Proxy Season Mid-Year Review:

Social, Environmental & Sustainable Governance Shareholder Proposals in 2020

SUMMARY

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A full version of this report, with details on all the filings and outcomes, is available to Si2 subscribers.

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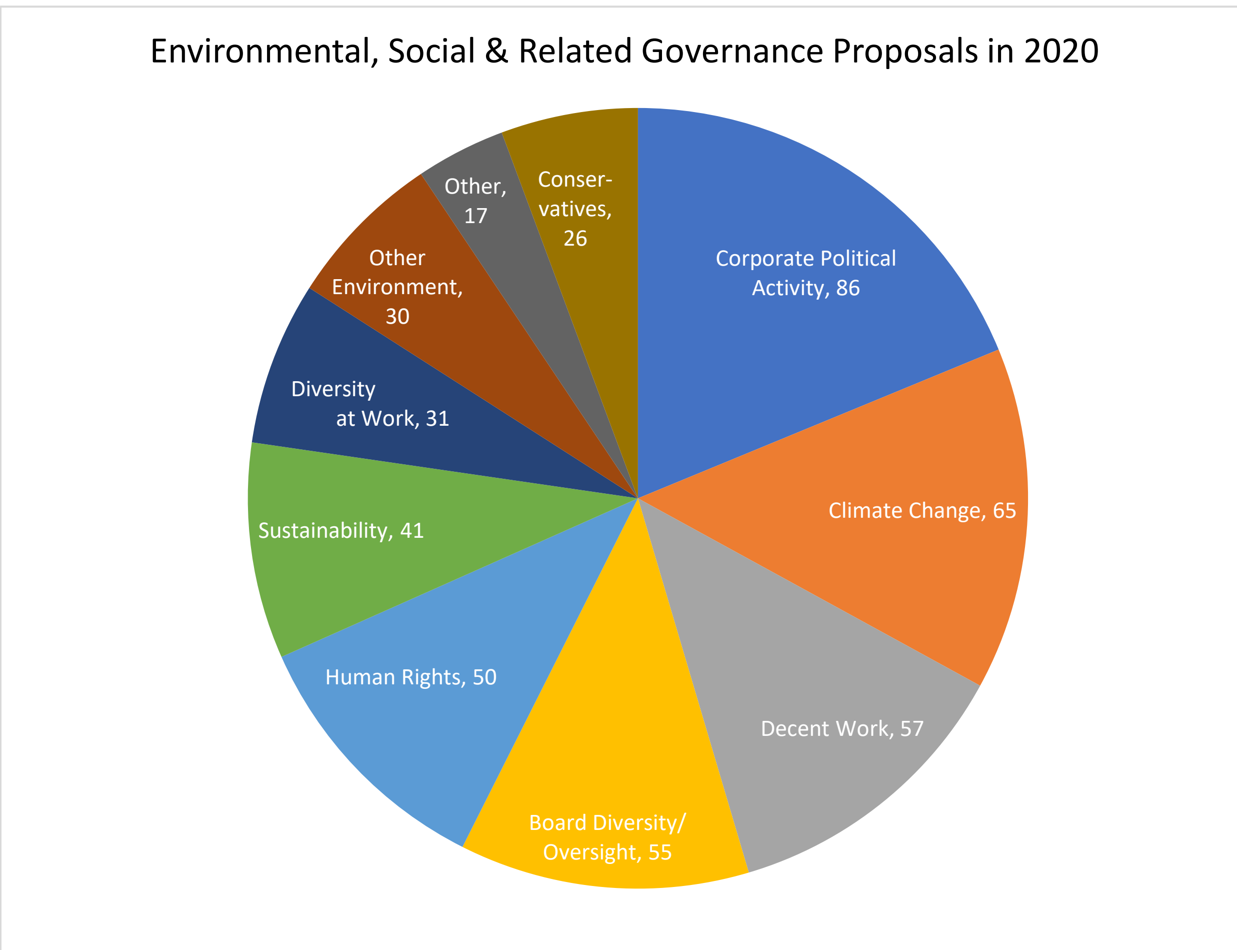
Introduction

The 2020 proxy season was host to both unprecedented success and potential peril for shareholder proponents. Twenty shareholder resolutions had earned majority support as of mid-August, but new rules from the Securities and Exchange Commission (SEC) would limit who may file and which proposals they can resubmit, as well as curb the influence of proxy advisory firms. The courts (and the coming election) likely will determine the ultimate fate of the SEC's plans.



As of August 2020, average support for the 177 proposals that had already gone to votes was 26.8 percent, up nearly a percentage point from 2019. A total of 458 had been filed, up slightly from 456 in all of 2019. Proponents continued to withdraw more proposals than went to votes—a trend that started three years ago. At least 11 votes may occur before the end of the year.

Company efforts to block resolutions from inclusion in proxy statements through provisions of the Shareholder Proposal Rule drifted up and proponents remain concerned about SEC staff interpretations of climate change resolutions. This remains a contested space. Following litigation last year by the New York City Comptroller that produced no ruling, this year an individual filed suit against a Western utility, but was unsuccessful in his attempt to force the inclusion of a detailed climate proposal.

