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2022 PROXY SEASON REVIEW
By Shirley Westcott

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Overview

This year's annual meeting season was distinguished by a heightened level of shareholder proposal activity with activists putting forward ambitious agendas both by volume of filings and their demands on corporations. Environmental and social (E&S)-focused proponents, in particular, made bolder propositions, especially on climate action, propelled by favorable 2021 results and new SEC guidance (Staff Legal Bulletin (SLB) 14L) which diminished the likelihood of ordinary business and economic relevance exclusions for proposals having a broad societal impact. In the end, it turned out to be too much overreach, delivering a patchwork of results.

Shareholder Proposal Category	Filed (estimated)	Voted	Majority Votes
2022 (through Aug. 5)			
Governance	307	216	35
Compensation	81	49	6
E&S	564	269	33
Total	**952**	**534**	**74**
2021 (full year)			
Governance	374	268	54
Compensation	70	35	1
E&S	467	157	39
Total	**911**	**460**	**94**

Source: SEC filings, proponent websites and media reports.

Some of this year's salient trends included the following:

Filings Proliferate: Across the spectrum, shareholder activists turbocharged their 2022 campaigns filing an estimated 952 resolutions through Aug. 5, up from 911 for all of 2021. Much of this came from a 20% surge in E&S submissions which constituted nearly 60% of the total filings—the highest proportion in the last 10 years. This year, E&S topics crowded out governance issues among the top 10 filings with racial equity/civil rights audits and greenhouse gas (GHG) emissions reduction ranking in the top five (see Table 1). As in 2021, the most prolific E&S sponsors were the As You Sow foundation (often on behalf of other shareholders), faith-based organizations and public pension plans.

Corporate gadflies John Chevedden and Kenneth Steiner also outdid themselves, blasting out 118 special meeting proposals, exceeding last year's copious field of 84 written consent requests. Along with their affiliates James McRitchie and Myra Young (the "Chevedden group"), they were also behind the upswing in compensation proposals, primarily on severance pay. In all, the Chevedden group accounted for 30% of all shareholder resolutions, including over two-thirds of those on governance and compensation.

Conservative investors, including the National Center for Public Policy Research (NCPPR), National Legal and Policy Center (NLPC) and Steven Milloy, were also more active this season, doubling their number of filings from last year to 61. NLPC, which hadn't sponsored any resolutions since 2019, accounted for nearly half of the volume, largely focused on companies' public policy engagement efforts. With a few exceptions, conservative-oriented proposals received no backing from the proxy advisors and mustered only single-digit support. However, the proponents don't regard this as a deterrent. Indeed, NLPC said that it was less concerned with attracting votes than with having its voice heard in C-suites and the press.

Fewer Omissions, More Votes: Aside from the escalation in filings, more shareholder proposals landed on ballots this year, particularly in the E&S space. Through Aug. 5, 269 E&S proposals were voted—a 71% increase from 2021 and the highest number reaching a vote in the past 10 years. According to the Sustainable Investments Institute, proponents withdrew the same proportion of E&S resolutions as last year (45%), but there was a sizable reduction in omissions due to SLB 14L, which broadened the scope of permissible proposals that addressed "significant social policy issues." Responsible Investor reported that as of mid-April, the SEC had granted only 15% of E&S-related proposal no-action requests, compared to 50% during the same period in 2021.[1]

The SEC often reversed course on established precedents such as company healthcare policies (paid sick leave and abortion) and tax reporting. This also extended to well-worn governance proposals, including special meeting rights, supermajority voting and proxy access, due to the staff's narrower read of the substantial implementation exception. Companies found themselves grappling this season with inconsistent decisions from past years and future uncertainty about the no-action process.

A Scale-Back in Majorities: Shareholder resolutions overall attracted fewer majority votes than in 2021 in part due to a shift in the mix of proposal topics. E&S themes that were popular last year, such as board and workplace diversity reporting, receded due to company compliance. Governance proposals also drifted away from reliable winners, such as board declassification, majority voting in director elections and the repeal of supermajority voting. The one anomaly was compensation, which pulled in six majority votes due to an influx of severance pay proposals, which investors and proxy advisors frequently support, and reinvigorated shareholder interest in gender and racial/ethnic pay disparities.

Investors also considered some proponent demands to be too extreme. While Form N-PX filings will be more revealing, BlackRock broke ranks midway through season and announced that it was pulling back from supporting certain E&S proposals that were overly prescriptive or failed to recognize the progress made by the targeted companies. Proxy advisory support sank as well—precipitously in the case of Glass Lewis, which has backed only 41% of E&S resolutions this year compared to 63% during 2021. Institutional Shareholder Services' (ISS) support slid to 56% from 68% last year.

As a result, E&S proposals racked up 33 majority votes—down from 39 last year—including six cases where the boards did not oppose the resolution (see Table 2). However, the count could go higher since about 16 proposals remain pending for late summer and fall. Below the surface, an additional 30 E&S proposals attained support in the 40% range—almost double the number in 2021. In most cases, these were on the same subjects that received majority approval—climate change, racial equity/civil right audits, political activities and workplace harassment and discrimination—which will likely spur a continued focus on these issues next year.

Pay Rebellions Abound: Pay protests heated up once again with 72 companies—including 19 S&P 500 firms—facing say-on-pay (SOP) defeats through June, up from 60 in the first half of 2021. Among them were 20 multi-year failures over recurring issues such as disconnects between pay and performance, mega-grants and various problematic compensation practices. The number of companies skirting summary rejections but with low (less than 70%) SOP results also rose by 30% over H1 2021.

Below is a more detailed discussion of some of the season's hot topics and a look at what's ahead for the fall. As a note, this report covers all U.S. public companies unless otherwise indicated. Vote results for SOP and director elections are for the first half of 2022. Data on shareholder resolutions are current through Aug. 5, 2022, and are based on "for" and "against" votes and exclude abstentions. Proxy advisor recommendations are derived from ISS Voting Analytics and Insightia.

