.2 percent in 2016. It asks that the company "develop a comprehensive, cross-commodity policy and implementation plan to eliminate deforestation and related human rights issues from its supply chain." NYSCRF has proposed the same resolution at **US Foods Holding** for the first time.

At **Bunge**, NYSCRF keeps up the same theme, asking for a report "providing quantitative metrics on supply chain impacts on deforestation, including progress on time-bound goals for reducing such impacts."

advocacyposition

WHY PROTECTING TROPICAL RAINFORESTS REDUCES INVESTOR RISK

LESLIE SAMUELRICH
President, Green Century Capital Management

In the last several years, investor interest and action around tropical deforestation has grown significantly. What is behind this heightened concern and what should investors do this proxy season to address it?

Tropical deforestation is a leading cause of increased carbon emissions and contributes nearly the same amount of greenhouse-gas emissions as the entire global transportation sector. The conversion of land for palm oil, cattle, and soy commodities has caused the loss of about 129 million hectares of forest since 1990. Deforestation also threatens endangered species, disrupts water cycles, and ignites land conflicts with local communities.

These factors pose reputational risk, competitive disadvantage, market access disruption, regulatory risk and even standard asset risks to the companies operating throughout the supply chain. These risks are why Green Century Capital Management began its work on this issue more than five years ago. To minimize these risks, companies need to adopt zero deforestation policies, provide thorough disclosure and achieve timebound implementation benchmarks. Green Century has made progress by securing zero deforestation commitments from companies including **ConAgra Brands**, **Archer Daniels Midland** and **Kellogg**, while working with other investors and organizations to do the same. Since Green Century began this work in 2012, the proportion of refined palm oil supply covered by zero deforestation commitments has increased from 5 percent to 74 percent.

Despite this success, we need more progress to ensure fully sustainable supply chains. That is why this year, Green Century and New York State Common Retirement Fund filed a shareholder proposal at the agribusiness giant **Bunge Limited** on the company's contribution and exposure to deforestation. Bunge declined to become a signatory to New York Declaration on Forests, unlike competitors **Cargill** and **Wilmar International**, and its 2015 Non-Deforestation Policy does not address the legal deforestation in at-risk regions of Brazil, where the company is the largest agricultural exporter. Specifically, Bunge does not exclude the sourcing of raw material originating from areas of recently cleared natural vegetation identified as having high conservation value, nor does it have plans to improve its sanctioning mechanisms and non-compliance protocols. However, according to the research consortium *Chain Reaction Research*, Bunge could mitigate reputational risks if it stops sourcing deforestation-linked soybeans from Piauí, a state in the Brazil's contentious Cerrado biome.

Green Century's Tropical Forest Protection campaign encourages other investors to stay up to date on this engagement and support the proposal should it appear on the upcoming Bunge proxy statement.

expertinsight

THE CHANGING FACE OF CLIMATE VOTING

JACKIE COOK

Founder and CEO of Fund Votes; Director, Proxy Research and Services, SHARE

Climate change now occupies a central position on the risk radar of most capital markets players, including the largest investment managers. Concerted shareholder action has played no small part.

From sustainability reporting to financial risk, climate votes reached a new high in 2017: The 'mainstreaming' of climate change as a business and financial risk can be traced through the 10 most strongly supported climate resolutions over each of the last five proxy seasons. Up to 2015, sustainability reports referencing GHG emissions were the most attractive category of the resolution requests. Table 1 below shows that shareholders are increasingly supporting disclosures directly linked to the business and financial risks of climate change: GHG emissions and planning for portfolio impacts of a 2-degree climate policy scenario ('2-degree scenario').

Table 1: Most strongly supported climate resolutions by company and filer by year

	2013		2014		2015		2016		2017	
1st	CF Industries (CF) *Pres. Church (USA)*	67%	Nabors Industries (NBR) *Applesead Fund*	43%	Commercial Metals (CMC) *Walden AM*	46%	Clarcor (CLC) *Walden AM*	61%	Occidental (OXY) *Wespath*	67%
2nd	ONEOK (OKE) *Trillium AM*	38%	Actavis (AGN) *Not Disclosed in Proxy*	43%	Clarcor Inc. (CLC) *Walden AM*	45%	WPX Energy (WPX) **CalSTRS*	51%	ExxonMobile (OXY) **NY State*	62%
3rd	Emerson Electric (EMR) *Walden AM*	38%	Clarcor (CLC) *Walden AM*	40%	Valero Energy (VLO) *Mercy IS*	40%	Occidental (OXY) *UMC*	49%	PPL (PPL) **NY State*	57%
4th	Gentex (GNTX) *Walden AM*	36%	Valero Energy (VLO) *Sisters of Mercy*	39%	Emerson Electric (EMR) *Walden AM*	39%	Gulfport Energy (GPOR) **CalSTRS*	48%	PNM Resources (PNM) *Max & Anna Lev'n Fdn*	50%
5th	Spectra Energy (SE) *Trillium AM*	35%	Marathon Oil (MRO) *Nathan Cummings Fdn*	39%	Marathon Oil (MRO) *UUA*	36%	ESCO Tech's (ESE) *Walden AM*	43%	Dominion Res. (D) **NY State*	48%
6th	CR Bard Inc (BCR) *Walden AM*	35%	Emerson Electric (EMR) *Walden AM*	38%	CR Bard Inc (BCR) *Walden AM*	35%	Fluor (FLR) **NY State*	43%	Ameren (AEE) *Mercy IS*	48%
7th	Simpson Man. (SSD) *Walden AM*	33%	CR Bard Inc (BCR) *Walden AM*	38%	Great Plains (GXP) *As You Sow*	34%	PPL (PPL) **NY State*	43%	Duke Energy (DUK) **NY State*	46%
8th	ConocoPhillips (COP) *Pres. Church (USA)*	29%	Marathon Pet. (MPC) *Mercy IS*	36%	PPL (PPL) *NY State*	33%	AES (AES) *Mercy IS*	42%	Occidental (OXY) *Arjuna Capital*	46%
9th	ExxonMobile (XOM) *Strs, St. Dom. of Caldwell*	27%	ONEOK (OKE) *Christopher Reynolds Fdn*	31%	Occidental (OXY) *Arjuna Capital*	33%	Andarko (APC) *Park Fdn*	42%	Southern (SO) *Strs, St. Dom. of Caldwell*	46%
10th	PNC Financial (PNC) *Boston Common AM*	23%	Occidental (OXY) *Arjuna Capital*	30%	Targa Resources (TRGP) *Arjuna Capital*	32%	HD Supply Hldngs (HDS) *Calvert IM*	41%	DTE Energy (DTE) **NY State*	45%

*Public Pension Fund lead filer

% shareholder support

Resolution categories

- Climate strategy/Risk Report
- GHG emissions disclosure (methane)
- GHG emissions disclosure (lending)
- GHG emissions reduction efforts/goals
- Renewable energy generation
- Sustainability report with GHG emissions

In 2015 and 2016 the European investor-led campaign, 'Aiming for A', was successful in securing **BP**, **Royal Dutch Shell**, **Anglo American** and **Rio Tinto** management backing for 2-degree scenario resolutions. This resulted in near unanimous shareholder votes in support of these resolutions and helped shift the corporate mindset on climate disclosure. It also served to expose large asset managers who supported and opposed similar resolutions without a convincing explanation of how they evaluated them differently.

Meanwhile, in the U.S., ongoing investigations into **ExxonMobil's** securities disclosures, the waning fortunes of the coal industry and of carbon-intensive oil and gas extraction, and growing attention to the carbon-intensity of investment portfolios made investors all the more concerned about U.S. energy companies' ongoing resistance to engage constructively with shareholders on climate change.

Heightened shareholder scrutiny of asset manager proxy voting records, the growing sophistication of filing strategies, and growing concern—particularly by pension funds—over climate risk governance at U.S. energy companies contributed to the vote successes of 2017.

Pension fund filers focus on business and financial risks: Large public pension funds, including those in NY State, NY City, Connecticut, Philadelphia, Rhode Island, plus the California State Teachers' Retirement System (CalSTRS), led the filing of 32 climate risk and climate-related lobbying disclosure resolutions published in proxies in 2016 and 2017. During this period, NY City also led filing on nine proxy access resolutions that came to vote at fossil fuel companies' shareholder meetings. The growing concern of fiduciaries tasked with preserving the value of retirement savings became abundantly clear in the closing months of 2017, with a flood of announcements by large public pension funds and other asset owners across Europe and North America of their intention to reduce their portfolio carbon footprints. Table 1 shows the emergence of pension funds as lead filers of climate resolutions.

Largest asset managers start voting for climate: Ironically, the rise of passive investing forces the most powerful asset managers to become more active stewards as climate change is recognized as a systemic risk to global financial markets.

BlackRock and **Vanguard's** support of 2-degree scenario planning resolutions at **Exxon** and **Occidental** in 2017 contributed significantly to the historic levels of support achieved.

Continued next page

THE CHANGING FACE OF CLIMATE VOTING
Continued

BlackRock, **Vanguard** and **Fidelity**, the #1, #2 and #4 asset managers globally, did not support a single climate-related resolution before 2017. In 2016, **State Street** extended support to new categories of resolutions, having previously supported only sustainability reporting. **BNY Mellon** is the only one of the largest five asset managers to vote against all of the 10 most strongly supported climate resolutions in 2017.

A survey of 2017 asset manager climate voting by Ceres shows a noticeable shift by 40 of the largest asset managers. Yet surprisingly few asset managers specifically mention climate change in their proxy voting guidelines.

The release of the Task Force on Climate-related Financial Disclosures (TFCD) recommendations in June 2017 and the formalization of global investor commitment to improve climate-related financial disclosures— under the ClimateAction100 initiative— will make it difficult for companies, particularly in the energy sector, to oppose shareholder calls for emissions disclosures and strategic resilience plans.

Investors increasingly are interested in board-level climate competence and incentive structures that map to climate change resilience. There are, therefore, obvious synergies between climate competence and heightened investor concerns about gender diversity at board and senior management level. Boards that fail to demonstrate competence across a range of ESG risks will raise concerns for investors who want to see a broad range of perspectives included, considering options outside the usual boxes.

Therefore, looking beyond 2018, the question for fiduciaries is how they can ensure engagement and voting strategies actualize a vision of resilient governance arrangements, which can pave the way for new corporate business models and a lower-carbon economy. Increasingly, we are likely to see shareholders use both shareholder and management ballot items to advance improved ESG risk governance.

ENVIRONMENTAL MANAGEMENT

Proponents continue to raise concerns outside the direct climate and energy umbrella, even though that context affects all the environmental resolutions. Seven proposals are about recycling (mostly resubmissions), five are on water stewardship, two address nuclear power safety and one reiterates longstanding concerns about the legacy of the 1984 Bhopal disaster. *(Six proposals about antibiotics and pesticides appear in the Industrial Agriculture Section, p. 29.)*

Recycling and Waste

Sustainvest went back to **Dunkin' Brands Group** with a resolution that earned 13.9 percent last year, asking for an assessment of "the environmental impacts of continuing to use K-Cup Pods brand packaging." The company successfully challenged it at the SEC, as discussed below.

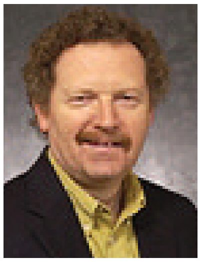
Proposals from As You Sow are resubmissions, asking three companies to report, "assessing the environmental impacts of continuing to use non-recyclable brand packaging." It is pending at **Kraft Heinz**, where it earned 13.1 percent last year, **Kroger** (24 percent last year down from 26 percent and 32 percent the two previous years) and **Mondelez International** (about 27 percent in 2017 and 2016).

McDonald's announced it would phase out its use of polystyrene by the end of 2018, giving As You Sow a long-sought victory and prompting a withdrawal; this resolution last year earned 32.3 percent support and asked for a report "assessing the environmental impacts of continued use of polystyrene foam-based food service ware, including quantifying the amount that could reach the environment, and assessing the potential for increased risk of adverse health effects to marine animals and humans."

Recycling & Waste

Company	Proposal	Lead Filer	Status
Amazon.com	Report on food waste management	Green Century	May
Dunkin' Brands Group	Report on packaging	Sustainvest Asset Management	May
Kraft Heinz	Report on packaging	As You Sow	April
Kroger	Report on packaging	As You Sow	June
McDonald's	Report on packaging	As You Sow	withdrawn
Mondelez International	Report on packaging	As You Sow	May
Starbucks	Report on packaging	As You Sow	3/21/18

advocacyposition



BIG COMMITMENT FROM MCDONALD'S AND DUNKIN' ON PLASTICS POLLUTION

CONRAD MACKERRON
Senior Vice President, As You Sow

As You Sow's leadership work on reducing plastic pollution achieved a major victory early in 2018 with impressive commitments from **McDonald's** to remove all polystyrene foam packaging from all restaurants around the world by this December, and to recycle all consumer packaging in restaurants worldwide by 2025. This was followed a few weeks later by **Dunkin' Brands** agreeing to eliminate one billion foam cups from its operations. Between the two companies, approximately two billion foam cups will be replaced by recyclable paper cups in the next year.

Our shareholder proposal urging the company to phase out polystyrene was supported by 32 percent of shares voted in 2017. McDonald's phased out foam cups for hot beverages in the U.S. after engagement with us in 2012, but continued to use them in foreign markets like Hong Kong and the Philippines, which had high levels of plastics in waterways. We refiled the proposal for 2018, but withdrew after the company agreed to phase out foam.

Plastic pollution creates litter on land and when swept into waterways can injure and kill marine life, spread toxins and pose a potential threat to human health. This issue was dramatically elevated in the past two years when better data became available:

- A key 2015 study concluded that oceans contain far more degraded plastic than previously believed; an estimated 150 million tons of plastic, with 8 million tons added annually—equivalent to a garbage truck every minute.
- A 2016 Ellen MacArthur Foundation study predicted oceans will contain more plastic than fish by 2050 if no actions occur to reduce the flow of plastics.

The McDonald's commitment to recycle packaging in all stores worldwide will be formidable to achieve and requires unprecedented levels of involvement with recyclers and local governments. Other quick service brands need to work with peers to find ways to add more food packaging to curbside recycling streams and to help finance stable materials end markets.

We also made progress on foam used as a packing material. Last April, As You Sow withdrew a proposal at **Target** after it agreed to phase out foam packaging used in e-commerce.

In 2018, our work will expand by convening a group of ESG investors to work together on engaging companies and co-filing proposals. The Plastics Solutions Investor Alliance will engage both U.S. and European ESG investors; plastic pollution is already a much higher priority issue in Europe than in the U.S. In January 2018 alone, the European Commission released a plastics policy strategy, the U.K. Prime Minster unveiled a plastics waste plan, and UK retailer Iceland committed to stop using plastic packaging altogether. We will prioritize dialogues with four large consumer goods companies: **Nestle SA**, **PepsiCo**, **Procter & Gamble** and **Unilever**. Please contact us if you would like to participate in this new alliance!

Finally, a new As You Sow proposal at **Starbucks** asks the company to stop using plastic straws which are often found in beach cleanups and are harmful to marine life. It made previous commitments to serve 25 percent of beverages in reusable containers and to recycle on-site cups by 2015. It fell short on both counts and the proposal also seeks a new, more aggressive strategy to meet these goals.

At **Starbucks**, the goal is similar, seeking a report "fulfilling [the company's] environmental leadership commitments by scaling up efforts through a comprehensive policy on sustainable packaging." The proposal is new; earlier resolutions to Starbucks about recycling goals earned 8 percent and 11 percent in 2010 and 2011.

Food waste: Last year, Trillium Asset Management earned 30.3 percent for a food waste reporting proposition at **Whole Foods**, and Green Century has gone back with a similar resolution to that company's new owner, **Amazon.com**. It asks for a report "on company-wide efforts to assess, reduce and optimally manage food waste" and the company has challenged it at the SEC.

SEC action: Two challenges invoke Staff Legal Bulletin 14I:

- **Dunkin' Brands** argued that the K-Cup proposal is not significantly related to its business, is moot since the company already discusses K-Cups in its sustainability report and misleading as it relates to a specific product. In 2017, the SEC disagreed with similar arguments, but this year reversed course and said it was not significantly related, in a move that could have broad implications.
- **Amazon.com** is arguing food waste is not significantly related to its business and concerns ordinary business, noting its board considered the proposal and concurs with this view.

Water

Four proposals from members of the Interfaith Center on Corporate Responsibility ask about water use and safety. Two are pending for the first time at **B&G Foods**, a packaged foods firm, and **Blue Buffalo Pet Products**. It asks that B&G "adopt and implement a water stewardship policy designed to reduce the risks related to water scarcity and the impacts of operations and key supply chains on water quality," and requests that Blue Buffalo do the same.

A resubmission asks **Pilgrim's Pride** to "adopt and implement a water stewardship policy designed to reduce risks of water contamination from Pilgrim's direct operations and supply chain." The resolution earned 14.7 percent last year and noted the company's record of water pollution and regulatory violations.

Vote: Investors voted on another resubmission on February 8, which asked **Tyson Foods** to "adopt and implement a water stewardship policy designed to reduce risks of water contamination at: Tyson-owned facilities; facilities under contract to Tyson; and Tyson's feed suppliers." It earned 15.8 percent, up from 14.6 percent in 2017, high votes for the closely held company.

SEC action: **Blue Buffalo** is contesting the resolution at the SEC, saying it concerns ordinary business, relates to its choice of technologies, its supplier relationships and how its products are priced—without raising significant social policy issues. It cites as precedent an exclusion for 2018 at **Deere** about net-zero GHG goals, which invoked Staff Legal Bulletin 14I, discussed above on p. 21.

The SEC told **Amazon.com** it could omit a proposal from an individual seeking a preferential listing for water-efficient showerheads. It said, the company should "list watersense showerheads before the listing of other showerheads and provide a short description of the meaning of watersense showerheads." But the SEC agreed with Amazon's argument that this was ordinary business since it concerns the sale and distribution of specific products and the ways in which the company communicates with customers. (The proponent had prevailed in an earlier SEC challenge at **Choice Hotels** in 2013, when he asked for a report on low-flow showerheads and the SEC concluded the resolution focused on the "significant policy issue of global warming and does not seek to micromanage the company." That resolution earned 9.8 percent support.)

Water

Company	Proposal	Lead Filer	Status
Amazon.com	Preferentially list efficient showerheads	Stephen Sacks	omitted
B&G Foods	Adopt water stewardship policy	Calvert Investment Management	May
Blue Buffalo Pet Products	Adopt water stewardship policy	Calvert Investment Management	June
Pilgrim's Pride	Adopt water stewardship policy	Socially Responsible Investment Coalition	April
Tyson Foods	Adopt water stewardship policy	American Baptist Church	15.8%

Nuclear Power and Bhopal

Nuclear power: One resolution about nuclear power risks is pending; it asks **DTE Energy** to

> commission an independent economic analysis of the potential cost avoidance and the potential financial benefit to Shareholders and Ratepayers of closing the Fermi 2 prior to the expiration of the Nuclear Regulatory Commission license. Shareholders request that this analysis include financial projections indicating the most advantageous date of closure, and that opportunity costs are examined. Shareholders request that a report be provided and presented at the next DTE Shareholders Meeting.

SEC action—Another resolution, from the Missouri Coalition for the Environment, asking **Ameren** about its Callaway power plant sought a report by the end of the year on:

> estimating shareholder losses for the continued storage of high-level waste at Callaway 1. The report will estimate the potential range of shareholder losses over the course of 10, 50, 100, 500, and 1,000 years into the future, beginning with the year 2000. The report shall include, but is not limited to, the cost of planning, construction, and maintenance of the current and future dry cask storage system(s), including costs associated with regulatory compliance, potential hardened onsite storage facilities, personnel costs for the maintenance and security of the cask storage facilities, costs associated with the transfer of fuel assemblies from one dry cask storage canister to a new dry cask storage canister, the disposal costs of used dry cask canisters, and any other associated costs for complying with the safe long-term storage of high-level spent fuel at Callaway 1.

The proposal was a resubmission that was substantially like one the coalition filed in 2017, but it has been omitted on ordinary business grounds since SEC staff agreed it relates to regulatory compliance. The company also said it was too imprecise in its discussion of nuclear waste, and that the time period of estimated losses was too long, although the SEC did not comment on this argument. Last year the proponent failed to provide sufficient proof of stock ownership and that proposal also was omitted.

Bhopal: Amnesty International wants **DowDupont**, the new global combination, to report by October "providing objective, quantitative metrics and analysis regarding how the public's association of the company with the Bhopal tragedy may be relevant to plans for investment in India until 2025." Calvert Investments withdrew a similar proposal in 2015 after discussions with Dow Chemical. Dow had successfully challenged that proposal in 2014, arguing it already had reported fully on the Bhopal incident. The plant had been owned by Union Carbide at the time of the accident. No challenge has surfaced so far this year.

Nuclear Power & Bhopal

Company	Proposal	Lead Filer	Status
Ameren	Report on nuclear plant safety risks	Missouri Coalition for the Environment	omitted
DTE Energy	Report on benefits of early nuclear plant closure	Kenneth Fink	May
DowDupont	Report on Bhopal accident legacy	Amnesty International	May

INDUSTRIAL AGRICULTURE

Only eight proposals have emerged so far in 2018 on industrial agriculture issues—three on familiar concerns about antibiotics, another three on pesticides, and two on animal products.

advocacyposition

INVESTORS' APPETITE GROWS FOR ANTIBIOTIC REDUCTION

AUSTIN WILSON

Environmental Health Program Manager, As You Sow

Investor demand for tackling antibiotic resistance continues to grow, evidenced by a third consecutive year of proposals and greater separation between companies' performance.

Antibiotic reduction proposals have produced encouraging results. In 2016 and 2017, 12 proposals requesting stricter standards for antibiotic use by meat suppliers concluded in seven withdrawal agreements, with only five going to a shareholder vote.

Companies' willingness to take action on this issue reflects the consensus of global health authorities that antibiotic resistance is a serious threat. Overuse of antibiotics in confined animal feeding operations and other animal production facilities has contributed to the creation and spread of antibiotic resistant bacteria (superbugs). Experts in 2014 warned that we are headed for a future where common infections and minor injuries could be fatal, projecting that resistant bacteria would *kill 10 million people per year worldwide by 2050*.

Nearly 70 percent of the medically important antibiotics (i.e., those used in human medicine) in the U.S. are sold for use in livestock. These drugs are often fed to healthy animals to prevent illness caused by unhealthy conditions, such as cramped environments and poor diet. The Food and Drug Administration implemented new rules in 2017 to restrict antibiotic use, but experts characterized them as "half-measures" unlikely to stem the tide of resistance. Meanwhile, research from leading global experts concludes that minimizing antibiotic use can be achieved with little or no increase in production costs.

In 2018, restaurant companies remain the primary recipient of antibiotic-related investor proposals and engagement by a global coalition of investors managing over $3 trillion in assets (FAIRR). A majority of top-25 restaurant chains in the U.S. have restricted the use of medically important antibiotics in poultry, according to a report by consumer groups, but beef and pork commitments are few – due in large part to more complex supply chains and longer animal lifespans. The major chains with the strongest beef and pork commitments are **Chipotle Mexican Grill** and **Panera Bread**.

After a 2015 resolution at **McDonald's** the company agreed to end the use of medically important antibiotics for chicken it purchases, but proponents ever since have asked that the commitment be extended to beef and pork.

Denny's, **Darden Restaurants** (Olive Garden), and **Bloomin' Brands** (Outback Steakhouse) are major restaurant chains that still lack a commitment on antibiotics in chicken; the first has received a 2018 proposal. Similarly, **Sanderson Farms** remains the only major poultry producer that has not adopted public goals to reduce or eliminate use of medically important antibiotics; a second-year proposal was supported by 43.1 percent of shares in February 2018, the highest vote on antibiotics in livestock ever.

Recent legislation in California and Maryland aims to restrict the routine use of antibiotics in healthy animals, and a recently passed ordinance in San Francisco will require large grocery stores to report which antibiotics are used in the meat they sell. The San Francisco ordinance may provide the first public data on major producers' use of antibiotics, drawing greater scrutiny to those who overuse antibiotics.

Antibiotics

The resolutions are slightly different. At **Denny's**, a new recipient, As You Sow requests the company to "adopt an enterprise-wide policy to phase out the use of medically important antibiotics for disease prevention purposes in its meat and poultry supply chain."

At **McDonald's**, the resubmitted proposal is more focused, asking management to "update the 2015 McDonald's Global Vision for Antimicrobial Stewardship in Food Animals by setting global sourcing targets with timelines for pork and beef raised without the use of medically-important antibiotics for disease prevention purposes." The company has challenged the resolution at the SEC, arguing it is false and misleading and too vague. This proposal is like two previous resolutions that earned 31 percent in 2017 and 26.3 percent in 2016. The company is ending the use of antibiotics for chickens in its supply chain but has not extended the prohibition to beef and pork.

At **Sanderson Farms**, the resubmission asks the company to "adopt an enterprise-wide policy to phase out the use of medically important antibiotics for disease prevention in its supply chain. Shareholders further request that the company publish timetables and measures for implementing this policy. It received 31.5 percent support in 2017 which jumped to 43 percent in an early 2018 vote. The company disputes the science connecting agricultural antibiotic use with antibiotic resistance to human drugs.

Antibiotics

Company	Proposal	Lead Filer	Status
Denny's	Phase out antibiotic use in animal feed	As You Sow	May
McDonald's	Phase out antibiotic use in animal feed	Benedictine Srs., Boerne, Texas	May
Sanderson Farms	Phase out antibiotic use in animal feed	As You Sow	43.1%

Pesticides

All three proposals raise familiar issues and just one remains pending, at **Dr Pepper Snapple**. Green Century wants a "report on company strategies and/or policy options to protect public health and pollinators through reduced pesticide usage in Dr Pepper Snapple Group's supply chain." The proposal is a resubmission that earned 31.6 percent in 2017. The resolution continues efforts by ICCR members to address how pesticides affect pollinators, including but not limited to bees. Earlier, a resolution on the issue at PepsiCo in 2016 earned 8.8 percent; others have been withdrawn after agreements in which companies agreed to act.

Proponents have withdrawn the other two pesticide proposals after company challenges:

- As You Sow withdrew after discussions with **PepsiCo** about pesticides in its supply chain, which it says will continue. But the company also had argued at the SEC that its proposal could be excluded because it concerned ordinary business since Pepsi is being sued about not disclosing that Quaker Oats contain glyphosate that was applied shortly before harvest, the proposal's subject. The resolved clause asked for a report "discussing the Company's options for adoption of policies…to prevent or minimize environmental and public health harms from glyphosate in the company's supply chain."
- Trillium Asset Management withdrew at **Tractor Supply**, having asked it to "conduct a risk assessment of Tractor Supply's environmental protection policies and practices to determine whether the Company's current practices regarding the sale of neonicotinoid-containing products are in the best interests of the company, its consumers and its shareholders, and to recommend any changes to policy or practice the Committee deems to be appropriate"—and to include the results in the next sustainability report.

The company argued at the SEC that the resolution concerned ordinary business, invoking SLB 14I, contending the proposal was too specific about products, that neonicotinoids make up a tiny fraction of its business and that the resolution also is an attempt to micromanage. The proponents withdrew before the SEC responded.

Pesticides

Company	Proposal	Lead Filer	Status
Dr Pepper Snapple Group	Report on supplier pesticide use	Green Century	May
PepsiCo	Report on pesticide health risks from supply chain	As You Sow	withdrawn
Tractor Supply	Report on pesticide product sales risks	Trillium Asset Management	withdrawn

Animal Products

On February 9, investors gave 9.4 percent support to a proposal to **Luby's** from the Humane Society of the United States that asked it to report within six months and

> disclose risks the company may face from animal welfare issues in its supply chain, and how it's mitigating those risks ("animal welfare disclosure")….This should…include: animal abuse principles used to frame the disclosure; metrics used to track and measure Luby's impact on animal welfare; and actual and/or potential risks-including, but not limited to those regarding its suppliers' methods of breeding, raising and processing poultry.

A similar proposal last year at the chicken restaurant chain **El Pollo Loco** earned 8.4 percent.

An individual proponent, Patricia Silver, wants **TJX** "to develop and disclose a new universal and comprehensive animal welfare policy applying to all of our stores, merchandise and suppliers." The company has challenged the proposal at the SEC, arguing it can be excluded on ordinary business grounds since it concerns the sale of particular products—fur. The resolved clause does not mention fur, but the body of the proposal notes the company sells both wool and fur products and takes issue with the lack of a policy on animal welfare issues in the TJX supply chain and in its product selection, which TJX asserts are ordinary business.

At **VF**, the issue for proponent People for the Ethical Treatment of Animals (PETA) is using any animal products in apparel. The resolution says:

> while VF Corporation has performed innovative work in the research and development of down alternatives and leads the industry in efforts to reduce animal suffering, it continues to sell animal-derived materials, which are inherently cruel; therefore, the Board is strongly encouraged to phase out all animal-derived materials.

The proposal explains in its body that it seeks the elimination of all animal-derived products, including down, wool and leather—a higher hurdle than PETA's usual request to end fur sales.

Animal Products

Company	Proposal	Lead Filer	Status
Luby's	Report on animal welfare in supply chain	Humane Society of the U.S.	9.4%
TJX	Adopt animal welfare policy	Patricia Silver	June
VF	End sales of animal products	PETA	April

Social Issues

ANIMAL TREATMENT

Long-time animal rights proponent People for the Ethical Treatment of Animals (PETA) this year has just a handful of proposals, reiterating previous concerns. Companies have lodged challenges to all of them and few if any votes seem likely. One already has been omitted and one withdrawn.

The withdrawal came at **Chevron**, where PETA wanted the company to stop giving any charitable contributions to Texas A&M University, "where dogs suffer in painful and deadly muscular dystrophy experiments." The group withdrew, citing "productive discussion," but Chevron also had challenged the proposal at the SEC, arguing it concerned ordinary business grounds because it targeted a specific charity, an argument that was likely to succeed. The withdrawal came before any SEC response.

Eli Lilly successfully challenged a resolution asking about "disturbing mistreatment of animals at external research organizations with which our Company has conducted business," when the SEC agreed with the company's contention that its current disclosures make the request for another report on contract laboratory policies and procedures moot.

At **Home Depot**, PETA is asking for an end to the sale of glue traps for rodents, "because they cause egregious suffering to mice, pose a danger to other wildlife and companion animals, and are a human health hazard," but the company is arguing it is ordinary business since it concerns the sale of a specific product, and does not focus on a significant policy issue. The first argument has succeeded in the past.

PETA at **Laboratory Corporate of America** seeks "an annual report to shareholders on the measures [the company] is taking to correct and prevent further U.S. Department of Agriculture (USDA) citations for violations of animal protection laws," which the company says is both ordinary business and moot.

The **SeaWorld Entertainment** proposal is a continuation of PETA's longstanding effort to change how SeaWorld uses animals in entertainment. It asks:

…in order to reverse the escalating decline in SeaWorld's value and global reputation—as evidenced by a steady drop in visitor attendance as the public learns that animals suffer and die in cramped SeaWorld tanks; a class-action lawsuit by investors who believe that they were intentionally misled by the corporation; a criminal fraud investigation conducted by the Department of Justice; the recent layoffs of an additional 350 employees, bringing the total to nearly 1,000 since the release of Blackfish; and sinking revenue, including falling average admissions revenue per visitor and declining in-park spending—the shareholders urge the board, as a start, to ban all captive breeding in SeaWorld parks.

The company contends at the SEC that it concerns ordinary business, is too vague and cannot be implemented by the company. A previous proposal at the company was omitted on ordinary business grounds in 2017. PETA also withdrew a 2016 resolution to SeaWorld asking it to end its orca breeding program after the company announced it would do so; the company also had challenged that proposal, arguing ordinary business grounds, but the withdrawal came before any SEC response.

Animal Treatment

Company	Proposal	Lead Filer	Status
Chevron	End charitable contributions	PETA	withdrawn
Eli Lilly	Revise contract animal lab policies and report	PETA	omitted
Home Depot	End sales of animal glue traps	PETA	May
Laboratory Corporation of America	Report on animal welfare issues	PETA	May
SeaWorld Entertainment	End orca breeding program	PETA	June

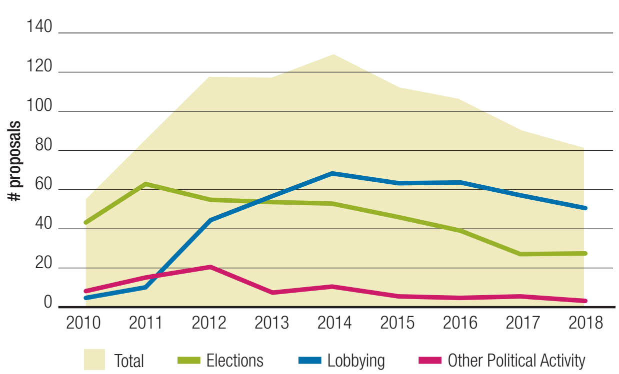
CORPORATE POLITICAL ACTIVITY

The number of resolutions on corporate political activity remains high—chiefly lobbying and election spending—even as it has fallen from a peak four years ago; corporate participation in the fraught public discourse ensures debates will persist. Proponents have filed about 80 resolutions so far in 2018, compared with 90 last year, down from about 100 the year before; a few more are likely to crop up by year's end. The proponents say decline in resolutions filed is more a reflection of how many companies have already been approached or taken steps to address this issue and is not an indication of any lessening of interest by shareholder proponents.