On July 22, the SEC issued a final rule about the role of proxy advisory firms; the commission will approve a companion proposal to tighten filing and resubmission eligibility on September 23. The rules have prompted substantial pushback from investors who see the shareholder proposal process as central to their engagement with companies, although business groups have voiced support for the changes that they have long sought. Many mainstream players in the investment community perceive key material risks and opportunities in environmental and social issues that surface in shareholder proposals, which has driven votes up and increased the number of withdrawn proposals.

Major Themes in 2020

The three major themes of proxy season in 2020 were corporate influence spending, diversity (on boards and in the workplace, with related proposals on fair pay) and climate change:

- **Corporate political activity:** Investor support for more oversight and disclosure continued its upward climb, with seven majority votes and 14 resolutions earning more than 40 percent. There were 23 withdrawals, with many corporate commitments, out of 86 filings. The proposed SEC rule changes affect these proposals most, despite increased support that this year reached all-time average highs of 44 percent on election spending and 34 percent on lobbying.
- **Diversity:** Proposals sought fair representation, treatment and pay in the workplace and on boards of directors. Combined, proposals about women and people of color included 31 about workforce inclusion, 38 about sexual harassment and/or arbitration and 44 about boards. These three categories combined made up about one-quarter of all filings in 2020. More than half were withdrawn by proponents after agreements.
- **Climate change:** There were 65 proposals about retooling business for the changing climate. Total filings on this issue have fallen as investors have expanded their engagements beyond proxy season. At the same time, there are more withdrawals from agreements and—conversely—greater success for companies seeking to block these resolutions in their SEC challenges. Three-quarters of climate resolutions asked about carbon asset risks.

Trends

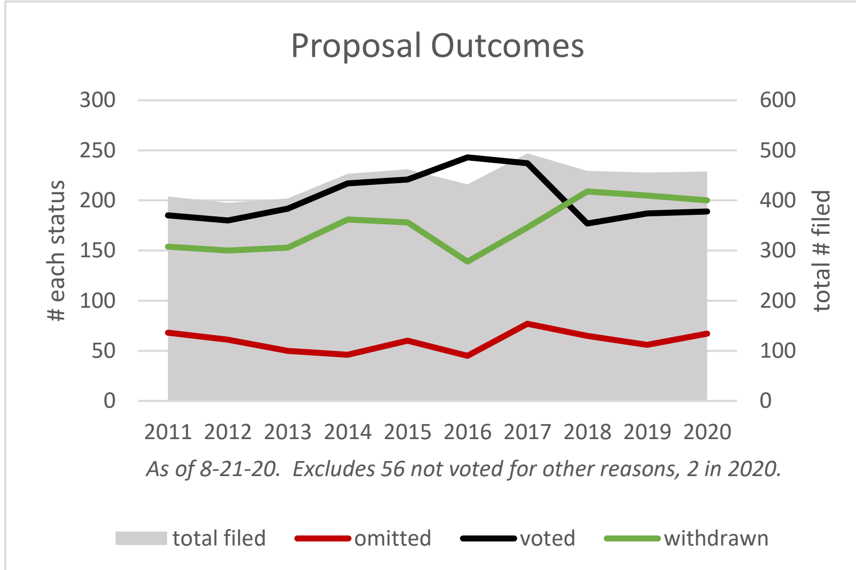
Filings: Proponents have filed about 460 proposals in each of the last three years, but the total is down from an all-time high of nearly 500 in 2017. The number going to votes has exceeded the number withdrawn for three years, as well; as many as 189 may go to votes by the end of 2020, comparable to last year but down from 243 in 2016. *(Top graph, next page.)*

Issues: Social issues continue to dominate; the single biggest category is still corporate political spending and lobbying. Environmental proposals have fallen in the last few years and are now equal to those on sustainable governance. Proponents with conservative political aims filed 26 resolutions but again earned scant support. *(Middle graph.)*

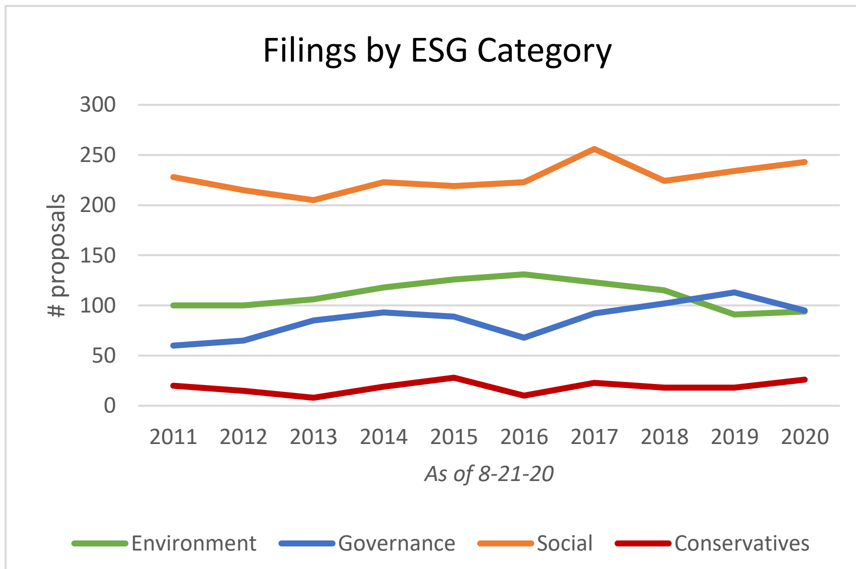
Support: Average support continues to climb and reached 26.8 percent in 2020, up nearly a percentage point from last year's 25.7 percent. As noted above, there have been 20 majority votes so far in 2020. *(Bottom graph shows support and filing trend.)*