Board Diversity

Shareholder action on board diversity has increasingly shifted from proxy proposals to votes on directors as companies improve the quality of their disclosures. Through June, 115 nominating/governance committee chairs received over 30% in opposition votes, and in 72% of these cases inadequate board diversity was likely a contributing factor. Most large investors and proxy advisors expect all companies to have a minimum of one female director and companies in major indices to have

[1] See Responsible Investor's review at https://www.responsible-investor.com/sec-allows-firms-to-block-just-15-of-es-proposals-this-year/.

at least one racially/ethnically diverse director and in some cases two female directors.

Some U.S. investors and proxy advisors are migrating towards European-style percentage quotas for board gender diversity with 30% being the most common threshold. State Street Global Advisors (SSGA) and Glass Lewis will begin applying this standard to Russell 3000 companies in 2023, while BlackRock wants S&P 500 companies to strive towards 30% diverse membership overall. Of the S&P 500 firms that had filed their 2022 proxies by Aug. 5, 60% disclosed having at least 30% women on their boards and 94% disclosed having racial/ethnic diversity.[2]

This year's shareholder proposals on board diversity shifted towards fostering gender and racial *equity* on boards. In defining "equity," NorthStar Asset Management suggested that Badger Meter (25.1%) and Home Depot (13.6%) use as comparative statistics the diversity of the U.S. population, the company's workforce or the company's headquarters city. Among various strategies to achieve this, NorthStar suggested the companies establish board diversity quotas, which could be problematic in view of recent court rulings striking down California's gender and racial mandates as a violation of equal protection laws. Separately, Arjuna Capital proposed an aspirational goal for Alphabet (5.3%), Wells Fargo (11.7%) and Tesla (9.7%) of board gender and racial diversity that is aligned with their employee and customer demographics, using the demographics of the U.S. population (51% women and 42% underrepresented minorities) as a proxy for the customer base.

The New York City Retirement Systems (NYCRS) also revived its 2018 and 2019 resolutions asking for a matrix of each director's self-identified gender and race/ethnicity as well as skills, experiences and attributes. With Nasdaq's diversity disclosure requirement now in effect, the focus was on NYSE-listed firms. Agreements were reached with all but one company, NextEra Energy (25.3%). More such requests are likely going forward since only about 30% of S&P 500 firms provided a board diversity matrix on an individual director basis in their 2022 proxy statements.

Workplace Diversity

Requests for workplace diversity reports were one of the most popular shareholder proposal topics in 2021, generating six majority votes. This year, filings declined by over a third as more companies agreed to release their EEO-1 data or produce diversity, equity and inclusion (DEI) reports, including quantitative data on workforce composition, recruitment, retention and promotion rates by gender, race and ethnicity. Only a handful came to a vote and most were resubmissions at companies that have a significant shareholder or high insider or employee ownership (Berkshire Hathaway, Charter Communications and United Parcel Service). The lowest vote occurred at Chipotle Mexican Grill which already publishes most of the requested data.

EEO-1 Report	2022 Vote
Charter Communications*	45.5%
DEI Report	**2022 Vote**
Berkshire Hathaway**	25.9%
Charter Communications**	44.7%
Chipotle Mexican Grill	21.5%
United Parcel Service**	36.8%

**A similar EEO-1 proposal in 2021 received 40.7% at Charter Communications.*
***Similar DEI proposals in 2021 received 27.1% at Berkshire Hathaway, 41.4% at Charter Communications and 33.7% at United Parcel Service.*

Racial Justice Reporting

Proposals calling for racial justice reports made an explosive second-year appearance following the 2020 death of George Floyd and Black Lives Matter protests. Most centered around independent racial equity and civil rights audits after last year's requests—primarily at financial institutions—resulted in four negotiated withdrawals and 33% average support across the nine voted. This year the proponents broadened their industry reach and tripled the number of filings. The 22 voted

[2] According to 50/50 Women on Boards' Q1 2022 report, 51% of Russell 3000 firms have three or more female directors. Of the remainder, 31% have two women, 16% have one woman and 2% have no women on their boards. See https://5050wob.com/wp-content/uploads/2022/06/5050WOB-Q1-Infographic-2022.pdf.

averaged 44.9% support and achieved eight majorities (see table below).

The higher success rate was aided by a shift in ISS recommendations. Although its policy is case by case, ISS backed 77% of the resolutions this year compared to 22% in 2021. This included flipping its position on repeat proposals at Johnson & Johnson (62.6% in 2022 versus 33.9% in 2021) and Wells Fargo (36.1% in 2022 versus 13.1% in 2021). Glass Lewis endorsed over 80% of the proposals in both years. Intel, which had the lowest vote (16.7%), was the only company where both proxy advisors opposed the resolution.

The variation in vote outcomes highlights the divergence in investor views—also reflected in ISS's fall policy review—as to whether most companies would benefit from a racial equity audit or whether it should be a company-specific decision. BlackRock, which is conducting its own racial audit, was largely supportive of the 2021 proposals, but did not back this year's resolutions at Chevron and McDonald's due to the extensive disclosures of their DEI efforts. Vanguard rejected the proposed audit at Apple in part because it would not be limited to or prioritize financially material impacts on long-term shareholder value.[3]

Less visible were proponents' off-ballot successes. Seventeen proposals never reached a vote including at Amazon.com, Dow, JPMorgan Chase, Tyson Foods, Uber Technologies and Verizon Communications which publicly announced their intent to undertake an audit. Apple and McDonald's also committed to a third-party civil rights assessment following their 2022 majority votes, as did Microsoft in mid-June.

While companies are becoming less resistant to racial audits, questions surround their utility, particularly in view of the time and costs involved in performing them. Most have been conducted by law firms, primarily Covington & Burling and civil rights attorney Laura Murphy. Depending on the extent of the investigation and size of the company, they can carry a price tag of up to $1 million according to estimates by the Service Employees International Union and SOC Investment Group.[4] Civil rights groups have also complained about audits of limited scope and inadequate company follow-through. For example, Meta Platforms has implemented only about half of the recommendations made in its 2020 audit report, while Amazon.com plans to confine its upcoming audit to U.S. hourly employees.