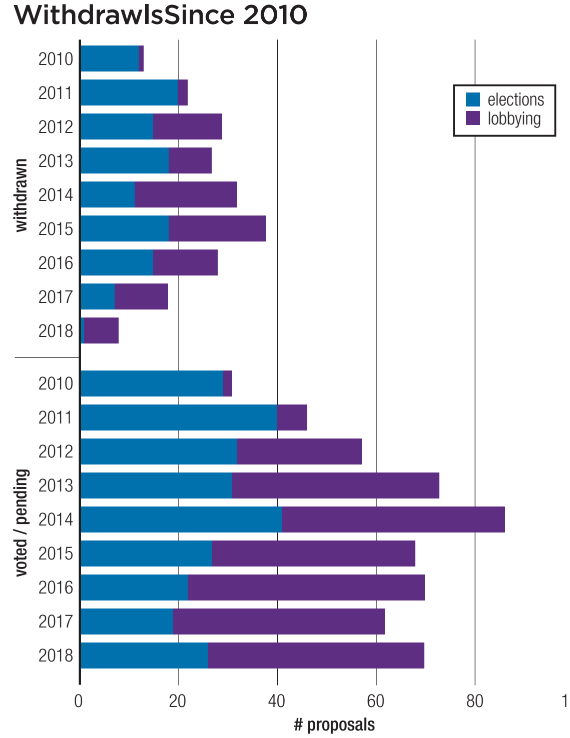
It remains the case that more address spending for lobbying rather than elections, but disclosure in both areas is still the chief focus. *(See graph, below left, showing the rare occurrence of other resolution types.)* Despite the decline in proposals filed, the tally going to votes has not fallen much, since proponents are less likely than in the past to withdraw them. *(See graph, right.)*

Companies are more willing to discuss their election spending than lobbying, yet expenditures on lobbying dwarf what goes to elections. Transparency about both sorts of activity is increasing some, but a key sticking point remains disclosure about memberships and payments to intermediary groups that legally may keep their funders private—trade associations, "social welfare organizations" (known as 501 (c)4 groups for their tax exemption in the Internal Revenue Code) and charitable groups that skirt political activity prohibitions.

Political Activity Proposals Since 2010



Corporate Political $ Votes and WithdrawlsSince 2010



Shareholder proponents include social investment and faith-based organizations, leading pension funds such as the New York City and state funds, trade unions and some individuals. Investor concern about corporate political activity began in earnest when the Center for Political Accountability (CPA) started up in 2003 and intensified after the 2010 *Citizens United* U.S. Supreme Court decision that opened up new avenues for corporate spending. The CPA's model oversight and disclosure approach is the standard template for lobbying transparency, too. The umbrella Corporate Reform Coalition supports shareholder activity on corporate spending and includes other reformers, as well.

Key references for investors are the CPA's CPA-Zicklin Index, most recently updated in September 2017, covering the S&P 500 index. The Conference Board's Committee on Corporate Political Spending offers a more corporate but generally supportive perspective on disclosure and oversight.

Multiple proposals: Since 2013, proponents have been able to file both election spending and lobbying proposals at the same company; this year six companies have two such requests —**Alphabet**, **American Water Works**, **Emerson Electric**, **ExxonMobil**, **Ford Motor** and **General Electric**.

Lobbying

The lobbying transparency campaign is coordinated by the American Federation of State, County and Municipal Employees (AFSCME) and Walden Asset Management.

advocacyposition

LOBBYING DISCLOSURE CAMPAIGN HIGHLIGHTS VALUES MISALIGNMENT

JOHN KEENAN

Corporate Governance Analyst, AFSCME Capital Strategies

In 2018, the investor demand for lobbying disclosure remains resolute. Since 2011, a coalition of investors comprised of religious investors, foundations, public and labor pension funds, asset managers and international and individual investors have filed over 300 shareholder proposals asking companies to disclose their federal and state lobbying, trade association payments and support for the American Legislative Exchange Council (ALEC).

Corporate lobbying to influence regulation affects all aspects of the economy, on issues from climate change and drug prices to financial regulation, immigration and workers' rights. Over $3.3 billion was spent on federal lobbying in 2017 and companies spend more than $1 billion annually at the state level. State lobbying is far less visible and transparent than federal lobbying. Further, over $100 million is spent annually by trade associations lobbying indirectly on behalf of companies.

Investors believe lobbying may pose reputational risks when it contradicts a company's public positions, resulting in a values incongruity. Corporate reputation is an important component of shareholder value. Companies with a high reputation rank perform better financially than lower ranked companies, and executives find it is much harder to recover from a reputational failure than to build and maintain reputation. Without transparency, corporate lobbying can present reputational risk. A major focus for investors is undisclosed trade association lobbying which essentially allows for companies to say one thing and do another.

Climate change, drug pricing and tobacco present clear examples of the values incongruity. Many companies have programs to address climate change, yet are also members of the Chamber of Commerce, which has consistently opposed legislation and regulation to address climate change. Or a pharmaceutical company publicly states patients need access to affordable medicines, yet funds Pharmaceutical Research and Manufacturers of America's $100 million campaign to oppose lower drug price initiatives. Another company may state it supports smoking cessation, yet belongs to the Chamber of Commerce, which has lobbied against global antismoking laws.

Trade associations also can lobby to undermine shareholder rights. Many companies belong to the Business Roundtable, which is lobbying against the right to file shareholder resolutions. And a third party group, like ALEC, is controversial for promoting bills that undermine regulations on climate change, raising the minimum wage and workplace safety.

The 2018 proposals have been filed at companies that spend the most to lobby and do not disclose their trade association involvement, highlighting value incongruities covering issues from broadband accessibility, the climate, drug pricing, net neutrality, shareholder rights and tobacco.

The coordinated campaign continues to produce real results, as more than 60 companies have agreed to provide greater lobbying disclosure, and coalition members have engaged more than 70 companies that have left ALEC. Secrecy in political spending is not analogous to free speech, reputational risk from undisclosed lobbying is real, and shareholders have a right to ensure that boards of directors are monitoring this risk. With the Securities and Exchange Commission's continued refusal to take up the most popular remaking petition in its history to require corporate political spending disclosure, investors are left with no choice but to either file proposals or engage in direct dialogues with companies.

Lobbying

Company	Proposal	Lead Filer	Status
AbbVie	Report on lobbying	Zevin Asset Management	May
Aetna	Report on lobbying	Mercy Investment Services	May
Allegiant Travel	Report on election spending and lobbying	NYC pension funds	June
Alliant Energy	Report on election spending and lobbying	NYC pension funds	May
Alphabet	Report on lobbying	Walden Asset Mgt.	June
American Water Works	Report on lobbying	Boston CAM	May
AT&T	Report on lobbying	Walden Asset Mgt.	April
Atmos Energy	Report on lobbying	Friends Fiduciary	withdrawn
Bank of America	Report on lobbying	New York State Common Retirement Fund	April
BlackRock	Report on lobbying	Unitarian Universalists	May
Boeing	Report on lobbying	Philadelphia Public Employees Retirement System	May
CenturyLink	Report on lobbying	AFL-CIO	May
Charter Communications	Report on lobbying	New York State Common Retirement Fund	April
Chesapeake Energy	Report on lobbying	Unitarian Universalists	May
Chevron	Report on lobbying	Walden Asset Mgt.	May
Cisco Systems	Report on lobbying	Unitarian Universalists	December
Citigroup	Report on lobbying	Change to Win	April
Comcast	Report on lobbying	Friends Fiduciary	withdrawn
ConocoPhillips	Report on lobbying	Walden Asset Mgt.	May
Consolidated Edison	Report on lobbying	Friends Fiduciary	withdrawn
Devon Energy	Report on lobbying	Rhode Island Pension Fund	June
Devon Energy	Review/report on climate change advocacy	Unitarian Universalists	June
Dick's Sporting Goods	Report on lobbying	Ursuline Sisters of Tildonk	June
Duke Energy	Report on lobbying	Mercy Investment Services	withdrawn
Eli Lilly	Report on lobbying	New York State Common Retirement Fund	May
Emerson Electric	Report on lobbying	The Sustainability Group	39.6%
Exxon Mobil	Report on lobbying	United Steelworkers	May
FirstEnergy	Report on lobbying	Nathan Cummings Fndn	May
Ford Motor	Report on lobbying	Unitarian Universalists	May
Franklin Resources	Report on lobbying	Zevin Asset Management	21.5%
General Electric	Report on lobbying	Philadelphia Public Employees Retirement System	April
Goldman Sachs	Report on lobbying	Unitarian Universalists	April
Goodyear Tire & Rubber	Report on lobbying	Unitarian Universalists	withdrawn
Great Plains Energy	Report on election spending and lobbying	NYC pension funds	May
Honeywell International	Report on lobbying	Mercy for Animals	April
International Business Machines	Report on lobbying	Walden Asset Mgt.	April
Motorola Solutions	Report on lobbying	Mercy Investment Services	May
NRG Energy	Report on election spending and lobbying	NYC pension funds	April
Nucor	Report on lobbying	Domini Social Investments	May
Pfizer	Report on lobbying	Teamsters	April
SCANA	Report on lobbying	Friends Fiduciary	withdrawn
Textron	Report on lobbying	New York State Common Retirement Fund	withdrawn
Travelers	Report on lobbying	First Affirmative Financial Network	withdrawn
Tyson Foods	Report on lobbying	Mercy Investment Services	11.9%
United Parcel Service	Report on lobbying	Walden Asset Mgt.	May
UnitedHealth Group	Report on lobbying	NYC pension funds	June
Verizon Communications	Report on lobbying	Boston CAM	May
Vertex Pharmaceuticals	Report on lobbying	Friends Fiduciary	June
Walt Disney	Report on lobbying	Zevin Asset Management	3/8/18

Primary resolution: The resolved clause for the main campaign resolution remains the same and has been filed at 47 companies, with 33 now pending and nine withdrawn (two are not yet public). Thirty-two are resubmissions and 18 are to new recipients. *(See table.)*

The main proposal asks for an annual report that includes:

`
1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by [the company] used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. [The company's] membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of the decision-making process and oversight by management and the Board for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which [the company] is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Audit Committee or other relevant oversight committees of the Board and posted on [the company]'s website.

Eight of the resolutions—at **Alphabet**, **Bank of America**, **Citigroup**, **ConocoPhillips**, **Eli Lilly**, **Emerson Electric**, **Ford Motor** and **General Electric**—exclude the reference to groups writing model legislation.

Votes—Just three votes are available so far. Resubmissions have earned 39.6 percent at **Emerson Electric** and 12.0 percent at **Tyson Foods**; a first-time resolution earned 21.5 percent at **Franklin Resources**.

Withdrawals—Proponents have reached agreements and withdrawn at **Atmos Energy**, **Consolidated Edison**, **Comcast**, **Goodyear Tire & Rubber**, **Eli Lily**, **SCANA**, **Textron** and **Travelers**.

SEC action—Lobbying proposals have survived SEC scrutiny for several years. But companies this year are trying to use last November's SEC Staff Legal Bulletin 14I, arguing for a possible reinterpretation of the "significantly related" section of the shareholder proposal rule the bulletin discusses. **Citigroup**, **Eli Lilly**, **Goldman Sachs** and **Travelers** each are contending that lobbying is not material to their businesses. Agreement from the SEC would mark a sea change in SEC interpretation and could significantly reduce the overall number of shareholder resolutions eligible for investor consideration. The SEC staff has yet to respond. Company arguments are as follows:

- **Citigroup** asserted in an initial letter on December 19 that the proposal relates to matters that account for less than 5 percent of its business and is not otherwise significantly related. It reports spending about $5 million annually on federal lobbying, equivalent to less than 0.05 percent of its total assets, net income and net revenues.

  The proponents responded with an acerbic riposte on January 12, tartly suggesting the idea that lobbying has no relevance to the bank is belied by a long history of lobbying to further its interests in Washington, and noting that a provision of the Dodd-Frank financial reform law was dubbed "the Citibank provision" given work by the bank's lobbyists. The bank responded in a second letter on January 26, clarifying its point that while it considers lobbying important, in the resolution "there is no nexus between social policy issues raised by contributions to trade associations and the Company and, indeed, the Proponent has not identified any social policy issues raised by the contributions to trade associations that are related to the Company."

- **Eli Lilly** replicates much of Citigroup's reasoning, arguing in a December 21 letter that it is not relevant to its operations since it concerns matters that account for less than 5 percent of its business. Lilly reports it spent $64 million on federal lobbying between 2010 and 2016, or about $9 million a year—a fraction of its total assets, net earnings and gross sales. Lilly also says the resolution "is not otherwise significantly related" to its business and concerns ordinary business. It describes in some detail how the board has considered the issues raised in the proposal.

- **Goldman Sachs**, likewise, says a reinterpretation of the "significantly related" rule is in order. Its 2016 lobbying expenditures accounted for less than 0.2 percent of its net earnings that year and a fraction of gross sales. It reports the board's Corporate Governance and Nominating Committee met after receiving the resolution and affirmed management's view that the proposal "does not...raise new or additional social or ethical concerns that are significant to the company's business."

- Faced with these arguments at **Travelers**, First Affirmative Financial Network withdrew. The resolution had earned 37.4 percent in 2017, down from 43.9 percent in 2016.

- First Affirmative also withdrew at **Morgan Stanley** after the company pointed out it had not properly substantiated its stock ownership. A similar proposal went to a vote twice before at Morgan Stanley, with mixed results—4.6 percent in 2015 and 16.8 percent in 2014.

- Another withdrawal is the result of a copy-cat resolution from the other end of the political spectrum. The conservative National Center for Public Policy Research filed a resolution that argues in *favor* of lobbying benefits at **Duke Energy** and praises the company's membership in the American Legislative Exchange Council and the Business Roundtable. Duke said it will include that proposal in its proxy statement. Mercy Investments subsequently withdrew its lobbying proposal but met with the company. *(See p. 76 for more on the NCPPR proposal.)*

Hybrid proposal: The New York City pension funds want four companies to report about both lobbying and election spending. The resolution seeks disclosure of all recipients and contributions from company funds with any non-tax-deductible expenses for political activities incurred related to:

> a) influencing legislation, (b) participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for public office, and (c) attempting to influence the general public, or segments thereof, with respect to elections, legislative matters, or referenda. Shareholders request that the report detail any:
> - contributions to, or expenditures in support of or in opposition to, political candidates, committees, and parties;
> - dues, contributions, or other payments made to tax-exempt organizations operating under sections 501(c)(3), 501(c)(4), and 527 of the Internal Revenue Code, respectively, including tax-exempt entities that write model legislation, and non-profit groups organized to promote "social welfare";
> - portion of dues or other payments made to tax-exempt entities that are used for an expenditure or contribution and that would not be deductible under section 162(e) of the Code if made directly by the Company.

The resolution is pending for the first time at **Allegiant Travel** and is a resubmission at **Alliant Energy**, where it earned 38.6 percent last year, **Great Plains Energy** (24.7 percent) and **NRG Energy** (30.7 percent).

SEC challenge—**Alliant Energy** is making the same arguments noted above about "significantly related" and says its political expenditures to political groups are insignificant compared to its total assets, net income and gross sales. It points out its board met and agreed these expenditures do not raise public policy concerns significant to its business. It reports its current oversight and reporting procedures for political activity, and says the proposal is concerned primarily with contributions to non-profit groups, which it says are particularly insignificant to it and have raised no concerns outside its ordinary business. It also contends investors are uninterested in the topic.

Climate connection: Another resubmission, in its fourth year, asks **Devon Energy** to

> commission a comprehensive review of Devon's positions, oversight and processes related to public policy advocacy on energy policy and climate change. This would include an analysis of political advocacy and lobbying activities, including indirect support through trade associations, think tanks and other nonprofit organizations. Shareholders request that Devon prepare (at reasonable cost and omitting confidential information) a report summarizing the completed review.

The resolution earned 26.6 percent support last year, up from 21.2 percent and 19.3 percent support in the two previous years, as well as 16.3 percent the year before.

Election Spending

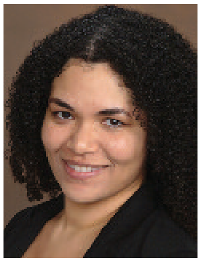
The Center for Political Accountability and its allies, a wide variety of institutional investors, are continuing the campaign they began in 2003. The standard CPA proposal, which has not been changed for several years, asks 27 companies to produce a report, with semiannual updates, on:

> 1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct and indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
> 2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:
>   a. The identity of the recipient as well as the amount paid to each; and
>   b. The title(s) of the person(s) in the Company responsible for decision-making.

Fourteen of the resolutions are resubmissions (one is not public) and the 13 others are at new recipients. *(See table, p. 41, for the full list.)* Twenty-two were pending as of mid-February.

Vote: So far there has been just one vote, 40.3 percent at **Emerson Electric**, up from 31.4 percent last year but still below its high mark from 2014 of 47.3 percent. The proposal notes the company fared poorly on the CPA-Zicklin index.

SEC action: **Ford Motor** unsuccessfully challenged the resolution at the SEC, which disagreed with the company's contention it duplicated a proposal received first about lobbying. The company said the proposals are similar because each mentions trade association spending—although the proponent of the election spending resolution did not do so in the resolved clause and also stipulated lobbying was not encompassed in his proposal.

SHAREHOLDERS PAYING CLOSER ATTENTION TO CORPORATE ELECTORAL SPENDING

BRUCE FREED
President, Center for Political Accountability

NANYA SPRINGER
Vice President of Programs, Center for Political Accountability

With the disappearance of the traditional checks on corporate influence by a strong labor movement and active government, investors are stepping in to press companies to change their policies and behavior and take a broader view of their societal impact and obligations. A notable example is the recent letter to CEOs from BlackRock CEO Laurence Fink urging corporations to give more consideration to their social responsibilities. But the question remains: Will this make a difference, and how will this play out in practice?

The newly updated CPA model resolution provides a template that management, directors and shareholders can use to assess company policies for electoral spending. In today's hyperpolarized climate, companies face heightened risks – reputational, legal and business – from that spending, just as they face dangers from what they're associated with through their advertising. Adopting political transparency and accountability policies are central to managing and mitigating these risks.

The good news is that companies that have adopted transparency and accountability policies have not dialed back following the 2016 election. The 2017 CPA-Zicklin Index of Corporate Political Disclosure and Accountability shows that among the 429 companies included in the Index since 2015 (when it was expanded to cover the S&P 500), there has been a consistent upward trend in each category of disclosure. Companies have also consistently improved their policies and their oversight and accountability practices.

Notably, the study found a strong positive correlation between shareholder engagement and a high score on the Index. The average score for companies that had reached an agreement with shareholders was 70.6 percent; for companies that did not reach an agreement, it was 59.1 percent. The average score for companies that were never engaged was only 31.5 percent. The results of the 2017 Index make clear: Shareholder engagement matters.

For the 2018 proxy season, CPA expects to file 30 electoral disclosure and accountability resolutions. Some companies are challenging the resolution under the Securities and Exchange Commission's new interpretations for filing shareholder proposals, but one of these challenges has already been defeated.

In another significant development, a new Iowa Law Review article highlights the success of the CPA effort in using "private ordering" – voluntary action by companies – to make political accountability the norm and establish best practices. The paper by University of Wisconsin law professor Robert Yablon lays out the strong case for private campaign finance reform efforts at a time when government regulation of big money in elections is stalled.

A New Tool to Hold Companies Accountable

TrackYourCompany.org, released by CPA in spring 2017, makes it easier to learn what your company discloses (or does not disclose) about its electoral spending. The database allows users to search voluntary disclosure reports posted by S&P 500 companies on a variety of metrics, including ticker, type of recipient, industry, state, year, and political party.

In addition to the search function, TrackYourCompany provides information about overall trends in corporate electoral spending, a comparison of how companies in different sectors rank on the CPA-Zicklin Index, and a full accounting of CPA's shareholder engagement history.

NYSCRF withdrew at **General Electric**, after the company argued that it substantially duplicated a proposal about lobbying that it received first from the National Center on Public Policy Research, a conservative political group. NYSCRF withdrew before any SEC response. (A similar pre-emption occurred with the standard lobbying proposal at **Duke Energy**, as noted above). But in GE's case, the company argued the NYSCRF election spending proposal was duplicated by NCPPR's lobbying resolution because trade associations, mentioned in the resolution, both lobby and spend on elections. Last year, at Exxon Mobil, the SEC agreed with this line of reasoning.

Xcel Energy told the SEC the resolution is moot and that its policies and reporting already address the proposal's concerns. The SEC had not yet responded when the Nathan Cummings Foundation withdrew the resolution, announcing an agreement on implementation.

Withdrawal agreements: NYSCRF has withdrawn at **Mattel**, after reaching an agreement.

Elections

Company	Proposal	Lead Filer	Status
Allstate	Review/report on election spending	Teamsters	May
Alphabet	Review/report on election spending	Clean Yield Asset Mgt.	June
American Water Works	Review/report on election spending	Trillium Asset Management	May
Ameriprise Financial	Review/report on election spending	New York State Common Retirement Fund	April
CarMax	Review/report on election spending	Teamsters	June
Charles Schwab	Review/report on election spending	James McRitchie	May
CMS Energy	Review/report on election spending	New York State Common Retirement Fund	May
DaVita HealthCare Partners	Review/report on election spending	James McRitchie	June
Emerson Electric	Review/report on election spending	Trillium Asset Management	39.4%
Equifax	Review/report on election spending	New York State Common Retirement Fund	May
Exxon Mobil	Review/report on election spending	Unitarian Universalists	May
Ford Motor	Review/report on election spending	James McRitchie	May
General Electric	Review/report on election spending	New York State Common Retirement Fund	withdrawn
Home Depot	Review/report on election spending	New York State Common Retirement Fund	May
Kimberly-Clark	Review/report on election spending	Myra K. Young	April
Mattel	Review/report on election spending	New York State Common Retirement Fund	withdrawn
Netflix	Review/report on election spending	James McRitchie	June
NextEra Energy	Review/report on election spending	New York State Common Retirement Fund	May
Northern Trust	Review/report on election spending	Unitarian Universalists	April
PayPal	Review/report on election spending	James McRitchie	May
Range Resources	Review/report on election spending	Nathan Cummings Fndn	May
Republic Services	Review/report on election spending	Teamsters	May
Western Union	Review/report on election spending	New York State Common Retirement Fund	May
Wyndham Worldwide	Review/report on election spending	Mercy Investment Services	May
Wynn Resorts	Review/report on election spending	New York State Common Retirement Fund	April
Xcel Energy	Review/report on election spending	Nathan Cummings Fndn	withdrawn

Other Political Issues

Cost-benefit analysis: NorthStar Asset Management has a new resolution expressing its longstanding concern about consistency between companies' public policy positions and their PAC and corporate political spending. It is asking **Home Depot** and **Intel** to report on "a cost–benefit analysis of the most recent election cycle's political and electioneering contributions, examining the effectiveness, benefits, and risks to shareholder value associated with those contributions." Last year it asked these companies about the congruency between their corporate values and political contributions and related risks, and called for advisory votes from shareholders, earning 5.6 percent at Home Depot and 7 percent at Intel.

This year, Home Depot is arguing at the SEC that the proposal duplicates the election spending resolution it received first from NYSCRF. The commission has yet to respond.

Charitable giving: Harrington Investments has resubmitted its proposal voted on last year at **McDonald's**, targeting what it sees as a disconnect between the company's charitable giving and its food menu. Investors last year gave it just 3.7 percent, after the SEC rejected the company's argument that it concerned ordinary business because of its focus on the specific concern of childhood nutrition. It must earn at least 6 percent this year to qualify for resubmission. It asks for a report "listing and analyzing charitable contributions during the prior year," which would:

1. Identify organizational or individual recipients of donations, whether cash or in-kind, in excess of $500 and aggregate of smaller contributions by categories of recipients such as community organizations, schools, dietary organizations, medical groups, environmental, churches, etc.;
2. Identify areas of alignment and potential conflict between the Company's charitable contributions and the Company's key stated ambitions, values and mission as stated in its corporate social responsibility reports and SEC filings;
3. Include management's analysis of any risks to the Company's brand, reputation, or shareholder value posed by public controversies associated with contributions or any incongruencies with corporate values;
4. Include coherent criteria for assessing congruency and brand risk, such as identifying philanthropic areas or initiatives considered most germane to corporate values and types of donations that may be contrary to company values or reputation; and
5. Based on the above, evaluate and state justification for any identified incongruent activities.

Government service proposal challenged: The AFL-CIO has returned with its "government service golden parachute" proposal. The resolution asks **Citigroup** to "adopt a policy prohibiting the vesting of equity-based awards for senior executives due to a voluntary resignation to enter government service." It goes on to define this as equity-based awards including "stock options, restricted stock and other stock awards granted under an equity incentive plan," and government service as employment by any U.S. federal, state or local government or any "supranational or international organization, any self-regulatory organization, or any agency or instrumentality of any such government or organization, or any electoral campaign for public office."

The bank has challenged the proposal at the SEC, saying it concerns matters that are financially immaterial to the company that are not otherwise related to its business, using the same arguments noted above with respect to the lobbying resolution. The proposal earned 35.5 percent in 2017 and 30.5 percent in 2016. It suggests equity awards should be based on company performance, not prospective government service.

Other Political Activity

Company	Proposal	Lead Filer	Status
Citigroup	Prohibit government service golden parachutes	AFL-CIO	April
Home Depot	Provide cost-benefit analysis of election spending	NorthStar Asset Management	May
Intel	Provide cost-benefit analysis of election spending	NorthStar Asset Management	May
McDonald's	Report on charitable contributions	Harrington Investments	May

DECENT WORK

Women and people of color continue to be paid less than their white male counterparts and investor proponents began new efforts to put companies on the spot about their pay policies and practices in 2014, intensified the campaign last year, and continue to seek change in 2018. *(Workplace diversity is covered separately in this report, p. 45.)* So far, proponents have filed about three dozen resolutions (eight are not yet public), most of them about pay disparity experienced by women and some also asking about minorities, as well. Three take up the new issue of family leave policies. *(See table, p. 46.)*

Gender and Minority Pay Equity

Women: Arjuna Capital remains the most prolific of the proponents in this area. It is asking 11 companies to report on gender pay disparity. At each, it requests a report "above and beyond litigation strategy or legal compliance…on the Company's policies and goals to reduce the gender pay gap." The gap "is defined as the difference between male and female median earnings expressed as a percentage of male earnings (Organization for Economic Cooperation and Development)." The resolution is a resubmission at **American Express** (11.6 percent in 2017), **Bank of America** (14.7 percent), **Bank of New York Mellon** (withdrawn), **Citigroup** (15.1 percent), **Facebook** (7.4 percent), **JPMorgan Chase** (15.5 percent), **Mastercard** (7.8 percent) and **Wells Fargo** (15.9 percent). It is new to **Costco Wholesale**, **Progressive**, **Reinsurance Corp. of America** and **Texas Instruments**. Clean Yield has refiled this at **Mastercard**, where it got 7.8 percent last year.

Arjuna also has a resolution at **Walmart** and another, co-filed with Proxy Impact, at **Alphabet** that is slightly different, asking for "a report on the risks to the company associated with emerging public policies on the gender pay gap, including associated reputational, competitive, and operational risks, and risks related to recruiting and retaining female talent." A similar proposal in 2017 earned 12.6 percent at Alphabet and after a company challenge Arjuna withdrew that proposal at Walmart, seeking dialogue, but refiled this year.

Pax World Funds filed at four companies—**Discover Financial Services**, **HP**, **KeyCorp** and **Metlife**—seeking a report by November "identifying whether a gender pay gap exists among its employees, and if so, outline the steps being taken to reduce the gap."

Minorities: While most of the pay equity proposals concern themselves only with women, some proponents are more expansive. At **Marriott International** and **TJX,** Pax World and Zevin Asset Management ask for a report "on the Company's policies and goals to identify and reduce inequities in compensation due to gender, race, or ethnicity within its workforce. Gender-, race-, or ethnicity-based inequities are defined as the difference, expressed as a percentage, between the earnings of each demographic group in comparable roles."

Race and ethnicity, as well as gender, come up elsewhere, as well. Eve Sprunt proposes that **ExxonMobil** add information to an annual report on global diversity information on the percentage pay gap of employees in the Unites States across race and ethnicity, including base, bonus and equity compensation policies to address the gaps, methodology used, and quantitative reduction targets. Since under-represented minorities vary from country to country, the annual diversity report should also include appropriate metrics used in monitoring progress in countries in which ExxonMobil operates around the world and quantitative targets to reduce gaps.

Another individual investor, Jennifer H. McDowell, wants **McDonald's** to report

on the Company's policies and goals to identify and reduce inequities in compensation due to gender, race,. or ethnicity within its workforce, including franchised restaurants. Gender-, race-, or ethnicity- based inequities are defined as the difference, expressed as a percentage. between the earnings of each demographic group.

The New York City pension funds seek a report from **Progressive** that annually would identify "whether there exists a gender pay gap among the company's employees, and if so, the measures being taken (policies, programs, goals etc.) to eliminate any such pay disparities and to facilitate an environment that promotes opportunities for equal advancement for women," also using the OECD pay gap definition. The funds add, "We encourage the company to also address pay equity across race/ethnicity." (More filings from the city funds are not yet public.)

Finally, at **Walmart**, a second resolution from a group of employees called Organization United for Respect asks for a report

demonstrating the company does not have any racial or ethnic pay gaps. For purposes of this Proposal, a racial or ethnic pay gap exists when (i) one or more particular jobs or statuses (e.g., management, part-time work) are disproportionately occupied by persons of a particular racial or ethnic group, compared to the composition of the workforce as a whole; or (ii) persons of one racial or ethnic group are compensated differently from persons of another racial or ethnic group performing the same job under the same job description, with the same experience and level of performance.

CEO compensation and pay disparity: NYSCRF has a resolution at TJX that asks it to

take into consideration the pay grades and/or salary ranges of all classifications of Company employees when setting target amounts for CEO compensation. The Compensation Committee should describe in the Company's proxy statements for annual shareholder meetings how it complies with this requested policy….

Withdrawals: Arjuna withdrew at **Costco** and at **Bank of America**, **Bank of New York Mellon**, **Citigroup**, and **Wells Fargo**—four of the five largest U.S. banks—after they agreed to work on closing the pay gap between their male and female employees.

SEC action: Not many companies are challenging the pay disparity resolutions. Challenges so far include the following:

- **ExxonMobil** successfully argued that Sprunt failed to provide sufficient proof of stock ownership.
- **McDonald's** also says McDowell did not prove her stock ownership.

advocacyposition

GENDER PAY AT A TIPPING POINT ON WALL STREET

NATASHA LAMB
Managing Partner, Arjuna Capital

On Martin Luther King Jr. Day this year, women and minorities got a raise at **Citigroup**, one of Wall Street's biggest banks. And while the bank's gesture might be surprising given its record of opposing pay equity shareholder proposals, the commitment did not come overnight. Arjuna Capital began engaging six Wall Street banks and credit card companies in 2016 and 2017, asking them to disclose and close their gender pay gaps. This year we expanded the campaign to nine.

Citigroup's action was more than symbolic. It was a tipping point for an industry that has struggled to attract and retain female talent, and where Mercer finds female executives are 20 to 30 percent more likely to leave a career in financial services than any other career. It's clear we have a problem.

In the span of four weeks, four banks (Citigroup and then **Wells Fargo**, **Bank of America** and **Bank of New York Mellon**) committed to analyze, report and close their gender pay gaps. And while Citi announced a mere 1 percent gender pay gap in the U.S., U.K., and Germany, it committed to expand its equal pay efforts globally. The banks took action, not only because it was the right thing to do, but because pay equity is a key component to attracting and retaining top talent.

Citi's move in 2018 is much like that of **Intel** in 2016, when it became the first tech company to report gender pay equity in response to Arjuna's engagement. After Intel, tech firm after tech firm began to disclose their pay gaps and commit to close them in response to shareholder concerns. Wall Street is now following a similar path.

But shareholder pressure, keeping up with peers and a business case for change are not the only motivators. Regulation, albeit international, has a role. By April 4th 2018, companies with U.K. operations will have to report their median gender pay gaps. Reports so far from the financial services industry are reporting gaps as wide as 24 percent, a terrible record. Of course, those gaps are not adjusted for job title or level, like those reported in the U.S. Instead, they represent a structural deficiency at these companies—the fact that men hold the highest paying jobs.

There is no question gender pay equity is a two-step process. First, women need to be paid fairly for the work they are doing now. Second, companies need to attract and retain more female talent and move women into leadership. To do so, pay is a key component. When more women are at the top, paid equally with men, we will achieve true equity.

The pay gap will not close overnight, but for companies that want to expand their talent pool and create more diverse, higher performing teams, now is the time to act.

- Arjuna withdrew after **Progressive** argued the proposal was similar to one it received first from the NYC pension funds that it will include in the proxy statement.
- In the only other challenge on substantive grounds, **Texas Instruments** failed to convince SEC staff that its resolution was moot given a report it had posted on its website about gender pay equity, along with information in its sustainability report.