Overall, shareholders have given more than 50 percent to 77 proposals on social, environmental and sustainability topics since 2010. The number of votes above 30 percent—a threshold widely viewed as prompting management action—has risen dramatically over the decade. *(Top graph, next page.)*

Investors have been most likely to pass political activity oversight and disclosure proposals (22 majorities, including seven in 2020), as well as those about climate change (15) and sustainability (10).



As of 8-21-20. Excludes 56 not voted for other reasons, 2 in 2020.



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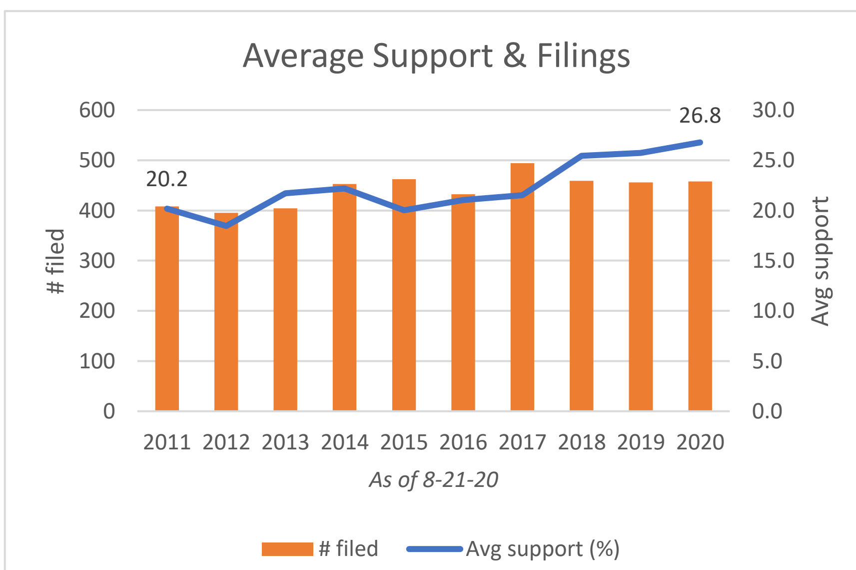