Racial Equity and Civil Rights Audits (liberal version)	2022 Vote
Alphabet	22.4%
Altria Group	62.2%
American Water Works	48.3%
Apple	53.6%
Chevron	47.5%
Chipotle Mexican Grill	36.4%
Comcast	18.3%
Elevance Health	41.2%
Home Depot	62.8%
Intel	16.7%
Johnson & Johnson	62.6%
Maximus	64.2%
McDonald's	55.8%
Mondelez International	48.6%
Republic Services	38.7%
Salesforce	33.9%
Stericycle	60.6%
SVB FInancial	34.6%
Travelers Companies	47.2%
Waste Management	55.0%
Wells Fargo	36.1%
XPO Logistics	40.2%

NCPPR countered with nearly a dozen of its own requests for racial equity and workplace non-discrimination audits to determine whether companies'

[3] See BlackRock's vote bulletins on Chevron and McDonald's at https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-chevron-may-2022.pdf and https://www.blackrock.com/corporate/literature/press-release/vote-bulletin-mcdonalds-may-2022.pdf, respectively. See Vanguard's vote bulletin on Apple at https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/perspectives-and-commentary/voting_insights_apple.pdf.

[4] See "Racial Equity Audit Proposal Q&A" at https://static1.squarespace.com/static/5d374de8aae9940001c8ed59/t/605cdec4e6861277202f0b46/1616699076603/Racial+Equity+Audit+QA_CtW_SEIU+%28002%29.pdf.

DEI policies violate the civil rights of workers who are not designated as "diverse." The proposals received less than 4% backing from investors and none from the proxy advisors.

Sexual Harassment and Concealment Clauses

Since the advent of the #MeToo movement in 2017, proposals on workplace sexual harassment and employment practices that shield misconduct continue to resonate strongly with investors. After scoring three majority votes in 2021, proponents more than doubled their filings in 2022 and shifted their focus to risks associated with the use of concealment clauses—namely, arbitration, non-disclosure and non-disparagement agreements which may limit employees' ability to discuss unlawful acts in the workplace, including harassment and discrimination.

Of the 13 resolutions voted to date, five have won majority support, including 98.2% at SunRun where the board backed the measure after a 2021 proposal on mandatory arbitration earned 59.4%. Still pending is a proposal on Microsoft's sexual harassment policies, which received 78% last year.

Concealment Clauses	2022 Vote
Alphabet*	12.0%
Amazon.com	24.9%
Apple	50.04%
Digital Realty Trust	45.6%
International Business Machines	64.7%
Meta Platforms	19.0%
SunRun**	98.2%
Twitter	68.9%

**Related proposals at Alphabet received 16.1% in 2020 and 12.5% in 2019.*
***The SunRun board recommended for the proposal. A related proposal received 59.4% in 2021.*

Mandatory Arbitration	2022 Vote
Tesla*	37.8%
Sexual Harassment Policies	**2022 Vote**
Activision Blizzard	67.4%
Comcast**	22.3%
Starbucks	32.1%
Tesla	46.9%

**Similar proposals at Tesla received 46.4% in 2021 and 26.8% in 2020.*
***Similar proposals at Comcast received 22% in 2021 and 13.1% in 2020.*

Climate Change

Coming off a productive 2021 proxy season, climate activists ramped up their 2022 campaigns, more than doubling the number of proposals presented at annual meetings though often with more aggressive demands. As a result, a smaller proportion were approved—23% versus 35% in 2021—and nearly half of the 10 winning proposals were unopposed by the boards.

In a spring client memo, BlackRock highlighted some of the unique dynamics at play this proxy season which drove its decision to support fewer climate resolutions than last year.[5] The SEC's revised guidance (SLB 14L) led to a marked increase in E&S proposals of "varying quality" coming to a vote, many of which were unduly prescriptive or burdensome to companies.[6] Among them were calls to cease financing fossil fuel companies or force them to decommission assets, to require banks and energy companies to align their business models with a specific 1.5º C scenario, or to direct climate lobbying activities, policy positions or political spending. BlackRock is also not in favor of setting absolute targets for reducing Scope 3 end-use emissions which would force the private sector to become "environmental police."

In a bolder pronouncement, BlackRock acknowledged that the energy shocks from the war in the Ukraine may

[5] See BlackRock's spring memo at https://www.blackrock.com/corporate/literature/publication/commentary-bis-approach-shareholder-proposals.pdf. See also BlackRock's 2022 Voting Spotlight and summary at https://www.blackrock.com/corporate/literature/publication/2022-investment-stewardship-voting-spotlight.pdf and https://www.blackrock.com/corporate/literature/publication/2022-investment-stewardship-voting-spotlight-summary.pdf.

[6] SSGA raised similar concerns last year about overly prescriptive proposals, particularly those requiring companies to make specific operational changes, such as transitioning to renewable energy within a defined timeframe or phasing out a project, business or product. See https://www.ssga.com/library-content/pdfs/asset-stewardship/asset-stewardship-report-2021.pdf.

force a reset of climate goals because of the need for investment in traditional energy sources. In the short and medium term, energy *security* is an overriding global priority.

Carbon Emissions Reduction

The largest category of climate resolutions called for setting and publishing targets for reducing GHG emissions, in most cases covering the full value chain (Scope 1, 2 and 3). Last year, five such proposals were voted and all were approved. This year, only five of the 16 GHG resolutions passed. Notably, support at several repeat targets—Chevron, ConocoPhillips and Phillips 66—slackened because of progress they had made following last year's majority votes, such as strengthening Scope 1 and 2 carbon intensity targets.

Related climate initiatives in the oil and gas sector yielded more lucrative results. A first-time proposal focused on the quality of methane emissions reporting received a whopping 98% support at Chevron and was backed by the board, which had already planned to release an updated methane strategy later this year. As You Sow and Christian Brothers Investment Services also refiled their 2021 resolutions seeking an audited report on the financial impacts of reduced fossil fuel demand, as envisioned in the International Energy Agency's Net Zero by 2050 scenario. The proposal received 51% at Exxon Mobil, up from 48.9% in 2021. At Chevron support receded (38.7% versus 47.8% last year) because the company had taken steps to implement the request.

