Helping Shareholders
Vote Their Values

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2017

ABOUT THE AUTHORS

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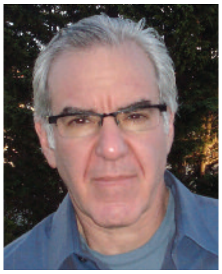
Updates on Information in *Proxy Preview*

Information about the proposals and companies mentioned in the *Proxy Preview* was accurate as of February 15, 2017. 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 sta-tus of all proposals—for updates on proposals at select companies, follow our Proxy Season Updates at www.proxypreview.org.

LETTER FROM THE PUBLISHER



With a new administration in Washington bent on cutting government regulation and rolling back key legislation on everything from financial reform to health care and the environment, the 2017 *Proxy Preview* shows that shareholder proponents remain committed to protecting hard-won gains that form the underlying bedrock of the relationship between corporations and the shareholders that own them.

Investor proponents also are watching to see if the Securities and Exchange Commission will act to limit corporate disclosure and the basic shareholder rights to raise the key issues of our time. Severe restrictions to this process have recently been sent to the White House for consideration, and at the moment of this publication, the outlook is uncertain. Our hope is that restricting corporate disclosure and limiting the rights of shareholders to engage companies in a productive and mutually beneficial way will be recognized for what it would be—a sharp departure from free speech, core American values and basic good business sense.

Many companies, especially leaders on environmental and social issues and good corporate governance, are not leaping to end transparency, halt engagements and block shareholder input. Instead, they look to investor advocates to uncover win-win situations that benefit all stakeholders—employees, customers, communities and shareholders—as they formulate long-term plans for economic sustainability. Good environmental, social and governance (ESG) management and reporting systems are already in their DNA. Robust governance is a competitive differentiator, not forced by regulators, but included in an ecosystem of trust and good will that boosts brand value.

Country-wide polarization is pushing companies to pick sides, with retailers dropping products for fear of boycotts and corporate officials recusing themselves from government positions that could taint them with misogynistic, racist policies. But the key is in the markets. Coal cannot be magically reinstated as the nation's main fuel source in the face of surging, less expensive and clean renewables. Investors are still keeping a skeptical eye on egregious CEO pay that does not produce returns but clearly demonstrates underperformance instead. Removing reporting requirements that identify responsibly sourced minerals produced without slavery may not prompt companies to throw out transparency, since customers and shareholders still want to know how their products are produced.

This year, decent work proposals have doubled and are at an all-time high, reflecting the challenge of economic inequality that is a driving political force. Corporate influence on elections and government is still a primary shareholder focus. And since climate change still threatens our economy, whatever some observers may think, shareholders still want to know how companies plan to become part of a clean energy economy or get left behind.

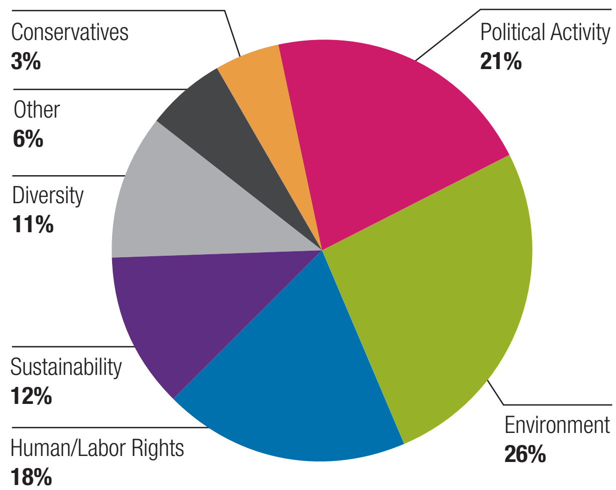
Now in our 13th year, *Proxy Preview* continues to focus on aligning values and investing and to spotlight how corporate policies affect every person and our planet, and how shareholder resolve can lead to long-term change. *Proxy Preview* is proud to continue its central role documenting this journey as shareowners work with their companies to solve the most difficult issues of our time.