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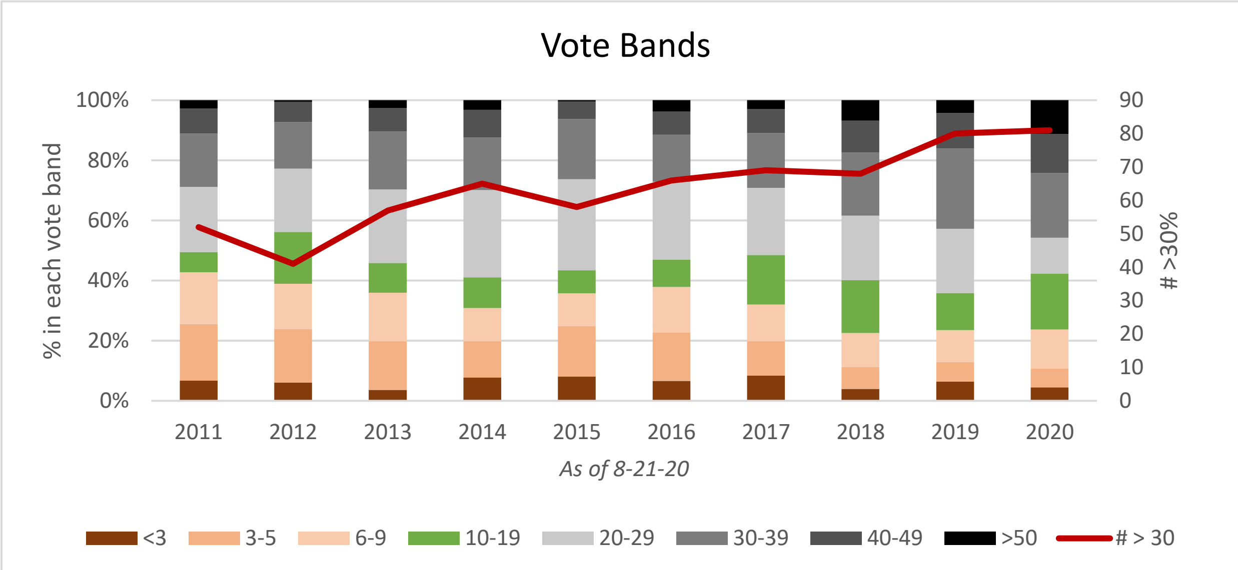
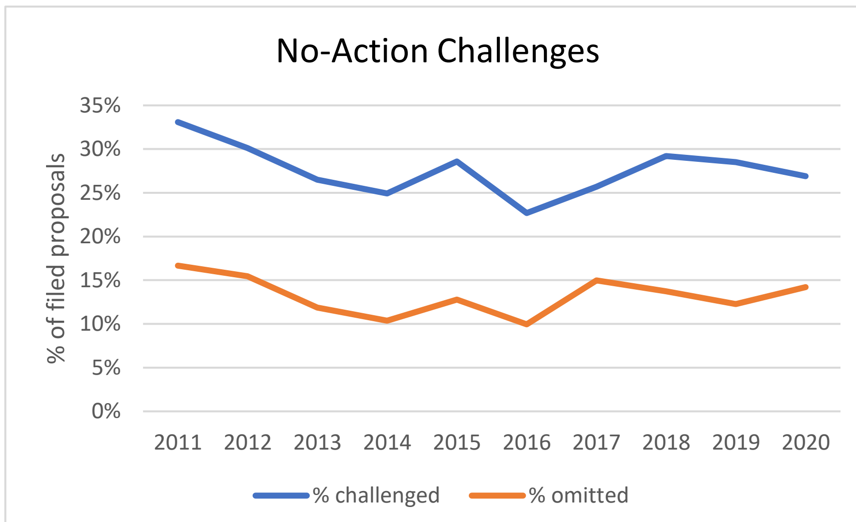
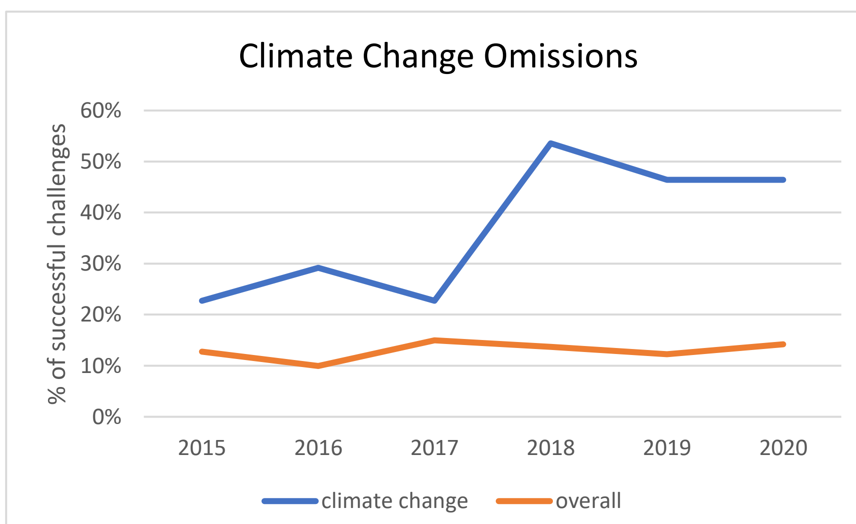


Omissions in 2020: This year, companies won proportionally more of their challenges to proposals using the SEC's Shareholder Proposal Rule, with a 14 percent exclusion rate, up from 12 percent last year. *(Graph right.)* Climate change proposals have had more difficultly surmounting corporate objections, however; data from the last five years show a big jump in these omissions compared to all proposals. The SEC's stance shifted in 2018 with regard to the admissibility of greenhouse gas emissions proposals, excluding far more proposals than earlier. *(Bottom graph.)*





High votes in 2020: Notable this year were several votes well above 50 percent. This included a result of nearly 80 percent at **Genuine Parts** and 66 percent at **O'Reilly Automotive** on human capital management; 73.5 percent at **Dollar Tree** on climate change, 70 percent at **Fortinet** and 61 percent at **Fastenal** on diversity program reporting, and 61 percent on opioid risks at **Johnson & Johnson**. In addition to the 20 majorities, 23 more results were above 40 percent. Fourteen of the high scoring proposals were resubmissions and the SEC rejected company challenges to seven of these proposals. *(Table below.)*