GHG Emissions Reduction	2022 Vote
Builders FirstSource*	87.6%
Caterpillar**	96.5%
Chevron	32.6%
ConocoPhillips	41.8%
Costco Wholesale	70.0%
Dollar Tree	54.8%
Dominion Energy	15.8%
DTE Energy	28.1%
Exxon Mobil	27.1%
Monster Beverage	44.2%
Occidental Petroleum	16.6%
Phillips 66	36.2%
Skechers U.S.A.	25.0%
United Parcel Service	28.0%
US Foods Holding	88.5%
Valero Energy	47.1%

**The Builders FirstSource board made no recommendation.*
***The Caterpillar board recommended for the proposal.*

Financed and Facilitated Emissions

The finance sector also faced a robust slate of climate proposals this spring. Having reached accords last year with five major banks, As You Sow turned its attention to insurance companies to report on their plans to reduce the GHG emissions associated with their underwriting, insurance and investment activities in alignment with the Paris Agreement goals. Two resolutions received majority support at Chubb and Travelers Companies.

A more extreme petition levied by Green Century Capital Management and other filers asked banks and insurers to take measures to ensure that their lending and underwriting practices did not contribute to the development of new fossil fuel supplies. These were soundly rejected by shareholders, along with a Sierra Club request that JPMorgan Chase set absolute contraction targets for the company's financed GHG emissions. Green Century plans to rekindle its demands next year, but financial firms are facing headwinds from a growing number of states that plan to refuse their business if they boycott energy companies.

Climate Change Finance	2022 Vote
Report on portfolio emissions	
Berkshire Hathaway	26.5%
Chubb	72.2%
Travelers Companies	55.8%
Restrict contribution to new fossil fuel supplies	
Bank of America	11.0%
Chubb	19.4%
Citigroup	13.0%
Goldman Sachs	11.3%
Hartford Financial Services	8.8%
JPMorgan Chase	10.1%
Morgan Stanley	8.5%
Travelers Companies	13.2%
Wells Fargo	11.4%
Set contraction targets for financed emissions	
JPMorgan Chase	15.6%

Plastic Pollution

Aside from climate change, the other standout environmental topic was plastic waste. As You Sow and Green Century continued to make inroads in encouraging consumer goods companies, food retailers and shipping firms to set goals to reduce their use of single-use plastic packaging. Eight of the 13 resolutions filed this season were withdrawn following successful engagements, while the five voted averaged 47.7% support, up from 40.6% last year.

The high-water mark was at Jack in the Box with 95.4% approval, representing the first majority vote ever on a recycling proposal and the highest vote this year on an E&S resolution that was opposed by the board. Unlike many of its peers, Jack in the Box has not yet established any goals or policies to improve the sustainability of its packaging. A repeat vote at Amazon.com also scaled up to 48.9% from 35.5% last year, while support at Kroger declined year over year from 45.6% to 38.4% due to steps it has taken towards reusable packaging.

Plastic Recycling	2022 Vote
Amazon.com	48.9%
Jack in the Box	95.4%
Kroger	38.4%
McDonald's	41.9%
Tyson Foods*	13.7%

**The Tyson Limited Partnership owns 99.9% of the Class B shares.*

As You Sow also revisited several petrochemical companies which were last targeted in 2019 over plastic pellet spills from their production plants. Phillips 66 was asked to report on how it could shift its plastic resins business model from virgin to recycled polymer for single-use plastics (50.4% support). Exxon Mobil was tasked with issuing an audited report on the potential financial impact resulting from a significant reduction in virgin plastic demand (36.5% support).

Drug Pricing and Access

E&S-focused proponents stepped up their 2021 campaign at pharmaceutical companies to make COVID-19 therapeutics and vaccines more widely available globally. Oxfam America retargeted four producers to report on how government funding for the development and manufacture of their products was factored into decisions regarding access, including price setting and intellectual property sharing. The resolutions were withdrawn at Moderna and Pfizer while the votes at Johnson & Johnson (33.8%) and Merck (36%) were comparable to last year's.

New proposals on technology transfer were less compelling. With ISS's backing, Oxfam America received modest support for its petitions at Moderna and Pfizer to commission a third-party feasibility study on providing their intellectual property to foreign manufacturers to increase COVID-19 vaccine supply. The Shareholder Commons (TSC), on the other hand, got a poor response to its more convoluted systemic impact proposals which asked Johnson & Johnson and Pfizer to address the public health costs caused by the limited sharing of their vaccine technology and reduced product availability in poor nations.

Pricing and Access	2022 Vote
Johnson & Johnson	33.8%
Merck	36.0%
Feasibility of Technology Transfer	
Moderna	23.8%
Pfizer	27.4%
Public Health Costs of Limited Technology Sharing	
Johnson & Johnson	8.7%
Pfizer	8.7%

Faith-based investors received solid results on a first-time initiative aimed more broadly at drugmakers' "anti-competitive" practices leading to high drug prices. Specifically, these dealt with board oversight of the risks related to certain pricing strategies and the establishment of "patent thickets"—namely, multiple patents around the same drug—which can block generic competition.

Anti-Competitive Practices	2022 Vote
AbbVie	33.3%
Eli Lilly	22.8%
Gilead Sciences	39.6%
Pfizer	30.5%

Healthcare

Though attracting only moderate support this season, abortion-related resolutions will be on the radar for 2023 as a result of the U.S. Supreme Court's recent ruling in *Dobbs v. Jackson Women's Health Organization*, overturning *Roe v. Wade* and *Casey v. Planned Parenthood*.

Since 2020, As You Sow, Clean Yield Asset Management and other proponents have asked about a half dozen companies to report on the risks and costs caused by enacted or proposed state policies severely restricting reproductive rights. In the proponents' view, this poses a human capital risk in terms of employee hiring and retention, which may have factored into the SEC's reversal this year that the matter transcends ordinary business. The three proposals voted this year drew 32.2% at Lowe's Companies, 30.2% at TJX Companies and 12.9% at Walmart. All were backed by ISS and none by Glass Lewis.

In response to the *Dobbs* decision, *Reuters* has tracked over 50 companies that will now cover employee expenses if they travel out of state to have an abortion. Forthcoming shareholder engagements will likely be directed at other companies to follow suit.