Andrew Behar
CEO, As You Sow

EXECUTIVE SUMMARY

Shareholder activists have filed far more resolutions in 2017 concerned solely with environmental and social issues at U.S. companies than at this point last year, a total of 430 as of February 15, up from 370 in 2016. This is just shy of the record 433 in 2015, suggesting the year's total will set another milestone. Corporate political activity and climate change remain the key issues for investors to consider in 2017 proxy statements, but resolutions about diversity on the board and in the workplace have surged past previous levels, as have those about pay equity.

Proposals Filed in 2017



Source: Si2, n=430, as of 2-15-17

Climate change proposals continue to ask about its strategic implications and how companies will adapt to physical changes, new regulations and new technologies. They also address methane leaks from U.S. energy production and encourage more carbon tracking and goal-setting, but renewable energy proposals have been cut in half. New climate-related resolutions ask about high-carbon asset divestment and carbon finance risks. Other environmental issues include antibiotic resistance in the meat supply chain, the reduction of food waste and nanomaterials in infant formula.

Political activity accounts for 21 percent of the total, down from 26 percent last year, and lobbying disclosure is still responsible for more proposals than election spending.

Proponents are upping the ante with many more resolutions about pay equity for women and minorities, buoyed by a majority vote at **eBay** in 2016 on gender pay equity and new tech company commitments on diversity. This year's crop of 29 resolutions seeks more data and policies about equal pay, with an eye on new company reporting requirements slated for 2018.

The equal pay proposals are accompanied by equal employment opportunity data requests that simply ask for data on representation by job category, particularly in the financial sector where diversity is scarce. While equal rights for lesbian, gay, bisexual and transgender (LGBT) people remain on the agenda and are potentially under threat from the new presidency of Donald Trump, these resolutions have been surpassed in number for the first time by the concerns about representation for women and minorities more generally. There is, however, a new request about how anti-LGBT laws will affect companies—pending at **Western Union**.

In the human rights area, the Israeli-Palestinian conflict is again front and center and accounts for half the 40 proposals, with 21 from the Holy Land Principles organization, which recently saw its first success after **Corning** agreed to provide a breakdown of its Arab workers in Israel. New resolutions asking about indigenous rights policies at banks and energy companies connected to the controversial Dakota Access Pipeline face lengthy challenges that have yet to be decided by the Securities and Exchange Commission (SEC) staff, the arbiter of shareholder activity, alongside a new proposal about the Rohingya people at **Chevron**.

On the sustainable governance front, more proposals than ever are asking for board diversity (29) and some are delving down to small cap Midwestern companies alongside more usual targets. **ExxonMobil** gave proponents a victory when it added climate scientist Dr. Helen Avery to its board in January, prompting a significant withdrawal on board oversight, but more environmental board expert proposals are pending. On reporting, the number of filings has grown from last year's dip and 24 ask about a laundry list of concerns from climate change to human rights and nutrition. Ten resolutions also seek links between sustainability metrics (mostly about the climate) and executive pay, while five more at mutual fund companies cast a skeptical eye on what the proponents say are major inconsistencies between company policies and their proxy voting decisions.

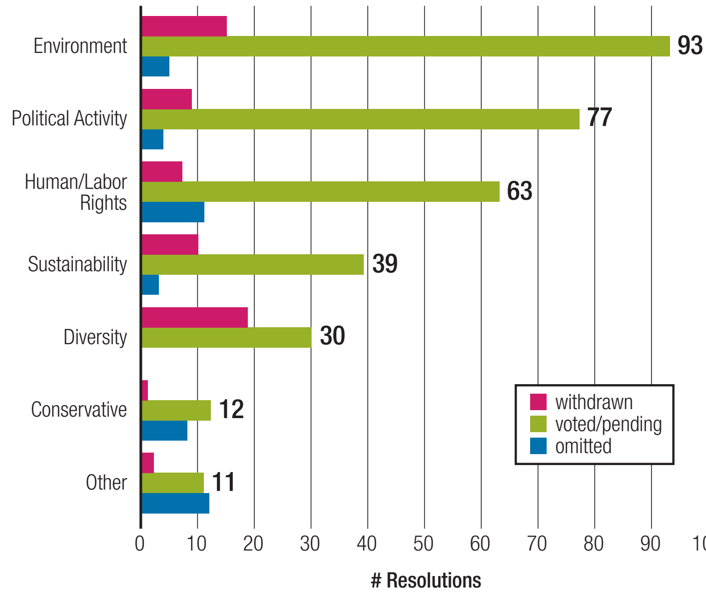
A few resolutions about fairness in financial transactions have been filed at **Wells Fargo** (about its sales fraud scandal) and may go to a vote, although the bank is not eager to see the issue raised.