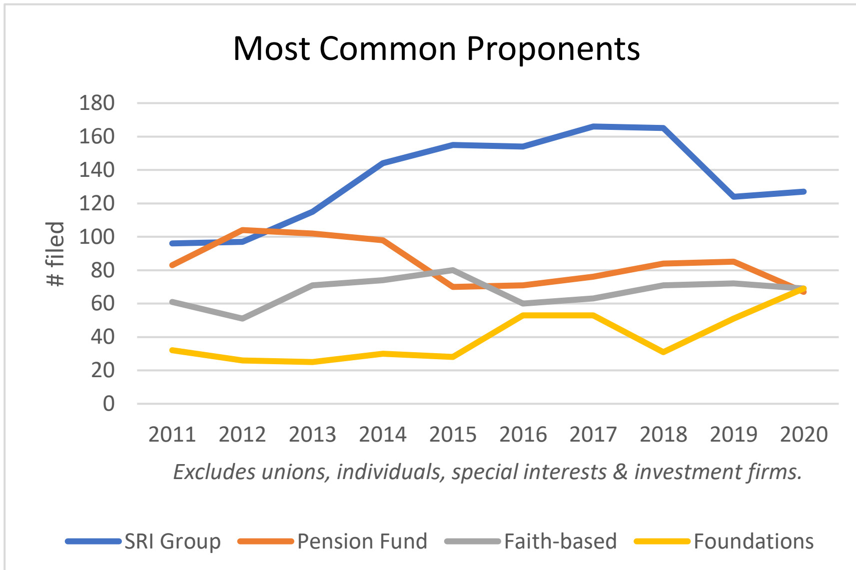
High Scoring Proposals in 2020

Company	Proposal	Proponent	Vote	
Genuine Parts	Report on human capital management	As You Sow	79.1%	×
Dollar Tree	Report on Paris-compliant plan to cut carbon	Jantz Management	73.5	
Fortinet	Report on diversity programs	Nia Impact Capital	70.0	
O'Reilly Automotive	Report on human capital management	As You Sow	66.0	×
Fastenal	Report on diversity programs	As You Sow	61.1	
Johnson & Johnson	Report on opioid crisis	Illinois State Treasurer	60.9	
National HealthCare	Report on board diversity	NYSCRF	59.2	
Activision Blizzard	Review/report on election spending	James McRitchie	58.6	
Ovintiv	Report on Paris-compliant plan to cut carbon	United Church, Canada	56.4	
Phillips 66	Report on climate-related extreme weather	As You Sow	54.7	
J.B. Hunt Transport Services	Report on Paris-compliant plan to cut carbon	Trillium Asset Mgt	54.5	×
Chevron	Review/report on climate change advocacy	BNP Paribas	53.5	
Western Union	Review/report on election spending	John Chevedden	53.3	↺
J.B. Hunt Transport Services	Review/report on election spending	Teamsters	53.2	↺
Expeditors Intl of Washington	Adopt board diversity policy	NYC pension funds	52.9	
Enphase Energy	Publish sustainability report	Sustainvest Asset Mgt	52.3	
Alaska Air Group	Report on lobbying	SEIU Master Trust	52.3	
McKesson	Report on lobbying	Mercy Investments	52.1	
Centene	Review/report on election spending	Friends Fiduciary	51.4	↺
Chipotle Mexican Grill	Report on mandatory arbitration	NYC pension funds	51.0	
Illumina	Review/report on election spending	James McRitchie	49.9	↺
JPMorgan Chase	Report on high carbon financing	As You Sow	49.6	×
Vertex Pharmaceuticals	Report on lobbying	Friends Fiduciary	48.6	↺
Chemed	Review/report on election spending	John Chevedden	48.2	↺
Motorola Solutions	Review/report on election spending	Newground Social Inv.	47.9	
Verizon Communications	Report on lobbying	IBEW	47.0	↺
Honeywell International	Report on lobbying	Mercy Investments	46.2	↺
Chevron	Report on climate-related extreme weather	As You Sow	46.0	
Delta Air Lines	Review/report on election spending	Friends Fiduciary	46.0	
Delta Air Lines	Review/report on climate change advocacy	BNP Paribas	45.9	
TransDigm Group	Adopt GHG reduction targets	NYC pension funds	45.1	↺
IPG Photonics	Report on executive diversity	Trillium Asset Mgt	44.9	
Lear	Report on human rights risk assessment	Srs.-Good Shepherd	44.8	×
Kroger	Report on human rights policy implementation	Oxfam America	44.7	
TJX	Report on toxic materials risks/phase out	Trillium Asset Mgt	44.5	
Fiserv	Review/report on election spending	John Chevedden	44.5	↺
Maximus	Report on lobbying	SEIU Master Trust	42.8	
Charles Schwab	Disclose EEO-1 data	NYC pension funds	42.6	↺
GEO Group	Report on lobbying	SEIU Master Trust	42.5	×
Duke Energy	Report on lobbying	Mercy Investments	42.4	↺
Alaska Air Group	Review/report on election spending	John Chevedden	42.1	↺
Netflix	Review/report on election spending	Myra K. Young	41.9	↺
Apple	Review/report on free speech rights policy	SumOfUs	40.6	×

↺ Resubmission × SEC rejected challenge

Proponents

A wide range of institutional investors, and some individuals, file the shareholder proposals discussed in this report. Socially responsible investing firms are the most likely to file, although their tally dropped starting in 2018. Pension funds—most prominently the New York State and City funds, as well as the California public employees' and teachers' pension funds, remain consistent filers but they also filed fewer resolutions this year than in 2019. Faith-based investors, for the most part coordinated by the Interfaith Center on Corporate Responsibility (ICCR), are primary filers for around 70 proposal each year, but they often are co-filers on more than double that number. A handful of single-issue special interest groups also file (around 40 a year), as well as some foundations (most commonly As You Sow, a multi-issue shareholder advocacy clearinghouse); As You Sow is responsible for the bump-up in proposals from foundations in the last two years. Unions are not as likely to be proponents and file anywhere from 25 to 50 proposals each year. Individual investor proponent tallies have fluctuated but rose this year to 50. *(Graph right shows trend for biggest proponent groups. Because many proponents co-file with each other and the resolutions are classified here by the lead filer's institution type, the graph particularly undercounts activity by ICCR members.)*