Firearms and Human Rights

Mass shootings in Buffalo, New York and Uvalde, Texas stirred investor interest in gun safety proposals this spring which included first-time requests for manufacturers to conduct outside audits of the effect of their business and products on human rights given the "inherent lethality" of firearms. Sturm Ruger shareholders voted 68.5% in favor of a proposal to conduct a third-party assessment, informed by relevant stakeholders such as human rights organizations, employees and customers. A similar measure is pending at Smith & Wesson Brands' September annual meeting.

Shareholders are also expressing dissent towards directors over their handling of risks posed by gun violence. Following the 2018 Parkland, Florida school shooting, BlackRock indicated it would hold directors accountable for their firms' societal impact, which included lodging votes against the chair of Smith & Wesson's ESG committee in 2021 and the chairs of Sturm Ruger's risk oversight, capital policy and nominating and corporate governance committees in 2020 and 2021. This year, Sturm Ruger's board chair faced 35.6% in opposition votes.

Efforts to restrict firearms transactions via payment processors were less persuasive. Mastercard shareholders soundly defeated (10.2%) a proposal by the Employees' Retirement System of Rhode Island to report on the risks of providing payment services for the sale and purchase of untraceable firearms, including privately made "ghost guns."

Other human rights proposals delivered an agglomeration of results but attracted the highest votes at Amazon.com. These included requests for an independent audit on the working conditions and treatment of warehouse workers (44%) and for a report on how the company's human rights policies protect freedom of association (38.9%). Two types of proposals on the company's surveillance technology gained ground from the prior two years, earning 40.3% and 40.7% support.

Political Activities

This year's fulsome lineup of political spending and lobbying disclosure proposals lost some momentum including declining support at over half of the repeat targets. Political contribution resolutions yielded 33.4% in average support and two majority votes (Dollar General and Twitter), compared to a 46.8% average and six majorities in 2021. Support similarly fell on the lobbying proposals, which averaged 33.6% and produced two majority votes (Netflix and Travelers Companies), down from a 38.9% average and four approvals last year.

Since 2020, As You Sow, Clean Yield and the Tara Health Foundation have been bringing more attention to values congruency reports, which doubled in volume this year and rose in average support to 40.1% from 38.5% in 2021. Their objective is to identify misalignments between companies' political, lobbying and electioneering expenditures and their publicly stated values, particularly on climate change, drug pricing and access, abortion and election integrity. By way of example, a recent Conference Board survey of 300 companies found that only a marginal percentage are responding to the *Dobbs* decision by adjusting their lobbying activities, political contributions or non-profit donations.[7]

Values Congruency Report	2022 Vote
AbbVie	39.5%
AT&T	44.1%
Charter Communications	30.0%
Cigna	46.3%
Home Depot	42.6%
UnitedHealth Group	38.2%

Shareholders showed less interest in several new undertakings. These included Harrington Investments' call for global transparency reports detailing companies' political expenditures and activities outside of the U.S. The proposals averaged 14.3% support at Coca-Cola, McDonald's and PepsiCo. TSC also put forth a systemic risk resolution at 3M (13.5%) to report on how the environmental costs created by the company's operations and political influence activities affect the market returns of diversified shareholders.

Climate Lobbying Reports

Requests for Paris-aligned climate lobbying reports continued their upward trajectory after first appearing at a handful of oil majors and airlines in 2020. Following last year's gains—which included five majority votes and seven negotiated withdrawals—the sponsors expanded their filings by over 60% and broadened their industry reach.

This year, the wins were mainly off-ballot with most of the 21 targets agreeing to comply. Of the four voted, three were at companies with high insider or employee ownership (Alphabet, Tesla and United Parcel Service). After receiving the proposal, Honeywell International produced the desired report, which showed no material misalignment between the positions of its trade associations and the company's climate-related objectives or the goals of the Paris Agreement.

Lobbying Alignment on Climate Change	2022 Vote
Alphabet	19.0%
Honeywell International	39.5%
Tesla	34.6%
United Parcel Service	33.2%

[7] The Conference Board survey can be accessed at https://www.conference-board.org/topics/corporate-social-impact-practices/US-corporate-response-to-Supreme-Court-decisions.

Lobbying Alignment on Access to Medicine

Faith-based investors introduced a similarly framed proposal at four pharmaceutical companies to commission and publish a third-party review of whether their lobbying activities conform to their public statements and policy positions on access to affordable medicines. All were endorsed by ISS but opposed by Glass Lewis. In addition to reaching an agreement with Amgen, the proponents achieved a majority vote at Gilead Sciences.

Lobbying Alignment on Access to Medicine	2022 Vote
Eli Lilly	34.0%
Gilead Sciences	50.2%
Johnson & Johnson	43.3%

Animal Rights

Veteran activist Carl Icahn showcased animal rights this spring, launching short-slate contests at McDonald's and Kroger over the treatment of pigs, specifically the use of gestation crates to house pregnant sows, a common animal husbandry practice which he considers inhumane. Although both companies plan to transition to "crate-free" suppliers in the next several years, Icahn wanted them to accelerate their timelines as well as address their "egregious" CEO/worker wage gaps.

Ultimately, Icahn's fights appeared more about generating publicity for his cause rather than succeeding at his boardroom challenges, considering the companies' solid financial performance, his minimal stakes in them (100-200 shares) and his choice of nominees, which included individuals affiliated with Green Century and the Humane Society. McDonald's shareholders gave his candidates tepid support and he subsequently abandoned his campaign at Kroger.

Swine welfare was otherwise not a sizzling issue this proxy season, having been absent from proxy ballots since 2016. The Humane Society pulled its shareholder proposal at McDonald's prior to the annual meeting, leaving only two others headed to a vote. Its request at Wendy's—to eliminate gestation crates in its North American supply chain by the end of 2022—garnered only 14.1% support, even though the board did not oppose it. A milder petition at Papa John's International—to report on the percentage of crate-free pork sourced from its supply systems—got the highest traction among animal rights proposals this year, coming in at 41.8% with ISS's backing.