Decent Work

Company	Proposal	Lead Filer	Status
Fair Pay			
Alphabet	Report on gender/minority pay disparity	Arjuna Capital	June
American Express	Report on gender/minority pay disparity	Arjuna Capital	May
Bank of America	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Bank of New York Mellon	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Citigroup	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Costco Wholesale	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Discover Financial Services	Report on gender/minority pay disparity	Pax World Funds	May
Exxon Mobil	Report on gender/minority pay disparity	Eve S. Sprunt	omitted
Facebook	Report on gender/minority pay disparity	Arjuna Capital	June
HP	Report on gender/minority pay disparity	Pax World Funds	April
JPMorgan Chase	Report on gender/minority pay disparity	Arjuna Capital	May
KeyCorp	Report on gender/minority pay disparity	Pax World Funds	May
Marriott International	Report on gender/minority pay disparity	Pax World Funds	May
Mastercard	Report on gender/minority pay disparity	Clean Yield Asset Mgt.	June
McDonald's	Report on gender/minority pay disparity	Jennifer H. McDowell	May
Metlife	Report on gender/minority pay disparity	Pax World Funds	June
Progressive	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Progressive	Report on gender/minority pay disparity	NYC pension funds	May
Texas Instruments	Report on gender/minority pay disparity	Arjuna Capital	April
TJX	Consider pay disparity in CEO compensation	New York State Common Retirement Fund	June
TJX	Report on gender/minority pay disparity	Zevin Asset Management	June
Walmart Stores	Report on gender/minority pay disparity	Arjuna Capital	June
Walmart Stores	Report on gender/minority pay disparity	Organization United for Respect	June
Wells Fargo	Report on gender/minority pay disparity	Arjuna Capital	withdrawn
Benefits			
CVS Health	Report on paid family leave policy	Zevin Asset Management	May
Starbucks	Report on paid family leave policy	Zevin Asset Management	withdrawn
Yum Brands	Report on paid family leave policy	Zevin Asset Management	May

Benefits

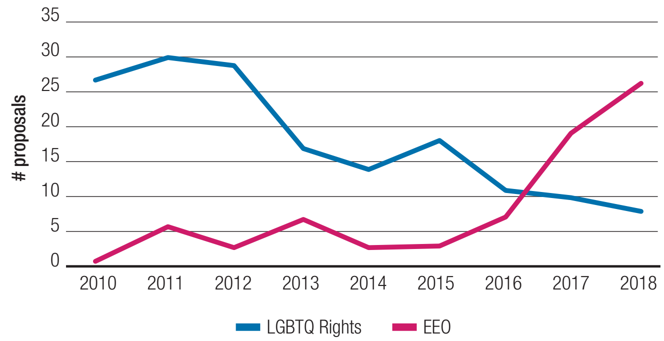
Zevin Asset Management wants three companies to report on their paid family leave policies—**CVS Health**, **Starbucks** and **Yum! Brands**. The resolution is new in 2018 and asserts the companies' family leave policy discriminates against fathers, adoptive and LGBTQ parents. At Yum, it points out a disparity in benefits since corporate headquarters parents receive 18 weeks of paid leave and workers in company restaurants get none.

The proposal was to go to an early vote at Starbucks on March 21, but the proponents withdrew at the last minute. Yum contended at the SEC that it concerns ordinary business and is too vague—invoking Staff Legal Bulletin 14I. It reasoned that the proposal deals with compensation and workforce management, which are fundamental to day-to-day business operations, and that "There is no SEC Staff recognized significant policy issue implicated [since the SEC has not recognized paid family leave as significant] and no recognized theory of discrimination asserted." Further, the company said its differential benefits "account for different labor markets and applies such benefits equally within each set of roles," which is not discriminatory. Further, Yum said the proposal seeks to micromanage it. As to vagueness, the company contends the proposal fails to sufficiently define what it means by "paid family leave." The withdrawal came before any SEC response.

DIVERSITY IN THE WORKPLACE

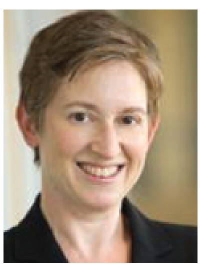
Last year shareholder proponents doubled the number of resolutions on workplace diversity and they have filed even more for 2018. They continue to address two areas. They want more disclosure and action to provide equal employment opportunities for women and minorities. They also seek non-discrimination protections for lesbian, gay, bisexual, transgender and queer (LGBTQ) people at work. More than half of the 26 resolutions filed to date for 2018 are at companies that have not received these requests in the past and 10 are resubmissions; four are not yet public. Proponents have withdrawn six after agreements so far. *(Also see proposals seeking executive pay links to diversity,* *p. 71.)*

Diversity at Work Proposals Since 2010



Women and minorities: Proponents continue to press companies across the financial sector and at a handful of retailers to explain how they are ensuring equal access to employment for women and minorities. This underscores the key point of the pay disparity campaign, discussed above, at its point of origin: access to jobs in the first place, then a fair chance at promotion, protection from harassment and recourse if it occurs. The EEO campaign, in its third year of resurgence, has special resonance given the persistent attention of the #MeToo movement and new examples flooding the media almost daily of unacceptable workplace behavior.

advocacyposition



STALLED PROGRESS: THE IMPERATIVE FOR INVESTOR ACTION ON WORKPLACE GENDER EQUITY

ERICA LASDON

Vice President, ESG Senior Research Analyst, Calvert Research & Management

For many years, responsible investors have been using dialogue, shareholder resolutions and proxy votes to advocate for greater workplace equality. Focusing on increasing diversity on boards and disclosure of diversity metrics and practices, these proposals have seen increasing investor support. For example, Sullivan and Cromwell report that 2017 vote totals for board diversity resolutions averaged 31 percent support, up from 26 percent in 2016.

However, real progress on the top-level metrics remains slow. In Calvert Research and Management's 2017 research on corporate diversity, we found that women make up only 23 percent of all S&P 100 board seats, up slightly from 19 percent in our 2013 report. According to the **Credit Suisse** Research Institute's tracking of gender issues in 2,400 companies globally, just 16 percent of senior management positions in the U.S. were filled by women in 2016, a marginal increase from 15.4 percent in 2014.

This stalled U.S. progress also extends to broader gender equality measures. According to **PriceWaterhouseCoopers** UK's Women in Work Index, the US gender wage gap in 2015 was 18.9 percent, a slight increase from 17.9 percent in 2013. The World Economic Forum's Global Gender Gap Report provides an annual ranking of 144 countries and the U.S. fell from 45th place in 2016 to 49th place in its 2017 report.

Beyond the broad economic argument, the business case for work in this area remains as compelling as ever. Diversity is a key ingredient to success in an increasingly complex global marketplace, where the ability to draw on a wide range of viewpoints, skills, backgrounds and experience is critical to a company's long-term success. Studies indicate that inclusive corporate culture and diverse leadership can positively affect or show correlation to organizational and financial performance in numerous ways, including innovation, retention, sales, productivity, reputation, return on equity and price/book ratios. The investor case for continuing to press for progress in diversity is clear.

The increased attention to diversity is supported by expanded interest in and research about other aspects of inclusive corporate culture and diverse workplaces. A 2017 **McKinsey**/LeanIn.org study found that while nine out of ten companies report that gender diversity is a high priority, only about half of employees think their employers are doing what it takes to improve and have a high commitment to gender diversity. In 2017, the National Association of Corporate Directors highlighted oversight of corporate culture as a top governance imperative for all boards—specifically identifying leadership development, employee engagement, diversity and inclusion as board level responsibilities.

Investors are also taking a close look at the issue of harassment and bias at companies, mirroring an increased societal focus on this persistent problem. The continued efforts of the Thirty Percent Coalition to coordinate progress on gender equity in corporate leadership are as critical as ever, as is investor action on the related issues of pay equity, disclosure of workplace diversity data and other emerging issues. Calvert plans to continue to deepen our investment in research on diversity and use the full investor toolkit to engage with companies on behalf of our portfolios.

Social investment firm Trillium Asset Management is the lead filer for about half of the proposals that are now public, with other proposals filed by Calvert Investments, the New York City Comptroller's Office and Walden Asset Management and include a handful of faith-based co-filers; Zevin Asset Management also has refiled about discrimination based on background checks.

(The three dozen resolutions in the campaign for greater gender pay equity are covered in the Decent Work section above, p. 42. The Sustainable Governance section (p. 60), describes three dozen other proposals seeking greater board diversity—focused on women but increasingly minorities; both are deeply underrepresented on corporate boards.)

LGBTQ rights: Only eight shareholder resolutions about LGBTQ rights have been filed for 2018 so far, and most of them are not likely to go to votes since companies usually end up adopting the requested non-discrimination policies, when asked. This is down from a high of more than two dozen back in 2012, (see graph p. 45). But the 2018 proxy season has in the background a national landscape in which the historic legal achievements for LGBTQ rights remain under attack by those asserting that "religious liberty" rights mean they may ignore non-discrimination protections. *(Shareholder resolutions with these themes are covered in the section of the report about conservatives' campaigns, p. 76.)* Leading U.S. companies are on the public record supporting diversity in all its forms, however, including non-discrimination for their LGBTQ employees. While eight resolutions ask for non-discrimination policies regarding sexual orientation and/or gender identity, all but two already have been withdrawn.

Diversity in the Workplace

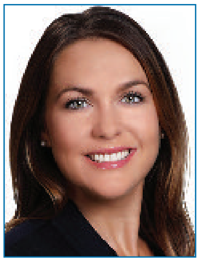
Company	Proposal	Lead Filer	Status
EEO			
Amazon.com	Report on background checks in hiring	Zevin Asset Management	May
Applied Materials	Disclose EEO-1 data	NYC pension funds	3/8/18
CIGNA	Report on EEO and affirmative action	Trillium Asset Management	withdrawn
CVS Health	Report on EEO and affirmative action	Trillium Asset Management	May
Discover Financial Services	Report on EEO and affirmative action	Walden Asset Mgt.	withdrawn
Dollar General	Report on EEO and affirmative action	Walden Asset Mgt.	withdrawn
First Republic Bank	Report on EEO and affirmative action	Trillium Asset Management	May
Home Depot	Report on EEO and affirmative action	Benedictine Srs., Boerne - TX	May
IberiaBank	Report on EEO and affirmative action	Calvert Investment Management	May
Investors Bancorp	Report on EEO and affirmative action	Calvert Investment Management	May
KeyCorp	Report on EEO and affirmative action	Trillium Asset Management	May
Manhattan Associates	Report on EEO and affirmative action	Calvert Investment Management	May
Morningstar	Report on EEO and affirmative action	Walden Asset Mgt.	withdrawn
PNC Financial Services Group	Report on EEO and affirmative action	Trillium Asset Management	withdrawn
Priceline.com	Report on EEO and affirmative action	Trillium Asset Management	June
ServiceNow	Report on EEO and affirmative action	Calvert Investment Management	June
Starbucks	Report on EEO and affirmative action	Trillium Asset Management	3/21/18
Stifel Financial	Report on EEO and affirmative action	Trillium Asset Management	June
SunTrust Banks	Report on EEO and affirmative action	Walden Asset Mgt.	withdrawn
Travelers	Report on EEO and affirmative action	Trillium Asset Management	May
United Bankshares	Report on EEO and affirmative action	Calvert Investment Management	May
LGBTQ Rights			
Acuity Brands	Adopt LGBT anti-bias policy	Trillium Asset Management	withdrawn
Cato	Adopt LGBT anti-bias policy	Walden Asset Mgt.	May
Chemed	Adopt LGBT anti-bias policy	Walden Asset Mgt.	withdrawn
CorVel	Adopt LGBT anti-bias policy	Walden Asset Mgt.	August
Ensign Group	Adopt LGBT anti-bias policy	Walden Asset Mgt.	withdrawn
IPG Photonics	Adopt LGBT anti-bias policy	Walden Asset Mgt.	withdrawn
National Oilwell Varco	Adopt LGBT anti-bias policy	Trillium Asset Management	withdrawn
SBA Communications	Adopt LGBT anti-bias policy	Trillium Asset Management	withdrawn

Women & Minorities

Trillium Asset Management requested that 10 companies report to investors with:

1. A chart identifying employees according to gender and race in major EEOC-defined job categories, listing numbers or percentages in each category;
2. A description of policies/programs focused on increasing diversity in the workplace.

advocacyposition

THE CASE FOR A TRANSPARENT WORKFORCE

SUSAN BAKER
Vice President, Shareholder Advocacy, Trillium Asset Management

BRIANNA MURPHY
Vice President, Shareholder Advocacy, Trillium Asset Management

2017 was defined in part by intensifying focus on racial, ethnic, and gender equality in the United States. Whether it was the #MeToo movement, the Women's March, the legacy of the confederate flag, or kneeling NFL players, questions about how we treat women and racial minorities in our communities, workplaces, schools and other public places permeated the conversations.

These events showed us that no industry is immune to the consequences of workplace inequality and underlined the need for changes in how companies measure and report diversity outcomes. The research underscores an intuitive but nevertheless vitally important fact: that to reduce sexual harassment in the workplace we must focus on hiring and promoting more women. The evidence also shows that greater workforce diversity leads to positive outcomes for talent recruitment and retention, and can even contribute to increased employee satisfaction and a happier workforce. With respect to direct financial performance, a McKinsey & Company study of more than 1,000 companies found that companies in the top quartile for gender and racial ethnicity representation are more likely to financially outperform fourth quartile companies, by margins of 33 percent and 21 percent, respectively.

Despite all the compelling reasons for companies to cultivate more women in the workforce there is limited evidence of change in high-level corporate jobs. Progress is slow. Although women make up half of the U.S. workforce, they represent just 29 percent of Vice President level roles and 21 percent of C-suite roles. Women of color, the most underrepresented group in the pipeline, account for just 3 percent of C-suite roles.

We believe it is a mistake to assume companies are building effective programs to attract and retain diverse talent if substantive data is not disclosed to support the rhetoric. Standardized data can inform company-wide strategies to build effective Diversity and Inclusion (D&I) programs by allowing effective peer comparisons.

The best standard diversity report that we know of is a company's Employment Information Report, or EEO-1 Report. However, companies are not required to make this information public. Twenty-five percent of S&P 100 companies voluntarily do so, but more should because investors increasingly assess workplace policies and practices in their investment decision-making.

In the last two years, Trillium filed 21 shareholder proposals which asked companies to disclose their EEO-1 reports and provide descriptions of any D&I policies and practices. Four of these proposals garnered support from more than one-third of shares voted; in December 2017, our proposal at Palo Alto Networks received a majority vote of 50.9 percent. This is the first majority vote ever for a proposal of this kind and marks a significant increase in shareholder support for workforce diversity data. Since we launched this initiative, we are pleased to have reached agreements with eight companies that agreed to release workforce diversity data, allowing us to withdraw the proposals. We have pending shareholder proposals for 2018 at **KeyCorp**, **First Republic Bank**, **PNC**, **Stifel**, **Cigna**, **CVS** and **Starbucks**.

The resolution is pending at **CVS Health**, **First Republic Bank**, **KeyCorp**, **Palo Alto Networks**, **Priceline.com**, **Starbucks**, **Stifel Financial** and **Travelers** but Trillium has withdrawn after agreements at **Cigna** and **PNC Financial**, after both agreed to report more fully on the workplace diversity statistics.

Calvert Investments and Walden Asset Management take a similar approach at nine companies but zero in on representation at upper echelons of employment, seeking a report that in addition to EEO-1 category disclosure would also describe "policies and programs implemented to increase the number of minority and female employees in job categories where they are underutilized, including middle and senior level manager positions." This resolution is pending at **IberiaBank**, **Investors Bancorp**, **Manhattan Associates**, **ServiceNow** and **United Bankshares** and proponents have withdrawn it after agreements to implement at **Cigna**, **Dollar General**, **Discover Financial Services**, **Morningstar**, **PNC Financial Services Group** and **SunTrust Banks**.

As last year, companies that currently do not disclose workforce data or the results of diversity initiatives received the proposal, which says investors need such information to assess companies' diversity promotion efforts. The proponents note that several large employers, including banks, do disclose statistics by job categories as provided to the Equal Employment Opportunity Commission (EEOC), and that some leading asset managers have begun to acknowledge a lack of gender diversity in senior management. In its proposals, Walden has pointed out racial disparity problems specific to the particular industries, and that senior company officials have stepped down after discrimination controversies.

Home Depot investors will consider EEO issues for the 17th year, in what is likely a record for resubmissions. The proposal routinely earns more than 20 percent support and in 2017 it received 33.7 percent. It asks for:

1. A chart identifying employees according to their gender and race in each of the nine major EEOC-defined job categories for the last three years, listing numbers or percentages in each category;
2. A summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilized;
3. A description of policies/programs oriented toward increasing diversity in the workplace.

Background checks: Zevin Asset Management has returned to **Amazon.com** with a request it made in 2017 on hiring practices that it says discriminate, as evidenced by the firing of mainly black and Latino delivery drivers in Boston after background checks. The proposal asks for a report

> on the use of criminal background checks in hiring and employment decisions for the Company's employees, independent contractors, and subcontracted workers. The report shall evaluate the risk of racial discrimination that may result from the use of criminal background checks in hiring and employment decisions.

Given the high level of previously-incarcerated adults in the U.S. population, excluding them from the talent pool also may affect competitive performance, the resolution contends. Amazon counters that it is committed to equality but pointed last year to the nature of its business and its use of contracted delivery drivers who operate independently in the field. Last year Amazon unsuccessfully challenged the resolution on ordinary business and it earned 7.3 percent.

LGBTQ Rights

Just two proposals are pending now, one a resubmission to **Cato** and another new one at **CorVel**. The others all have been withdrawn after agreements by the companies to change their policies. The resolution is from Walden Asset Management and Trillium Asset Management, and asks each recipient to "amend its written equal employment opportunity policy to explicitly prohibit discrimination based on gender identity or expression." Trillium's version adds that the company should "take concrete action to implement the policy."

SEC action: **Cato** last year successfully argued at the SEC that the request for it to include LGBT protections in its nondiscrimination policy was moot because its policy prohibits discrimination on the basis of "any legally-protected classification" and federal courts have upheld LBGT protections. The company policy does not explicitly protect LGBT employees, however. In 2017, Cato unsuccessfully challenged the proposal at the SEC, which disagreed it concerned ordinary business. The proponents note the company operates in 16 states where LGBT discrimination may occur under "religious freedom" laws, and that the Justice Department in June 2017 argued that the Civil Rights Act does not cover sexual orientation, despite 2015 EEOC advice that it does. The company this year has again told the SEC it is moot. The SEC has yet to respond.

HEALTH

The Opioid Crisis and Pharmaceutical Pricing

Opioids: Mercy Investments and other members of the Interfaith Center on Corporate Responsibility—many of them with close ties to healthcare providers on the front line treating overdoses—and the UAW Retirees Medical Benefits Trust started a rapidly growing coalition in summer 2017 to address the opioid crisis. ICCR officially launched Investors for Opioid Accountability (IOA) in October 2017 and now has support from institutional investors with more than $2.2 trillion in assets under management. They are joined by state treasurers and other institutional investors including many trade unions. The campaign uses a corporate governance lens and focuses on the role of major drug makers, distributors and treatment manufacturers and calls for more transparency and accountability from publicly traded companies about clear business risks that are manifesting in lawsuits, legislation and reputational damage.

Investors gave 41.2 percent support at **AmerisourceBergen** to a resolution filed by the Sisters of St. Francis of Philadelphia that asked for a report by September on:

> the governance measures AmerisourceBergen has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis in the U.S., given AmerisourceBergen's distribution of opioid medications, including whether AmerisourceBergen has assigned responsibility for such monitoring to the Board or one or more Board committees, revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, or altered policies or processes regarding company political activities.

The proponents want the company to provide more information about its response to the epidemic given the role it plays as the second largest pharmaceutical distributor in the United States. In the body of the resolution, they recap key elements of

advocacyposition

SHAREHOLDERS JOIN TOGETHER TO FIGHT OPIOID CRISIS

DONNA MEYER, PH.D.
Director, Shareholder Advocacy, Mercy Investment Services

In 2016, drug overdoses killed more Americans than guns or car accidents and at a faster rate than HIV at the peak of its epidemic. Overdoses are merely the most visible and easily counted symptom of the opioid problem, which affects more than two million Americans. More than 97 million people took prescription painkillers in 2015; of these, 12 million did so without being directed by a doctor. Opioid abuse is taxing families, communities and healthcare facilities throughout the United States.

Recognizing the increased impact of the opioid epidemic on individuals, communities and businesses, shareholders are taking action with the companies they own. To amplify the power of shareholders' voices, Mercy Investment Services and UAW Retirees Medical Benefits Trust established Investors for Opioid Accountability (IOA) in July 2017. The IOA is meant to address heightened concerns that business risks from opioid abuse that may threaten shareholder value and have profound long-term implications for the economy and society. The IOA, which includes a broad collaboration of state treasurers, asset managers, faith-based investors, public and labor funds, has grown to 44 investors with more than $2.2 trillion in assets under management. Members have filed 21 shareholder proposals requesting board oversight of business risks related to opioids in three sectors:

- **Opioid manufacturers** about their corporate policies on the marketing of drugs that lead to addiction and how the company should take responsibility for these practices.
- **Opioid distributors** about taking responsibility for their distribution of opioids and drugs that lead to addiction.
- **Antidote or treatment manufacturers** to press them to offer affordable pricing of their products as they lobby for expanded access to these drugs.

The IOA is asking the companies' boards of directors to investigate their response to increasing business and reputational risks related to opioids. The IOA believes that companies must implement good corporate governance practices that traditionally have served to mitigate risks, and that strengthened independent board leadership and compensation policies will increase board accountability and deter misconduct.

Already, the IOA has made a difference. The first resolution to go to vote asked **Cardinal Health** to create an independent chair, since the IOA believes this will foster better oversight of company practices related to opioid risks. The resolution earned 36 percent shareholder support and the company announced it will separate the chair and CEO positions.

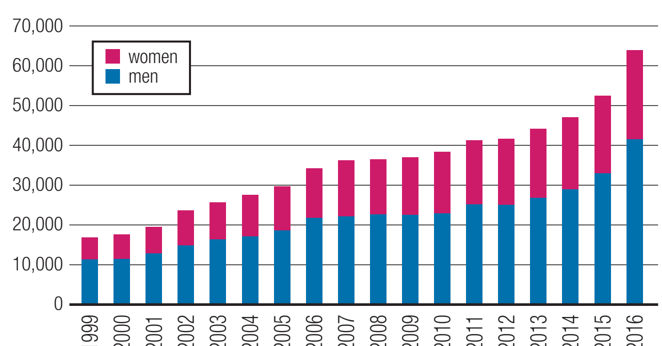
The Securities and Exchange Commission has rejected company challenges to two resolutions so far this year—one filed at opioid distributor **AmerisourceBergen** calling for a board report on risks related to their distribution business and one filed at **Johnson & Johnson** calling on the company to stop excluding legal and compliance costs from calculations used to determine executive pay awards.

As the opioid epidemic continues to affect families and communities, business must actively work to reduce their role in this crisis. Members of the IOA remain committed to using their voices as shareholders in companies, and as stakeholders in affected communities, to advocate that businesses do their part to stem the growing tide of opioid use.

the complex problem but say the company is uniquely situated to act because of its major role as a distributor, what they call a "choke point" in the chain of use and abuse that is taking so many lives *(see bar chart)*. As an example, they cite evidence gathered by an investigative journalist in West Virginia who reported that AmerisourceBergen shipped tens of millions of hydrocodone and oxycodone pills to small town pharmacies in West Virginia, apparently contravening its risk management system. The company contends its current risk management and oversight approach is sufficient but notes a $16 million litigation settlement last year related to opioids.

In addition to the report request at AmerisourceBergen, which IOA members also filed at Irish-based **Mallinckrodt**, the coalition is asking companies to tie executive compensation to adopt executive bonus clawback policies after material fines associated with opioid litigation and to put in place independent directors and separate the chair and CEO positions. These governance proposals are beyond the scope of Proxy Preview but are described in more detail in ICCR's 2018 Proxy Resolutions and Voting Guide publication.

Drug Overdose Deaths in the United States, 1999-2016



Source: CDC, https://www.cdc.gov/drugoverdose/epidemic/index.html

Johnson & Johnson successfully challenged one more resolution on opioids from an individual investor. Norman Fulton said in his proposal:

> J&J currently manufacturers an opioid pain medication (Duragesic) through its subsidiary Janssen Pharmaceuticals which contains fentanyl. As you may know from the news, this type of product is wreaking havoc across the US. Just my state (Ohio) alone has over 200,000 addicts and the number is growing rapidly. I would like to get an advisory view from the shareholders regarding the appropriateness of this product. Vote CONTINUE if you think J&J should continue to manufacturer this product. Vote STOP if you think J&J should cease manufacture of this highly addictive pain medication.

SEC staff agreed it can be excluded because its format is "not a proposal within the meaning" of the shareholder proposal rule. J&J also argued it dealt with ordinary business, about which the SEC did not comment.

Pharmaceutical pricing: ICCR members last year were unsuccessful in their efforts to address drug pricing, since the SEC agreed a new proposal about pricing was too specific. This year, they are trying again, asking **Pfizer** and **Vertex Pharmaceuticals** to report by the end of the year

> on the risks to [the company] from rising pressure to contain U.S. prescription drug prices, including the likelihood and potential impact of those risks as applied to [the company], the steps [the company]is taking to mitigate or manage those risks and the Board's oversight role. The report should address risks created by payer cost-effectiveness analysis, patient access concerns, outcomes-based pricing, and price sensitivity of prescribers, payers and patients.

Pfizer is contending at the SEC that it concerns ordinary business since it is too detailed, and moot given the work and reports from its Board Regulatory and Compliance Committee, as disclosed in securities filings. The SEC has yet to respond.

(Additional resolutions seek executive pay links to drug pricing concerns, p. 71.)

Health

Company	Proposal	Lead Filer	Status
Opioids and Pharmaceutical Pricing			
AmerisourceBergen	Report on opioid crisis	Srs. of St. Francis of Phila.	41.2%
Johnson & Johnson	Allow advisory vote on opioid manufacture	Norman Fulton	omitted
Pfizer	Report on pharmaceutical pricing	Trinity Health	April
Vertex Pharmaceuticals	Report on pharmaceutical pricing	Trinity Health	June
Tobacco			
Altria	Report on/reduce nicotine levels	Srs. of St. Francis of Phila.	May
Phillip Morris International	Report on anti-tobacco funding	Trinity Health	withdrawn
Other Health Issues			
American Airlines Group	Report on risks/impacts of small airplane seats	Flyers Rights Education Fund	June
Dr Pepper Snapple Group	Report on product links to obesity	Trinity Health	May
Ford Motor	Report on feeding employees healthy food	Segal Marco Advisors	omitted
United Continental Holdings	Report on risks/impacts of small airplane seats	Flyers Rights Education Fund	May

Tobacco

A long-time shareholder proponent on tobacco resolutions, Father Michael Crosby, died in 2017, and this year just one resolution on tobacco is now pending, before **Altria**, asking it to "take steps to preserve the health of its tobacco-using customers by making available to them information on the nicotine levels for each of our cigarette brands and begin reducing nicotine levels in our brands to a less addictive level." The resolution is new.

Trinity Health withdrew a resolution to **Phillip Morris International** asking it to report on:

1. any formal or informal relationship between our Company and the Foundation for a Smoke-Free World;
2. the rules of engagement to ensure that interactions with the Foundation are transparent and publicly reported;
3. the Company's position as to how the Foundation's work relates to the business of the Company.

The proponents were concerned that the Foundation for a Smoke-Free World, which received $80 million in startup funding from the company, might be unduly influenced by it despite assertions from the company to the contrary. ICCR reports the company agreed to meet and will allow proponents to make a statement at its annual meeting, so they withdrew.

Other Issues

Airline seats: A new proponent, the Flyers Rights Education Fund, wants two airlines—**American Airlines** and **United Continental**—to report "on the regulatory risk and discriminatory effects of smaller cabin seat sizes on overweight, obese, and tall passengers. This report will also analyze the impact of smaller cabin seat sizes on the Company's profit margin and stock price." Both companies contend at the SEC that it concerns ordinary business, since it relates to how the airline provides its air transport services. The argument is likely to succeed, although the SEC has yet to weigh in.

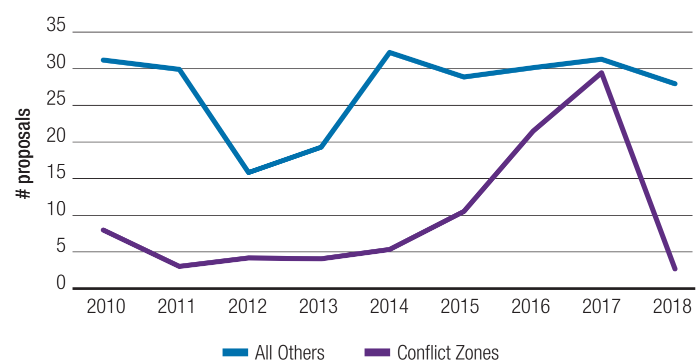
Feeding employees: In a novel resolution, individual Martin Harangozo suggested that **Ford Motor** report, "outlining the costs and benefits of feeding its employees, with the intention to promote health, productivity, and profitability." The new resolution suggested Ford's bottom line would be improved if it were to provide three meals a day to employees, consisting of "hot oatmeal and bananas, raw spinach salad with grapes" and "red cabbage carrot coleslaw," with a link to a specific recipe. The company successfully challenged the resolution at the SEC, which agreed it can be omitted on ordinary business grounds.

Obesity: One other resolution on health issues may go to a vote, at **Dr Pepper Snapple Group**. Trinity Health asks it to report "on company-wide efforts to address the risks relate to obesity. The report should include aggressive quantitative metrics around reduction of added sugars in its products and development of healthier product offerings." The resolution is new to the company and so far no challenge has surfaced at the SEC, so it may go to a vote.

HUMAN RIGHTS

In a dramatic shift from last year, almost none of the 2018 resolutions concern doing business in conflict zones or the Israeli-Palestinian conflict; half of the 42 proposals pending in February 2017 did. The main reason is that the Holy Land Principles organization has only one resolution this year, down from 21; its proposals called for adoption of those principles, modeled on the MacBride principles for Northern Ireland, but the three-year campaign never attracted much support from investors and votes were quite low. However, resolutions about other longstanding concerns of ICCR members and other civil society groups remain and their total has not changed much in the last five years, as illustrated on the accompanying graph.

Human Rights Proposals Since 2010



Almost all the 2018 proposals are at new recipients, even though most of the concerns they raise about supply chain standards, human trafficking and operating in dicey environments around the world will be familiar to investors. Brand-new was a proposal to **Chubb** about its controversial CarryGuard insurance, offered in collaboration with the National Rifle Association for those who seek protection if they shoot someone in self-defense, but it already has been omitted on technical grounds. That proposal joined three other new ones to gun makers and a retailer.

In all, there are 31 proposals on human rights this year, 18 are now pending, proponents have withdrawn seven, and four have been omitted so far after company challenges at the SEC. Eight more SEC challenges have yet to be resolved.

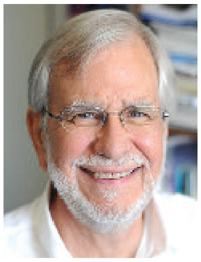
Supply Chain Standards and Ethical Recruitment

Six resolutions ask about ethical recruitment practices in company supply chains and two more concern domestic prison labor connections.

Ethical recruitment: Mercy Investments and the American Baptist Church filed similar resolutions at **Amazon.com** and **Motorola Solutions**. The proposal asks for a report from each about "ethical recruitment policy and remedial efforts taken to ensure that [the company's] global supply chains are free of forced or bonded labor, including any efforts to reimburse workers for recruitment fees that were paid in violation of the Company's policies." At Amazon it asked for details on the company's "approach to assessing and implementing" the policy, while at Motorola, it requests an annual report.

At **Hershey** and **Williams-Sonoma**, the request is shorter, simply asking for a report by December "disclosing its due diligence efforts to ensure responsible recruitment within its operations and supply chain." A similar proposal at **Dean Foods** is the same except it leaves out reference to the supply chain.

advocacyposition



THE POWER OF COLLECTIVE INVESTOR ACTION TO SAFEGUARD HUMAN RIGHTS

DAVID SCHILLING
Senior Program Director, Interfaith Center on Corporate Responsibility

We are living in a time of tremendous upheaval, with existential threats ranging from the ravages of climate change that threaten public health and global water and food supplies to an unprecedented migrant and refugee crisis provoking geo-political conflicts affecting communities around the world.

But in this time of great challenge, there are also great opportunities to respond effectively. One of them is a new initiative, the Investor Alliance for Human Rights, which seeks to harness the collective power of investors in the work to guard against human rights abuses. This Alliance, led by the Interfaith Center on Corporate Responsibility (ICCR), is convening investors from around the world to use their combined influence to press companies and policymakers on human rights risks. The UN Guiding Principles on Business and Human Rights provides a global framework to help companies assess and address human rights risks in their operations and supply chains. Some companies have shown leadership in integrating these principles into their policies and practices. Most are unaware of the impact of their businesses on human rights. ICCR members file shareholder resolutions to address the gaps in corporate human rights due diligence which often lead to legal, reputational and financial consequences that affect their investments. The Corporate Human Rights Benchmark report and the KnowTheChain sector benchmark reports provide evidence of the importance of assessing corporate human rights performance for a range of stakeholders.

We need to accelerate change on business and human rights through investor action. When we issued a call to action after the tragic collapse of Rana Plaza in Bangladesh in 2013, the response was immediate. ICCR was able to amass an investor coalition representing over $4 trillion in assets to call for corporate participation in the newly formed Accord for Fire and Building Safety in Bangladesh. The new investor initiative is a compelling indication that the broader investor community is profoundly concerned about human rights and worker rights; it provides a welcome central hub for organizing this work.

ICCR's faith-based members have focused on human rights for decades, bringing greater corporate consciousness to these issues. Through our advocacy, in partnership with NGOs and other stakeholders, we have changed the way these sectors view their workers and monitor their supply chains. Our "No Fees" initiative is bringing corporate awareness to the human rights risks inherent in the recruitment process, such as? when workers are forced to pay for employment. Our support for key human rights legislation and regulation both in the United States and overseas makes clear to policymakers why these risks are viewed as material by the investment community and underscores the need for public policy that levels the playing field for all companies. Investor letters have been part of a 'rapid response' to urgent human rights threats, including attempts to eliminate the Dodd/Frank 1502, "Conflict Minerals" reporting requirements and the suspension of Temporary Protected Status (TPS) for immigrants from El Salvador, Haiti and Nicaragua.

The Alliance is a much-needed platform to facilitate collaboration and amplify the investor voice on these critical issues. We hope you will join us.

For **Bed Bath & Beyond** and **McDonald's**, the proposal asks for a new policy. At Bed Bath, that it

> adopt a Human Rights Risk Assessment based on the UN Guiding Principles on Business and Human Rights, including a section on ethical recruitment and issue a report, at reasonable cost, omitting proprietary information, detailing its approach to assessing and implementing its ethical recruitment policy and remedial efforts taken to ensure that its global supply chains are free of forced or bonded labor by December 2018.