Changes to the Shareholder Proposal Process

Proposed rules: The SEC proposed the most significant changes to the shareholder proposal rule in a generation on Nov. 3, 2019, in two separate rulemakings:

- **Filings and resubmissions—**What may have the greatest impact on proxy season agendas is the proposal to "modernize" proxy statement admissibility requirements, released on Nov. 5, 2019. It would substantially increase resubmission thresholds, but also alter the requirements for filing a resolution in the first place. First-year proposals would have to earn at least 5 percent support (up from 3 percent), a second-year proposal would have to earn at least 15 percent (up from 6 percent), third-year and subsequent re-filings would have to earn at least 25 percent (up from 10 percent). In addition, a complicated new requirement that affects less than 1 percent of all proposals would impose a "momentum" test: proposals reconsidered after the third year would not be eligible for resubmission if the immediately prior vote fell by more than 10 percent, even if it earned more than 25 percent. Si2 submitted a comment letter analyzing the rule's impact.

  On the filing side, proponents who have held stock for one year or less would be required to hold at least $25,000 worth to file; this requirement falls to $15,000 if the stock has been held for two years and just $2,000 (the current threshold) if it has been held for three years or more.

Further, the new rules would bar proponents from pooling their shares to achieve the holding requirements. In an analysis released only on Aug. 14, 2020—after the end of the public comment period—the SEC's Division of Economic Risk Analysis found few retail investors would be able to file resolutions. The proposed rule also would bar one proponent for presenting resolutions on behalf of others, which proponents contend will be yet another means to suppress proposals.

The public comment period on the rule, which prompted widespread opprobrium from shareholder proponents and cheers from business groups that do not like resolutions, ended on Feb. 3, 2020, but comments continued to trickle in. Si2 provided analysis of 2020 proxy season outcomes for one of the final comment letters from leading proponents groups in July. The SEC initially announced it would vote on a final rule on September 16 but postponed the vote to September 23 at the last minute. Proponent groups plan to sue to block the measure.

- **Proxy advisors—**Another rule change, also proposed on Nov. 5, 2019 and finalized on July 22, 2020, affects proxy advisory firms and puts what the commission calls "speed bumps" into the firms' advice process for their clients. These firms provide both research and advice on how to vote. The proposal will require them to provide to companies the reports and advice they offer their clients, will require that the firms provide links to any subsequent company rebuttals, and will impose new liabilities should inaccuracies be found. The most prominent advisor, Institutional Shareholder Services, has sued to block the changes.

Vocal allies and foes of shareholder rights in Congress and the investment world continue to maneuver to signal support or opposition to the rule changes. The outcome likely will depend on which political party wins the 2020 election, but it also may be decided in the courts. Rulings may turn on technical issues such as the adequacy of the proposed rules' economic analyses, but also (in the case of the proxy advisors) free speech issues that are more fundamental.

Recent SEC interpretations: 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. *(See end of this report for specific provisions.)* The SEC staff's views on shareholder resolutions has been shifting. In November 2017, SEC Staff Legal Bulletin 14I set out new views on how the commission may assess whether a resolution concerns "ordinary business" or is "significantly related" to company business. (These are the most common rules cited.) The commission further clarified its interpretations in Staff Legal Bulletin 14J (October 2018) and in Staff Legal Bulletin K (October 2019).

2020 Highlights and Synopsis

As of mid-August, proponents had filed a total of 458 resolutions—a number that has stayed virtually the same for the last three years and is down from nearly 500 in 2017. Most U.S. annual meetings take place in the spring, but around a dozen usually end up going to votes in the second half of the year. This section discusses major proposal topics, high votes and some notable developments.

Environment

In all, there were 95 proposals about the environment. Climate change remained the dominant environmental topic even though filings about it have fallen as engagements outside the proxy season have prompted more corporate action. Still, climate concerns undergird many other corners of shareholder activity—including lobbying and sustainability disclosure.

Climate change: The number of proposals specifically concerned with climate change was about the same this year—65, up from 63 in 2019, but down from nearly 100 five years ago. Proponents sought information about how companies plan to address carbon asset risks and explain how they will adjust to a low-carbon economy by using more renewable energy and combatting deforestation. The SEC's decision to consider many proposals seeking greenhouse gas (GHG) goals as ordinary business has been one of the reasons for the decline in votes on this issue, on top of fewer filings.

There were majority votes on resolutions seeking reports on how companies plan to make their operations compliant with the goals of the Paris climate treaty—73.5 percent at **Dollar Trees,** 56.4 percent at **Ovintiv** an 54.5 percent at **J.B. Hunt Transport**; another majority of 54.7 percent was for a proposal asking **Phillips 66** to report on how it guards against the petrochemical pollution risks from extreme climate change-related weather such as flooding.

Environmental management: Twenty-nine proposals asked about several issues—hazardous materials (all but one of the eight filings were about plastics); problems with pesticides, antibiotics and animal welfare in industrial agriculture; water and waste. Most companies were new recipients and challenges at the SEC were scarce.