The National Center for Public Policy Research (NCPPR) has two new ideas this year. It suggests companies face political risks from advertising in what it sees as biased mainstream media and asked for a report, but it did not pass muster at the SEC. The group also believes companies need to attend to their employees' "religious freedom" rights, but faces many company challenges; these have yet to be decided.

The current tally: A total of 328 pending shareholder resolutions are covered in this report, alongside 41 which have been omitted after challenge at the SEC and 61 withdrawn by proponents—often after company accords. Last year in mid-February, there were 314 pending.

Companies have lodged many more challenges seeking to omit proposals at the SEC this year—114 compared with just 71 last year, although about the same as the 113 lodged in 2015. To date, the commission has rejected only four of the omission requests, far fewer than the 14 it threw out last year. This leaves just 52 still to be decided, 20 more than last year. Proponents have withdrawn 17 of these contested resolutions, more than the nine they had in 2016—sometimes after agreements and sometimes for tactical reasons because they have concluded they will lose. In sum, companies seem to have reawakened their legal departments to fend off resolutions. *(See Appendix for a link to a list of reasons why proposals may be omitted.)*

Current Status of Resolutions by Subject



Overview and New Issues in 2017

This section provides an overview of the upcoming proxy season, paying particular attention to new issues and how ongoing campaigns are evolving. The main body of the report, starting on p. 12, gives a detailed analysis for each category listed here. To mirror the broader discussion about "ESG"—environmental, social and governance issues—the bulk of the report is divided into these categories. For the governance area, we use the term "sustainable governance" to describe resolutions about how companies address a wide variety of sustainability concerns at the board level (through membership as well as committee structures and responsibilities) and in their overall reporting to investors. Finally, this forecast describes proposals from political conservatives worried about what they see as excessively liberal corporate actions.

Environmental Issues

Climate change and energy: The total number of proposals focused solely on climate change has dipped a bit from last year—82 compared with 94 at this point last year (and 82 in 2015), although the issue is woven throughout upcoming annual meeting agendas with other resolutions on sustainability reporting, executive compensation and board oversight and composition (separately covered in this report).

- Twenty-five proposals ask energy extractors and utilities about the *impacts* of a warming planet and the *strategic implications* for their business models if governments insist on carbon reduction and if new technologies affect the competitive landscape.
- Fifteen focus on familiar ground about the risks from using *hydraulic fracturing* to extract energy from shale deposits, emphasizing methane reduction as well as storage and transport risks.
- Eighteen concern *carbon accounting*—tracking and setting targets to limit greenhouse gas emissions—aiming for science-based goals at big industrial electricity users and retailers. Notable developments are the SEC's recent rejection of resolutions specifically seeking net-zero GHG targets as being too specific, as well as a separate focus on target-seeking in the tech sector.
- Last year's campaign on distributed, *renewable energy* has been folded into the more broadly construed climate strategy resolutions in 2017, cutting in half the number of resolutions about renewables compared with last year, although 10 still seek renewable energy use goals at retailers and utilities.

New wrinkles are most evident in a group of 14 more resolutions on the climate, addressing coal *financing risks* and asking for high-carbon asset *divestment*. Six concern *deforestation* and link it to human rights abuses, as they did last year. The slate is rounded out by an inquiry about the health risks of coal use and a range of risks from oil trains.