At McDonald's, it says the company should "adopt a Human Rights Policy based on the UN Guiding Principles on Business and Human Rights, including a section on ethical recruitment," and report by November. The UN Principles on Business and Human Rights are also known as the "Ruggie Principles" after Harvard professor John Ruggie who led the effort to articulate the approach.

Withdrawal and SEC action—Mercy has withdrawn at **Amazon.com** after it agreed to discuss the issue further. **Hershey** is contending at the SEC that it concerns ordinary business and is moot, while **McDonald's** says it is too vague. The SEC has yet to respond.

Domestic prison labor: Investors gave 4.8 percent support to a **Costco Wholesale** request that it "adopt a policy committing the Company to: a) Survey all suppliers to identify sources of prison labor in the Company's supply chain; b) Develop and apply additional criteria or guidelines for suppliers regarding the use of prison labor; and c) Report to shareholders no later than June 30, 2018.…"

A similar proposal is pending at **TJX** which is arguing at the SEC that it is moot, given a change in its policy after the proposal was filed. The SEC has yet to respond.

(One more proposal on trafficking in the supply chain is discussed below.)

Risk Assessment

NYSCRF is using a formulation common for several years that appears just this once in 2018, seeking a risk assessment at **Tesla**. It wants a report by December

> on Tesla's process for comprehensively identifying and analyzing potential and actual human rights risks of Tesla's entire operations (a "human rights risk assessment") addressing the following:
> - Human rights principles used to frame the assessment;
> - Methodology used to track and measure human rights performance, including key indicators;

- Nature and extent of consultation with relevant stakeholders in connection with the assessment; and
- Actual and/or potential human rights risks identified in the course of the assessment (or a statement that no such risks have been identified).

The resolution takes note of a discrimination case filed by African American employees and other litigation alleging LGBTQ discrimination and sexual harassment—as well as a high injury rate and allegations of obstructing unionization.

Apple convinced the SEC that it need not include a proposal from Harrington Investments that raised concerns about its operations in China. Commission staff agreed it duplicates another human rights resolution it received first from Jing Zhao, asking for a human rights committee. *(That proposal is covered in the Board Oversight section, p. 63.)* The proposal sought a report on Apple's "role in promoting freedom of expression." Specifically, it asked the company to:

- Summarize measures Apple took to prevent removal of relevant VPN apps in China;
- Describe Company policies for evaluating and responding to, above and beyond legal compliance, government requests to remove apps from the App store affecting freedom of expression;
- Explore policy options for the Company to play a role in ensuring that consumers in countries like China, with severe censorship records, have unfettered and anonymous access to the Internet.

Human Rights

Company	Proposal	Lead Filer	Status
Supply Chain Standards & Ethical Recruitment			
Amazon.com	Report on supplier labor standards	Mercy Investment Services	withdrawn
Bed Bath & Beyond	Adopt/expand supplier human rights policy	Mercy Investment Services	June
Costco Wholesale	Adopt policy on prison labor in supply chain	NorthStar Asset Management	4.8%
Dean Foods	Adopt/expand human rights policy	Mercy Investment Services	May
Hershey	Report on supplier labor standards	American Baptist Church	withdrawn
McDonald's	Adopt/expand supplier human rights policy	Mercy Investment Services	May
Motorola Solutions	Report on supplier labor standards	Domini Social Investments	May
TJX	Adopt policy on prison labor in supply chain	NorthStar Asset Management	June
Williams-Sonoma	Report on supplier labor standards	Mercy Investment Services	May
Risk Assessment			
Apple	Report on human rights policy	Harrington Investments	omitted
Tesla Motors	Report on human rights risk assessment	New York State Common Retirement Fund	June
Human Trafficking			
JetBlue Airways	Adopt policy on human trafficking	Presbyterian Church (USA)	May
Marten Transport	Report on human trafficking policy	Mercy Investments	withdrawn
Monster Beverage	Report on human trafficking policies/practices	As You Sow	June
Saia	Report on human trafficking policy	Mercy Investments	withdrawn
Spirit Airlines	Adopt policy on human trafficking	Presby. Ch. (USA)	withdrawn
Indigenous People			
Bank of America	Adopt/modify indigenous peoples policy	Harrington Investments	withdrawn
Citigroup	Adopt/modify indigenous peoples policy	Mercy Investment Services	withdrawn
Goldman Sachs	Report on indigenous people policy	Harrington Investments	April
Marathon Petroleum	Report on indigenous people policy	Trillium Asset Management	April
Wells Fargo	Adopt/modify indigenous peoples policy	Proxy Impact	April
Weapons & the Penal System			
CoreCivic	Tie political activity spending to recidivism $	Alex Friedman	omitted
Chubb Limited	Report on risks from weapons insurance	Stewart W. Taggart	omitted
Dick's Sporting Goods	Report on gun safety and harm mitigation	Mercy Investment Services	June
Sturm, Ruger	Report on gun safety and harm mitigation	Catholic Health Initiatives	May
Conflict Zones			
Apple	Implement Holy Land Principles	Holy Land Principles	omitted
Chevron	Report on anti-genocide policy	Azzad Asset Management	May
First Solar	Report on conflict zone operations	Heartland Initiative	May
Water			
American Water Works	Report on human right to water performance	NorthStar Asset Management	May

advocacyposition

SLAVERY IN SUPPLY CHAINS IS MONSTROUS

PATRICIA JUREWICZ
Director, Responsible Sourcing Network

Nearly 25 million people are working in forced labor conditions according to the International Labour Organization (ILO) and Walk Free Foundation. These enslaved people work in agriculture, mining, and manufacturing. Given the prevalence of modern slavery, the UN Sustainable Development Goals (SDG) include Target 8.7, which calls on corporations to "Take immediate and effective measures to eradicate forced labour, [and] end modern slavery and human trafficking..."

Modern slavery is a material risk for shareholders given the potential for litigation and loss of revenue by brand-association with slavery.

In the last few years, lawmakers in California, U.K., France and Australia have introduced or passed legislation to address modern slavery. Know the Chain has released benchmarks that focus on modern slavery in the Information & Technology Communication, Food & Beverage and Apparel & Footwear sectors. Its *Food & Beverage Benchmark Findings Report* scored **Monster Beverage** at zero (0) out of 100 – dead last. The report stated, "Monster Beverage Corporation places last on the benchmark, underperforming across all thematic areas relative to its peers." The score reflects poor transparency and disclosure in managing forced labor risks in its supply chain. In contrast, **Coca-Cola**, **Nestlé** and **Pepsico**, scored 58, 57 and 45, respectively.

What should concern Monster, and many companies, is that harvesting, extracting or processing raw materials often includes forced labor. Monster products have ingredients derived from cane sugar. The production of sugar cane in Bolivia, Brazil, Dominican Republic, Guatemala, India, Myanmar and Pakistan all have known forced labor problems, according to the U.S. Department of Labor.

Monster deems its supply chain to have "minimal risk of slavery and human trafficking," even though it has not disclosed what practices it has in place to address forced labor. Monster also does not report on supply chain transparency, or monitoring and certification. By contrast, Coca-Cola, a major Monster shareholder, discloses a map highlighting countries of origin, while other peers disclose names and addresses of sugar suppliers.

Modern slavery must stop. Through the SDGs, the global community has committed to eradicating all forms of forced labor by 2030. As shareholders, we must hold companies accountable to set policies, implement risk analyses, and address forced labor embedded in their supply chains. As You Sow, with input from the Responsible Sourcing Network (RSN), has filed the first forced labor resolution at Monster Beverage, asking it to issue a report disclosing its methodology for determining its "minimal risk to slavery" assessment.

While resolutions are appropriate for industry laggards, shareholders are also working collaboratively with industry leaders and human rights defenders. Building off of its support for corporate action to address conflict-free mining in the Congo, RSN encourages international apparel brands to implement due diligence in the middle of the supply chain. RSN's initiative YESS: Yarn Ethically & Sustainably Sourced aims to eradicate forced labor in cotton production by replicating the conflict-free smelter model with yarn spinners.

We invite shareholders to join RSN's efforts to ensure greater corporate responsibility to end modern slavery in global supply chains.

Human trafficking

Mercy Investments has withdrawn a resolution at two trucking companies—**Marten Transport** and **Saia**—"to report on the implementation of a program to address human trafficking internally and in its supply chain." This is a continuation of a successful effort begun three years ago by ICCR members to recruit a growing number of companies to the initiative Truckers Against Trafficking.

The Presbyterian Church (USA) is tackling the problem in the air, and it has withdrawn a proposal at **Spirit Airlines** after what it calls a "positive response" from the company, including disclosure of its anti-trafficking training materials. The resolution is still pending at **JetBlue Airways** and asks for the adoption of "a human rights policy including prohibition of sexual exploitation of minors" and a report on its implementation by December 2019.

Looking at the commodities supply chain, As You Sow wants **Monster Beverage** to issue a report by November "containing the criteria and analytical methodology used to determine its conclusion of 'minimal risk' of slavery and human trafficking in its sugarcane supply chain." This is after Monster came in dead-last, scoring zero, on Know the Chain's report on forced labor in supply chains.

Indigenous People

For several years, proponents have been raising concerns about the extent to which indigenous peoples' rights are addressed, usually in the context of natural resource extraction and financing for such activities. Proponents are reiterating these concerns in several resubmissions. Several make explicit reference to the Dakota Access Pipeline, the controversial project near the Standing Rock Sioux reservation that was blocked by the Obama administration and then approved by the Trump administration's Army Corps of Engineers early last year.

Harrington Investments has withdrawn a proposal to **Goldman Sachs** that the company had challenged at the SEC. The resolution sought a report

> on the North Dakota Access Pipeline, describing its financing of companies involved in the pipeline, how or whether its Indigenous rights policy was applied to the financing of such companies, and whether Goldman Sachs complied with its Indigenous rights policy in financing such companies. Building upon that analysis, shareholders request the report also consider policy options to improve implementation of its Indigenous rights policy, such as enhancing the risk metrics and due diligence process for reviewing financed companies' policies and practices for consistency with Goldman Sachs Indigenous rights policy, and mechanisms for engaging companies that fail to adhere to Goldman

> Sachs' Indigenous rights policy. Shareholders request the report be prepared at reasonable expense and exclude proprietary or legally privileged information.

The company told the SEC the resolution was false and misleading, saying it impugned the company and was too vague; was moot since Goldman already has an indigenous peoples policy; and related to ordinary business since it was about customer relations and sought to micromanage it. The withdrawal came before any response. As You Sow withdrew a similar resolution in 2017 after a company challenge, when the company agreed to review its policies about financing oil and gas projects "with the potential for severe community impacts." It also agreed to work on indigenous peoples' policies.

Another resubmission, at **Marathon Petroleum**, earned 35.3 percent in 2017, after the SEC rejected several arguments from the company about why it should be excluded. It also references the Dakota Access Pipeline and asks for a report:

> that describes the due diligence process used to identify and address environmental and social risks, including Indigenous rights risk, in reviewing potential acquisitions. Such a report should consider:
> - Which committees, departments and/or managers are responsible for review, oversight and verification;
> - How social and environmental risks are identified and assessed;
> - Which international standards are used to define the company's due diligence procedures;
> - How this information informs and is weighted in acquisition decisions;
> - If and how risks identified were disclosed to shareholders;
> - Whether MPLX has an exit option in DAPL;
> - Whether Marathon will adjust its policies and practices so as to not become entangled with such situations in the future.

Two withdrawals have come at **Bank of America** and **Citigroup**, where an identical proposal asked each to "to establish a Human and Indigenous Peoples' Rights Policy to ensure that safe-guarding such rights is considered whenever relevant to general corporate and commercial financing." Harrington Investments withdrew after Bank of America argued the proposal was moot, before any SEC response. At Citi, Mercy Investments reached an agreement after discussions about the bank's indigenous peoples' policy.

A final proposal at **Wells Fargo** from Proxy Impact follows one that last year was similar but more detailed, which earned 18 percent support. The resolution this year asks that the bank

> develop and adopt a global policy regarding the rights of indigenous peoples (the "policy"), which includes respect for the free, prior and informed consent of indigenous communities affected by WFC financing. The policy should include oversight mechanisms for its continued development, evaluation and implementation and should be posted on its website by May 2019.

The company successfully challenged the resolution at the SEC, which agreed with its argument that it was substantially implemented by existing company policies.

(Also see p. 8 for a proposal on tar sands financing at JPMorgan Chase that also addresses indigenous peoples' rights.)

Weapons and the Penal System

Americans continue to die from mass shootings around the country—in concert venues, in the workplace and in schools; as this report went to press, a former student at a Florida high school shot and killed 17 people and sent dozens more to hospitals, only the latest in a bloody start to 2018. Proposals this year are to gun makers and sellers, and another is at an insurer.

Weapons: ICCR members have voiced criticism of gunmakers and distributors for decades and this year have stepped up these efforts once again. In a resolution to manufacturers **American Outdoor Brands** (formerly Smith & Wesson) and **Sturm, Ruger**, they ask for a report by next February,

> on the company's activities related to gun safety measures and the mitigation of harm associated with gun products, including the following:
> - Evidence of monitoring of violent events associated with products produced by the company.
> - Efforts underway to research and produce safer guns and gun products.
> - Assessment of the corporate reputational and financial risks related to gun violence in the U.S.

Turning to a retailer that sells weapons, Mercy Investments asked **Dick's Sporting Goods** to "report on actions our Company has taken, if any, on elements such as those based on Sandy Hook Principles"—in annual reports starting in 2019. The principles were named after the children killed in Connecticut just before Christmas 2012, and aim to curb gun violence. Mercy withdrew after discussions with the company about steps it takes to ensure gun safety. Subsequently, and after the Parkland, Florida shooting, Dick's CEO announced the company would stop selling assault weapons in all its stores. **Walmart**, which did not have a similar proposal this year, followed suit.

Insurance: Chubb has underwritten CarryGuard insurance, a policy that seeks to protect those who use their weapons in self-defense. Its website says it is

> for those who lawfully carry firearms and their families, including protection against civil liability, the cost to defend against civil and criminal legal actions and immediate access to attorney referrals. It also includes supplementary payments as needed for bail, criminal defense

> legal retainer fees, lawful firearm replacement, compensation while in court, psychological support and cleanup costs for any covered claim resulting from the use of a legally possessed firearm—including an act of self-defense.

The shareholder resolution is from an individual investor, Stewart W. Taggart, and asks for a report

> discussing the Company's options for adoption of policies above and beyond legal compliance to prevent or minimize public health harms from insurance products (Carryguard) serving 'controversial weapons markets' (Stand Your Ground shootings) causing 'disproportionate harm' (gun killings and woundings occurring under murky circumstances with few if any surviving disinterested witnesses).

The company successfully challenged the resolution at the SEC, which agreed it can be excluded because the proponent did not provide sufficient proof of stock ownership. The SEC did not respond to the company's other arguments—that it was about ordinary business since it concerned the types of insurance products Chubb offers. Chubb also invoked SEC Staff Legal Bulletin 14I and contended the proposal sought to micromanage its business and was not otherwise a significant issue, while noting a board committee met and considered the issue of firearms insurance in December, and that institutional investors raised no concerns on the issue during 2017 meetings with it. While the company fought the proposal, in the wake of the Parkland shootings, Chubb also announced it no longer would underwrite CarryGuard.

Recidivism and political activity: Prisoner rights advocate Alex Friedman's proposal to **CoreCivic** was omitted because it was filed too late. It may therefore be resubmitted again next year. The resolution asked for a new policy, "for the purpose of reducing recidivism for offenders released from the Company's facilities," to include:

1. Each year the Company shall calculate the total amount of funds it spent on political campaign contributions and lobbying on the local, state and federal levels during the previous year.
2. Each year the Company shall spend at least an equal amount of money as the total amount calculated in section 1 on rehabilitative and reentry programs or services at its facilities.
3. The expenditure of the funds specified in section 2 shall be in addition to any funds the Company already spends or is required to spend on rehabilitative and reentry programs or services pursuant to the Company's contracts with government agencies.
4. The expenditure of the funds specified in section 2 may be used to expand rehabilitative and reentry programs or services already provided in the Company's facilities; to establish new rehabilitative and reentry programs or services; or to fund non¬profit organizations that provide rehabilitative and reentry programs or services.
5. The expenditure of the funds specified in section 2 shall be done on an annual basis.

Conflict Zones

Just three resolutions address issues connected to doing business in conflict zones around the world and all three companies have challenged them at the SEC.

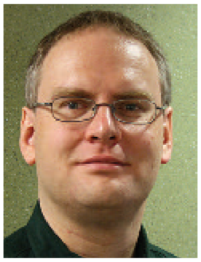
The only Holy Land Principles proposal filed in 2018, at **Apple**, was omitted after the company successfully argued at the SEC that it already has addressed the concerns raised in the proposal about doing business in Israel and Palestinian territory.

Azzad Asset Management has returned to **Chevron** with a resolution that earned 5.7 percent last year, noting the plight of the Rohingya people in Myanmar and the company's business there, in addition to other countries with other serious human rights violations. It asks for a report within six months of the annual meeting, "evaluating the feasibility of adopting a policy of not doing business with governments that are complicit in genocide and/or crimes against humanity." Chevron has challenged the proposal at the SEC, arguing it is too vague because shareholders would not be able to determine where genocide or crimes against humanity occur.

The Heartland Initiative, which is pursuing human rights remedies and is not to be confused with the Heartland Institute (which works to advance various conservative causes including denial of climate change), is asking **First Solar** to report on its operations. It wants to know about:

> the company's approach to mitigating the heightened ethical and business risks associated with procurement, investment and other business activities in conflict-affected areas other than areas already addressed through its conflict minerals policy, including situations of belligerent occupation. In particular, the report should assess whether additional policies are needed to supplement First Solar's Labor and Human Rights Policy to avoid directly or indirectly aiding or acquiescing to violations of international humanitarian law committed by occupying forces, such as:
>
> - the transfer of protected persons from, or their forced displacement within, an occupied territory;
> - the transfer of parts of an occupying power's population into an occupied territory;
> - the destruction and appropriation of property in an occupied territory, not justified by military necessity and carried out unlawfully and wantonly;
> - the vesting of rights of ownership, possession or use of such property in an occupying power's civilian public bodies or nationals;
> - the establishment of legal entities or undertakings in an occupied territory for the primary benefit of the occupying power's nationals;
> - the extraction of minerals or other non-renewable resources in an occupied territory for the benefit of the occupying power or its nationals.

advocacyposition



"NO BUSINESS WITH GENOCIDE"
HOW INVESTORS ARE HELPING THE ROHINGYA OF BURMA

AMINA RUBIN
Marketing Associate, Azzad Asset Management

SIMON BILLENNESS
Executive Director, International Campaign for the Rohingya

In response to Myanmar's military campaign of ethnic cleansing against the Rohingya minority, shareholders have stepped up to question companies about their business connections to that country's military.

Background: Until last year, Myanmar/Burma was home to more than 1.1 million Rohingya people, an ethnic and religious minority. Although they've lived there since the country was established as a modern state, Burma doesn't recognize the Rohingya as an official ethnic group. Burma has denied the Rohingya citizenship rights, and the Burmese army has waged violent campaigns against them, burning villages, murdering civilians, and driving the Rohingya from their homes to internal detention camps and across the border to Bangladesh.

In August 2017, the Burmese army launched a massive new offensive that drove more than half of the remaining Rohingya to seek refuge in Bangladesh. The UN's top human rights official called this "a textbook example of ethnic cleansing."

Amnesty International has reported that Rohingya in Burma suffer a "vicious system of state-sponsored, institutionalized discrimination that amounts to apartheid," which meets the international definition of a crime against humanity. U.S. Secretary of State Rex Tillerson described the offensive against the Rohingya as "ethnic cleansing," and has already sanctioned an army general responsible for spearheading the campaign.

Shareholder proposals: Since 1993, investors have filed nearly 90 proposals that have sought ways to help in the struggle for human rights and democracy in Burma.

Chevron, the largest U.S. corporation operating in Burma, has worked there for more than 20 years. In March 2015, it entered a production sharing contract with the government-owned **Myanma Oil and Gas Enterprise** (MOGE), just offshore the Rohingya's home state of Rakhine.

Last year, Azzad Asset Management and the Ursuline Sisters of Tildonk filed a shareholder proposal at Chevron, the first of its kind focusing on the Rohingya. The resolution asked Chevron to assess the feasibility of enacting a policy of not doing business with governments that are complicit in genocide or crimes against humanity. Like many first-year proposals it got modest support of just 6 percent, but investors may have a chance to vote on it again in 2018. Although Chevron has publicly supported human rights in Burma and acknowledged a productive dialogue with shareholders, it challenged the resolution with the SEC when Azzad re-filed with five co-filers this year.

Investor letters: In 2017, the International Campaign for the Rohingya and Azzad partnered to organize investor letters to oil companies and jewelry retailers asking them to reconsider their ties to Burma. In August, a coalition representing more than $30 billion in assets delivered such a letter to Chevron. In October, an expanded group of 31 institutions representing $53.7 billion in assets signed a similar letter to six other oil companies in Burma; 24 institutions representing $24.4 billion asked several jewelry retailers not to source gems from Burma that profit that country's army. **Tiffany** and **Cartier** have already pledged not to buy these gems.

Genocide prevention is a key focus for many investors. We continue to press companies to avoid the significant financial and reputational risks of doing business with governments engaged in genocide or crimes against humanity.

The company is arguing at the SEC that it is false, misleading and moot but the SEC has yet to respond.

Water

NorthStar Asset Management has just one of its human right to water resolutions this year, at **American Water Works**. The proposal asks for a report, "tracking our Company's impacts and responses on the human right to water and sanitation." Last year, NorthStar had a detailed proposal on the same subject but withdrew it after a company challenge at the SEC noted it was filed too late. The company withdrew its challenge and the proponent also withdrew the proposal before any SEC response, but with no agreement.

MEDIA AND CYBERSECURITY

Media and Cybersecurity

Company	Proposal	Lead Filer	Status
Problematic Content			
Alphabet	Report on problematic media content management	Harrington Investments	June
Facebook	Report on problematic media content management	Harrington Investments	June
Twitter	Report on problematic media content management	New York State Common Retirement Fund	May
Cybersecurity			
Equifax	Review/report on cyber risk management	UAW Retirees Medical Benefits Trust	May
Express Scripts	Review/report on cyber risk management	New York State Common Retirement Fund	May

Investors are reflecting societal debate about how electronic media use and abuse deeply influence everyday life and the nature of public discourse in two types of proposals in 2018—at the three big social media platforms, **Alphabet**, **Facebook** and **Twitter**—and at credit reporting agency **Equifax**, with a related proposal to **Express Scripts** on cyber risk and personal health information. *(Also see p. 71 for a proposal seeking an executive pay link to cybersecurity oversight.)*

Problematic content: Arjuna Capital first raised concern about "fake news" last year at Alphabet and Facebook; its proposal seeking a report about the phenomenon and a review of its impact on "the democratic process, free speech, and a cohesive society, as well as reputational and operational risks" earned scant support at these closely held companies (1.4 percent at Alphabet and 0.8 percent at Facebook). But proponents persist. Arjuna joined NYSCRF and Harrington Investments to file again at both companies in 2018, adding Twitter as well. The Illinois Treasurer's Office, a new proponent, joined in.

At **Alphabet**, the 2018 resolution asks for a report "on major global content management controversies (including election interference)…reviewing the efficacy of governance, oversight and policies on content disseminated on its platform and assessing the magnitude of any risks posed to the company's finances, operations, and reputation." It suggests the report "include assessment of the scope and scale of platform abuses and address related ethical concerns on the use of artificial intelligence."

The proposal introduces the idea of the company as an "information fiduciary" and asserts it has an "obligation to demonstrate how it responsibly manages content on its platform" because its "disclosures have been minimal, guarded, and inadequate." The problem is made acute because of continued controversy over the role Google, Alphabet's subsidiary, played in the 2016 U.S. election "and what experts say is an ongoing threat to the democratic process," the resolution says. The proponents reason that because ads designed by Russian agents seem to have affected YouTube and Google, the company is at risk, as are its investors. It points to multiple congressional investigations and the possibility of legislation that will require more disclosure about ad purchases, Google's main source of revenue. In short, tech companies' predominance could prompt lawmakers to put in place tighter regulations that force greater transparency and accountability, as is happening in Europe. Ad revenue also could be reduced if companies flee digital platforms that sully their brands, the proposal suggests, which has occurred if companies' ads become "associated with objectionable content."

At **Facebook** and **Twitter**, the resolution is slightly different. At Facebook it asks for a report "on the major global content management controversies (election interference, hate speech and violence)… reviewing governance oversight and policies to assess the ethical, legal, and reputational risks of content disseminated on its platform." At Twitter, the list of concerns is "election interference, fake news, hate speech and sexual harassment."

In her speech at the Davos economic summit this January, British Prime Minister Theresa May connected economic development and security to internet company activity, specifically highlighting a role for investors and corporate social responsibility and this shareholder activity. She said:

> …investors can play a vital role by considering the social impact of the companies they are investing in. This is fundamental to the proper functioning of markets, choice and competition. Shareholders should care about these social impacts because the business model of a company is not sustainable if it does not command public support and consent…. For example, earlier this month a group of shareholders demanded that Facebook and Twitter disclose more information about sexual harassment, fake news, hate speech and other forms of abuse that take place on the companies' platforms.

May concluded, "So investors can make a big difference here by ensuring trust and safety issues are being properly considered. And I urge them to do so."

Cybersecurity: The UAW Retirees Medical Benefits Trust wants a report from **Equifax**, where the information of more than 145 million Americans was hacked last year. Using the same approach employed with the opioid crisis report request at Amerisource Bergen, noted above, the proposal asks for a report

> on the governance measures Equifax has implemented to more effectively monitor and manage financial and reputational risks related to cybersecurity incidents that have a material effect on the company, including whether Equifax has revised senior executive compensation metrics or policies, adopted or changed mechanisms for obtaining input from stakeholders, made changes to the Board or Technology Committee evaluation process, implemented additional director education on cybersecurity or altered criteria for the Board's evaluation of director nominees.

NYSCRF has filed at **Express Scripts**, which has challenged the proposal at the SEC, arguing it relates to ordinary business, but the commission has not responded yet. The proposal seeks a report "on its cyber risk and actions taken to mitigate that risk." It says the report should include:

- aspects of business or operations that give rise to material cyber risk;
- the extent to which the Company outsources functions that have material cyber risks, descriptions of those functions and how the Company addresses those risks;
- descriptions of cyber incidents experienced by the Company that individually or in the aggregate are material, including a description of costs and consequences;
- risks related to cyber incidents that remain undetected for an extended period;
- description of relevant insurance coverage;
- compliance, regulatory or contractual obligations related to cyber risk;
- certification to widely recognized standards;
- and how cyber risks and cyber incidents are reflected in financial statements.

The report should also discuss the scope and frequency of the Board's oversight of cyber risks which may include review of relevant systems, policies, and procedures, related to:

- determining critical assets (e.g., customer information);
- employee training on data security and privacy-related risks;
- due diligence for third party vendors and potential acquisitions;
- data breach and incident response plans;
- minimization of data collection and retention; and
- security policies and audit frequency

expertinsight

CYBER SECURITY RISK PROMPTS GLOBAL ENGAGEMENT

VAISHNAVI RAVISHANKAR
Manager, Governance Issues, UN Principles for Responsible Investment (PRI)

Cyber security risk is real and pervasive, as demonstrated by recent attacks that have thrown big banks, personal credit rating agencies, web services providers, the U.S. intelligence community and even the U.K. National Health Service into a frenzy. `As we have seen, threats can emerge from various sources, both internal and external, resulting in data breaches that can negatively impact share price, reputation and loss of trust in the organisation to secure sensitive data. The **Yahoo** breach reported in 2016 is a case in point – the news that the breach had exposed more than a billion customer accounts postponed the planned acquisition by **Verizon**, resulted in serious reputational damage and lowered the deal price by some $350 million.

Such high-profile incidents have put cyber security firmly on the radar of the investment community. This year at least four cyber-security related resolutions show that investors are keen to understand how cyber aware their portfolio companies are and whether they have appropriate mechanisms to manage a breach. However, there are yawning gaps in current corporate disclosure on this topic, making it challenging to properly evaluate companies. This is particularly problematic since regulatory regimes on data privacy and cyber security continues to be strengthened across the world. For instance, in Europe, the general data protection regulation will come into force in May 2018, creating obligations for companies that process and hold data in the European Union, regardless of where they are located. Notably, the penalties for not adhering to these requirements can go up to EUR 20 million. Similarly, in Australia, the Australian Privacy Act mandates that companies implement security safeguards to protect personal information and notify customers of data breaches.

To improve corporate disclosure and enhance understanding of the underlying cyber vulnerabilities, PRI is coordinating a global collaborative engagement on this topic. Fifty-three institutional investors representing over U.S. $12 trillion in assets under management will be engaging with companies on their cyber security governance. Questions raised with companies will enable dialogue on whether there is sufficient board oversight on cyber issues, whether they have access to internal or external expertise and are taking adequate measures to manage cyber security risks. The collaborative engagement will focus on listed multinational companies in the consumer, healthcare, financial, IT and telecommunication sectors.

As this dialogue progresses over the next year or so, participating members will have further clarity on how material cyber security risk is for companies in their portfolios, how information flows to the board on cyber security matters and how companies benchmark their performance against peers. Using these findings, they will also put together a set of investor expectations on cyber security governance that companies should be able to meet. Most importantly, through this engagement, they will be signalling to companies that further meaningful information on cyber security is warranted and such information will enable investors to discern which companies are likely to manage risks appropriately.

OTHER SOCIAL ISSUES

Individuals offered three other proposals on a miscellany of social issues, but none will go to votes.

Richard M. Brown asked **AT&T** to keep its landlines, saying "I wish seniors and everyone to have a choice keeping landline service." The company had argued at the SEC that this dealt with ordinary business because it was too detailed and was moot. An omission appeared likely, but Brown withdrew before the SEC responded.

Andrew Dale asked that **General Electric's** "CEO must immediately resign from the Manufacturing Jobs Initiative," set up by President Trump, reasoning connection to Trump posed reputational harm to the company. While GE successfully challenged the proposal at the SEC because Dale failed to substantiate his stock ownership, the resolution also became moot when members of the council resigned en masse after the President's remarks following the Charlottesville, Virginia neo-Nazi assembly in August, prompting Trump to disband this and other similar councils.

Finally, **TD Ameritrade** successfully argued against a resolution from Kelly Dean Warfield that proposed the company's shareholders should have the right to own its financial products. The company said the resolution could be excluded on ordinary business grounds. The proponent, a long-term prison inmate still in jail, argued he should be allowed to hold a brokerage account with TD Ameritrade, but the company contended doing business with an inmate violated its policies, among numerous other arguments.

Other Social Issues

Company	Proposal	Lead Filer	Status
AT&T	Retain telephone landlines	Richard M. Brown	withdrawn
General Electric	Resign from Presidential Manufacturing Council	Andrew Dale	omitted
TD Ameritrade Holding	Allow shareholders to be clients	Kelly Dean Warfield	omitted

Sustainable Governance

The convergence between more traditional concerns about how companies are governed and social and environmental topics continues. This interest is expressed in proxy season in resolutions about how companies make their social and environmental policy decisions—and who is on the board to do so—as well as in proposals about how companies make themselves accountable to their investors on strategic sustainability issues. This section examines these issues, looking at board diversity, board oversight and sustainability disclosure, links to compensation and proxy voting policies at mutual funds.

There are 40 resolutions about boards, about one-third more than last year; 28 focus on board diversity and another 12 address a variety of board oversight matters. Two dozen concern disclosure—all but two of them asking for sustainability reports, while 10 ask for links between executive pay and different sustainability metrics and six concern proxy voting policies at big mutual funds.

BOARD GOVERNANCE

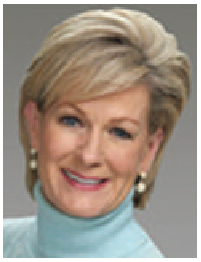
Diversity

The 30 Percent Coalition, which coordinates shareholder resolution and other efforts to diversity boards, includes senior business executives, national women's organizations, institutional investors, corporate governance experts and board members. The proposals ask companies to add more women and minorities or to report on how they manage this process. As more companies act, the list of recipients has expanded, going to smaller firms such as a group of small cap companies in the Midwest last year. Wherever the recipient hails from, though, the pressure to include more women is not receding. Since 2010, proponents have filed more than 200 proposals, withdrawing two-thirds after companies have made their policies more inclusive, at least on paper. Proponents are most likely to file proposals at companies with no women or people of color on the board.

Adopt policy: Resolutions at 14 companies—**CACI International**, **Cognex**, **Discovery Communications**, **FCB Financial Holdings** and **UnitedHealth Group** and at least two more undisclosed companies—ask each to

> adopt a policy for improving board diversity…requiring that the initial list of candidates from which new management-supported director nominees are chosen…by the Nominating and Corporate Governance Committee should include (but need not be limited to) qualified women and minority candidates. The Policy should provide that any third-party consultant asked to furnish an Initial List will be requested to include such candidates.

advocacyposition



BOARD DIVERSITY: NOT A SLOGAN. IT'S YOUR BOTTOM LINE

ANNE SHEEHAN

Director of Corporate Governance, California State Teachers' Retirement System

Board and C-Suite diversity have long been a priority of the California State Teachers' Retirement System's (CalSTRS) corporate governance program. Diversity is good for business and specifically good for CalSTRS' investments. CalSTRS is a passive investor, but an active owner, focused on issues that affect the long-term value of our more than $225 billion portfolio.

Studies published by McKinsey and Credit Suisse over the last few years make a strong case for board and company diversity, reinforcing the positive link between diversity and company financial performance. Beyond the direct economic value to shareholders, there are ancillary benefits of board and workplace diversity—including the findings that heterogeneous teams are more likely to remain objective, lean toward innovation and re-examine facts. Board diversity is critical to the proper oversight of managements' business and risk mitigation strategies; after all, it is the proper execution of these strategies that protect shareholders' interests.