Social Issues

Corporate political activity: Even though a growing number of companies have put in place board oversight and disclosure of their effort to influence elections and lawmakers by lobbying, they remain largely reluctant to draw back the curtain on spending that occurs at arm's length through trade associations and non-profits that receive corporate support. This reality, and the substantial influence company money has in the public policy sphere, continues to fuel the longstanding disclosure campaign. The proposed SEC rule changes on resubmission thresholds would hit lobbying resolutions harder than other issues; while support has increased for proposals to record averages this year, it is also true that the proposed 25 percent threshold for third year proposals would make six lobbying proposals ineligible for reconsideration next year, and two missed the proposed new "momentum" requirement.

Fifty-five of 86 proposals filed on political spending and lobbying had gone to votes as of mid-September and six were pending, 23 withdrawn and two omitted. Most votes were repeats; most withdrawals on election spending were at new targets and several of the withdrawn lobbying proposals were resubmissions. Average support for election spending resolutions rose to 41.5 percent; for lobbying proposals it was 34 percent on average. There was unprecedented number of majority votes so far—four on election spending, at **Activism Blizzard** (58.6 percent), **Centene** (51.4 percent), **J.B. Hunt Transport** (53.2 percent) and **Western Union** (53.3 percent), and two on lobbying, at **Alaska Air Group** (52.3 percent) and **McKesson** (52.1 percent).

Climate change connection—Notably, a mainstream financial player entered the fray as a proponent and earned majority support at an oil major, for the first time. BNP Paribas, one of France's largest banks, proposed that four companies reveal more about how their direct and indirect lobbying activities align with the Paris climate goals. At **Chevron**, which spends heavily to elect and influence lawmakers, investors gave the proposal 53.5 percent support, and it earned 45.9 percent at **Delta Air Lines** and 31.5 percent at **United Airlines**. While direct expenditures for climate-related lobbying at the two airlines account for a relatively small proportion of their overall lobbying spend, both belong to trade groups that do much more and neither discloses much about climate policy priorities.

Decent work: The coronavirus pandemic brought home issues that shareholder proponents have increasingly raised in the last few years about fair treatment and pay at work. A total of 57 resolutions highlighted working conditions, persistent economic inequality and high profile problems with sexual harassment and violence in the workplace. About half went to votes and three were majorities. A new proposal asked five companies for reports on how they manage diversity and labor matters, invoking industry-specific SASB metrics. Two at auto parts stores received high support—79.1 percent at **Genuine Parts** and 66 percent at **O'Reilly Automotive—**which could have come only with votes in favor from leading mutual funds. In addition, **t**he New York City pension funds earned 51 percent support for a request at **Chipotle Mexican Grill** for reporting on mandatory arbitration for "employment-related claims," which would include sexual harassment.

Diversity at work: While shareholder proponents want fair pay, they also want fair access to employment and promotion in the first place for women and people of color. Proposals asked about diversity programs in general, EEO data disclosure and affirmative action, and diversity in upper management. There were 31 filings on workforce diversity, seven votes and 24 withdrawals; only three were resubmissions. Investors gave a new diversity program assessment proposal high marks—61.1 percent for a resubmission at **Fastenal**, which currently discloses nothing on its workforce composition, and 70 percent at **Fortinet**, a leading cybersecurity firm that expresses support for diversity but also does not report on workforce composition, even though its board (including its Chinese American founders) is fairly diverse. Proponents withdrew a dozen resolutions on diversity programs or EEO reporting after the companies promised more information; one of agreement came at **Travelers**, where the vote last year was 51 percent. Proponents withdrew all seven of the proposals that asked companies to add gender identity protections to their policies after all said they would.

Health: The Investors for Opioid and Pharmaceutical Accountability (IOPA) campaign, led by Mercy Investments and the UAW Retirees Medical Benefit Trust, entered its third year and notched another victory, this time in a proposal from the Illinois State Treasurer at **Johnson & Johnson** that received 60.9 percent. The company is a defendant in national class action litigation because it sold opioids. IOPA seeks governance reforms to create accountability and disclosure at firms connected to the opioid epidemic and high drug prices. Another win and withdrawal this year for Mercy Investments was a commitment from **Walmart** to produce a report on its stewardship of opioids by October, including how its board is involved and executive compensation issues.

Human rights: About four dozen resolutions addressed a wide array of human rights problems. The biggest group asked for stronger policies and disclosure about risk management. Just eight were resubmissions. Twenty went to votes, two were pending for fall votes, 19 were withdrawn and nine omitted. Several proposals came from the new Shifting Gears effort led by Investor Advocates for Social Justice (IASJ), scrutinizing human rights risks in the automotive supply chain. Companies that received low scores from initiatives such as Know the Chain and the Corporate Human Rights Benchmark got resolutions.