Environmental management: *Recycling* is still the dominant concern in the dozen proposals about environmental management, with a new angle about online and bricks-and-mortar stores' Styrofoam packaging. There is more this year on food waste and details about its carbon-emitting characteristics and cost to society in general.

Toxics: Just four resolutions seek reports about toxic materials, with a new approach that is trying to recruit home improvement retailers to the fight against lead contamination, and two that seek more information about nanomaterials in infant formula.

Industrial agriculture: There are more resolutions this year about industrial agricultural issues, dominated by a widened effort by the Interfaith Center on Corporate Responsibility (ICCR), the long-time coordinator of shareholder resolutions from faith-based groups, to eliminate routinely used antibiotics from the meat supply chain to curb drug resistance that threatens human health. An early season vote at **Sanderson Farms**, a chicken processor which rejects claims of a problem, hit 31.5 percent. In another action early in the year, **Tyson Foods** prompted proponents seeking meatless protein strategies to withdraw their resolution when it acquired the firm Beyond Meat. Proponents won at **Hormel Foods** early on, as well, when it agreed to a new water stewardship approach and prompted the withdrawal of a resolution. As You Sow has a new concern about the use of glyphosate (the main ingredient in the pesticide Roundup)—pre-harvest treatment that may leave residues in food, with a resolution at **Kellogg**.

Social Issues

Animal welfare: People for the Ethical Treatment of Animals (PETA) has come back to **Laboratory Corp. of America** with its questions about potential Zika virus transmission from research monkeys housed outdoors in Texas. It also seeks retirement options for **SeaWorld Entertainment's** orcas although it is unclear if that proposal will pass SEC scrutiny. A new proposal about primates at research firm **Charles River** and its animal welfare violations is pending.

Corporate political activity: Proponents remain vigorous in their search for more corporate disclosure of lobbying and election spending and again have filed more proposals about lobbying than elections—with close to 100 resolutions in all The overall tally does not look likely to crack the high-water mark set by 139 resolutions filed in 2014, however. Most of the resolutions are resubmissions.

Proponents have seen an early season loss at the SEC, where **Anthem** convinced commission staff that intermediary group spending raised in both a lobbying resolution filed at the company this year and previous election spending proposals there made this year's lobbying resolution inadmissible given modest earlier support levels. On the other hand, an agreement with **Pfizer** in which it will consider boosting state-level renewable energy with its lobbyists cheered proponents who also have climate change concerns. A further comprehensive disclosure deal at **Pinnacle West**, whose Arizona utility subsidiary has been involved in alleged political shenanigans with the state utility commission, seems to be another victory for proponents, as well.

Decent work: Companies have been inundated with proposals about pay equity, in a major new feature of proxy season. Buoyed by success with resolutions about gender pay equality, proponents have filed 29 proposals in 2017 that seek reports or policies on equal pay and opportunity not just for women but also for racial and ethnic minorities. Ten more proposals address suppliers and working conditions, as well. Concern about the high economic and social costs of economic inequality is a key driver.

Proponents lost last year at the SEC on their new minimum wage principles resolution but have modified it this year and are trying again at five companies. Proponents seeking disclosure about companies' track records on pay, broken out by job category, race, ethnicity and gender are looking forward to the March 2018 implementation of a new Equal Employment Opportunity Commission reporting requirement for companies that mandates this disclosure, but they would like to see the data now.

Diversity in the workplace: For the first time, there are more resolutions about equal employment opportunity for women and minorities than there are proposals seeking protections for lesbian, gay, bisexual and transgender (LGBT) employees, as the latter issue continues to gain acceptance. Last year's push for more transparency in the financial sector, where underrepresentation persists, has expanded, with a dozen proposals mostly filed by Trillium Asset Management. A notable feature is the inclusion of minorities in what until now has been mainly a campaign about women.