In the Pipeline

Beyond the spring proxy season, a number of shareholder E&S resolutions are slated for late summer and fall (see Table 3).

Of particular note is a request from various European pension plans for Cisco Systems and Microsoft to disclose their tax and financial information on a country-by-country basis, in line with the Global Reporting Initiative's tax transparency standard (GRI 207). The same proposal received 17.5% support this year at Amazon.com with the backing of Glass Lewis. Though a modest outcome, it is a considerable upturn from the last vote on a tax transparency proposal which received 1% at Alphabet in 2014. The coordinators of the initiative—Pensions & Investment Research Consultants and the Centre for International Corporate Tax Accountability—are reportedly in discussions with 30 companies and anticipate circulating more responsible tax proposals in the future.

Also scheduled is a novelty from As You Sow asking Campbell Soup and Microsoft to offer low-carbon investment options in their employee retirement plans. Although the proposal didn't qualify as ordinary business with the SEC, it eked out only single-digit support at Amazon.com and Comcast this spring.

Governance Initiatives

Submissions of governance proposals—at 307—were their lowest level in 10 years and were down almost 20% from 2021. They also generated far fewer majority votes—35 compared to 54 last year when there was a sizable number of resolutions to drop supermajority vote provisions, which investors almost universally support.

A high concentration of the filings (118) comprised the Chevedden group's special meeting "improvement" proposals, primarily to reduce ownership thresholds to 10%. Many of the targeted companies already had relatively low thresholds (15%-20%), but often with a one-year holding period, which the proponents find objectionable. In all, only 10 of the resolutions passed, in most cases at companies that did not provide shareholders with any special meeting rights or allowed it for a majority of shares.

Chevedden and Steiner additionally sponsored three-quarters of the 50 independent chair resolutions. This year they presented more detailed formulations which may have pulled down average votes to 28.3%—the lowest level in 10 years—and dampened proxy advisor support. ISS backed only 42% of the 2022 proposals (versus 64% in 2021) while Glass Lewis backed 68% (versus 77% in 2021). In most cases, the proponents sought a guarantee in the governing documents that separate individuals hold the offices of chair and CEO, but in no event should the chair be a former CEO. More rigid variations called for shareholder ratification of or term limits for a temporary non-independent chair, but still pulled out 32.7% support at Dow and 39.8% at International Business Machines.

NLPC also joined in this year's call for board chair independence in order to improve oversight of corporate management, particularly in regard to public policy positions. Although the proposals requested a permanent separation of the chair/CEO roles, they were not entirely off-putting to investors—the California Public Employees' Retirement Systems publicly endorsed the one at Berkshire Hathaway—or to ISS which backed three of the six voted.

A notable development from this season was the SEC's stricter approach to substantial implementation exclusions, signaling less flexibility for issuers that do not adhere to the letter of the shareholder proposal. For example, several companies were denied no-action relief from simple majority and special meeting proposals if they adopted a voting standard based on a majority of shares outstanding rather than votes cast (Fortive and Rite Aid) or if their 10% special meeting bylaws included a one-year holding period (Laboratory Corporation of America and Western Union). The SEC has since proposed new language to Rule 14a-8 clarifying that the substantial implementation exemption would apply if the company executed the "essential elements" of the shareholder proposal. It additionally stipulated that a shareholder resolution would qualify as substantially duplicative of another if it addressed the same subject matter and sought the same objective by the same means.[8]

Compensation Proposals

This year's lineup of shareholder resolutions on compensation exhibited a marked shift in both themes and sponsors, which are examined below. Over the previous four years, proposals with tie-ins to social factors dominated the filings, particularly those on ESG pay linkage and gender/racial pay disparities. This season they were overtaken by severance pay proposals, in large part from the Chevedden group.

Submissions of gender/racial wage gap resolutions fell from a high of 30 in 2018 to 12 this year as their focus gradually shifted from adjusted (equal pay for equal work) comparisons between men and women to unadjusted (median) pay gap data based on both gender and race. Meanwhile, only two proposals materialized to incorporate sustainability metrics into executive compensation plans and the sole vote was 14.8% at Booking Holdings. In its 2021 post-season report, Glass Lewis indicated that half of S&P 500 firms and 31% of Russell 3000 firms include ESG criteria in their incentive plans with the most common measures being diversity, worker safety and human capital management.

Concerns around specific aspects of executive compensation were raised by various members of the Council of Institutional Investors, predominantly public pension and labor funds. In most cases, the resolutions targeted companies that had exceedingly low SOP votes in past years.

Severance Pay: The Chevedden group boosted this year's count of severance pay proposals to 18—the most filed in any of the past 10 years when they were largely the purview of organized labor. The resolutions seek shareholder ratification of executive pay packages that

[8] See the SEC's proposed amendments to the shareholder proposal rule at https://www.sec.gov/news/press-release/2022-121 and https://www.sec.gov/rules/proposed/2022/34-95267.pdf. They are open to public comment until Sep. 12.

provide for severance or termination payments in excess of 2.99 times salary and bonus. The 14 voted averaged 45.6% support and four received majority approval at AbbVie, Alaska Air Group, Fiserv and Spirit AeroSystems. The Association of BellTel Retirees' long-running campaign at Verizon Communications also tracked up in support to 44.1% from 38.1% last year.

Pay Equity: Arjuna Capital and Proxy Impact had greater success this year on gender/racial pay gap reporting, which recorded the highest level of average support (42.6%) since the campaign began in 2015. Two proposals received majority approval at Lowe's and Walt Disney—the only ones backed by both proxy advisors. Another four were withdrawn at Best Buy, Chipotle Mexican Grill, Home Depot and Target after the companies agreed to annually report their unadjusted gender and racial median pay gaps for all U.S. employees.

Stock Trading Plans: A NYCRS' request for more robust 10b5-1 plan rules received 49.6% support at McKesson and 49% at Abbott Laboratories—the highest votes on a compensation proposal this year after severance and pay gap resolutions. Specifically, it called for safeguards against insider trading along the lines of the SEC's proposed rule amendments, including a cooling off period between plan adoption and initial trading and a prohibition on participation in multiple plans simultaneously.[9]

Performance Metrics: The Investors for Opioid and Pharmaceutical Accountability coalition reintroduced proposals at several drugmakers to exclude legal and compliance costs—particularly opioid-related litigation charges—from incentive compensation metrics. Unlike earlier years when the resolutions garnered less than 20% support, ISS endorsed the 2022 campaigns, which received 47.7% at Johnson & Johnson and 35.5% at AmerisourceBergen.