Pushing the issue of diversity requires a multipronged approach: building relationships with companies, working with like-minded organizations, and using the power of the proxy vote and shareholder proposal. As an active owner, through private engagement, we seek first to understand the barriers to diversity and how a company is working to break them down.

One of CalSTRS' key initiatives to building relationships is direct portfolio company engagement in concert with other institutional investors and coalitions. The initiative has five components: the California Initiative, the Coalition of 5, the Enhanced Diversity Initiative, updates to our Corporate Governance Principles and filing shareholder proposals.

This initiative goes beyond words—here's the action:

- 87 letters sent to California-based companies with no women on their boards resulting in 23 companies appointing 25 women;
- 61 letters sent to S&P 500 companies with zero or only one woman on their board by a coalition of five global investors;
- an engagement strategy that started with 10 select financial and tech companies related to the companies' pipeline of diverse human capital;
- voting against directors on the Nominating Committee—and possibly the full board—if after engagement, no action has been taken to address the lack of board diversity, which is a new CalSTRS CG Principle (in the 2017-18 proxy season, the implementation of this principle could affect 20-26 companies and 60-78 directors);
- filing shareholder proposals that highlight our commitment to improving board diversity, including asking companies to expand director searches to nontraditional environments such as government, academia and nonprofit organizations.
- In 2017, CalSTRS' proposal on board diversity at **Hudson Pacific Properties** passed with 84.8 percent support. Andrea Wong was recently appointed to HPP's board.

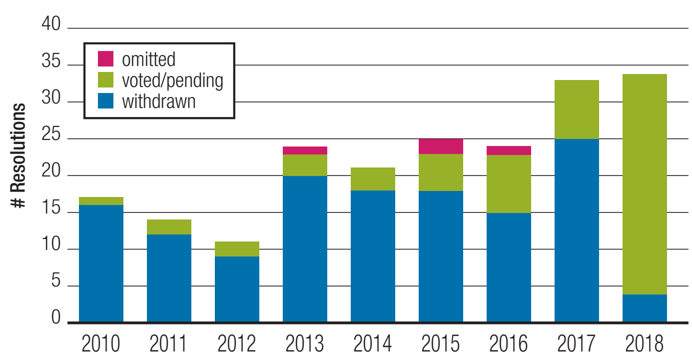
CalSTRS recognizes that gender, ethnic and racial parity on corporate boards and at the executive and staff levels remains unattained. However, as a result of actions taken by CalSTRS, other large institutional investors and equality-focused organizations, there's been a fundamental shift from seeing board diversity as politically correct to financially necessary.

It is new to all but Cognex, where last year the proposal earned 62.7 percent support. At Discovery Communications, a board diversity reporting proposal in 2017 earned 35.3 percent, up from 17.6 percent in 2016 and 23.1 percent in 2015. CalSTRS and Calvert had withdrawn a similar 2012 proposal after the company added a commitment to racial and gender diversity on its board, but proponents filed again starting in 2015 because, until 2017, the company's board included no women or minorities.

A similar resolution is before three more—**Gulfport Energy**, **Old Dominion Freight** and **World Fuel Services**—asking that each

> adopt a policy that the board will seek to enhance board diversity beyond current levels by taking all reasonable steps, consistent with the board's fiduciary obligations, to ensure that a wider range of female and minority candidates are included in the pool of candidates from which board nominees are chosen and reporting to shareholders by the 2019 annual meeting about how that policy is being implemented, including efforts to expand the pool of potential candidates and any changes made to the governance and nominating committee's charter.

Board Diversity Proposals Since 2010



(excludes 3 not voted for other reasons)

A resolution at **Praxair** asks that it

> adopt a diversity policy in which the Board publicly commits to:
> - Ensuring that women and minority candidates are routinely sought as part of each Board search;
> - Expanding director searches to include nominees beyond the executive suite, from non-traditional environments such government, academia, and non-profit organizations; and
> - Reviewing Board composition to ensure that the Board reflects the knowledge, experience, skills, and diversity required for the Board to fulfill its duties.

Similar proposals about board diversity are pending at **CME Group**, **First Hawaiian**, **Getty Realty** and **HollyFrontier**.

Withdrawals—Proponents so far have withdrawn at three companies—**Hub Group**, **Oceaneering International** and **Thor Industries**—after reaching agreements. More are certain.

Reporting on diversity policy: At least 15 companies have received resolutions asking them to report on their board diversity practices.

With slight variations, proponents have asked **Anika Therapeutics**, **Ansys**, **Black Knight**, **Cato**, **Pilgrim's Pride** (where the resolution earned 14.3 percent last year), **LogMeIn**, **US Foods Holding** and **Sealed Air** to report on how they are "fostering greater diversity on the Board," by:

> 1. Strengthening Nominating and Corporate Governance policies by embedding a commitment to diversity inclusive of gender, race, ethnicity;
> 2. Committing to include women and underrepresented minority candidates in every pool from which Board nominees are chosen;
> 3. Reporting on progress and challenges experienced.

Board Diversity

Company	Proposal	Lead Filer	Status
Alphabet	Diversify board executive committee	Trillium Asset Management	June
Anika Therapeutics	Report on board diversity	Walden Asset Mgt.	withdrawn
Ansys	Report on board diversity	Trillium Asset Management	May
Black Knight	Report on board diversity	Calvert Investment Management	June
Bristol-Myers Squibb	Report on board diversity	New York State Common Retirement Fund	May
CACI International	Adopt board diversity policy	Illinois State Treasurer	November
Cato	Report on board diversity	Srs. of Divine Providence	May
CME Group	Adopt board diversity policy	SEIU Master Trust	May
Cognex	Adopt board diversity policy	Philadelphia Public Employees Retirement System	April
Discovery Communications	Adopt board diversity policy	Nathan Cummings Fndn	May
Exxon Mobil	Report on board diversity	NYC pension funds	May
FCB Financial Holdings	Adopt board diversity policy	Illinois State Treasurer	May
First Hawaiian	Adopt board diversity policy	Philadelphia Public Employees Retirement System	April
Getty Realty	Adopt board diversity policy	Philadelphia Public Employees Retirement System	May
Gulfport Energy	Adopt board diversity policy	Amalgamated Bank	June
HollyFrontier	Adopt board diversity policy	Philadelphia Public Employees Retirement System	May
Hub Group	Adopt board diversity policy	Philadelphia Public Employees Retirement System	withdrawn
LogMeIn	Report on board diversity	Trillium Asset Management	June
NRG Energy	Report on board diversity	NYC pension funds	April
Oceaneering International	Adopt board diversity policy	Philadelphia Public Employees Retirement System	withdrawn
Old Dominion Freight	Adopt board diversity policy	Amalgamated Bank	May
Pilgrim's Pride	Report on board diversity	Oxfam America	April
Praxair	Adopt board diversity policy	NorthStar Asset Management	April
Sealed Air	Report on board diversity	Trillium Asset Management	May
Thor Industries	Adopt board diversity policy	SEIU Master Trust	withdrawn
UnitedHealth Group	Adopt board diversity policy	Segal Marco Advisors	June
US Foods Holding	Report on board diversity	Mercy Investment Services	May
World Fuel Services	Adopt board diversity policy	Amalgamated Bank	May

The resolution at Pilgrim's Pride is slightly different for the first point—it asks for "consideration of modifications to nominating and corporate governance policies reflecting greater commitment to advancing Board diversity inclusive of gender, race and ethnicity." At Sealed Air, the second point says "Expanding director searches to include nominees from corporate positions beyond the executive suite and from environments including government, academia, and nonprofit organizations."

That language is incorporated into a resolution to **Bristol-Myers Squibb**, as well, asking for additional details:

> plans to increase diverse representation on the Board, including an assessment of the effectiveness of such efforts. The report should include a description of what steps, if any, the Board and/or the Nominating Committee has taken or plans to take to:
> 1. Include women and other diverse candidates in the pool from which Board nominees are chosen; and
> 2. Expand director searches to include nominees from both corporate positions beyond the executive suite and non-traditional environments including government, academia, and non-profit organizations.
>
> The requested report should also address:
> - Changes to the Nominating Committee Charter to include a requirement to consider the Board's diversity inclusive of gender, race, ethnicity, sexual orientation and gender identity in identifying director candidates.
> - The number of women and diverse candidates in the pool within the past 3 years.
> - Any challenges to increasing diversity identified by the Board and any plans to address them.

Withdrawals—Walden withdrew at **Anika Therapeutics** after it agreed to expand its disclosure in the proxy statement and to revise its corporate governance policy to specifically consider gender, race and ethnic diversity. More withdrawals will occur as the season progresses.

New "matrix" request: The New York City pension funds have a resolution pending at **ExxonMobil**, **NRG Energy** and an undisclosed additional number of companies seeking information about diversity but also other director attributes:

> each director's/nominee's gender and race/ethnicity, as well as skills, experience and attributes that are most relevant in light of [the company's] overall business, long-term strategy and risks, presented in a matrix form. The requested matrix shall not include any attributes the Board identifies as minimum qualifications for all Board candidates in compliance with SEC Regulation S-K.

The requested matrix shall be presented to shareholders in [the company's] annual proxy statement and on its website within six months of the date of the annual meeting, and updated annually.

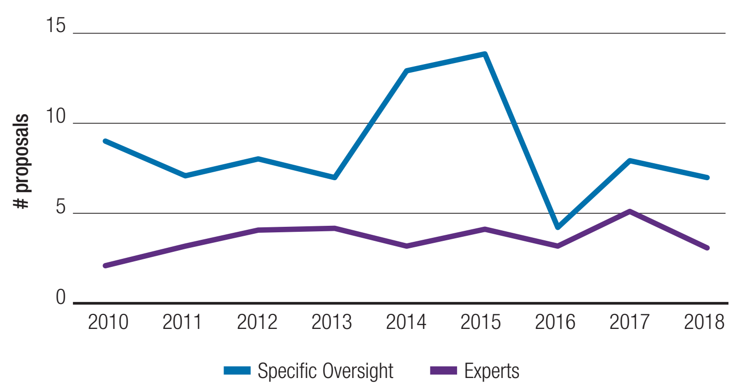
SEC action—**ExxonMobil** has challenged the "matrix" resolution at the SEC, arguing it is too vague and concerns ordinary business, but the SEC has yet to respond.

Board executive committee: A proposal to **Alphabet** is new. Trillium Asset Management proposes that the "take steps to make the Board's Executive Committee diverse in terms of race, ethnicity, and gender," arguing that adding more diversity to the three-person board executive committee—made up of three white men—will help the company achieve greater diversity in its workforce.

Board Oversight

Resolutions about board oversight fall into two functional categories—asking for the nomination of specific types of experts to sit on the board (three this year) or suggesting specific types of committees are needed to properly oversee complicated sustainability issues (seven this year). There were more resolutions on these topics in 2014 and 2015.

Board Oversight Proposals Since 2010



Specific Issues

Climate change: A new report from the 50/50 Climate Project warns of the growing risk to investors and shareholders of inadequate board-level governance on climate change risk, plus risk from heavy political influence spending that works against climate change transformation.

expertinsight

SPENDING AGAINST CHANGE: LITTLE CLIMATE OVERSIGHT BUT LOTS OF CASH

HEIDI WELSH
Executive Director, Sustainable Investments Institute (Si2)

Twenty-one of the biggest energy and utility companies in the United States have minimal board oversight of climate risk and almost no board members with relevant climate-related expertise. These companies spent $673 million dollars over six years to influence the U.S. political system, predominantly with shareholder money. Companies directed three-quarters of the spending to lobbying, but only six of the 21 corporations voluntarily disclose those expenditures to their investors. These are the key findings in *Spending Against Change*, a new report researched by the Sustainable Investments Institute (Si2) and published by The 50-50 Climate Project.

The report picks up the two dominant themes of proxy season—significant investor support for disclosure of both climate risk information and corporate influence spending and oversight. The 50-50 Project, a research and action center for institutional investors concerned about climate change, wanted to connect the dots between these issues and commissioned the report. The 21 companies chosen for the study had high 2017 votes on climate change and had relatively poor influence spending disclosure, based on research from Si2 and the Center for Political Accountability.

The report finds:

- **Negligible board oversight of climate risk:** 20 of the 21 companies do not mention climate change considerations in their corporate governance documents as a board obligation; **Occidental Petroleum** is the only firm to do so. 14 mention general environmental oversight, but six say nothing.
- **Paucity of climate expertise on boards:** Just two board members out of 245 seats on these boards have expertise relevant to dealing with the business implications of climate change, at **ConocoPhillips** and **ExxonMobil**. Seven companies have board members with some environmental background; the rest do not.
- **$673 million spent on influence:** This report unveils, for the first time, a total political activity footprint for these 21 energy and utility companies over the last three election cycles, on lobbying and election spending at the federal and state level.
- **Myriad ways to spend:** Including newly available state lobbying data for 20 states, from the Institute on Money in State Politics, the report delineates the many ways companies spend shareholder dollars to influence elections and public policy. Three-quarters was spent on lobbying, most of it at the federal level. (Additional data in the study come from the Center for Responsive Politics and Political MoneyLine.)
- **Over $50 million to block clean energy in 7 states:** In addition to spending to prevent climate action at the federal level, companies covered in this report spent heavily to prevent states from enacting clean energy standards, improve energy efficiency, and close fossil fuel tax loopholes. States affected include Alaska, California, Florida, Michigan, Ohio, Oregon and Washington.
- **Limited board oversight of lobbying:** Only half the 21 companies mention any board oversight of lobbying, although three-quarters discuss election spending. Oversight for these companies is more robust than in the S&P 500 as a whole, yet most companies evince widespread reluctance to be fully transparent about their efforts to influence public policy through complete expenditure reporting.
- **Lots of lobbying, little disclosure:** Using corporate treasury money, all firms lobby and in the study all but **Kinder Morgan** spend on elections. However, only six voluntarily report lobbying expenditures. Disclosure laws mean independent data are missing for more than half the states.
- **Dark dollars blocking climate action:** The report explores behind-the-scenes spending by the 21 companies to influence climate policy, largely in ways not reported to investors or the public. The report compares companies' public statements and their associations with non-profit groups that legally can obscure their donors while working against climate-friendly policies. The full extent of this "dark money" remains unknown but it appears to significantly shape public policy.

This year there are three proposals asking for board oversight about climate change. The resolution to **PNM Resources** is a resubmission that the Edith P. Homans Family Trust withdrew last year after a company challenge that said it was moot—but the trust expressed desire for further discussions about the issue with the company. This year it has refiled. The resolution says, "To help address the critical social and business impacts of climate change," the company should "take the necessary steps to establish more effective board oversight of our company's policies and programs addressing climate change and report to shareholders on steps taken or planned."

A very similar proposal is before **Old Republic**, requesting the report by November. Mercy Investments withdrew at **Travelers** after it agreed to expand public reporting on its board oversight of climate risks. The resolution had asked that it "take steps necessary to establish more effective board oversight of our company's policies and programs addressing the risks and opportunities posed by climate change and report to shareholders by November 2018."

SEC action—**PNM Resources** again has challenged the climate oversight proposal at the SEC, arguing it is moot because it already has board oversight of the issue and has extant current board expertise; it also says PNM is working to align its business with GHG reduction goals.

Human rights: Chinese human rights activist Jing Zhao, who has filed often at tech companies about problems in China, asks that **Apple**

> establish a Human Rights Committee to review, assess, disclose, and make recommendations to enhance Apple's policy and practices on human rights. The board of directors is recommended, in its discretion and consistent with applicable laws to: (1) adopt Apple Human Rights Principles, (2) designate the members of the committee, including outside independent human rights experts as advisors, (3) provide the committee with sufficient funds for operating expenses, (4) adopt a charter to specify the functions of the committee, (5) empower the committee to solicit public input and to issue periodic reports to shareholders and the public on the committee's activities, findings and recommendations, and (6) adopt any other measures.

The company unsuccessfully challenged the proposal at the SEC, which did not agree it can be excluded on ordinary business grounds. Apple contended respect for human rights is integral to its business practices which management and the board already consider, but the SEC said that Apple did not "explain why this particular proposal would not raise a significant issue for the Company." Investors gave the proposal 5.6 percent support at the mid-February annual meeting.

At **Monsanto**, investors gave 6 percent support to a Harrington Investments proposed on a binding bylaw amendment to set up a board human rights committee to

> to review the implications of company policies, above and beyond matters of legal compliance, for the human rights of individuals in the US and worldwide, including assessing the impacts of company operations on resources and public welfare in host communities and the relationship of company operations and resources to any government security forces securing company operations in those communities.

This was the first time that a proposal requesting the creation of a board-level human rights committee had appeared on the Monsanto ballot. Monsanto withdrew an initial challenge it lodged at the SEC, noting its pending merger with **Bayer**. In 2011, Harrington requested that a board sustainability committee be established, but withdrew after a challenge at the SEC that argued the resolution was obviated by the existence of its board Public Policy Committee. Harrington Investments has filed a proposal at Monsanto almost every year since at least 2011, with three proposals seeking a report on the risks of GMOs (2012, 2013 and 2014) and, most recently, two proposals seeking a report on pesticide monitoring (2016 and 2017).

Indigenous rights: Harrington Investments also has proposed that **JPMorgan Chase** "establish a Human and Indigenous Peoples' Rights Committee." The company has challenged the proposal at the SEC, arguing it can be excluded because it concerns ordinary business since it seeks to micromanage the company by constraining potential business opportunities. It also argues the proposal does not transcend ordinary business since its board already considers human rights issues and indigenous peoples. Both arguments invoke SEC Staff Legal Bulletin 14I.

Risk committee: Trillum Asset Management would like **Facebook** to report "discussing the merits of establishing a Risk Oversight Board Committee," reasoning that such a committee could better identify and manage the company's "risk reporting and monitoring," and help management and the board focus on "the 'big picture.'" The proposal asserts the company may not "understand its impact on society and may be creating numerous financial risks which could present material challenges to the company and its shareholders," and enumerates a range of issues from depression to Russian election meddling and censorship, as well as the broadcast of heinous events by Facebook users. These problems are evidence of the need for "a strategic approach to risk" by Facebook's board, the resolution says, to avoid daily-emerging unintended consequences. A specific Risk Committee would better address these challenges, in the proponent's view.

advocacyposition

MANAGING THE UNINTENDED CONSEQUENCES OF SOCIAL MEDIA

JONAS KRON
Director of Shareholder Advocacy, Trillium Asset Management

The emergence of digital technologies over the last two decades is analogous to the first 20 years of the "Green Revolution" in agriculture. At the time, that revolution was credited with saving millions, if not a billion people, from starvation, increasing food security and driving down the price of food. But as time wore on, we saw the unintended negative consequences of these agricultural technologies: human health impacts from agricultural chemicals, habitat destruction, greenhouse gas emissions, obesity and social disruptions. We may be fast approaching a similar point in the history of digital technologies as we seek to balance, understand and address their positive and negative impacts.

With this context in mind, a key player in our digital economy, **Facebook**, is of particulate interest. The company offers some genuinely useful and profitable products that help connect people, but it is also at the center of ferocious debates about the harms it may be facilitating or inflicting on society.

Until 2014, Facebook's mantra was "move fast and break things" and unfortunately, it appears that Facebook may in fact be breaking many things. For example:

- Research linking Facebook to depression and other mental health issues;
- Investigations into Russian meddling in U.S. elections and its role in proliferating "fake news";
- Concerns over censorship and incitement to violence in Myanmar and India;
- Growing public and policy attention to the anti-competitive implications of platform monopolies; and
- Criticism from the Congressional Black Caucus over diversity and race relations.

As investors in Facebook, we are deeply concerned about what will happen next – not only to the company, but also to the people and communities that use Facebook every day. Specifically, we believe the company would be on more solid footing and be able to serve its users more beneficially if it created a board oversight committee dedicated to addressing these risks. Trillium filed a shareholder proposal to do just that as we believe this committee would serve as a way for the board to address the strategic changes that the company must contemplate in light of the products impact on society.

As the Conference Board in the Harvard Law School Forum on Corporate Governance and Financial Regulation put it: "A risk committee fosters an integrated, enterprise-wide approach to identifying and managing risk and provides an impetus toward improving the quality of risk reporting and monitoring, both for management and the board. This approach can assist the board in focusing on the 'big picture.'"

We believe this big picture includes the company's impact on society and how it takes responsibility for these impacts.

This is not a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. The specific securities were selected on an objective basis and do not represent all of the securities purchased, sold or recommended for advisory clients.

Experts

Environment: The **Chevron** proposal from NYSCRF has gone to a vote every year since 2010, although support has fallen from an early high of nearly 27 percent support in 2010 to last year's 19.6 percent. It asks that the company nominate at least one new director who:

- has a high level of expertise and experience in environmental matters relevant to hydrocarbon exploration and production and is widely recognized in the business and environmental communities as an authority in such field, as reasonably determined by the company's board, and
- will qualify, subject to exceptions in extraordinary circumstances explicitly specified by the board, as an independent director.

NYSCRF defines a director as *not* independent if he or she:

- was, or is affiliated with a company that was an advisor or consultant to the Company;
- was employed by or had a personal service contract(s) with the Company or its senior management;
- was affiliated with a company or non-profit entity that received the greater of $2 million or 2 percent of its gross annual revenues from the Company;
- had a business relationship with the Company worth at least $100,000 annually;
- has been employed by a public company at which an executive officer of the Company serves as a director;
- had a relationship of the sorts described herein with any affiliate of the Company; and
- was a spouse, parent, child, sibling or in-law of any person described above.

Human rights: The Episcopal Church is using the same approach at **Caterpillar** and **Motorola Solutions**, which both have faced controversies about their operations in Israeli and Palestinian territory, but also in other parts of the world. The resolution asked for the nomination of

> at least one candidate who: has a high level of human rights expertise and experience in human rights matters relevant to Company production and supply chain, related risks, and is widely recognized in business and human rights communities as such, as reasonably determined by the Board, and will qualify, subject to exceptions in extraordinary circumstances explicitly specified by the Board, as an independent director.

The church withdrew after discussions in 2017 at Caterpillar but refiled and added Motorola to its slate. It reasons that because the companies operate in conflict zones and need to demonstrate they are adhering to best human rights practices, they need experts on their boards "versed in all business aspects of human rights."

Board Oversight

Company	Proposal	Lead Filer	Status
Specific Oversight			
Apple	Establish board committee on human rights	Jing Zhao	5.5%
Facebook	Establish board committee on risk	Trillium Asset Management	June
JPMorgan Chase	Establish board committee on indigenous rights	Harrington Investments	May
Monsanto	Establish board committee on human rights	Harrington Investments	6.0%
Old Republic International	Adopt board oversight of climate change	Pax World Funds	May
PNM Resources	Adopt board oversight of climate change	Edith P. Homans Family Trust	May
Travelers	Adopt board oversight of climate change	Mercy Investment Services	withdrawn
Experts			
Caterpillar	Nominate human rights expert to the board	Episcopal Church	June
Chevron	Nominate environmental expert to board	New York State Common Retirement Fund	May
Motorola Solutions	Nominate human rights expert to the board	Episcopal Church	May

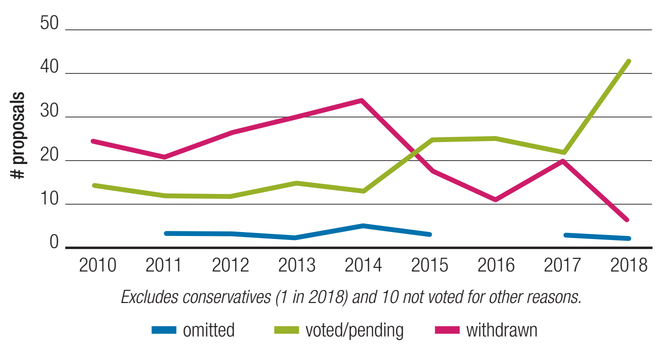
SUSTAINABILITY OVERSIGHT AND DISCLOSURE

After a three-year dip, the number of sustainability reporting resolutions has been on the increase; 22 are now pending and one has been withdrawn. While rising again, the number of reporting requests has fallen from a high of 45 in 2014. Sustainability reporting in corporate America has become increasingly common, leading proponents to file less generalized proposals. At the same time, a big drop in agreements between proponents and companies began in 2015, yielding far fewer agreements and more votes each year; previously, two-thirds of the reporting proposals filed ended up withdrawn after agreements. Part of the reason for the change seems to be a greater diversity of requests, but in general accords about reporting seem to be harder to reach. *(See top graph; 2018 figures will change.)*

As the number of reporting proposals has fallen, the tally of those asking for links to executive pay has grown. *(Bottom graph.)* This year marks the biggest number of such proposals to date.

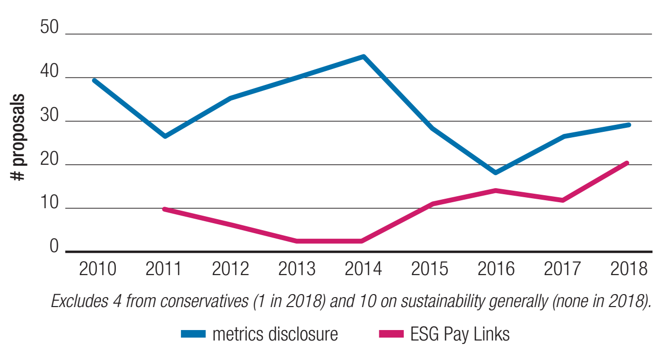
The issues in this area encompass proxy voting. Given their large blocks of votes, shareholder proponents are keen to recruit large mutual funds to support their proposals. The decision last year by the multi-trillion dollar mutual funds **BlackRock**, **Vanguard**, **State Street** and **Fidelity** to support climate change disclosure resolutions marked a sea change in the vote tallies, a thrilling development for many longtime proponents who were pleased with all the high

Sustainability Oversight and Disclosure Proposals Since 2010



Excludes conservatives (1 in 2018) and 10 not voted for other reasons.

Sustainability Reporting & Pay Links Proposals Since 2010



Excludes 4 from conservatives (1 in 2018) and 10 on sustainability generally (none in 2018).

votes. BlackRock's new approach to voting on ESG issues, which articulates support for corporate action on board diversity, climate risk disclosure and human capital management, may further alter the landscape in 2018. Three resolutions to other mutual fund companies seek reports on their proxy voting practices.

Sustainability Metrics Disclosure

Company	Lead Filer	Status	GHG Goals	Other Envir.	Employees	Targets	Other
Publish Sustainability Report							
A.O. Smith	Trillium Asset Mgt.	Withdrawn	X				
Acuity Brands	Trillium Asset Mgt.	49.8%	X				
Anthem	Sustainvest Asset Mgt.	May	X				
Berkshire Hathaway	Freeda Cathcart	May					*
Cambrex	Trillium Asset Mgt.	April					
Discovery Communications	Clean Yield Asset Mgt.	May	X				
Dollar General	NYSCRF	May	X	X	X	X	**
Genuine Parts	Clean Yield Asset Mgt.	April	X				
Host Hotels & Resorts	UNITE HERE	May		X	X		
ILG	Calvert Inv.	May					
Kaiser Aluminum	Pax World Funds	April				X	
Kinder Morgan	NYSCRF	May					
Middleby	Trillium Asset Mgt.	May	X			X	
Natural Gas Services Grp	Walden Asset Mgt.	June	X			X	
Priceline.com	Zevin Asset Mgt.	April				X	
Rite Aid	Srs.-St. Francis, Phila.	July		X	X		**
Skechers U.S.A.	Calvert Inv.	May					
Steel Dynamics	Calvert Inv.	May	X				
SunTrust Banks	Friends Fiduciary	April	X				
Tesla Motors	Trillium Asset Mgt.	April		X		X	**
Tootsie Roll Industries	Walden Asset Mgt.	May					

Company	Lead Filer	Status	Proposal
Other Sustainability Reporting			
Amazon.com	AFL-CIO	May	Report on ESG impact risk mgt
	Lily Bowles	Withdrawn	Use ESG metrics in fin. reports
DTE Energy	Sarah Moore	omitted	Report on environ. financial impact
Tesla Motors	Lily Bowles	June	Use ESG metrics in financial reports
Walgreens Boots Alliance	Walden Asset Mgt.	Withdrawn	Report on work to support SDGs

* Apply to subsidiaries ** Report on supply chain

Reporting

Standard sustainability reporting requests: All but three of the relatively standard two dozen sustainability reporting resolutions are to new recipients. These proposals all ask companies to provide public reports explaining how they address matters that have been hard to quantify and have not been included on traditional balance sheets, with variations, as noted in the table above. Ten ask specifically about setting GHG goals, four also ask about other environmental issues and three about employee safety and/or human rights. Most are requests for company assessments of ESG issues, and six indicate the proponents want to see specific targets. The **Berkshire Hathaway** resolution wants the company's subsidiaries to be included, while proponents at **Dollar General**, **Rite Aid** and **Tesla** indicate they want supply chain information. In varying formulations, the resolutions ask for quantification of these metrics and assessments of related risks and opportunities perceived by the companies. *(See table above, for the issues raised this year.)*

Last year, a vote on sustainability reporting was 38.5 percent at **Kinder Morgan**, where it also earned 34.1 percent in 2016, 30.5 percent in 2015 and 27 percent in 2014. The resolution has included mention of indigenous peoples' rights since 2016, in reference to the TransMountain pipeline in Canada. At **Middleby**, after an unsuccessful SEC challenge that said it was moot because its 10-K mentions climate change, as does a sustainability report, the 2017 resolution earned 44.6 percent.

Vote—**Acuity Brands** investors gave a near-majority vote to the proposal on January 5, in the first vote of the year. It earned 49.8 percent.

Withdrawal—Trillium withdrew at **A.O. Smith**, given what it said was the "company's commitment to publishing its first sustainability report in 2018, and to continuing dialogue on the contents of the report." Trillium also filed and withdrew the same proposal in 2017, for the same reason.

SEC action—There are four company challenges to the resolutions at the SEC, to which the commission has yet to respond:

- **Anthem** is arguing the proposal is moot given its current sustainability report discussion of GHG emissions targets, plus website disclosures.

expertinsight

SUSTAINABLE DEVELOPMENT GOALS PROVIDE PRACTICAL FRAMEWORK FOR ESG INVESTING

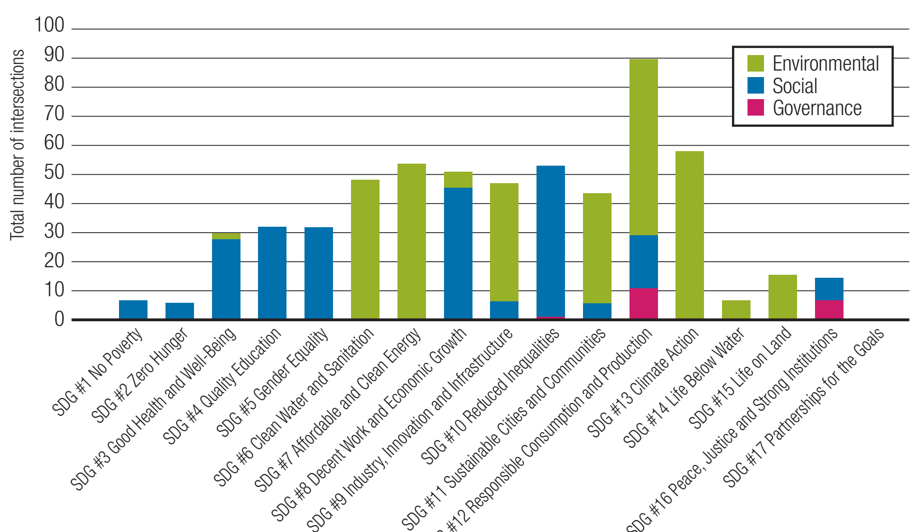
MARY JANE McQUILLEN
Head of Environmental, Social and Governance Investment, ClearBridge Investments

As asset owners, the voting of corporate proxies is one form of impact we can have on companies. Our votes on shareholder proposals are an effective way to signal confidence in the companies we own or to suggest the need for a change in policies, disclosures or related aspects of a company's business. The United Nations and organizations like it, are another source of influence on public equities that can help direct solutions to broad challenges faced by society and the environment. The UN formalized these broad challenges in 2015 with the introduction of the 2030 Agenda for Sustainable Development and approval of its accompanying Sustainable Development Goals (SDGs). We believe the SDGs outline important areas of impact and offer a practical framework to complement and support the environmental, social and governance (ESG) considerations we analyze in our ?research and that guide our proxy voting.

At ClearBridge, we believe the SDGs help align sector and company-specific ESG considerations with broader societal goals. Tackling social and environmental challenges is a core aspect of ESG investing, so mapping how the issues we care about as investors intersect with the targets and goals of the SDGs is a valuable exercise to give our efforts an even broader context. The SDGs encompass a wide range of ESG dimensions as the 17 goals are associated with a total of 169 targets to achieve by 2030.

This alignment of the SDGs with our ESG approach is best illustrated by mapping the SDG targets to the ESG considerations followed by our sectoranalysis. Exhibit 1 summarizes the goals and targets most prevalent across industry sectors and sub-sectors. Considerations related to responsible consumption and production (column 12) are the most common across our coverage universe. Considerations related to climate action (13); affordable and clean energy (7); reduced inequalities (10); clean water and sanitation (6); decent work and economic growth (8); industry, innovation and infrastructure (9); and sustainable cities and communities (11) also are meaningful.

Exhibit 1: Total ESG Considerations per SDG



Achievement of the SDGs will require a globally-coordinated effort among the public and private sectors, including governments, NGOs, shareholders and investors. As a leading ESG investor and advocate for ESG best practices among public companies, we believe the SDGs are a globally accepted roadmap to gauge progress that can benefit society and the environment, while motivating companies to create sustainable value. Mapping the SDGs to our own framework of relevant issues helps us understand that the issues we care most about are also the most relevant to achieving the SDGs. Focusing our engagement efforts and proxy voting on these intersections is where we can have the most impact. We will continue to map our ESG considerations to the SDGs and use them to measure progress and motivate change for the better among the companies we own.