On the LGBT rights front, though, the Trump administration has signaled that hard-won rights seem to be threatened. Already, the new Secretary of Education Betsy DeVos has said she will not defend Obama-era protections for transgender children in public schools, although the administration also said in late January that federal LGBT workplace protections will remain. Last fall, NorthStar Asset Management started proposing that companies report on how new anti-LGBT state laws might affect them and another of these new proposals is now pending at **Western Union**.

Equitable Finance: The Wells Fargo scandal about fraudulent sales tactics that prompted a $185 million fine in September inspired a resolution asking for a report on how it might avoid similar problems in the future, from the Sisters of St. Francis of Philadelphia. Another from the Rhode Island Pension Fund sought a report on student loan servicing at **Navient**, but the SEC said it was ordinary business and there will be no vote.

Health: Although proponents continue trying to persuade companies to explain more about their pharmaceutical drug pricing practices, they have struck out at the SEC this year and only two votes may occur (at **AbbVie** and **Biogen**) despite 10 filings on the subject that the commission has decided are too detailed. Last year's new campaign to recruit drug companies in the fight against the opioid epidemic and water pollution resulting from discarded medicines also has run into trouble at the SEC, which agreed it concerns ordinary business. (Proposals last year were unchallenged and earned modest support.)

Human rights: The campaign for Palestinian workplace equality in the Middle East sought by the Holy Land Principles group has gone into high gear despite very low previous vote levels, with a total of 21 filings in 2017. The SEC has turned back an attempt to allow a new type of resolution seeking not implementation of the principles but instead reporting on the workforce, agreeing both types are essentially the same issue. **Corning** has given the campaign its first win; it agreed to report on its workforce breakdown in the region. Another new and detailed resolution on operations in conflict zones in general is pending before **Intel** from Mercy Investments, and the plight of the Rohingya people in Burma is the subject of one more new resolution at **Chevron**.

Indigenous rights—The controversial Dakota Access Pipeline (DAPL), stopped by President Obama and now approved by President Trump, caused proponents to file new resolutions about indigenous peoples' rights at banks on project finance policies and at oil and gas companies operating or investing in projects on indigenous peoples' lands. All the banks have SEC challenges that have yet to be decided, on multiple grounds, although proponents convinced **Phillips 66** to strengthen its policy and withdrew.

Other—The rest of the human rights resolutions cover familiar ground, seeking human rights risks assessments and disclosure. The first vote on the human rights of farmworkers may occur, referencing the Fair Food Program at **Wendy's**, although another new proposal on equal access by the poor to the Internet at **AT&T** has been omitted, as has a privacy protection resolution at the company. The SEC also said two prison companies need not include resolutions about their operational audits because they did not transcend ordinary business. NorthStar Asset Management withdrew after persuading **American States Water** to adopt a human right to water policy, while another similar measure is pending at **California Water Service Group**.

Media: The problem of fake news in social media is addressed in a new proposal to **Alphabet** and **Facebook** from Arjuna Capital; it seeks a report on the impacts of the phenomenon on society and the company.

Sustainable Governance

Board diversity: Investors have filed more proposals than ever seeking more diverse boards of directors—with the tally at 29 so far and more possible later in the year. New is a push from the UAW Retirees' Medical Benefits Trust at ten relatively small Midwestern companies to adopt the so-called "Rooney" rule used to integrate National Football League coaches—which requires consideration of at least one minority candidate. Another new angle is at **Costco**, where NorthStar wants the board to reflect the demographics of company stakeholders. Oxfam America is trying to link concern about working conditions with board diversity but so far this new proposal has been coolly received at closely held **Tyson Foods** and got just over 2 percent support; it is pending at **Pilgrim's Pride**.

Board oversight: The most common request for board oversight is to add a director with particular expertise, most often on the environment. There are six such requests this year and proponents celebrated—and withdrew a resolution—when **ExxonMobil** added climate scientist Dr. Helen Avery to its board early this year. New angles include one seeking to tie an independent board chair to drug safety expertise at **Merck** and **Zimmer Biomet Holdings**, as well as one asking for a board human rights expert at **Caterpillar**.