A high vote of 44.8 percent came for one of the Shifting Gears proposals at **Lear**, which supplies automotive seating. Of particular note given the context of the global pandemic were two proposals at chicken processors seeking assessments; while the vote was 36.8 percent at **Sanderson Farms**, tallies of 12.8 percent at **Pilgrim's Pride** and 14.5 percent at **Tyson Foods** missed the 15 percent threshold for refiling under the SEC's proposed rules. Also notable was a vote of 24.9 percent for a resolution to **Amazon.com** about hate speech and offensive products. Other resolutions were on surveillance and technology, with two proposals—also at Amazon.com—getting 32 percent. But the highest vote, 40.6 percent, came at **Apple**, where Harrington Investments and SumOfUs asked for annual reporting on protecting free expression.

Sustainable Governance

Proponents continued to seek reform of corporate governance structures to address environmental and social concerns, focused on board composition and oversight, how these concerns are linked to executive compensation and how financial firms consider sustainability in their proxy voting. New this year was a query about how companies are interpreting their corporate purpose, following a controversial new approach announced a year ago by The Business Roundtable.

Board diversity: Proponents won majority support of 52.9 percent at **Expeditors International** for one of the 44 resolutions seeking policies or reporting on board diversity. That resolution was one of 16 from the Boardroom Accountability Project 3.0 of the New York City Comptroller, expressly asking for diversity in CEO candidate searches. A more general proposal from the New York State Common Retirement System at **National HealthCare** seeking reporting earned 59.2 percent. These long-running proposals resolutions usually get withdrawn when companies agree to amend their policies and ask either for reports on how boards are trying to diversify their mix of nominees or for adoption of policies to do so. They also mention gender, race and ethnicity.

Board experts and oversight: Six resolutions asked for oversight of human rights or climate change. The highest vote of 16.3 percent was at **Alphabet**, on human rights. In addition, Mercy Investments withdrew a new proposal that argued for controls on the "vast unregulated thrift market" of third-party sellers hosted by **Amazon.com**, in exchange for more reporting and dialogue.

Sustainability disclosure, management & reporting: Forty proposals in 2020 asked companies about sustainable governance—including links between executive pay and several issues as well as metrics disclosure—down from a recent high of 58 two years ago. Only 16 went to votes, 16 were withdrawn and eight were omitted. The number of resolutions seeking links between executive pay and various sustainability issues has held steady at about 20 in each of the last three years, with 23 this year. Proponents have largely abandoned general requests for sustainability reports given their ubiquity, but one such resolution at the solar company **Enphase Energy** earned 52.3 percent this year.

Corporate purpose—Two version of a new resolution asked six companies to explain how they will define and deliver on their CEOs' promises to support The Business Roundtable's redefinition of corporate purpose from August 2019. The BRT suggests companies should attend to the needs of all stakeholders, not just shareholders and arguments for and against the idea abound. The SEC rejected a variety of challenge from companies, aside from **JPMorgan Chase's** that said it was moot, but all the votes were less than 10 percent.

Proxy voting—A handful of resolutions have asked mutual fund firms to report on how they consider ESG issues in their proxy voting and despite relatively low support for these resolutions, it is clear that major mutual funds have started to vote in favor of some social and environmental shareholder proposals; the 20 majority votes this year could not have occurred without them. Further, Morningstar is now looking at fund voting practices for its sustainability ratings.

Conservatives

The field of proposals from politically conservative groups, chief among them the National Center for Public Policy Research (NCPPR), has always focused heavily on social policy. Half of the 26 proposals were omitted; half went to votes that in only two instances were too low to allow for resubmission under the SEC's proposed rules (two more would be eligible under current rules). Resolutions reflect current right wing talking points. NCPPR believes that employees with conservative views are discriminated against at work and that corporate boards are too liberal, for instance, and it expanded on this theme regarding workplace discrimination by calling for affirmative action and protections for conservatives. Just two proposal from NCPPR addressed corporate political action this year and one, which had pre-empted the main lobbying campaign's resolution, received 28.6 percent at **Chevron** with a resolved clause that asked for oversight and disclosure but inveighed against it in the rest of the resolution. (Investors appear to be voting on the substance of the resolved clause, disregarding the conflicting supporting statements.)

SEC Rule 14a-8 Reasons for Proposal Omissions

Procedural Provisions	
b	Proponent did not provide sufficient proof of stock ownership.
e-2	Proposal was filed past the submission deadline.
h-3	Proposal was submitted but not properly presented within the last two years.
Substantive Provisions	
i-1	Is not a proper subject under state law (usually if it is proposed as a requirement, not a recommendation).
i-2	Would be contrary to state, federal or foreign laws if implemented.
i-3	Contains false or misleading statements.
i-4	Relates to personal claims, grievances or interests.
i-5	Is not significantly related to the company's business (less than 5 percent of total assets and less than 5 percent of net earnings & gross sales.)
i-6	Company lacks the power or authority to implement.
i-7	Deals with a matter relating to the company's ordinary business operations.
i-8	Relates to nomination or election to the board of directors.
i-9	Conflicts with a management proposal.
i-10	Has been substantially implemented.
i-11	Duplicates another proposal that is substantially the same.
i-12	Is substantially the same as a previous proposal (submitted in the last five years) that did not receive enough support for resubmission (3 percent of the shares cast for and against in the first year, 6 percent the second year and 10 percent thereafter).
i-13	Relates to specific amounts of cash or stock dividends.