- **Host Hotels & Resorts** says it cannot implement the resolution because it is a Real Estate Investment Trust and cannot compel its third-party brand managers to report, and that the resolution's references to Global Reporting Initiative standards are too vague to implement. Earlier, NYSCRF withdrew a 2014 sustainability reporting resolution focused on climate change and other issues after reaching an agreement with the company.
- **Middleby** has filed a challenge to the resolution again this year, contending it concerns ordinary business since it is about the company's products, employees and supply chain management.
- **Rite Aid** argues the resolution is about ordinary business because of the specific elements cited in the proposal—although none of the precedents it cites concern sustainability report requests. Rite Aid also contends the resolution is moot because the company mentions sustainability in its Code of Ethics and it has one webpage about green business principles and energy efficient stores. The company does not appear to issue a sustainability report.

Other sustainability reporting requests: Five more proposals are fairly specific and depart from the usual formulation; companies lodged challenges to three of them and two have been withdrawn.

Two are at **Amazon.com**. Still pending is a resolution from the AFL-CIO that asks the company

> to analyze and report to shareholders on the risks arising from the public debate over Amazon's growth and societal impact and how Amazon is managing or mitigating those risks. The report should address risks related to Amazon's role in providing physical and digital infrastructure, use of and control over data about customers and competitors, increasing reliance on automation and influence on the quality and diversity of content.

The company has challenged the proposal at the SEC, arguing it concerns ordinary business, since it relates to public relations and the ways in which it sells its products, and is too vague. The commission has not yet responded.

Lily Bowles has withdrawn the second Amazon.com resolution, after saying the company "demonstrated sincere willingness to engage on the issue." Amazon also had challenged the proposal at the SEC, arguing the proponent did not provide sufficient proof of stock ownership, but the withdrawal came before any SEC response. A similar proposal last went to a vote at Amazon.com in 2016 and earned 27.3 percent, similar to the 26.2 percent it received in 2015. The proposal this year asked for a report on "material ESG-related policies, programs, and performance using company-specific information and sustainable accounting metrics in its next Annual Report (Form 10-K)." It noted the report could exclude "information as well as data the Company is reluctant to share."

At **DTE Energy**, the company successfully challenged a proposal that asked for "an assessment of the long-term impact its environmental record has had on its capital access, equity performance and brand value or goodwill." The commission agreed it can be excluded because it concerns ordinary business, saying, "we note that the Proposal relates, in part, to an assessment of potential antitrust fines." The staff did not comment on arguments that it constituted multiple proposals and was too vague.

A new resolution to **Tesla** from Lily Bowles and Calvert Investments appears to be the first to explicitly request integrated reporting, the dual reporting of both financial and ESG metrics. It asks that the company "begin reporting material ESG information using company-specific narrative and sustainable accounting metrics in its 2019 Annual Report (Form 10-K)."

Finally, Walden Asset Management withdrew a resolution at **Walgreens Boots Alliance**. It requested a report "describing the company's implementation plans ensuring how its policies and practices are advancing and not undermining the [UN] Sustainable Development Goals." While lauding the company's efforts to delivery health care services, it also noted Walgreens' sales of tobacco, "the number one cause of preventable death and disease worldwide." In Walden's view, selling tobacco is inconsistent with working towards the UN goals.

ESG Pay Links

Six different proposals at 18 companies ask for reports on specific types of executive pay links to specific kinds of environmental and social issues. Nine of the companies with these resolutions have lodged challenges to the resolutions at the SEC to which the commission has yet to respond. Only three of the resolutions have been withdrawn, one with a clear agreement—suggesting that companies are not enamored of these resolutions, even though investors in general seem to be interested in adding this corporate governance approach to their suggested toolbox of corporate solutions to ESG management.

ESG Pay Links

Company	Proposal	Lead Filer	Status
AbbVie	Report on executive pay links to ESG metrics	United Church Funds	May
Alphabet	Report on executive pay links to ESG metrics	Zevin Asset Management	June
Amazon.com	Report on executive pay links to ESG metrics	Zevin Asset Management	withdrawn
Amgen	Report on executive pay links to ESG metrics	Mercy Investment Services	May
Apple	Report on executive pay links to ESG metrics	Zevin Asset Management	omitted
AT&T	Report on executive pay links to ESG metrics	Zevin Asset Management	withdrawn
Biogen	Report on executive pay links to ESG metrics	Azzad Asset Management	June
Bristol-Myers Squibb	Report on executive pay links to ESG metrics	Trinity Health	May
Citrix Systems	Report on executive pay links to ESG metrics	Zevin Asset Management	June
Devon Energy	Report on executive pay links to ESG metrics	As You Sow	June
DowDupont	Report on executive pay links to ESG metrics	As You Sow	May
eBay	Report on executive pay links to ESG metrics	Zevin Asset Management	May
Eli Lilly	Report on executive pay links to ESG metrics	Mercy Investment Services	May
Expeditors International of Washington	Report on executive pay links to ESG metrics	Clean Yield Asset Mgt.	May
RE/MAX Holdings	Link executive pay to sustainability metrics	Heartland Initiative	May
TJX	Report on executive pay links to ESG metrics	The Sustainability Group	June
United Parcel Service	Report on executive pay links to ESG metrics	Zevin Asset Management	May
Verizon Communications	Report on executive pay links to ESG metrics	New York State Common Retirement Fund	May
Wells Fargo	Report on compensation links to risky practices	New York State Common Retirement Fund	April

Drug pricing: Picking up the thread of other resolutions on rising drug prices *(see p. 50)*, at **AbbVie**, **Amgen**, **Biogen**, **Bristol-Myers Squibb** and **Eli Lilly**, the resolution from ICCR members requests an annual report "on the extent to which risks related to public concern over drug pricing strategies are integrated into [the company's] incentive compensation policies, plans and programs…for senior executives." It says the report

> should include, but need not be limited to, discussion of whether incentive compensation arrangements reward, or not penalize, senior executives for (i) adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding the level or rate of increase in prescription drug prices; and (ii) considering risks related to drug pricing when allocating capital.

SEC action—All five companies have lodged SEC challenges. Each says it relates to ordinary business. **Biogen** and **Bristol-Myers Squibb** also say it is moot—because existing oversight by the board compensation committee takes into account reputational risks. **Eli Lilly** says it is moot because it already has increased disclosure on its drug pricing and efforts to expand access to its medicines, and already rewards executives for leadership on pricing strategy.

Executive diversity: Another request, from Zevin Asset Management, asks tech companies **Alphabet**, **Amazon.com**, **Apple**, **Citrix Systems** and **eBay** about executive diversity. It wants a report

> assessing the feasibility of integrating sustainability metrics, including metrics regarding diversity among senior executives, into the performance measures of the CEO under the Company's compensation incentive plans. For the purposes of this proposal, "sustainability" is defined as how environmental and social considerations, and related financial impacts, are integrated into long-term corporate strategy, and "diversity" refers to gender, racial, and ethnic diversity.

Another proposal is more detailed, at **TJX**, but with the same goal. It requests a report by November, to be issued annually,

> assessing the feasibility of integrating sustainability metrics into the performance-based component of the Chief Executive Officer's ("CEO") compensation. It should document whether sustainability metrics are currently integrated into performance-based CEO compensation, assess the feasibility of structuring specific sustainability metrics into future pay, and describe any appropriate next steps toward implementation.

The proponent recommends that to assess feasibility, the committee should consider and report on, at a minimum, whether:

- TJX currently measures or monitors sustainability metrics appropriate for linkage to CEO compensation;
- It is feasible or appropriate to weigh metrics differently based on their relevance to TJX's short or long-term performance; and
- There are additional sustainability metrics that TJX does not yet track that could be more suited to executive compensation considerations.

SEC action and withdrawal—**Amazon.com** challenged the resolution at the SEC on the grounds it was too vague as well as false and misleading, primarily because CEO Jeff Bezos does not receive incentive compensation. Zevin withdrew before the SEC responded. **Apple** successfully challenged the proposal; the SEC staff agreed with its contention that it was substantially similar to a 2017 proposal on linking pay to diversity metrics, which did not earn enough to qualify for resubmission.

History suggest an agreement could come at **Citrix**, where shareholder proponents in 2015 and 2016 withdrew resolutions on LGBT rights, board diversity and EEO and affirmative action after agreements. **eBay** is contending the resolution is moot since the company already holistically considers diversity in compensation decisions.

Cyber risk: At **Verizon Communications**, the issue is privacy and cyber security. The resolution from NYSCRF wants a report "assessing the feasibility of integrating cyber security and data privacy metrics into the performance measures of senior executives under the company's compensation incentive plans." The company is contending at the SEC that it concerns ordinary business since it deals with implementation of the company's cybersecurity program and data protection.

General ESG links: Another proposal is about general ESG executive pay links, asking five companies—**AT&T**, **DowDupont**, **Expeditors International of Washington**, **United Parcel Service** and **Walgreens Boots Alliance**—to "prepare a report assessing the feasibility of integrating sustainability metrics into the performance measures of senior executives under the Company's compensation incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy" over the long term. It is new to all but Walgreens, where it earned 23.1 percent in 2017 and 5.7 percent in 2015.

A closely related resolution from The Heartland Initiative, which advocates for human rights, asks **RE/MAX** to take action, not just report. It says the company should "include sustainability as one of the performance measures for senior executives under the Company's incentive plans." It uses the same definition of sustainability included in the other proposal.

Withdrawal and SEC action—Zevin Asset Management withdrew at **AT&T** after the company agreed to disclose key sustainability goals and performance in its proxy statement, while Clean Yield withdrew at **Walgreens**.

TJX contends its proposal can be excluded because a previous similar proposal did not earn enough support for resubmission. It notes that a proposal seeking a link between CEO compensation and diversity performance earned 4.9 percent in 2016 and 4.7 percent in 2017, not the 6 percent it needed to be resubmitted as a second-year proposal.

Fossil fuel reserves: As You Sow has resubmitted a resolution from last year about a fossil fuel linkage at **Devon Energy**. It earned 6.9 percent in 2017 and 3.8 in 2016 and this year must surpass 10 percent to qualify for resubmission. The resolution asks for a report "that assesses, in light of global concerns about climate-change and the resultant pressures to transition to a low carbon economy, the benefits and risks of continuing to use oil and gas reserve additions as a metric in named executives' compensation."

Risky business: NYSCRF has a resolution before **Wells Fargo** that the company has challenged on grounds that it duplicates another from the Sisters of St. Francis of Philadelphia about ethics, which it intends to include in the proxy statement. The SEC has yet to respond. The detailed resolution seeks a report on:

1. whether the Company has identified employees or positions, individually or as part of a group, who are eligible to receive incentive-based compensation that is tied to metrics that could have the ability to expose Wells Fargo to possible material losses, as determined in accordance with generally accepted accounting principles;
2. if the Company has not made such an identification, an explanation of why it has not done so; and
3. if the Company has made such an identification, the:
   a. methodology and criteria used to make such identification;
   b. number of those employees/positions, broken down by division;

advocacyposition

FOCUS ON CLIMATE PROXY VOTES BY MAJOR INVESTORS

TIMOTHY SMITH
Director of ESG Shareowner Engagement, Walden Asset Management

As proxy season comes upon us, votes on important shareholder resolutions on issues like climate change and human rights loom large.

So too, are the votes of the global powerhouses managing trillions of dollars of assets who have massive voting power, among them **Vanguard**, **Fidelity**, **BlackRock**, **Bank of New York Mellon**, **JPMorgan**, **Goldman Sachs** and **State Street**.

An annual study by Ceres and Fund Votes tracks the voting record of those firms that support climate change resolutions such as **Morgan Stanley**, Goldman Sachs, **Legg Mason** and **Wells Fargo** and contrasts them with the laggards which never vote for any social or environmental resolutions or have a limited voting record such as **American Century**, **Putnam**, **Pioneer** and Vanguard and BlackRock with two votes.

The fact that these "Votes Matter" was dramatically highlighted in the 2017 proxy season when Black Rock, Vanguard and State Street support for climate resolutions at three companies raised the vote over 50 percent (**Occidental Petroleum** was 67 percent, **ExxonMobil** 62 percent and **PPL** 56.8 percent).

Suddenly, corporations, which were previously reluctant, stepped up and agreed to report on the issues that were addressed in climate change resolutions.

For example, ExxonMobil indicated its board had discussed the vote and agreed to do the report requested by the New York State pension funds, Church of England and over 50 other co-filers. This was a dramatic turnaround from their earlier opposition

Adding to the drama, for the first time Vanguard, BlackRock, and Fidelity began voting for selected resolutions. BlackRock's public declaration that it would support the Exxon resolution received worldwide publicity and signaled a shift by investor giants.

But we should also give credit to the behind the scenes engagements with companies by BlackRock, Vanguard and State Street along with the traditional ESG investing leaders. These letters, conversations and meetings also have helped change the policies and practices of hundreds of companies.

In a recent letter to company CEOs, BlackRock CEO Larry Fink emphasized BlackRock's engagement with over 1,000 companies stressing the important issues like climate change and board diversity

When your largest investors stress the need to diversify your board, or more actively address climate change or develop new governance practices, it adds considerable credibility to the debate around climate or diversity and registers in company boardrooms.

We are not close to the end but more in the middle of this story. BlackRock and Vanguard have a long way to go, but seeing the impact of their first two climate votes last year at Exxon and Occidental Petroleum may motivate them to leverage their proxy votes at more companies.

In short, proxy votes, combined with active engagement, help change corporate thinking and behavior.

Thus the actions of Ceres and investors like **Walden** and **Zevin Asset Management**, who along with others have filed resolutions pressing companies like Bank of New York Mellon, Vanguard and BlackRock to improve their climate proxy voting, have had a significant ripple effect.

c. aggregate percentage of compensation, broken down by division, paid to those employees/positions that constitutes incentive-based compensation; and
d. aggregate percentage of such incentive-based compensation that is dependent on (i) short-term, and (ii) long-term performance metrics, in each case as may be defined by Wells Fargo and with an explanation of such metrics.

The requested report would provide shareholders with important information concerning incentive-based compensation that could lead employees to take inappropriate risks that could result in material financial loss to our company.

Proxy Voting

As noted above, investors' efforts to get large mutual fund companies to incorporate ESG metrics into their proxy voting policies seems to be bearing some fruit, although Ceres still finds much room for improvement, in a report on the 2017 proxy season issued in December about mutual fund voting patterns.

Proxy Voting

Company	Proposal	Lead Filer	Status
Bank of New York Mellon	Review and report on ESG proxy voting	Friends Fiduciary	April
Cohen & Steers	Review and report on ESG proxy voting	Walden Asset Mgt.	May
T. Rowe Price Group	Review and report on ESG proxy voting	Zevin Asset Management	Withdrawn

In 2018, proposals with slight variations were submitted to three firms, asking each to report "on proxy voting and climate change." Walden's resolution is new at **Cohen & Steers**, but a resubmission at **Bank of New York**, where it earned 6.5 percent last year. At **T. Rowe Price Group**, Zevin withdrew after the company told the SEC it concerns ordinary business since it relates to its investment management practices, core to its business. The withdrawal came before any SEC response, but Zevin said it would continue dialogue and observed that the firm has improved its ESG disclosures and now pays more attention to ESG proxy voting; Zevin wants to see more transparency and a timeline for action. The proposal was a resubmission that earned 9 percent in 2017 and 8.5 percent in 2016.

Ethical Finance

Three proposals raise concerns about ethics and finance, on student loans, tax fairness and fraudulent banking practices. All have been broached in the past.

Student loans: The Rhode Island pension fund is again asking **Navient** about student loans, this time seeking a report

> on the governance measures Navient has implemented to more effectively monitor and manage financial and reputational risks related to the student loan crisis in the United States, including whether Navient has assigned responsibility for such monitoring to the Board or one or more Board committees or has revised senior executive compensation metrics or policies.

Last year, it filed a similar resolution, which the company successfully challenged at the SEC on ordinary business grounds. The company contends in 2018 that the new proposal can be omitted for the same reason and also because it is moot. Last year, the resolution asked for a review of the company's procedures "to adequately service customers in default and at risk of default include encourage the use of Income Driven Repayment plans, ability to adapt to shifting legal and standards for loan servicing, and ability to adequately service borrowers in the event of economic shock."

Taxes: At **Nike**, the AFL-CIO is taking up the tax fairness baton initially raised by Domini Investments at **Apple** in 2015. The resolution asks the company

> to respond to rising public pressure to limit offshore tax avoidance strategies by adopting and disclosing to shareholders a set of principles to guide Nike's tax practices. For purposes of this Proposal, "offshore tax avoidance strategies" are transactions or arrangements that exploit differential tax treatment of financial instruments, asset transfers or entities by taxing jurisdictions to reduce a company's effective tax rate.

The principles should state that Nike's board will:

- Consider the impact of Nike's global tax strategies on local economies and government services that benefit Nike;
- Ensure that Nike seeks to pay tax where value is created;
- Periodically assess the reputational consequences, including views of customers, shareholders and employees, of engaging in practices deemed to be "tax avoidance" by such stakeholders; and
- Annually review Nike's tax strategies and assess the alignment between the use of such strategies and Nike's stated values or goals regarding sustainability.

Wells Fargo: The Sisters of St. Francis of Philadelphia have gone back to **Wells Fargo** to ask for more transparency about its internal problems with fraud, after receiving 21.9 percent for a detailed, eight-point proposal last year seeking a report on the problems and how they could be resolved. This year, the proposal is shorter and calls simply for "a comprehensive report by October 2018 on the root causes of past and present fraudulent activities, plans to address them, and how progress will be measured, and disclosed." Wells Fargo states in a challenge to a different proposal filed by NYSCRF about compensation ties to risky banking practices that it intends to include this resolution in its 2018 proxy statement. (*See p. 72.*)

Ethical Finance

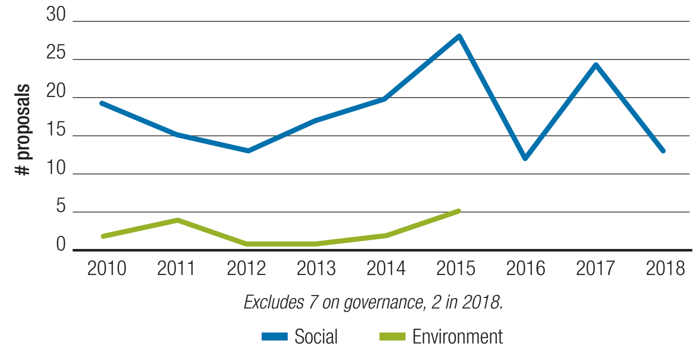
Company	Proposal	Lead Filer	Status
NIKE	Report on fair tax policy principles	AFL-CIO	September
Navient	Report on student loans	Rhode Island Pension Fund	May
Wells Fargo	Report on banking ethics and oversight	Srs. of St. Francis of Phila.	April

Conservative Groups

Politically conservative groups have never seen much support from other investors—last year garnering just 2.5 percent on average for eight proposals—and they often submit their resolutions without adhering carefully to the shareholder proposal rule, encountering technical difficulties that mean their resolutions do not make it into proxy statements. Nonetheless, they continue to pursue conservative aims that largely have been about social policy *(see graphs).*

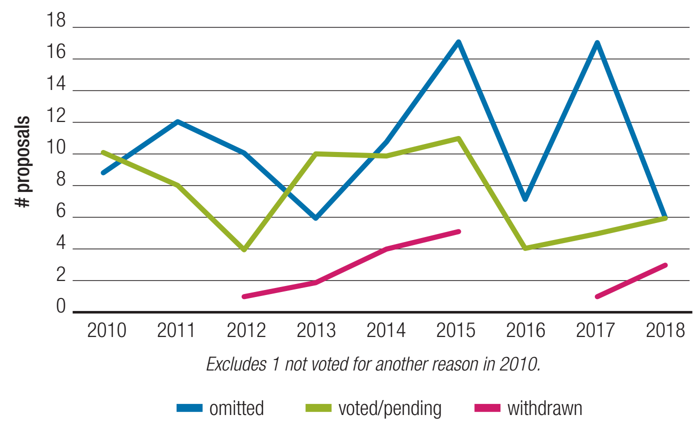
As in recent years, the National Center for Public Policy Research (NCPPR), a Washington, D.C.-based think tank, is the main player, with resolutions also filed by David Ridenour, one of its principals. NCPPR calls itself "the nation's preeminent free-market activist group focusing on shareholder activism and the confluence of big government and big business." This January it said it has participated in 100 corporate annual meetings, "advancing free-market ideals about health care, energy, taxes, subsidies, regulations, religious freedom, food policies, media bias, gun rights, workers' rights and other important public policy issues." A new wrinkle this year is to file and then withdraw proposals under challenge, offering to provide speakers to corporate events to relay its message. At the **Costco** meeting in January, the center's Free Enterprise Project's Justin Danhof spoke out to dispute "the liberal narrative in Trump tax cuts."

Conservative Proposals Since 2010



Excludes 7 on governance, 2 in 2018.

Status of Conservative Proposals Since 2010



Excludes 1 not voted for another reason in 2010.

The final resolution tally of conservative-backed proposals for 2018 remains unclear as of this writing; NCPPR does not respond to Si2 inquiries for information. Information about NCPPR resolutions often surfaces in company challenges filed at the SEC.

Conservative Groups

Company	Proposal	Lead Filer	Status
Amazon.com	Review/report on human rights free speech policy	David Ridenour	omitted
Apple	Review/report on human rights free speech policy	National Center for Public Policy Research	omitted
Coca-Cola	Review/report on free speech policy	National Center for Public Policy Research	withdrawn
Comcast	End news bias	David Ridenour	June
Duke Energy	Report on benefits of lobbying	National Center for Public Policy Research	May
Exxon Mobil	Provide cost-benefit analysis of sustainability policies	Steven J. Milloy	withdrawn
Facebook	Report on board nominee diversity to satisfy liberals	David Ridenour	June
General Electric	Report on benefits of lobbying	National Center for Public Policy Research	April
Goldman Sachs	Review/report on human rights free speech policy	National Center for Public Policy Research	withdrawn
Home Depot	Review/report on human rights free speech policy	National Center for Public Policy Research	omitted
Johnson & Johnson	Review/report on human rights free speech policy	National Center for Public Policy Research	omitted
Pfizer	Review/report on human rights free speech policy	National Center for Public Policy Research	omitted
Starbucks	Report on charitable contributions	Tom Strobhar	omitted
Time Warner	End news bias	David Ridenour	June
Walt Disney	End news bias	National Center for Public Policy Research	omitted

Human Rights

Religious freedom: Seven of NCPPR's 2018 resolutions continue a theme raised last year, suggesting that companies should review their policies "related to human rights to assess areas where the Company needs to adopt and implement additional policies" and report by December. After five omissions and two withdrawals, it appears that none will come to votes. The supporting statements contend the companies are violating conservatives' free speech rights and inappropriately promoting liberal causes. For example:

- It said **Apple** is censoring certain groups and inappropriately collaborating with the Southern Poverty Law Center. The resolution referenced Apple's decision to stop Apple Pay usage by alt-right groups following the neo-Nazi gathering in Charlottesville, Virginia, and asserted such actions were akin to earlier censorship of the NAACP.
- It contended **Coca-Cola** does not respect free speech rights because it has supported the Human Rights Campaign and the Southern Poverty Law Center—which NCPPR says work against "religious freedom."
- It asserted **Goldman Sachs** has a relationship with the Human Rights Campaign and the Center for American Progress and that these groups hold extremist views.

SEC action and withdrawals:

- **Amazon.com** successfully challenged the proposal at the SEC, arguing Ridenour failed to provide sufficient proof of his stock ownership.
- The SEC staff agreed with **Apple's** contention that the resolution duplicated a proposal it received first from Jing Zhao asking for a human rights committee *(covered in this report on p. 53 under Human Rights)*.
- NCPPR withdrew at **Coca-Cola** after noting that the company's charitable giving policy states it is aligned with its business priorities, but Coke also had challenged the resolution, saying it was moot.
- It also withdrew at **Goldman Sachs**, saying it was satisfied that Goldman's philanthropic giving standards are appropriate—but the firm had argued at the SEC that the proposal contained false and misleading statements and impugned Goldman's reputation given its assertions about the Human Rights Campaign and the Center for American Progress, while also arguing it was moot given its current human rights policy.
- **Home Depot** has successfully argued the proposal is ordinary business because of its focus on a specific charitable group, the Human Rights Campaign, not on broader human rights issues. The proposal's resolved clause is identical to one in a resolution the proponent filed and withdrew in 2015 after a similar SEC challenge from the company. NCPPR said that it withdrew this year after the company agreed to insert the following language into its Political Activity and Government Relations Policy: "Participation in the PAC is strictly voluntary, and neither participation in the PAC nor personal political affiliation will have an effect on one's employment with Home Depot."

At **Johnson & Johnson** and **Pfizer**, both companies told the SEC a similar proposal raises ordinary business issues. That resolution asked for a report "and prepared at reasonable cost, detailing the known and potential risks and costs to the Company caused by pressure campaigns from outside organizations that seek to dictate the Company's free speech and freedom of association rights." The companies' ordinary business arguments prevailed at the SEC.

Corporate Political and Charitable Activity

Lobbying: NCPPR supports unfettered corporate spending in the political arena but lifts some language from the resolutions of proponents who are instead looking for spending disclosure. It also is critical of companies that support environmental regulation and incorporates these values in its resolutions. This year, NCPPR is lauding the lobbying efforts of **Duke Energy** and **General Electric** and asks for a report, using the same resolved clause of disclosure advocates concerned about what they see as undue influence in the political system. *(Covered in this report under Political Activity, p. 35.)* Both companies had also received standard political activity proposals on lobbying or elections and argued at the SEC that they need not include them because they were duplicative, following the SEC's shareholder proposal rule. Mercy Investments withdrew at Duke but is in discussions with the company. The NCPPR resolution praises both companies for supporting the American Legislative Exchange Council and the Business Roundtable and says they should continue to "advance economic liberty" and "free speech rights." The NCPPR resolutions will appear in the proxy statements.

Charitable giving: Long-time occasional proponent and anti-abortion activist Tom Strobhar this year asked **Starbucks** to report on its charitable giving program, but the company successfully challenged it at the SEC, which agreed it concerns ordinary business given a focus on gay rights and abortion that made it too specific.

Media

This year NCPPR revived an approach tried in years past by proponents worried about liberal news bias, but there are SEC challenges that seem likely to succeed from all three recipients. The resolution asked each company to "adopt a policy requiring that the company's news operations tell the truth, and issue an annual report to shareholders explaining instances where the company failed to meet this basic journalistic obligation." **Comcast**, **Time Warner** and **Walt Disney** each say the resolution is ordinary business because it relates to news programming content. Comcast also said NCPPR did not prove its stock ownership, while Time Warner said it was moot. So far, the SEC has agreed only with Disney and has not responded yet to the other two companies, but resolutions about news content have been omitted in the past.

Last year, NCPPR tried to get investors to vote on the proposition that companies put themselves at political risk if they use mainstream media outlets to advertise their products, but the resolution was omitted on ordinary business grounds.

Governance

Two resolutions take a corporate governance approach.

Steven Milloy has withdrawn a resolution at **ExxonMobil** that asked it to report annually on

> the incurred costs and associated significant and actual benefits that have accrued to shareholders, the public health and the environment, including the global climate, from the company's environment-related activities that are voluntary and that exceed U.S. and foreign compliance and regulatory requirements.

Milloy withdrew after Exxon asserted at the SEC that the proposal was too vague, related to ordinary business and moot. The withdrawal came before any SEC response and Milloy did not indicate in his correspondence that he reached any accord with the company.

Another resolution is from David Ridenour at **Facebook**, asking for a report on

1. A description of the specific minimum qualifications that the Board's nominating committee believes must be met by a nominee to be on the board of directors; and
2. Each nominee's gender, race/ethnicity, skills, ideological diversity and experience presented in a chart or matrix form.

It appears to be trying the copy-cat approach of the other NCPPR resolutions on lobbying, in this case taking language the NYC pension funds are using to encourage greater board diversity *(see p. 62 in the Board Diversity section)*. The company has challenged the resolution at the SEC, arguing the proponent failed to substantiate his stock ownership. The proposal says that the information it seeks is only to "satiate liberal bean counters" and that "true diversity comes from diversity of thought," which is missing at the company "and in Silicon Valley generally"—thus presenting risks to the company.

Other Governance

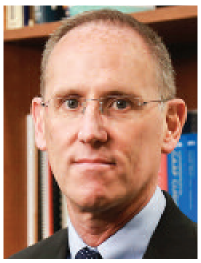
Environmental, social and sustainable governance (ESG) resolutions make up about half of all the proposals that shareholders will vote on. Other proposals –commonly referred to as governance proposals – include issues such as executive compensation and voting rules that often strike at the heart of both good management practices and shareholder rights. They are beyond the scope of *Proxy Preview* but a few are mentioned here.

Board nominations: For the fourth consecutive year, the New York City Comptroller's Office is challenging the old boys club culture that dominates U.S. corporate boardrooms. Since 2014, hundreds of companies have responded positively to proxy access resolutions that demand policies that make it easier for shareholders to nominate board members. This year, the NYC funds are continuing the effort with a focus on board refreshment and evaluation, emphasizing board diversity.

CEO pay: Shareholder advocates were key players in the successful fight to attain what is now a required advisory vote on executive compensation known as say-on-pay. This year will see the adoption of another shareholder initiative to evaluate executive compensation with the release of CEO-median worker pay ratios. The CEO pay ratio is part of the Dodd-Frank Act passed in response to the financial crisis. The Act also included new SEC rules on CEO pay performance and clawback provisions (i.e. the recovery of money already disbursed). The Financial CHOICE Act that passed the House in 2017 would gut much of the Dodd-Frank requirements, including these initiatives, but faces an uncertain future in the Senate.

Shareholder rights: Two threats to shareholder democracy – one old and one new – have resulted in several shareholder resolutions that will be voted on this spring. A growing number of companies are conducting virtual-only annual general meetings that are held online without a physical location or an in-person shareholder meeting. Among the shareholder concerns over virtual meetings is the ability of management to control the meeting and suppress shareholder feedback . Meanwhile, the issue of how management counts proxy votes has been debated for years but has been getting renewed attention from shareholders. The most glaring example being that of many companies that count "abstain" votes in favor of management's recommendation – which clearly contradicts the dictionary definition of "abstain" (i.e. "formally decline to vote either for or against a proposal or motion").

advocacyposition



BOARDROOM ACCOUNTABILITY 2.0

MICHAEL GARLAND
Assistant Comptroller, Corporate Governance and Responsible Investment Office of New York City Comptroller

After launching the successful "Boardroom Accountability Project" in fall of 2014 to give investors a meaningful voice in director elections through "proxy access," New York City Comptroller Scott M. Stringer and the New York City Pension Funds launched the "Boardroom Accountability Project 2.0" in September 2017. This next phase of the campaign ratchets up pressure on companies to make their boards more diverse, independent and climate-competent, so that they are in a position to deliver better long-term returns for investors.

As part of the launch, Comptroller Stringer sent letters to the nominating committee chairs of 151 companies requesting a dialogue about their process for adding and replacing board members (i.e., board refreshment and evaluations) and for soliciting shareowner input for potential candidates who are women and people of color. As a predicate to the discussion, the Comptroller requested that each company publicly disclose the skills, race and gender of board members in a board matrix.

The effort is the logical next step for the Boardroom Accountability Project, in which the NYC Funds negotiated, company by company, to make proxy access — the right for shareowners to nominate directors using the corporate ballot — a market standard. Today, more than 450 companies provide proxy access, including over 65 percent of the S&P 500, up from about six companies when the Project was launched.

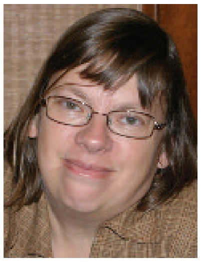
Proxy access is a powerful tool and the mere specter of a proxy access candidate is expected to make boards more responsive to shareowner engagement, particularly with respect to board composition and quality, including diversity. Boardroom 2.0 is an ambitious effort to test this theory.

Companies that received the Comptroller's letter include 139 companies that enacted proxy access after receiving a proposal from the NYC Funds and 12 at which the NYC Funds' proxy access proposal received majority support in 2017. In most cases, the companies were initially targeted for proxy access because their board lacked adequate diversity or granted excessive CEO pay, or because they are carbon-intensive energy companies that face substantial risks related to climate change.

In addition to the letters, the NYC Funds submitted shareowner proposals to some of the companies requesting a board matrix that, among other attributes defined by the board, includes each director's gender and race/ethnicity. This specific matrix approach is consistent with the request in a 2015 rulemaking petition to the SEC seeking mandatory matrix disclosure by all U.S. public companies.

A meaningful board matrix provides shareowners with a "big-picture" view of directors' attributes and how they fit together, enabling shareowners to assess how well-suited individual director nominees are for the company in light of its evolving business strategy and risks and the overall mix of director skills and experiences.

Initial responses have been overwhelmingly positive, leading to meaningful engagements with approximately half of the companies through January 2018, and the withdrawal of some proposals. At a number of companies, including **ExxonMobil** and **NRG Energy**, proposals appear likely to go to a vote.



HOW MUCH IS TOO MUCH? THE DAWN OF PAY RATIO DISCLOSURE

ROSANNA LANDIS WEAVER

Program Manager, Executive Compensation Initiative, As You Sow

This is the year the pay ratio between the CEO and the median employee will finally appear in proxies. It has been a long road for Section 953b of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act to be implemented.

At every step of the way, the rule faced opposition from corporate lobbyists, as well as Republicans in Congress and the SEC. But it was popular among investors. When a draft rule was issued in September 2013 the SEC received more than 304,000 letters, the vast majority of which strongly favored it.

The SEC has given companies broad discretion on how to calculate the data in its interpretive guidance in September. Because the data will be variable, it will be difficult to compare companies, those within industries, or differently sized companies. That may backfire for those that hoped adding complexity would cloud data comparisons, since the overall ratio will stand out even more glaringly.