Clawback Policies: Several types of compensation clawback proposals emerged this year as the long-awaited SEC rule undergoes a third round of public comments. In all cases, the resolutions would expand coverage beyond material financial restatements to misconduct that causes financial or reputational harm to the company. Those sponsored by labor funds brought in the highest votes: 46% at Marathon Petroleum, 38.2% at Republic Services and 37% on a repeat proposal at Verizon Communications.

Chevedden's renewed efforts on this topic—last seen in 2017—fell flat at Citigroup (9.2%) and Wells Fargo (7.3%). They included a requirement that a substantial portion of executive compensation be deferred or forfeited to satisfy legal penalties, irrespective of individual responsibility.

Pay Protests

Shareholder rancor over executive compensation packages spilled into 2022 with average SOP support across all U.S. companies falling to 90.1% in the first half of the year from 90.9% during the same period in 2021. The failure rate, at 2.7%, was up from 2.4% in H1 2021, as was the percentage of companies that received less than 70% support (8.4% versus 6.5% in H1 2021). These results were galvanized by a higher frequency of negative ISS recommendations—13.6% compared to 11.2% in H1 2021.

Some of the more bruising pay protests occurred at S&P 500 firms, which accounted for about a quarter of the SOP defeats. Among them were 12 first-time failures, including at JPMorgan Chase and TJX Companies, and seven companies that have failed their SOP votes multiple times, such as Intel and Halliburton. Seven other firms had near misses but pulled out support between 51% and 60%.

Pay-for-performance misalignment and pay magnitude from retention or one-time special awards topped the list of investor and proxy advisor concerns. After slowing in recent years, median CEO pay in the S&P 500 jumped 17.1% in 2021 to $14.5 million—the biggest gain since 2020, according to Equilar.[10] Much of this came from record-level equity valuations resulting from the 2021 stock market rally and from generous incentive grants to reward CEOs for navigating the challenges of the

[9] See the SEC's proposed rule at https://www.sec.gov/news/press-release/2021-256 and https://www.sec.gov/rules/proposed/2022/33-11013.pdf.

[10] See Equilar's study at https://www.equilar.com/reports/92-equilar-associated-press-ceo-pay-study-2022.

pandemic, disrupted supply chains and materials shortages.

Developments to Watch

Moving into the fall, the latest Unified Agenda of Regulatory and Deregulatory Actions ("Reg Flex" agenda) details an extensive SEC rulemaking schedule which includes finalizing the highly controversial rule on climate change disclosure in October.[11] Because of the lengthy phase-in periods, companies' limited readiness to comply and the likelihood of legal challenges, shareholder activists will likely forge ahead with their climate campaigns through private ordering.[12]

Major asset managers are also coming under fire from all sides. Majority Action singled out BlackRock, Vanguard and SSGA for stifling the advancement of ambitious climate action and racial equity agendas by failing to back many of this year's shareholder resolutions and "vote no" campaigns.[13] It has called on like-minded asset owners to escalate pressure on the "Big Three" to upgrade their voting policies for 2023.

Meanwhile, GOP lawmakers have vowed to take on Wall Street titans in the next Congress. Senate and House Republicans have introduced companion bills—the Investor for Democracy is Expected (INDEX) Act—to neutralize the dominance of large money managers at annual shareholder meetings, often to advance their own agendas. The Act would effectively extend the broker-dealer voting rule to passive investment funds where their position in a company exceeds 1%. The intent is to democratize corporate governance by returning proxy voting power to individual and active investors.

BlackRock has already taken steps to deflect criticism by launching a new Voting Choice product last fall which allows some of its institutional clients to take voting control of their shares.[14] By mid-June, 25% of eligible index equity assets were participating in the program, which BlackRock plans to eventually roll out to all investors in its funds, including individuals. While the long-term impact is uncertain—Axios reported that most of the newly eligible participants simply switched from BlackRock's to ISS's voting line—if pass-through voting is adopted by other major asset managers it could fundamentally alter the landscape of proxy voting.

As we move into the fall planning and engagement season, Alliance Advisors will provide updates to inform companies of significant issues and developments as they materialize.

[11] See the Spring 2022 Reg Flex Agenda at https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST&currentPub=true&agencyCode=&showStage=active&agencyCd=3235&csrf_token=ABBAA84824C29E01B566B0472A6E99E59C730916821A14613C79DE7F48AC8EAEF4CA3A7C929E9B10E667F119BAA4958D5293. See the SEC's proposed climate disclosure rule and fact sheet at https://www.sec.gov/rules/proposed/2022/33-11042.pdf and https://www.sec.gov/files/33-11042-fact-sheet.pdf.

[12] Based on 2021 disclosures, the Conference Board found that nearly 70% of the S&P 500 and 20% of the Russell 3000 were reporting Scope 1 and 2 emissions. The figures drop to 43% of the S&P 500 and 11% of the Russell 3000 for Scope 3 emissions reporting. See https://www.conference-board.org/pdfdownload.cfm?masterProductID=38700.

[13] See Majority Action's review of the 2022 proxy season at https://impactalpha.com/why-did-shareholder-resolutions-on-climate-action-and-racial-equity-fall-short-big-asset-managers/.

[14] For more on BlackRock Voting Choice, see https://www.blackrock.com/corporate/about-us/investment-stewardship/blackrock-voting-choice.

Table 1: Top Ten Shareholder Proposal Filings: 2021-2022

Proposal	2022 (through Aug. 5)	Proposal	2021 (full year)
Special meetings	118	Written consent	84
GHG emissions reduction	60	Independent chairman	47
Independent chairman	50	Supermajority voting	40
Racial justice/civil rights audit/report (liberal version)	49	Special meetings	39
Grassroots lobbying	45	Proxy access	38
Finance and climate change	29	Workplace diversity (EEO-1 report)	38
Proxy access	27	Grassroots lobbying	37
Workplace diversity (DEI report)	26	Carbon transition planning	32
Political spending	23	Political spending	31
Lobbying alignment on climate change	21	Workplace diversity (DEI report)	30

Source: SEC filings, proponent websites and media reports.