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"PRIVATE ORDERING" AND THE IMPORTANCE OF SHAREHOLDER RIGHTS

KEN BERTSCH
Executive Director, Council of Institutional Investors

With both executive and legislative branches in Washington promising rollback of regulatory rules, we will be hearing even more in coming months about "private ordering." In the world of less regulation and more private ordering, it is important that we have strong rules of the road that protect shareholder rights and enable collective shareholder voice.

One of the best tools for expression of shareholder views is the shareholder proposal. The Business Roundtable (BRT) in October 2016 put out a proposal that would sharply restrict shareholder proposals in the United States, a proposal that is deeply concerning to the Council of Institutional Investors.

For example, the BRT would limit access to the shareholder proposal process to holders owning anywhere from 0.15 percent to 3 percent of shares outstanding, depending on the size of the company and whether an individual shareholder or a group submitted the proposal. At **Apple**, this would raise the threshold from the current $2,000 to just over $1 billion or more, given recent market valuations. This proposed change, and others like it from the BRT, seem radical, and intent in particular on locking out smaller shareholders.

Shareholder proposals often have been early indicators of concern that became significant, ranging from use of majority vote standards in election of directors, to effective disclosure on carbon emissions. Unlike one-on-one engagement by management with shareholders, the shareholder proposal provides for expression of the collective voice of shareholders in a company, focused on a particular issue.

Critics of the shareholder proposal (and of the say-on-pay vote) say that other mechanisms, particularly one-on-one shareholder engagement, are sufficient. Certainly companies and boards participate more often these days in meaningful engagement with shareholders. But this engagement has come about in no small part due to concerns expressed collectively, through shareholder voting. Without such tools as shareholder proposals and say-on-pay votes, shareholder engagement is likely to wither on the vine. Moreover, current engagement tends to be with large asset managers, and less with midsize and smaller investors, who will be largely locked out to the extent meaningful collective voice mechanisms disappear.

Shareholders do have means other than shareholder proposals to express views collectively, particularly through voting on directors including votes "against" and, in rare contested elections, support for dissident candidates. In the future, we may see some elections contested through proxy access rules, newly available, due to shareholder proposal campaigns, at companies representing a majority of U.S. market cap, but as yet untested.

Effective accountability structures in election of directors are critical, but the director vote also is a blunt instrument. Over many years, it has been highly useful for shareholders to have the more nuanced shareholder proposal mechanism to communicate particular concerns on particular issues, and to pursue important governance and bylaw changes without necessarily seeking to oust or embarrass particular board members.

Sustainability oversight and reporting: After a sharp dip last year in the number of resolutions filed asking for sustainability disclosure, the tally is edging upwards again, although it remains below previous levels. Two dozen resolutions seek disclosure, most (22) in sustainability reports. The number of withdrawal agreements has withered, so a relatively large proportion of these are likely to go to votes. Issues raised in the proposals are most commonly climate change, but range broadly, also mentioning safety, privacy, energy and waste, supply chains, stock exchanges, human and indigenous peoples' rights, nutrition and water. Just five of the reporting proposals are resubmissions. A notable development is the acquiescence of **Emerson Electric** to produce a report, after a long campaign begun in 2011 that culminated in a 47.3 percent voting result last year that seems to have reached a level of support management could not ignore.

Pay links—Ten proposals seek links between sustainability metrics and pay—general ones at seven companies and climate-specific ones at **ConocoPhillips** and **Devon Energy**. NorthStar also is reprising its proposal to link diversity performance to pay at **TJX**.

Proxy voting—Five resolutions ask mutual fund companies to report on how they square corporate policies and approaches to climate risk with their proxy voting records that commonly oppose shareholder resolutions on these risks. This approach was started by Walden Asset Management a few years ago. Votes have not been above 10 percent and the SEC has allowed the exclusion of this sort of resolution in the past, but a few votes are likely this year since no challenges have emerged so far.