Great thinkers and business leaders have often debated how much pay is too much. Former compensation consultant Graef Crystal points to the long history of these discussions: "Plato told Aristotle no one should make more than five times the pay of the lowest member of society. J.P. Morgan said 20 times. Jesus advocated a negative differential—that's why they killed him."

The growth of CEO pay in recent decades has concerned many, even former executives. William J. McDonough, then CEO of the Federal Reserve Bank in New York, noted in a powerful speech, "I am old enough to have known both the CEOs of 20 years ago and those of today. I can assure you that we CEOs of today are not 10 times better than those of 20 years ago."

Many companies, including **Whole Foods**, maintained a reasonable ratio level. John Mackey in a 2009 essay, "Why sky-high CEO pay is bad business," noted that having a cap had not presented a problem to his company. "Whole Foods has never lost to a competitor a top executive that we wanted to keep since the company began more than 30 years ago." He also explained that employees cared about pay equity issues and that Whole Foods found that a smaller gap made for a happier workforce with better performance results.

What sort of pay ratios will we see this year? No one knows for sure.

Pay data firm **Equilar** released results of a survey of 356 public companies on February 1 that found a CEO to median employee ratio of approximately 140:1. This survey included companies of a range of sizes, however, so companies in the S&P 500 will likely have higher ratios.

Alexander Hamilton once wrote: "Public infamy must restrain what the laws cannot." Perhaps public infamy – which should be focused on the directors who design the packages, the shareholders that approve them, as well as the executives themselves – may yet restrain what this disclosure will now clearly illustrate.

advocacyposition

RIGGING THE PROXY VOTE: HOW *FORMULA SWAPPING* HARMS SHAREOWNERS

BRUCE HERBERT

Chief Executive, Newground Social Investment and Chief Executive, Investor Voice

American corporations employ a questionable governance practice that gives boards unfair power to disregard investor ESG concerns. The practice, known as "Formula Swapping", has caused more than 100 shareholder proposals that earned a 50 percent or greater simple majority – to instead be misleadingly reported as less-than-majority votes.

Formula Swapping is where corporations use a favorable vote-counting formula for board elections, but a more onerous formula to count votes on shareholder proposals. This boosts (more heavily weights) management's board vote while depressing the tally for shareholder items. The key is how ABSTAIN votes are treated.

Formula Swapping packs ABSTAIN votes into the formula for shareholder proposals. Irrespective of voter intent, *Formula Swapping* mathematically converts every abstention into an AGAINST vote, thus lowering the vote percentage cast in favor. These distorted figures become enshrined in company SEC filings and are often reported by the press.

How did we get here? Under Rule 14a-8, the SEC mandates use of a fairer "Simple Majority" standard (FOR divided by FOR + AGAINST) to determine a proposal's resubmission eligibility; abstentions are barred from this SEC formula. Other than this, State law prevails and the SEC cannot direct how companies count votes. Historically, competition for corporate registrations led to a "race to the bottom" wherein states permitted inconsistent and discriminatory voting practices that disadvantage shareholders to this day.

For example: a **Plum Creek Timber** proposal on political spending disclosure garnered a Simple Majority vote of 56.2 percent (using the formula also employed for Plum Creek's board election). However, the company engaged in *Formula Swapping* to apply

Continued next page

RIGGING THE PROXY VOTE: HOW *FORMULA SWAPPING* HARMS SHAREHOLDERS

Continued

a more stringent vote-counting formula to shareholder items, which caused the proposal to receive only 34.2 percent – a 22 percent lower outcome. The amount of distortion varies, vote to vote, but whenever abstentions are in the formula, shareholder votes are reduced.

A 2013 **CalPERS** study revealed that more than half of American companies practice *Formula Swapping* and routinely re-cast abstentions as AGAINST shareholder proposals.

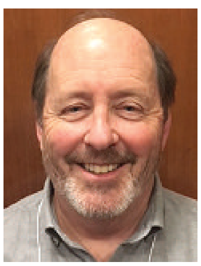
In response, Investor Voice and Newground Social Investment initiated a pilot project to ask that companies adopt a fair, democratic, Simple Majority standard for shareholder items. The proposal has been presented to 20 S&P 500 companies, and 30 percent have have adopted the Simple Majority standard. Our able cohort of co-filers has included: **Boston Common Asset Management**, **Calvert Investments**, **First Affirmative Financial Network**, **United Church Funds** and **Walden Asset Management**.

In 2018, we have taken a strategic pause while academic partners analyze a sizable 14-year voting database, in preparation for scaling up the number of filings in 2019. For 2018, one vote-counting proposal will be considered at **Amazon.com's** May AGM.

Every ESG issue, from climate change to worker safety, is being systematically harmed by *Formula Swapping*. Shareowners can improve governance by:

1. Voting FOR the Amazon.com vote-counting proposal.
2. Asking proxy reporting services **ISS** and **Glass Lewis** to recommend support FOR vote-counting proposals.
3. Recognizing how companies count shareholder-sponsored items, and sharing the proxy text with Investor Voice.
4. Asking portfolio companies to adopt Simple Majority voting.

advocacyposition



WHO BENEFITS FROM VIRTUAL-ONLY ANNUAL SHAREHOLDER MEETINGS

TOM McCANEY

Associate Director, Corporate Social Responsibility, Sisters of St. Francis of Philadelphia

Much has been written recently on the trend of companies moving their annual shareholder meetings to a virtual-only platform. Several publications have featured articles presenting the pros and cons of the virtual-only format. Generally, the articles and blogs defending this strategy cite two reasons: cost savings and increased access. The savings are obviously real. The company will spend less on a meeting that does not include an off-site room rental, security, and catering costs.

But are the savings significant? Are these large, billion-dollar corporations really burdened by this cost? While companies that have gone to virtual-only meetings use cost as a reason, many others continue to spend freely. **Walgreens Boots Alliance**, as an example, moved its meetings two years ago from its home city of Chicago to a hotel in midtown Manhattan, and held this year's meeting at a resort in Scottsdale, Arizona.

The other reason cited by companies, increased access, demonstrates the difference between virtual and virtual-only meetings, and succeeds in raising the frustration level of shareholder advocates and others interested in good governance. Those fighting for the rights of shareholders are not opposed to a virtual component to the meetings. It's obviously difficult for most shareholders, even those wishing to attend, to travel to meetings not in their areas. The Interfaith Center on Corporate Responsibility (ICCR), and other corporate responsibility advocates, consider it best practice to hold hybrid meetings, which include both virtual and in-person platforms.

The choice of holding a virtual-only meeting prevents interested shareholders from facing the chair, CEO and the board while they ask their questions. Arguments against these encounters discount the value of human interaction and reduce shareholders to little more than numbers on a ledger sheet. Surely, no company conducts 100 percent of its business, internal and external, virtually.

It's also important to recognize that the execution of shareholder meetings, even virtual meetings, varies greatly. For example, **Dupont**, under former CEO Charles Holliday, held upbeat in-person meetings in the beautiful Dupont Theater, showcasing new research and products. They accentuated the positive in an almost cheerleading way. Many companies, however, stick to the basics, robotically reading the rules of the meeting and getting through the business portion as quickly as possible.

Among companies holding virtual-only meetings is **ConocoPhillips**, which recently announced a move back to hybrid meetings; it held what has been described as open and conversational Q&A sessions for shareholders. **Comcast's** meeting, on the other hand, was run with rigid efficiency. Those posing questions were required to type their questions, which were them read by an operator. There was no opportunity for a follow-up. The only voices heard at last year's meeting, other than one shareholder presenting a proposal, were of the operator and chair/CEO Brian Roberts. The board, in fact, was never introduced, raising the question of whether members even attended.

Shareholders, although owners of the company, have few opportunities to make their voices heard. Virtual-only meetings further erode those rights and insulate the board from outside opinions.

ALIGNING INVESTMENT AND MISSION

Foundations, educational institutions, pension funds, NGOs, and faith-based institutions are among those adopting policies to better align their investments and mission. The five most common strategies for leveraging assets to help align investment and mission are 1) proxy voting; 2) shareholder advocacy; 3) screened investments; 4) impact investing, mission related investing and program related investing; and 5) ESG integration.

expertinsight

FOUNDATIONS' VOTES MATTER: LEVERAGING OWNERSHIP RIGHTS TO FURTHER YOUR MISSION

LAURA CAMPOS

Director, Corporate & Political Accountability, Nathan Cummings Foundation

At a time when progress on critical issues like inequality, racial justice and climate change is both threatened and increasingly urgent, a growing number of investors are looking to use their investments to drive change on social and environmental issues while generating financial returns. At the Nathan Cummings Foundation (NCF), for example, we strive to use all of our assets—including our proxy votes—to pursue justice for people and the planet and to achieve the change we want to see in the world.

We are not alone. The number of foundations with public commitments to pursue mission aligned and impact investing has grown rapidly over the last few years. Foundation members of the U.S. Impact Investing Alliance's Presidents' Council, who share a commitment to practicing and promoting impact investing, hold more than $80 billion in combined assets. And that's just one of a number of organizations where foundations come together to explore the potential of mission aligned and impact investing.

Despite this encouraging trend, the number of investors employing active ownership strategies—including intentionally voting their proxies and filing shareholder proposals in line with their mission—continues to be relatively small, especially among foundations. This is a shame, because in addition to being relatively simple to do, it can also have a significant impact.

Let's look at proxy voting, a fundamental building block of a mission aligned portfolio. How many foundations with a focus on racial and/or gender justice failed to ensure their proxy votes were cast in favor of proposals asking companies to increase board diversity or report on equal employment opportunity or gender pay gaps? How many foundations with a focus on climate change pushed their managers to vote in favor of the more than 40 shareholder proposals on climate change up for a vote in 2017? Foundations that aren't paying attention to proxy voting are missing an easy but powerful opportunity to use their standing as investors to drive progress on their missions.

It's true that almost all shareholder proposals are nonbinding, but we've seen time and again that majority votes nearly always spark action. At **Occidental Petroleum**, a majority supported proposal on climate risk resulted in a commitment to report on carbon asset risk. Another example: shortly after a majority-supported proposal requesting investor access to the corporate proxy to nominate directors, Exxon appointed a climate scientist to its board.

You may ask what difference a few shares make, but when it comes to shareholder proposals, every vote counts. Pressing your managers to support proposals in line with your values can tip their position on an issue and the vote. Last year, **Vanguard** and **Blackrock's** support for the climate risk proposal at Occidental pushed the total past 50 percent. According to research from The 50/50 Climate Project, had Vanguard supported all fourteen proposals calling for greater disclosure of climate risk in 2017, eight additional proposals would have achieved a majority. Now that's a climate tipping point worth getting excited about.

Proxy Voting

Voting on shareholder proposals to help influence companies to be more fiscally, socially and/or environmentally responsible is one fundamental way investors can both exercise fiduciary responsibility and weigh in on social and environmental issues. Consequently, it is a logical entry point for aligning investment and mission. Most institutions, however, delegate voting to their financial managers or custodians, who generally vote with management against social and environmental issues. Proxy votes can encourage many corporate reforms, such as non-discrimination in employment, diversified boards, reformulation of toxic products, reduction of greenhouse gas emissions and public disclosure of corporate political spending.

Shareholder Advocacy

Shareholder advocacy uses the power of stock ownership to promote change in corporate practices through filing shareholder proposals and/or conducting shareholder dialogues with senior company officials. To file a proposal, a shareholder must hold at least $2,000 worth of shares at a company, prove those shares have been continuously held for at least one year prior to the

expertinsight

STOCK EXCHANGES AND SHAREHOLDER ENGAGEMENT

TIFFANY GRABSKI
Senior Project Manager for the United Nations Sustainable Stock Exchanges Initiative

A growing number of external forces have put increasing pressure on publicly listed companies to address environmental social and governance (ESG) factors. Among these forces are the growing number of ESG shareholder resolutions, and the steady rise in demand from investors globally for sustainability-related information. Listed companies are responding to this demand on their own accord, or in some cases, in response to shareholder resolutions, as we saw with **ExxonMobil** last year. However, despite the growing demand for increased ESG disclosure, companies still face the challenge of determining what to report, what is deemed material and how to communicate this based on the market they are listed in and the industry they belong to.

Stock exchanges have long been guiding the companies they list about financial reporting requirements, guidance and training, all of which continue to reflect evolution in the reporting landscape. A stock exchange's mandate includes ensuring that investors have the information necessary to make informed investment decisions, and investors increasingly want data on environmental and social factors. From corporate disclosure about board diversity to environmental risks such as resource scarcity, stock exchanges are key change agents.

To help stock exchanges guide their markets in responding to this demand, the United Nations Sustainable Stock Exchanges (SSE) Initiative launched in 2015. The UN SSE provides guidance that exchanges can use as a template for sustainability reporting. Alongside the launch of this guidance, the initiative challenges all stock exchanges to provide guidance to their markets and assist companies in responding to ESG information demands. When the SSE launched this campaign, only 14 stock exchanges worldwide provided any guidance on ESG disclosure. Today, 34 stock exchanges provide guidance, and another 12 have committed to do so – now accounting for more than half of the world's major stock exchanges. The SSE guidance document aims to provide all markets with a common overview of ESG disclosure methods and continues to work with all stock exchanges to ensure all listed companies have the guidance investors want.

Apart from reporting guidance, stock exchanges also work with listed companies to share best practice and facilitate training on a range of sustainability topics. For example, the Egyptian Stock Exchange works with local partners to facilitate board training for female executives and maintains a database of female board-ready executives to support gender diversity on boards. In Luxembourg, the stock exchange has taken an environmental focus and is the leading exchange for listing green bonds, providing guidance on green bond listings, assurance, and working with other exchanges to increase the market appetite. More examples of best practice on gender equality and green finance can be found in the SSE's guidance documents on these topics.

proposal filing date and agree to hold them through the annual general meeting date. For over four decades, active investors have effectively used proposals and dialogues with corporate management to influence corporate practices. Well-established shareholder networks exist that coordinate shareholder advocacy efforts and introduce new advocates to the process.

Screened Investments

Investors can take environmental, social, and governance (ESG) issues into account by applying screens to their investment portfolio. For example, positive screens may include companies that have strong environmental practices or explicitly protect human rights. Negative screens aim to avoid investing in companies whose products and practices the investors find harmful to individuals, communities or the environment.

Mission and Program-Related Investments

Mission-related investing (MRI) directs a portion of a foundation's assets into projects or companies that reflect the mission of the investing institution. Funds come from the endowment's assets and often strive for market returns. The term MRI can be confusing as it is often used as an umbrella term for any environmental or social investment. It is also often used interchangeably with Program-Related Investments (PRI). PRIs are typically low-interest loans for housing, education and business and they are usually disbursed from a foundation's granting funds; in these cases, financial gain may not be their primary goal.

Impact Investments and Green Bonds

Impact investments aim to generate positive environmental and social impact with a financial return. These investments encompass both private and public equity and investments are made across all asset classes and often focus on private companies. Impact investments can range from microfinance to women-owned manufacturing. A rapidly growing sector is tax- exempt green bonds which aim to reclaim neglected, abandoned or polluted 'brownfield' sites and provide capital for scalable renewable infrastructure. They include repowering facilities with solar energy, improving irrigation systems to save water, relamping streetlights with low energy LEDs and providing loans for hybrid and electric plug-in vehicles.

ESG Integration

Many investment firms also have begun to incorporate some ESG considerations into their risk and opportunity analyses. Studies show that most ESG-managed funds have performed the same or better to date than others not managed this way. ESG integration can now be found in investment vehicles, reporting requirements, legislation and stock markets, as discussed throughout *Proxy Preview*.

APPENDIX

More on the Web

All resolutions must conform to the Shareholder Proposal Rule of the Securities and Exchange Act of 1934, which sets procedural as well as substantive standards for admissibility. Read more on **www.proxypreview.org**.

Access research about shareholder proposal issues, organizations, networks and investor campaigns on **www.proxypreview.org**.

Read more about the contributing authors at **www.proxypreview.org**.

Contributors (in alphabetical order)

Susan Baker – Vice President, Shareholder Advocacy, Trillium Asset Management

Mark E. Bateman – Director of ESG/SRI Research, Aperio Group

Simon Billenness – Executive Director, International Campaign for the Rohingya

Laura Campos – Director, Corporate & Political Accountability, Nathan Cummings Foundation

Jackie Cook – Founder and CEO of Fund Votes; Director, Proxy Research and Services, SHARE

Patrick Doherty – Director, Corporate Governance, State of New York, Office of the State Comptroller

Bruce Freed – President, Center for Political Accountability

Danielle Fugere – President, As You Sow

Michael Garland – Assistant Comptroller, Corporate Governance and Responsible Investment Office of New York City Comptroller

Tiffany Grabski – Senior Project Manager for the United Nations Sustainable Stock Exchanges Initiative.

Bruce Herbert – Chief Executive, Newground Social Investment

Luan Jenifer – Chief Operating Officer, Miller/Howard Investments

Patricia Jurewicz – Director, Responsible Sourcing Network

John Keenan – Corporate Governance Analyst, AFSCME Capital Strategies

Jonas Kron – Director of Shareholder Advocacy, Trillium Asset Management

Natasha Lamb – Managing Partner, Arjuna Capital

Erica Lasdon – Vice President, ESG Senior Research Analyst, Calvert Research & Management

Sanford J. Lewis – Attorney

Conrad Mackerron – Senior Vice President, As You Sow

Divya Mankikar – Investment Manager, Sustainable Investments Program. CalPERS

Tom McCaney – Associate Director, Corporate Social Responsibility, Sisters of St. Francis of Philadelphia

Mary Jane McQuillen – Head of Environmental, Social and Governance Investment, ClearBridge Investments

Donna Meyer Ph.D. – Director, Shareholder Advocacy, Mercy Investment Services

Brianna Murphy – Vice President, Shareholder Advocacy, Trillium Asset Management

Michael Passoff – CEO, Proxy Impact

Vaishnavi Ravishankar – Manager, Governance Issues, UN Principles for Responsible Investment (PRI)

Amina Rubin – Marketing Associate, Azzad Asset Management

Leslie Samuelrich – President, Green Century Capital Management

David Schilling – Senior Program Director, Interfaith Center on Corporate Responsibility

Daniel A. Seligman – Senior Manager, Energy Efficiency, Ceres

Anne Sheehan – Director of Corporate Governance, California State Teachers' Retirement System

Timothy Smith – Director of ESG Shareowner Engagement, Walden Asset Management

Nanya Springer – Vice President of Programs, Center for Political Accountability

Winston E. F. Vaughan – Senior Manager, Renewable Energy, Ceres

Rosanna Landis Weaver – Program Manager, Executive Compensation Initiative, As You Sow

Heidi Welsh – Executive Director, Sustainable Investments Institute (Si2)

Austin Wilson – Environmental Health Program Manager, As You Sow

Aaron Ziulkowski – Manager, ESG Integration, Walden Asset Management

2017 Proxy Season Review

The 2017 spring proxy season ended with a bang, with long awaited success for investor activists bolstered by mainstream investors, tempered by legal peril for the entire shareholder resolution process. By far the most significant vote was the 62 percent result for a climate risk proposal at **ExxonMobil's** May 31 annual meeting—which occurred after the mutual fund giants **BlackRock**, **Vanguard**, and **Fidelity** decided for the first time to lend their support. Exxon has considered shareholder resolutions for many years and has been a high profile target for shareholders but the highest vote until now was 38.1 percent for a climate strategy resolution in 2016. The new vote at Exxon was not the only unusually high climate tally of the season, given the change in voting by the large funds; still, while several voted in favor of a few climate resolutions, for the most part they continued not to support shareholder resolutions.

But the ink on celebratory press releases was hardly dry when the House of Representatives' approved the Financial CHOICE Act in June 2017. Its passage would gut the shareholder proposal process and also walk back many of the Obama-era financial reforms; while as of February 2018 it still is not expected to pass the Senate, it nonetheless sets out long-held aspirations of those who have opposed shareholder resolutions for years. Efforts to significantly scale back the ability of investors to file and proposals do seem to have made their way into SEC Staff Legal Bulletin 14I, issued on November 1, but its full impact remains to be seen. Other efforts for a full-blown rulemaking to restrict shareholder rights remain an aspiration for the U.S. Chamber of Commerce, the Business Roundtable and others—who may yet see their ambitions come to fruition in the Trump administration.

Resolution trends: After a dip in 2016, the total number of environmental and social policy shareholder resolutions filed in 2017 rose substantially, reaching a record of 494 by the end of the year—compared with 433 in 2016 and 462 the year before. The marked increase in volume during 2017 came not from environmental resolutions, but rather from social policy issues—specifically a raft about equitable pay (which continue in 2018), as well as a campaign with 20 resolutions about the Holy Land Principles (which have not continued).

In all, there were seven majority votes among the 237 that investors considered on proxy ballots—down from a record 243 votes in 2016 but still above the 221 voted on in 2015. Dips during 2016 in the rate of proposals withdrawn and omitted reversed, however, and proportionally more companies than in the previous few years persuaded the SEC that they could omit resolutions. This trend seems to be continuing in 2018, although it is too early for definitive conclusions yet.

Average overall support was 21.5 percent in 2017, up from 21.1 percent in 2016 and 20 percent in 2015.

Majority votes—Investors cast majority votes in favor of board diversity with wide margins at the real estate firm **Hudson Pacific Properties** (84.8 percent) and the scientific instruments firm **Cognex** (62.8 percent). But climate change also came into its own in 2017, reflecting the global scientific consensus about its risks that many on Wall Street seem to have taken to heart: shareholders gave climate risk reporting proposals 67.3 percent at **Occidental Petroleum**, 62.1 percent at **ExxonMobil** and 56.8 percent at the utility **PPL**. A sustainability reporting proposition at **Pioneer Natural Resources**, another oil and gas firm, also received a majority of 52.1 percent. In December, a request for a report on equal employment and affirmative action at cyber security firm **Palo Alto Networks** received 50.9 percent support from shares cast for and against, as well, although the company counts abstentions as votes against and reports it did not pass. This was the highest vote to date for this issue and the first majority. (There were eight majorities in 2016 for proposals opposed by management, as well.)

Withdrawals—Company action that usually involves more disclosure as well as shifts in policy are the prime objective of shareholder proponents. In the end, they withdrew 173 resolutions in 2017, nearly always because of negotiations. In volume, this is below the all-time high of 181 withdrawals back in 2014 but a bump-up, as noted, from 139 in 2016.

In major 2017 subject categories, proponents were far and away most likely to withdraw *board diversity* resolutions (fully 73 percent of filings on that subject). They also withdrew half the resolutions on *workplace diversity* and nearly the same proportion (46 percent) of those on board oversight. In what may not be surprising in this age of political discord, proponents withdrew just 17 percent of resolutions they filed asking for more *corporate political spending* transparency; the majority of these dealt with lobbying.

High scorers—In addition to the majority votes, another 19 earned between 40 percent and 49 percent *(table, below)*. As in 2016, more of the top-scorers related in some way to the environment and sustainability (14) than any other categories; three more concerned election spending or lobbying.

High Scoring 2017 Resolutions

Company	Proposal	Proponent	Vote (%)
Hudson Pacific Properties	Report on board diversity	CalSTRS	84.8
Occidental Petroleum	Report on climate change strategy	Wespath	67.3
Cognex	Adopt board diversity policy	Philadelphia PERS	62.8
Exxon Mobil	Report on climate change	NYSCRF	62.1
PPL	Report on climate change strategy	NYSCRF	56.8
Pioneer Natural Resources	Publish sustainability report	NYSCRF	52.1
Palo Alto Networks	Report on EEO and affirmation action	Trillium Asset Mgt.	50.9
PNM Resources	Report on climate change strategy	Levinson Fndn	49.9
Dominion Energy	Report on climate change strategy	NYSCRF	47.8
Ameren	Report on climate change strategy	Mercy Inv.	47.5
	Report on coal ash risks	Midwest CRI	46.4
Duke Energy	Report on climate change strategy	NYSCRF	46.4
Occidental Petroleum	Report on methane emissions/targets	Arjuna Capital	45.8
Southern	Report on climate change strategy	Srs., St. Dominic-Caldwell	45.7
DTE Energy	Report on climate change strategy	NYSCRF	45.0
Middleby	Publish sustainability report	Trillium Asset	44.6
Lam Research	Disclose EEO-1 data	NYC Pension Funds	43.5
FirstEnergy	Report on climate change strategy	As You Sow	43.4
	Report on lobbying	N. Cummings Fndn	41.5
Devon Energy	Report on climate change	Gund Fndn	41.4
NextEra Energy	Review/report on political spending	NYSCRF	41.2
Marathon Petroleum	Report on climate change strategy	Mercy Inv.	40.9
Kinder Morgan	Report on methane emissions/targets	Miller/Howard Inv.	40.6
Emerson Electric	Review/report on political spending	Trillium Asset	40.3
AES	Report on climate change	Mercy Inv.	40.1
Emerson Electric	Report on lobbying	Zevin Asset Mgt	40.1

SUMMARY RESULTS BY TOPIC

This section describes the main topics raised in proxy season, highlighting new issues, continued big campaign and significant results.

Environment

Environmental issues included climate change, environmental management (mostly recycling), toxics and industrial agriculture (including pesticides and animal welfare). Additionally, proposals on sustainable governance encompassed elements of environmental issues as well as social impacts and related corporate governance, looking at board diversity, board oversight and disclosure and management.

Climate Change

The proxy season produced the several unprecedented votes on climate change, as noted, including the three majorities plus 13 more above 40 percent. A total of 90 resolutions focused specifically on climate change (additional sustainability reporting proposals also invoked climate-related subjects).

Impacts and strategies: Twenty-seven resolutions took up different aspects of climate risk and the ways in which companies are grappling—or not—with these challenges, including potentially stranded assets. Proponents went to nine fossil fuel producers and 12 utilities; investors responded across the board with high levels of support for more disclosure. Fifteen of the 22 proposals were resubmissions. The unprecedented majorities at **ExxonMobil** (62.1 percent) and **Occidental Petroleum** (67.3 percent) appear to show that many investors agree companies provide more transparency about their long-term portfolio risks from governments action to curb global warming in line with the Paris climate treaty. A new resolution to **Marathon Petroleum** went even further, asking about impacts from a business plan that would cut warming to well below the treaty's 2-degree aim; it earned 40.9 percent. The utility votes were especially high, with a 56.8 percent majority at **PPL** and seven more proposals over 45 percent.

Proponents withdrew when **Anadarko Petroleum** and **Chevron** agreed to provide more climate risk projections, while **NRG Energy**, **Southern** and **Xcel Energy** also saw withdrawals when they agreed to provide more risk management information. The SEC turned back arguments from companies that contended current reporting made more disclosure moot.

Shale energy: With 15 proposals, investor attention to shale energy sharpened to focus more particularly on methane emissions and leaks. *(In 2018 this is the main focus.)* Among the five votes, high scores included 40.6 percent at **Kinder Morgan** and 45.8 percent at **Occidental** on requests for reduction goals. (The Occidental vote rose from 33 percent in 2016.)

After a majority vote in 2016, the California State Teachers' Retirement System (CalSTRS) reached an agreement with **WPX Energy**, which agreed to provide more information. Three other utilities—**Sempra**, **Southern** and **WGL Energy**—also agreed on more disclosure and prompted withdrawals, which numbered 10 in all.

Carbon accounting: Investors filed about two dozen resolution on GHG emissions accounting in 2017, 10 were withdrawn, 10 voted and five omitted. A new push included the proposition that companies should set targets to achieve net-zero emissions, but these earned far less than more general and familiar proposals to set goals and report on them. Four votes for the latter "traditional" carbon accounting resolutions were in the 30-percent decile, with the highest being 36.7 percent at **Fluor**. Amalgamated Bank and Jantz Management proposed the net-zero resolutions, the highest of which resulted in 23.9 percent for a report request at **PayPal**. The SEC opined that two detailed resolutions seeking the establishment of these more aggressive goals were ordinary business issues companies need not put forth for shareholder consideration, but it found reporting on such goals acceptable. *(In 2018, it seems to have reversed this view, however, as noted on p. 28.)*

Renewable energy: In a dozen proposals, proponents asked big energy producers and users to set goals for employing more renewable energy. Requests for reports on such goals earned the most—the highest being 24.8 percent at **Kroger**. A single reprise of the mostly-abandoned tack to encourage greater use of distributed energy earned much more, though—35 percent at **Entergy**. There were seven votes and five withdrawals in all during 2017. *(A decision in late February at the SEC about a renewable energy goals proposal at **Gilead Sciences** suggests proponents will have to reformulate requests on this topic going forward; the SEC agreed with the company's assertion this concerns ordinary business given a focus on energy costs.)*

Other climate issues: New resolutions tying action on deforestation to both climate and human rights problems produced scores of about 23 percent at **Domino's Pizza** and **Kroger**, with proponents seeking action in these firms' commodity supply chains. A new proposition that **Berkshire Hathaway** divest from fossil-fuel related companies came in with a particularly low vote of just 1.3 percent. On the other hand, Arjuna Capital won 26 percent at **Chevron** asking it to consider selling off high carbon assets. The "climate dividend" idea, that oil companies should give money to investors instead of developing their reserves, remains unpopular with shareholders, however, and votes on this issue were less than 4 percent. On coal, though, shareholders are keen for more information about coal combustion residuals from **Ameren**, where the vote was 46.4 percent.

Environmental Management and Toxics

Half of the 16 proposals about environmental concerns outside the direct climate arena were on recycling, as has been the case for some years. The highest vote—out of six overall on environmental management—was 32 percent at **McDonald's** on cutting the use of Styrofoam cups; this vote helped lay the groundwork for the company's decision in 2018 to end all use of Styrofoam, a major victory for the proponents. On a closely related angle, both **Amazon.com** and **Target** agreed to curb foam packing. Food waste is also an emerging concern and a repeat resolution asking for details at **Whole Foods Market** attracted 30.4 percent support. *(A similar proposal is before Amazon.com in 2018, given its purchase of Whole Foods.)*

There were no votes on toxic materials, since the SEC decided a new proposal seeking company help to educate the public about lead risks was ordinary business at **Lowe's**, although **Home Depot** agreed to work on it and prompted a withdrawal from Arjuna Capital.

Industrial Agriculture

Eighteen filings yielded a mixed bag of 11 votes and seven withdrawals.

Antibiotics: In the realm of food production, a recurrent push from ICCR to get companies to restrict antibiotic use in the meat supply chain continued and attracted its highest support of 31.5 percent at **Sanderson Farms**, which contests the science connecting agricultural use of drugs with growing antibiotic resistant illnesses. *(The vote in 2018 was 43.1 percent, showing investors remain concerned.)* At **McDonald's**, a resolution seeking an extension of the company's ban on antibiotics for chicken to beef and pork also earned 31 percent. Such an extension is more difficult since beef and pork production is less vertically integrated than chicken farming, but going forward attention to the issue is likely to continue given the threat to human health.

Pesticides: Otherwise, regarding pesticides, As You Sow raised the new issue of pre-harvest glyphosate treatment in a resolution it withdrew at **Kellogg**, which agreed to explore how often this occurs among its suppliers as part of its focus on sustainable agriculture. Investors also gave significant support of 31.6 percent at **Dr Pepper Snapple Group** for a report on how it can cut pesticide use by its suppliers to protect pollinators that appear to be hurt by the use of neonicotinoids.

Farming practices: The highest scoring of just four resolutions on the treatment of animals was 24.3 percent on a proposal to cereal company **Post Holding**, seeking a report on brand risks connected to caged egg production. Egg products make up 28 percent of the company's net sales and Post says it is committed to a transition to cage-free housing. A new proposal at **Tyson Foods** combined climate concerns with animal welfare, but Green Century Capital Management ended up withdrawing that request for evaluation of the potential impact on Tyson of more vegetarians when it learned the company had acquired Beyond Meat, a meatless protein firm.

Social Issues

Animal Welfare

Investors put to bed a resubmission of a 2016 proposal from PETA on how a Texas monkey farm owned by **Laboratory Corp. of America** might become a vector for the spread of the Zika virus, giving it just over 4 percent and not enough for resubmission. Shareholders also gave scant support (2.6 percent) for a **Charles River Labs** resolution on banning business with primate dealers and labs that have violated the Animal Welfare Act. But the proposal highlighted the Trump administration's move early in the year to yank animal use reports from the U.S. Department of Agriculture website. That has prompted a spate of Freedom of Information Act requests since.

Corporate Political Activity

Shareholder proponents continued their push for more disclosure from companies about their spending on lobbying and elections, with the focus most intense on lobbying. The lobbying proposal votes drew even in 2017 with those on elections (both averaged about 27 percent, erasing a previous spread of a few percentage points that favored election proposals). The withdrawal rate for both types overall is relatively low, although proponents remain more likely to withdraw election resolutions than those about lobbying. In all, there were 67 votes in 2017 on corporate political activity, with 18 withdrawals and five omissions.

Proponents encountered a new problem that arose at **Anthem** when it successfully challenged a lobbying proposal that the SEC agreed was like earlier election spending proposals since both mentioned trade group spending, which encompasses both lobbying and election activity. Careful drafting in the future could solve the problem and allow both subjects to be raised at a single company.

Lobbying: Votes above 40 percent occurred at **FirstEnergy** and **Emerson Electric**, while four more were in the high 30-percent range at **AT&T**, **Honeywell International**, **Travelers** and **Walt Disney**. A notable withdrawal occurred at **Pinnacle West**, where the company has come under fire for its efforts to influence the Arizona public utilities commission; the utility agreed to provide more information on both lobbying and contributions to non-profit charities, social welfare groups and political committees—a key point of contention.

Election spending: The overall average for Center for Political Accountability (CPA) proposals fell, as did the number filed, although there were several high votes—just above 41 percent at both **Emerson Electric** and **Next Era Energy**. The average dropped from earlier results given tallies in the low teens at **Alphabet**, **Berkshire Hathaway** and **Expedia**, and just under 8 percent at **Occidental Petroleum**.