Table 2: E&S Majority Votes: 2022-2021

2022 (through Aug. 5)			2021 (full year)		
Proposal	**Company**	**Vote**	**Proposal**	**Company**	**Vote**
Fugitive methane	Chevron*	98.0%	**Board diversity - liberal version**	Badger Meter	85.4%
Climate transition plan	Boeing*	91.4%	**Board diversity - liberal version**	First Community Bankshares*	70.6%
Report on stranded assets	Dominion Energy**	80.1%	**Board diversity - liberal version**	First Solar	91.2%
GHG emissions reduction	Builders FirstSource**	87.6%	**Executive diversity**	PayCom Software*	93.8%
GHG emissions reduction	Caterpillar*	96.5%	**Workplace diversity - EEO-1 report**	DuPont de Nemours	83.8%
GHG emissions reduction	Costco Wholesale	70.0%	**Workplace diversity - EEO-1 report**	Union Pacific	86.4%
GHG emissions reduction	Dollar Tree	54.8%	**Workplace diversity - DEI report**	American Express	59.7%
GHG emissions reduction	US Foods Holding	88.5%	**Workplace diversity - DEI report**	International Business Machines**	94.3%
Climate change finance	Chubb	72.2%	**Workplace diversity - DEI report**	Tesla	56.9%
Climate change finance	Exxon Mobil	51.0%	**Workplace diversity - DEI report**	Union Pacific	81.4%
Climate change finance	Travelers Companies	55.8%	**Mandatory arbitration of employment-related claims**	Goldman Sachs Group	53.2%
Deforestation	Home Depot	64.7%	**Mandatory arbitration of employment-related claims**	Sunrun	59.4%
Recycling	Jack in the Box	95.4%	**Sexual harassment policies**	Microsoft	78.0%

2022 (through Aug. 5)			2021 (full year)		
Proposal	**Company**	**Vote**	**Proposal**	**Company**	**Vote**
Plastic pollution	Phillips 66	50.4%	**Worker safety**	Wendy's**	95.3%
Racial equity/civil rights audit (iberal)	Altria Group	62.2%	**Climate change transition planning**	Booking Holdings	56.5%
Racial equity/civil rights audit (iberal)	Apple	53.6%	**Climate change transition planning**	General Electric**	98.0%
Racial equity/civil rights audit (iberal)	Home Depot	62.8%	**GHG emissions reduction**	AutoZone	70.4%
Racial equity/civil rights audit (iberal)	Johnson & Johnson	62.6%	**GHG emissions reduction**	Chevron	60.7%
Racial equity/civil rights audit (iberal)	Maximus	64.2%	**GHG emissions reduction**	ConocoPhillips	59.3%
Racial equity/civil rights audit (iberal)	McDonald's	55.8%	**GHG emissions reduction**	Phillips 66	80.3%
Racial equity/civil rights audit (iberal)	Stericycle	60.6%	**GHG emissions reduction**	Sysco*	92.1%
Racial equity/civil rights audit (iberal)	Waste Management	55.0%	**Plastic pollution**	DuPont de Nemours	81.2%
Sexual harassment policies	Activision Blizzard	67.4%	**Deforestation**	Bloomin' Brands	76.2%
Concealment clauses	Apple	50.04%	**Deforestation**	Bunge**	98.9%
Concealment clauses	International Business Machines	64.7%	**Lobbying disclosure**	AECOM	54.6%
Concealment clauses	SunRun*	98.2%	**Lobbying disclosure**	Exxon Mobil	55.6%
Concealment clauses	Twitter	68.9%	**Lobbying disclosure**	FedEx	62.4%

2022 (through Aug. 5)			2021 (full year)		
Proposal	**Company**	**Vote**	**Proposal**	**Company**	**Vote**
Human rights assessment	Sturm Ruger	68.5%	**Lobbying disclosure**	GEO Group	66.3%
Lobbying disclosure	Netflix	60.4%	**Lobbying alignment on climate change**	Delta Air Lines	63.0%
Lobbying disclosure	Travelers Companies	52.7%	**Lobbying alignment on climate change**	Exxon Mobil	63.8%
Lobbying alignment on access to medicine	Gilead Sciences	50.2%	**Lobbying alignment on climate change**	Norfolk Southern	76.4%
Political spending disclosure	Dollar General	57.0%	**Lobbying alignment on climate change**	Phillips 66	62.5%
Political spending disclosure	Twitter	53.4%	**Lobbying alignment on climate change**	United Airlines Holdings	65.4%
			Political spending disclosure	Chemed	80.2%
			Political spending disclosure	Duke Energy	51.9%
			Political spending disclosure	Netflix	80.7%
			Political spending disclosure	Omnicom Group	51.0%
			Political spending disclosure	Royal Caribbean Cruises	52.9%
			Political spending disclosure	United Airlines Holdings	67.9%

Note: Vote results are calculated as “for” votes as a percentage of “for” and “against” votes.
*The board supported the proposal.
**The board made no recommendation on the proposal.
Source: SEC filings

Table 3: E&S Proposals in the Pipeline

Proposal	Company	Annual Meeting Date
Animal Rights	Brinker International	November
DEI Report	Electronic Arts Procter & Gamble	Aug. 11 October
Racial Equity Audit	Oracle	November
Sexual Harassment Policies	Microsoft	November
Water Impact Report	Hain Celestial Group	October
GHG Emissions Reduction	AMERCO AutoZone KLA ResMed	Aug. 18 December November November
Retirement Plan Climate Alignment	Campbell Soup Microsoft	December November
Forced Labor in Supply Chain	NIKE	Sep. 9
Human Rights Impact Assessment	Smith & Wesson Brands	Sep. 13
Lobbying Disclosure	Fox	November
Values Congruency Report	FedEx	September

Source: SEC Filings, proponent websites and media reports.