A new resolution from Trillium Asset Management takes a fresh approach, asking **BlackRock** to assess and explain any inconsistencies between its own policies and guidelines on LGBT workplace protections and voting on resolutions on the issue.

Conservatives

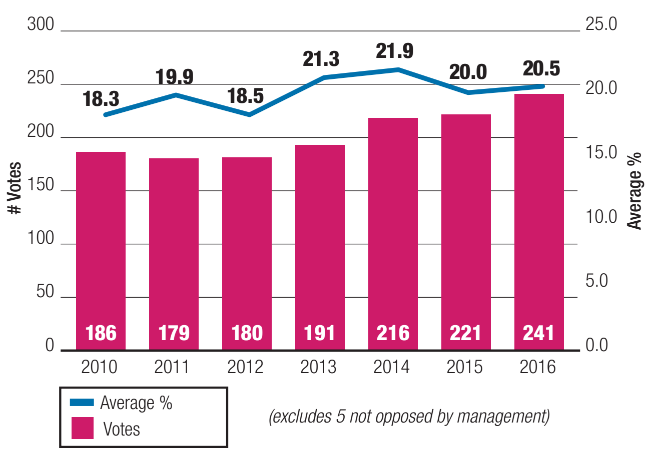
Twice as many proposals have emerged so far from political conservatives this year than last year at this time—with 18 filings to date. The main actor is still the National Center for Public Policy Research and SEC filings reveal its two new ideas. The SEC has rejected the first—that companies face political risks from using mainstream media for advertising their products since the media is biased—as ordinary business. The second proposition is that companies may be abrogating their employees' religious freedom rights by requiring compliance with laws contrary to their beliefs, such as LGBT-protections or diversity promotion. The SEC has yet to respond to the challenges that argue this also is an ordinary business issue. David Ridenour, president of NCPPR, is also asking **Boeing** and **Salesforce.com** about their human rights policies, borrowing from the liberal proponents' language about country selection standards.

INTRODUCTION

Key Shareholder Proposal Trends

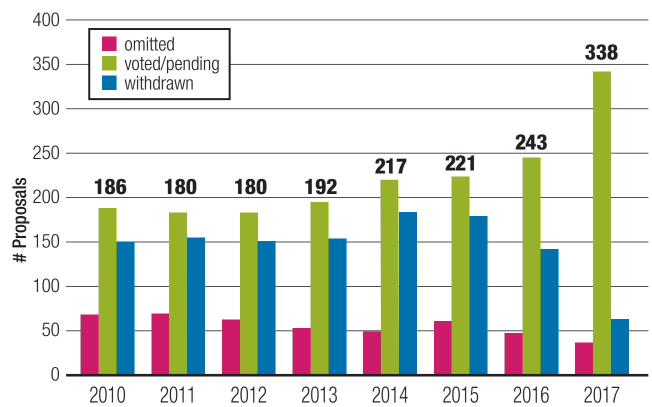
Although the total number of social and environmental shareholder resolutions filed in 2016 dropped from an all-time high in 2015, the number of votes continued their upward march to a record 243. Fully 329 are currently pending for votes in 2017; while not all will go to votes, this is up from 314 at this point last year. (Eleven already have been voted on.) Average support over the last four years held steady at around 21 percent each year, above earlier years, and was 20.5 percent in 2016 *(below left)*. Proponents withdrew the lowest number of proposals yet last year, while the lowest number yet were omitted after challenged filed by companies at the SEC *(below right)*.