At least three of the seven withdrawals came at companies with previous high votes—**Fluor** (61.9 percent last year), **McKesson** (44.4 percent in 2016) and **NiSource** (50.3 percent in 2016). All three agreed to the CPA-defined oversight and disclosure approach.

Other political issues: Six of seven additional filings on political money went to votes. Investors gave the most support to the AFL-CIO's proposition that companies end premature vesting of equity awards when employees leave for government jobs—what the union terms "government service golden parachutes." This earned 35.5 percent at **Citigroup** but less at **JPMorgan Chase** (26.8 percent) and **Morgan Stanley** (17.7 percent).

Decent Work

The big surge that started in 2016 with pay equity proposals grew further in 2017, with a total of 53 filings on this plus labor standards and working conditions more broadly. Votes were not high—in the teens—but proponents withdrew half of the pay equity resolutions after agreements for more reporting by companies. The highest vote was 18 percent for a report on gender pay equity at **Travelers**. Just four proposals that addressed pay equality more generally went to votes but earned little support—the highest was 7.4 percent at **CVS**.

Resolutions on working conditions produced higher support, with 28.1 percent for an accident prevention resolution at **Du Pont**, down from 30 percent last year. Companies promised more reporting on supply chain labor standards in response to the New York State Common Retirement Fund (NYSCRF) and it withdrew five proposals; one was omitted on ordinary business grounds, however.

Diversity in the Workplace

Twenty-nine resolutions in 2017 on workplace diversity and more opportunity for women and minorities complemented the pay equity proposals with a call to end discriminatory practices beyond compensation, but also addressed LGBTQ rights. In the end, there were 14 votes, 13 withdrawals and two omissions.

While the pay equity resolutions focused for the most part only on women, the workplace diversity slate included race, reflecting the national conversation. Four votes were over 30 percent at financial firms: **First Republic Bank** (32.9 percent), **T. Rowe Price** (36.8 Percent) and **Travelers** (36.4 percent), as well as for the long-time resolution at **Home Depot** (33.6 percent). Given agreements to adopt LGBT policies, no proposals went to votes out of seven filings. One new angle came up in a proposal to **Amazon.com** about potentially discriminatory use of background checks in hiring, but it earned just 7.3 percent.

A notable SEC decision occurred at **Cato**, where the commission staff agreed that a proposal to include LGBTQ protections in the company policy was moot given putative federal protections. The company argued court decisions ensure the federal protections, but no law is in place to that effect. The company's policy also does not explicitly protect LGBT workers.

Human Rights

Half of the human rights resolutions were about the Israeli-Palestinian conflict while the rest addressed a variety of mostly longstanding issues. In all, there were 68 proposals on human rights; 25 went to votes, 22 were withdrawn, 18 were omitted and three more did not go to votes for other reasons.

Conflict zones: Despite many filings, the 29 resolutions about conflict zones for the most part got very low votes. The campaign for the Holy Land Principles about fair employment attracted little traction and eight votes missed resubmission thresholds, while the SEC turned back an attempt by the Holy Land Principles organization for a second type of resolution (following missed resubmission thresholds on the main proposal) asking for a breakdown of Arab and non-Arab employees. More successful was a resolution from the Heartland Initiative at **Merck**, which earned 23.6 percent. It was a detailed request for information on the company's approach to doing business in "situations of belligerent occupation"—including but not limited to the Middle East. *(A resolution with this approach was filed in 2018 at **First Solar**.)*

Other issues: New proposals addressed the *rights of indigenous peoples* and earned the highest support, with 35.3 percent at **Marathon Petroleum**. Companies appeared somewhat willing to negotiate and **Goldman Sachs** prompted a withdrawal after it agreed to report, as did **Morgan Stanley** and **Phillips 66**.

Few additional human rights proposals went to votes. The highest score was 29.1 percent for a request asking **Newmont Mining** to provide a *human rights risk assessment*. But proposals about *technology and privacy* all fell (again) to the ordinary business exclusion, as did resolutions on the *penal system* that included ones about execution drugs. Resolutions seeking corporate affirmation of the *human right to water* all were withdrawn by NorthStar Asset Management after companies agreed to policy changes.

Media

Among five resolutions a new one asking **Alphabet** and **Facebook** to report on the risks posed by "fake news" touched on a key point of public contention but investors did not appear to think much of it; since votes were 1 percent or less the proposal failed to earn enough for resubmission. *(Investors are trying again in 2018 with a slightly different approach about content management, as noted on p. 58.)*

Sustainable Governance

Proponents increasingly have added a corporate governance flavor to their requests that companies reform how they handle a wide range of social and environmental risks, seeking to change the composition of boards, to ensure proper oversight of sustainability and to report using commonly agreed upon standards.

Board Diversity

Proposals seeking greater diversity on corporate boards have always attracted lots of support from investors at large, but in 2017 there were spectacularly high scores—62.8 percent at **Cognex** and 84.8 percent at **Hudson Pacific Properties**, with just eight votes overall and 24 withdrawals after companies agreed to change their board recruitment policies to include more women and minorities. A new feature introduced in 2017—and continued into 2018—was the "Rooney Rule" idea borrowed from the National Football League, that at least one candidate should be a woman or minority. Also new was a focus by the UAW Retirees Medical Benefits Trust on smaller companies in the Midwest.

There were 34 resolutions filed in 2017 on board diversity, but proponents endued up withdrawing 25 of them.

Board Oversight

Proponents filed 13 more resolutions seeking more explicit board involvement in ESG oversight; six went to votes and six were withdrawn. Support was in the teens for resubmitted resolutions to **Chevron** and **Dominion Energy**, but proponents logged what they saw as a big win when **ExxonMobil** elected atmospheric scientist Dr. Susan Avery to its board in January.

Trillium Asset Management also reported success in its effort to concentrate pharmaceutical company boards' attention on safety and quality when it convinced **Zimmer Biomet** to add more explicit board responsibility for this issue and increase its disclosure.

Disclosure and Management

Reporting: Sustainability reporting proposals peaked in 2014 but the number of votes has not fallen precipitously since proponents recently have been withdrawing proportionally far fewer than in the past. In 2017, there were 26 resolutions filed seeking more reporting; proponents withdrew 15 and another 11 went to votes. The results were again substantial, with a 52.1 percent majority at **Pioneer Natural Resources**, where its disclosure lags peers, followed by 44.6 percent at **Middleby**. While resolutions asked for more reporting on many social and environmental issues, the most common requests were about climate change. In a notable withdrawal, after annual resolutions since 2011 that attracted ever-increasing levels of support, **Emerson Electric** agreed to produce a sustainability report, adding to the total of 12 withdrawals.

Links to pay: Investors gave mostly low marks to eight proposals that went to votes seeking explicit links between various sustainability issues and executive pay, as in the past and despite some movement by companies to adopt such measures. Still, three votes came in around 20 percent or more: **Discovery Communications** (19 percent, double last year's vote), 21.8 percent at **Expeditor's International of Washington** and **Walgreens Boots Alliance** (23.1 percent, way up from only 5.7 percent last year.) Yet proposals asking for ESG links from some proponents—Mercy for Animals, an animal rights group, and the Heartland Initiative that has focused on the Arab-Israeli conflict—each earned less than 5 percent. Two more were withdrawn and two were omitted.

(In 2018, proponents seem undaunted by these results and have filed a slew of proposals invoking a range of different issues; see p. 71).

Proxy voting: The decision by mutual fund giant **BlackRock** and other big funds to support at least some climate change resolutions proved to be a game changer in 2017 and proponents with a resolution asking the fund to examine its proxy voting practice on climate change and other ESG issues withdrew after it agreed to do so. An additional new wrinkle at BlackRock came in a proposal about supporting LGBTQ non-discrimination proposals; Trillium withdrew after the fund agreed to address the subject as part of its discussions about human capital management with its portfolio companies.

Ethical Finance

Just one resolution about ethics and lending occurred in 2017—a proposal to **Wells Fargo** asking for a report on the "root causes" behind its business practices that prompted regulatory scrutiny last year. It earned 21.9 percent. *(A slightly different formulation is also pending for 2018.)*

Conservatives

Advocates for free market solutions—mostly the National Center for Public Policy Research (NCPPR)—kept up efforts to recruit companies to their approach. But NCPPR received no more affirmation than in the past from investors, with most proposals omitted and votes below 3 percent for those that made it onto proxy statements. New in 2017 were two ideas—that companies face risks from advertising in the mainstream media given its putatively inherent bias, and that corporate support for LGBT rights violates religious freedom rights. The SEC said both were ordinary business affairs and blocked any votes

COMPANY INDEX

The index below shows with checkmarks (✓) how many proposals have been filed at each company, in each major topic categories presented in this report. More details on each of the resolutions can be found in the tables and text of appropriate sections of the report, as follows:

Company	Environment	Human Labor/Rights	Corporate Political Rights	Board Diversity/ Oversight	Sustainability	Other	Grand Total
AbbVie			✓		✓		2
AES	✓✓						2
Aetna			✓				1
AK Steel Holding	✓						1
Allegiant Travel			✓				1
Alliant Energy			✓				1
Allstate			✓				1
Alphabet		✓✓	✓✓	✓	✓		6
Altria						✓	1
Amazon.com	✓✓✓	✓✓			✓✓✓	✓	9
Ameren	✓✓✓✓						4
American Airlines Group						✓	1
American Electric Power	✓						1
American Express		✓					1
American International Group	✓						1
American Tower	✓						1
American Water Works		✓	✓✓				3
Ameriprise Financial			✓				1
AmerisourceBergen						✓	1
Amgen					✓		1
Anadarko Petroleum	✓✓						2
Ansys				✓			1
Anthem					✓		1
Apple	✓✓	✓✓		✓	✓	✓	7
Applied Materials		✓					1
AT&T			✓		✓	✓	3
B&G Foods	✓						1
Bank of America		✓✓	✓				3
Bank of New York Mellon		✓			✓		2
Bed Bath & Beyond		✓					1
Berkshire Hathaway					✓		1
Biogen					✓		1
Black Knight				✓			1
BlackRock			✓				1
Blue Buffalo Pet Products	✓						1
Boeing			✓				1
Bristol-Myers Squibb				✓	✓		2
Bunge Limited	✓						1
C.H. Robinson Worldwide	✓						1
CACI International				✓			1

Continued on next page

Company	Environment	Human Labor/Rights	Corporate Political Rights	Board Diversity/ Oversight	Sustainability	Other	Grand Total
Cambrex					✓		1
CarMax			✓				1
Caterpillar				✓			1
Cato		✓		✓			2
CenturyLink			✓				1
Charter Communications			✓				1
Chesapeake Energy	✓		✓				2
Chevron	✓✓	✓	✓	✓		✓	6
Chubb Limited		✓					1
CIGNA		✓					1
Cisco Systems			✓				1
Citigroup		✓✓	✓✓				4
Citrix Systems					✓		1
CME Group				✓			1
CMS Energy	✓		✓				2
Cognex				✓			1
Cohen & Steers					✓		1
Comcast	✓		✓			✓	3
Community Health Systems	✓						1
ConocoPhillips			✓				1
Consolidated Edison			✓				1
Cooper Companies	✓						1
CorVel		✓					1
Costco Wholesale		✓✓					2
CVS Health		✓✓					2
DaVita HealthCare Partners			✓				1
Dean Foods		✓					1
Denny's	✓						1
Devon Energy	✓✓		✓✓		✓		5
Dick's Sporting Goods		✓	✓				2
Discover Financial Services		✓✓					2
Discovery Communications				✓	✓		2
Dollar General		✓			✓		2
Dominion Energy	✓✓						2
Domino's Pizza	✓						1
DowDupont	✓				✓		2
Dr Pepper Snapple Group	✓					✓	2
DTE Energy	✓✓✓				✓		4
Duke Energy	✓		✓			✓	3
Dunkin' Brands Group	✓						1
eBay					✓		1
Eli Lilly			✓		✓	✓	3
Emerson Electric	✓		✓✓				3
Energen	✓						1
Ensign Group		✓					1
Entergy	✓						1
EOG Resources	✓						1
EQT	✓						1
Equifax		✓	✓				2
Exelon	✓						1

Continued on next page

Company	Environment	Human Labor/Rights	Corporate Political Rights	Board Diversity/ Oversight	Sustainability	Other	Grand Total
Expedia	✓						1
Expeditors International of Washington					✓		1
Express Scripts		✓					1
Exxon Mobil	✓✓	✓	✓✓	✓		✓	7
Facebook		✓✓		✓		✓	4
FCB Financial Holdings				✓			1
First Hawaiian				✓			1
First Republic Bank		✓					1
First Solar		✓					1
FirstEnergy	✓		✓				2
Flowserve	✓						1
Fluor	✓						1
Ford Motor	✓		✓✓			✓	4
Franklin Resources			✓				1
General Dynamics	✓						1
General Electric			✓✓			✓✓	4
General Motors	✓						1
Genesee & Wyoming	✓						1
Genuine Parts					✓		1
Getty Realty				✓			1
Gilead Sciences	✓						1
Goldman Sachs		✓	✓			✓	3
Goodyear Tire & Rubber			✓				1
Great Plains Energy	✓		✓				2
Gulfport Energy				✓			1
Hawaiian Holdings	✓						1
Hershey		✓					1
HollyFrontier				✓			1
Home Depot		✓	✓✓			✓✓	5
Honeywell International			✓				1
Host Hotels & Resorts					✓		1
HP		✓					1
Hub Group				✓			1
IberiaBank		✓					1
ILG					✓		1
Illinois Tool Works	✓						1
Intel			✓				1
International Business Machines			✓				1
Investors Bancorp		✓					1
J.B. Hunt Transport Services	✓						1
JetBlue Airways		✓					1
Johnson & Johnson						✓✓	2
JPMorgan Chase	✓	✓		✓			3
Kaiser Aluminum					✓		1
Kansas City Southern	✓						1
KeyCorp		✓✓					2
Kimberly-Clark			✓				1
Kinder Morgan	✓✓				✓		3
Kraft Heinz	✓						1
Kroger	✓✓						2

Continued on next page

Company	Environment	Human Labor/Rights	Corporate Political Rights	Board Diversity/ Oversight	Sustainability	Other	Grand Total
Laboratory Corporation of America						✓	1
LogMeIn				✓			1
Lowe's	✓						1
Luby's	✓						1
Manhattan Associates		✓					1
Marathon Petroleum		✓					1
Marriott International		✓					1
Mastercard		✓					1
Mattel			✓				1
McDonald's	✓✓	✓✓	✓				5
Metlife		✓					1
MGE Energy	✓✓✓						3
Middleby					✓		1
Minerals Technologies	✓						1
Mondelez International	✓						1
Monsanto				✓			1
Monster Beverage		✓					1
Motorola Solutions		✓	✓	✓			3
Natural Gas Services Group					✓		1
Navient						✓	1
Netflix			✓				1
NextEra Energy			✓				1
NIKE						✓	1
Noble Energy	✓						1
Northern Trust			✓				1
NRG Energy			✓	✓			2
Nucor			✓				1
Oceaneering International				✓			1
Old Republic International				✓			1
Palo Alto Networks		✓					1
PayPal	✓		✓				2
PepsiCo	✓						1
Pfizer			✓			✓✓	3
Pilgrim's Pride	✓			✓			2
PNC Financial Services Group		✓					1
PNM Resources	✓✓			✓			3
Praxair				✓			1
Priceline.com		✓			✓		2
Progressive		✓✓					2
Range Resources	✓		✓				2
RE/MAX Holdings					✓		1
Red Hat	✓						1
Reliance Steel & Aluminum	✓						1
Republic Services			✓				1
Rite Aid	✓				✓		2
Sanderson Farms	✓						1
SCANA	✓		✓				2
Sealed Air				✓			1
SeaWorld Entertainment						✓	1
ServiceNow		✓					1

Continued on next page

Company	Environment	Human Labor/Rights	Corporate Political Rights	Board Diversity/ Oversight	Sustainability	Other	Grand Total
Skechers U.S.A.					✓		1
Southwestern Energy	✓						1
Starbucks	✓	✓✓				✓	4
Steel Dynamics					✓		1
Stifel Financial		✓					1
Sturm, Ruger		✓					1
SunTrust Banks		✓			✓		2
Tesla Motors		✓			✓✓		3
Texas Instruments		✓					1
Textron			✓				1
Thor Industries				✓			1
Time Warner						✓	1
TJX	✓✓	✓✓✓			✓		6
Tootsie Roll Industries					✓		1
Tractor Supply	✓						1
Travelers		✓	✓	✓			3
Twitter		✓					1
Tyson Foods	✓		✓				2
United Bankshares		✓					1
United Continental Holdings						✓	1
United Parcel Service			✓		✓		2
United Rentals	✓						1
United States Steel	✓						1
UnitedHealth Group			✓	✓			2
US Foods Holding	✓			✓			2
Verizon Communications	✓		✓		✓		3
Vertex Pharmaceuticals			✓			✓	2
Wal-Mart Stores		✓✓					2
Walt Disney			✓			✓	2
WEC Energy	✓						1
Wells Fargo		✓✓			✓	✓	4
Western Union	✓		✓				2
Williams-Sonoma		✓					1
World Fuel Services				✓			1
Wyndham Worldwide			✓				1
Wynn Resorts			✓				1
Xcel Energy			✓				1
Yum Brands		✓					1
Grand Total	**102**	**81**	**78**	**36**	**44**	**33**	**374**

ABOUT PROXY PREVIEW

PROXY PREVIEW 2018 IS A COLLABORATION BETWEEN

AS YOU SOW®

As You Sow is a nonprofit organization dedicated to increasing environmental and social corporate responsibility. Founded in 1992, As You Sow envisions a safe, just, and sustainable world in which environmental health and human rights are central to corporate decision making. Its Energy, Environmental Health, Waste, and Human Rights programs create positive, industry-wide change through corporate dialogue, shareholder advocacy, coalition building, and innovative legal strategies. www.asyousow.org

Si2 Sustainable Investments Institute

The **Sustainable Investments Institute (Si2)**, a nonprofit research organization based in Washington, D.C., conducts impartial research and publishes reports on organized efforts to influence corporate behavior on social and environmental issues. Si2 closely follows shareholder resolutions proposed by investor advocates, but does not making voting recommendations. Instead, it provides the tools and in-depth reports that enable investors to make their own informed, independent decisions on the contentious public policy issues raised during proxy season. Si2 also conducts research into emerging sustainability issues to better help investors and the general public understand the implications they hold for companies and their key stakeholders. Recent reports covered political spending, hydraulic fracturing, integrated reporting, nanotechnologies and sustainable governance issues. Si2 is supported by leading institutional investors, including public and private pension funds, college and university endowments, foundations and fund managers. www.siinstitute.org

PROXY IMPACT

Proxy Impact is a progressive proxy voting and shareholder engagement service for foundations, faith-based and sustainable, responsible and impact (SRI) investors. We provide affordable proxy voting based on environmental, social, and governance (ESG) guidelines. Proxy Impact also offers a full range of shareholder engagement services on ESG issues. This includes research, corporate dialogues and filing shareholder resolutions. Our unique consulting service will identify the links and advocacy opportunities between a client's stockholdings and their organization's mission, programs and/or grantees. This allows clients to leverage their shares to support their values and core programs, and provides strategic options for how to address key issues through their investments or grant making. www.proxyimpact.com

Disclaimer: *The aggregated information comprising Proxy Preview 2017 represents a snapshot in time of publicly available information regarding shareholder resolutions filed with U.S. public companies that may be on the proxy statements and voted on at annual general meetings in 2017.*

The information provided in Proxy Preview 2017 is provided "AS IS" without warranty of any kind. The three partner organizations, As You Sow, Sustainable Investments Institute, and Proxy Impact each makes no representations and provides no warranties regarding any information or opinions provided herein, including, but not limited to, the advisability of investing in any particular company or investment fund or other vehicle. While we have obtained information believed to be objectively reliable, neither As You Sow, Sustainable Investments Institute, or Proxy Impact, or any of each of their employees, officers, directors, trustees, or agents, shall be responsible or liable, directly or indirectly, for any damage or loss caused or alleged to be caused by or in connection with use of or reliance on any information contained herein, including, but not limited to, lost profits or punitive or consequential damages. Past performance is not indicative of future returns.

As You Sow, Sustainable Investments Institute, and Proxy Impact do not provide investment, financial planning, legal or tax advice. We are neither licensed nor qualified to provide any such advice. The content of our programming, publications and presentations is provided for informational and educational purposes only, and should not be considered as information sufficient upon which to base any decisions on investing, purchases, sales, trades, or any other investment transactions. We do not express an opinion on the future or expected value of any security or other interest and do not explicitly or implicitly recommend or suggest an investment strategy of any kind.

Our events, websites, and promotional materials may contain external links to other resources, and may contain comments or statements by individuals who do not represent As You Sow, Sustainable Investments Institute, and Proxy Impact. As You Sow, Sustainable Investments Institute, and Proxy Impact have no control over, and assume no responsibility for, the content, privacy policies, or practices of any third party websites or services that you may access as a result of our programming. As You Sow, Sustainable Investments Institute, and Proxy Impact shall not be responsible or liable, directly or indirectly, for any damage or loss caused or alleged to be caused by or in connection with use of or reliance on any such content, goods or services available on or through any such websites or services.

SPONSORS

Arjuna Capital empowers our clients to sustainably align their investments for profitability and impact. Arjuna is a one-stop shop for creating a high-impact investment portfolio across markets and asset classes— from public to private, domestic to foreign, equity to debt. Our philosophy is rooted in the concept of sustainability: that economic vitality, environmental responsibility and social equity are mutually supportive measures of a society's health. With decades of experience considering the financial impact of environmental, social and governance (ESG) risk and opportunity factors, our team is uniquely situated to mine insights from this approach to investment analysis. We strive to offer the most diverse, sustainable, profitable and high-impact investments available, build and preserve our clients' wealth, and influence sustainable change through enlightened engagement in the capital markets.. www.arjuna-capital.com

ARJUNA CAPITAL
ENLIGHTENED INVESTING

Calvert Research and Management is a leader in Responsible Investing. The Calvert Funds trace their roots in Responsible Investing to the founding of Calvert Balanced Portfolio in 1982 as the first mutual fund to oppose investing in companies that support apartheid in South Africa. Today, the Calvert Funds are one of the largest and most diversified families of responsibly invested mutual funds, encompassing actively and passively managed U.S. and international equity strategies, fixed-income strategies and asset allocation funds managed in accordance with the Calvert Principles for Responsible Investment. Calvert Research and Management is a wholly owned subsidiary of Eaton Vance. Learn more at www.calvert.com.

Calvert

ClearBridge Investments is a leading global equity manager with $137 billion in assets under management (as of December 31, 2017). We believe authentic active management and high-conviction portfolios provide opportunities to earn superior long-term investment results. We offer strategies focused on client objectives in our areas of proven expertise: high active share, income solutions and low volatility. We are a pioneer in integrating ESG considerations into our fundamental research, assign ESG ratings to every company in our coverage universe and use those ratings to drive engagement. ClearBridge is a signatory to the United Nations Principles for Responsible Investment. www.clearbridge.com

ClearBridge Investments

First Affirmative Financial Network, LLC, a wholly owned subsidiary of FOLIOfn, Inc., is an investment advisory firm specializing in sustainable, responsible, impact (SRI) investing. We began conducting business in 1999 and believe that the ways in which people save, spend and invest can dramatically influence both the fabric and consciousness of society. We help investors make money and make a difference by combining innovative financial management with investment strategies that consider the environmental, social, and governance aspects of investments. We vote client proxies in accordance with detailed voting guidelines and actively engage with selected portfolio companies with the goal of creating a truly sustainable future. www.firstaffirmative.com

Global Proxy Watch is the premier source of inside information about key governance developments worldwide. It's an indispensable resource for leading shareowner activists and experts in every advanced market. Now in its 21th year, GPW keeps subscribers abreast of shareowner activism across borders, the powerful industry of governance advisors, and initiatives by companies, governments and stock exchanges to reform, turbo-charge or block corporate governance. GPW is the place the market turns to for information on who is moving to new posts and for job openings in the governance field. Subscribers include leading pension funds and other activist institutional investors, custodian banks, stock exchanges, corporations, professional trade bodies, management consulting companies, trade unions, investor relations firms, accounting firms, academic institutions, law firms and international governmental organizations. proxywatch.com

Green America's mission is to harness economic power—the strength of consumers, investors, businesses, and the marketplace—to create a socially just and environmentally sustainable society. We work for a world where all people have enough, where all communities are healthy and safe, and where the bounty of the Earth is preserved for all the generations to come. We work on issues of social justice and environmental responsibility. We see these issues as completely linked in the quest for a sustainable world. It's what we mean when we say "green." www.greenamerica.org

Green Century has been helping people invest without compromising their values or the planet for more than 25 years. Through fossil fuel free investing and our three-pronged approach of investment in sustainable companies, active and in-depth shareholder advocacy, and support of environmental and public health non-profit organizations, we offer investors the opportunity to make an impact in a way no other mutual fund family can. www.greencentury.com

Harrington Investments, Inc. (HII) is a leader in Socially Responsible Investing and Shareholder Advocacy. Dedicated to managing portfolios for individuals, foundations, non-profits, organized labor and family trusts to maximize financial, social, and environmental performance, we actively engage in shareholder campaigns and other strategies to promote greater corporate responsibility and social justice. We believe the process of shareholder advocacy influences corporate behavior and educates the public about the practices and values of publicly traded corporations. Our advocacy program includes filing shareholder resolutions on corporate governance, sustainability practices and human and indigenous peoples' rights. In our current socio-political climate, a time of uncertainty and unrest, we continue to call on corporate directors to confront their moral and ethical obligations of fiduciary responsibility. www.harringtoninvestments.com

Miller/Howard Investments, Inc. is an independent, SEC-registered investment boutique managing equity portfolios for institutions and individuals in dividend-focused strategies. We began offering ESG strategies and products over 25 years ago, seeking companies with a strong commitment to high operational standards, the environment, social responsibility, and good governance. Our firm believes that integrating ESG analysis and engagement with solid financials and a proven history of dividends and dividend growth provides a framework for achieving long-term investment returns, while building sustainable global economies and markets. We actively engage corporations on ESG issues, including hydraulic fracturing, methane emissions, drug pricing, sustainability reporting, and board gender diversity. We are a signatory to the UN Principles for Responsible Investment and the Women's Empowerment Principles, as well as a member of Ceres and the Interfaith Center on Corporate Responsibility (ICCR). Find more on our website: www.mhinvest.com

The Murninghan Post is a platform for a new kind of politics that reboots democracy and bridges the equity gap. It's part of a networked systems approach that educates, empowers, and engages concerned citizens in the process of redirecting vast pools of money and power toward the public interest. The goal: build equity culture and civic stewardship by reviving those self-evident truths and values that are enshrined in the American covenant and democracy's promise. The strategy: integrate these virtues within investment policy and practice of "civic fiduciaries," those tax-supported, tax-exempt institutions with billions of dollars in their portfolios. The process and impacts: incorporate multi-capital, multi-asset, and multi-portfolio approaches that deploy polycentric power that, in turn, can strengthen a range of social and economic justice, environmental, and good governance outcomes. murninghanpost.com

Rooted in the Jewish tradition of social justice, the **Nathan Cummings Foundation** focuses on finding solutions to the two biggest problems of our time – the climate crisis and growing inequality—and aims to transform the systems and mindsets that hinder progress toward a more sustainable and equitable future for all people, particularly women and people of color. To do so, the Foundation invests in four focus areas: Inclusive Clean Economy; Racial and Economic Justice; Corporate and Political Accountability; and Voice, Creativity and Culture. The Foundation also uses its standing as an investor in publicly traded companies to push for changes that both further our mission and enhance long-term shareholder value. For more information, visit www.nathancummings.org.

Founded in 1984, **Parnassus Investments** is a pioneer in socially responsible investments. Based in San Francisco, the firm invests responsibly to build wealth for its clients by selecting businesses that the investment team believes have increasingly relevant products or services, sustainable competitive advantages and quality management teams for their high conviction portfolios. Every investment must meet rigorous fundamental and environmental, social and governance (ESG) criteria. www.parnassus.com

Progressive Asset Management is a national financial advisor network with a wide range of products and financial planning services. With nearly three decades of experience we can assist; whether you are an individual starting to invest in the market, an individual or couple planning for or recently retired, a family planning for your children's education, or an organization looking for employee retirement plans, our knowledgeable advisors can help you reach your fiscal goals while at the same time giving you the opportunity to invest in ways that reflect your values and have a positive impact on society. www.progressiveassetmanagement.com

For more than a century, **RBC Wealth Management** has provided trusted advice and wealth management solutions to individuals, families and institutions. We are a global organization, bringing our diverse expertise and deep knowledge to the sophisticated financial needs of our clients around the world. We are committed to earning our client's trust by building lasting relationships and confidence, putting your interests first in everything we do. Every interaction with us is defined through our core values and culture of doing what's right for our clients and the communities we operate in. Forward-looking, innovative and committed helping our clients thrive and communities prosper – we are the partner you can depend on to help you achieve your financial goals. www.rbcwealthmanagement.com

Responsible Investor – Launched June 2007, Responsible Investor (RI) is the only dedicated news service reporting on responsible investment, ESG (environmental, social and governance) and sustainable finance issues for institutional investors globally, read by: pension funds, public and government funds, central banks, endowments, foundations, faith groups, family offices, corporations, investment consultants, asset managers, research and data providers, insurance companies, banks, associations, governments, regulators, NGOs, and other industry practitioners. RI also produces the industry-leading regional conferences: ESG Asia, ESG Europe and ESG USA. www.responsible-investor.com

The Rose Foundation for Communities and the Environment is a grantmaking public charity dedicated to the concept that environmental stewardship, community regeneration, consumer protection, robust civic participation, and a healthy economy are all inextricably linked. The Foundation supports grassroots initiatives to build the power of informed community involvement and to inspire community action to protect the environment, consumers, and public health. rosefdn.org

The Singing Field Foundation is a small family foundation, which began active grantmaking in 2004. The foundation's current grants budget is around $200,000. Grants are initiated by the foundation's directors and typically provide general support for environmental, animal welfare, health-related organizations, and other charities of interest to family members. The foundation's interest in mission-related investing and "active ownership" of the companies in which the foundation is invested reflects our desire to maximize our impact as a small foundation, by deploying "the other 95 percent" of our assets, and our personal values, which dictate that the foundation's investments should be aligned with the foundation's mission. The Singing Field Foundation's support for As You Sow flows directly from this interest and complements the foundation's other grantmaking.

The Sustainability Group of Loring, Wolcott & Coolidge, founded by industry pioneer Amy Domini, seeks to deliver superior, long-term returns while investing for social and environmental progress. We offer trustee services and individually tailor portfolios to help clients invest in companies that do business in ways that value the issues they care about most, as well as profits. Many firms are just discovering socially responsible investing, but we have been integrating ESG into our investment process for over 30 years. We give clients the opportunity to invest today for a better tomorrow through active integration of sustainability into our investment strategy, direct corporate engagement, and meaningful community development and impact investments. www.lwcotrust.com

the SUSTAINABILITY GROUP

Founded in 1982, **Trillium Asset Management** is the oldest investment advisor focused exclusively on sustainable and responsible investing. Trillium integrates Environmental, Social, and Governance (ESG) factors into the investment process as a way to identify the companies best positioned to deliver strong long-term performance. A leader in shareholder advocacy and public policy work, Trillium leverages the power of stock ownership to promote social and environmental change while providing both impact and performance to our investors. www.trilliuminvest.com

TRILLIUM ASSET MANAGEMENT®

Veris Wealth Partners is a wealth management firm founded in 2007 that serves individuals, families, and foundations. A pioneer in impact investing wealth management, Veris helps clients achieve their financial objectives, while aligning their wealth with their values. We create comprehensive strategies that help clients grow and preserve their wealth and manage it across generations by investing in companies focused on sustainability and Environmental, Social and Governance (ESG) principles. We believe companies committed to these ideas deliver competitive market performance, while mitigating risk for investors. www.veriswp.com

VERIS Wealth Partners

Values. Wealth. Sustainability.

As the oldest institutional investment manager in the sustainable and responsible investment (SRI) industry, since 1975 **Walden Asset Management** has engaged portfolio companies urging them to strengthen their corporate responsibility and accountability. As long term investors, we believe that effective shareholder engagement can lead to improved corporate policies, more sustainable business practices, and greater transparency and accountability. www.waldenassetmgmt.com

Over 40 Years of Impact

Walden Asset Management®

Advancing sustainable business practices since 1975


Are you investing for principles?
Or performance?
Why compromise?
Parnassus Investments has been investing for
Principles *and* Performance® for over 30 years.
To learn more, go to **www.parnassus.com**.
Mutual fund investing involves risk, and loss of principal is possible. The Parnassus Funds are distributed by Parnassus Funds Distributor, an affiliate of Parnassus Investments and a FINRA member. ***Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of a fund and should carefully read the prospectus or summary prospectus, which contain this and other information. The prospectus or summary prospectus can be found on the website www.parnassus.com or by calling (800) 999-3505.***
PARNASSUS INVESTMENTS®


INVESTING FOR SOCIAL AND ENVIRONMENTAL PROGRESS
We individually tailor portfolios to give clients the opportunity to invest for social and environmental progress through active integration of sustainability into our investment strategy, direct corporate engagement, and meaningful community development and impact investments.
the SUSTAINABILITY GROUP
www.sustainabilitygroup.com
Part of Loring, Wolcott & Coolidge Fiduciary Advisors, LLP


Delivering Impact and Performance Through Sustainable and Responsible Investing Since 1982.
(617) 423-6655
Boston | San Francisco | Portland OR | Durham NC
Certified B Corporation
TRILLIUM ASSET MANAGEMENT®

As You Sow®
1611 Telegraph Ave., Ste. 1450 • Oakland, CA 94612 • 510.735.8158 • www.asyousow.org
Download the full report at www.proxypreview.org