Votes and Averages Since 2010



(excludes 5 not opposed by management)

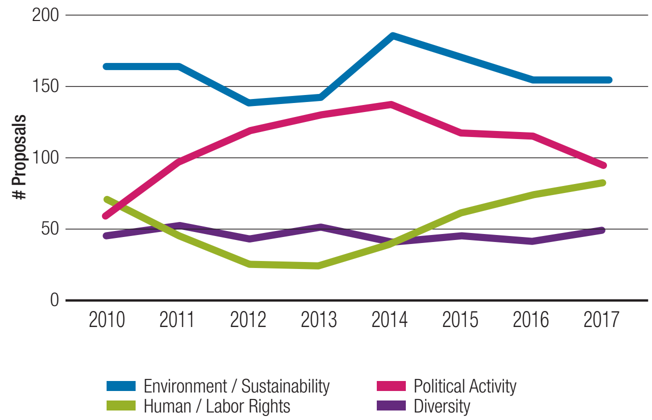
Proposals Filed Since 2010



(excludes 41 not voted for other reasons)

Overall trends: Proposal filings about the environment and sustainability, including climate change, have accounted for about 40 percent of filings since 2010. Another quarter have concerned corporate political activity. The number of proposals filed on these topics in the last couple of years has dropped, though, while there has been a big increase in requests about human and labor rights—including questions about unequal pay. Requests about diversity, both on the board and in the workplace, have been relatively constant. *(Right chart.)*

Major Subject Major Filings Since 2010



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A CASE FOR DISCLOSURE RESOLUTIONS

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

A well-worn mantra among corporate sustainability proponents is "what gets measured gets managed." This principle is appropriate for asset managers as well. We can only manage the aspects of the investments that we measure. So where does data come from to measure the environmental, social, and governance (ESG) aspects of portfolios? In many instances, voluntary disclosure by portfolio companies is the only source.

What is the state of voluntary disclosure?

Although the amount of ESG data companies provide is increasing, disclosure is far from universal. For instance, the Global Reporting Initiative (GRI) reports that 583 US companies published sustainability reports referencing GRI in 2015 or 2016. According to a Governance & Accountability Institute study, this included 81 percent of S&P 500 companies in 2015. That number represents a substantial improvement from 2011, when only 20 percent of the index published sustainability reports. The percentage drops significantly outside the large-cap S&P 500.

Companies often argue that the effort to compile information for use in sustainability reports is too burdensome; but in some cases, companies already gather the data—they just don't disclose it. For example, the U.S. Department of Labor requires companies to report diversity data to it, but the public release of this information is voluntary. According to IW Financial's database (as of January 2017), 1,310 out of 3000 Russell 3000 companies do not publicly disclose diversity data.

Disclosure of carbon emissions is another area where too few companies disclose information. While the number of those that do so is rising, reporting is not comprehensive, so several data firms have developed methods to estimate company emissions and plug those data gaps. Indeed, IW Financial's January 2017 data show that only 540 Russell 3000 companies disclose direct greenhouse gas emissions.

What is the impact of missing data?

When companies do not provide the information investors need on ESG issues, asset managers and ratings firms have to answer the question, "How do we rate companies with missing data?" Such companies could be treated better than average, or worse than peers that did disclose data necessary for an evaluation. However, assuming a company without disclosed data is an average performer creates a potential incentive for companies not to disclose. Such a forced rating can distort evaluations.

In many cases, the ESG evaluation of companies specifically includes an assessment of disclosure by those companies. While some investors find this antithetical to their desire to evaluate the ESG performance of companies, others think this is a first step in moving toward more responsible companies.

What is the long-term solution?

To evaluate a company's performance according to ESG criteria, asset managers require data appropriate to those criteria. As asset managers, we can't manage what we can't measure. Shareholder resolutions seeking more disclosure—whether on very specific issue areas like diversity or carbon emissions, or on a broader ESG/sustainability basis—offer a chance for concerned investors to communicate their frustration at the paucity of data.

expertinsight

INVESTOR RELATIONS: THE GOOD, THE BAD, AND THE UNINFORMED ON ESG

MARY JANE MCQUILLEN
Portfolio Manager, Head of ESG Investment, ClearBridge Investments

Direct engagement with companies where we are shareowners is one of the most impactful ways to promote progress on ESG issues. But often lost in the big picture ESG goals we discuss with companies is the critical role played by their investor relations (IR) teams. As part of our ongoing effort to raise sustainability practices at our companies and increase ESG disclosure, we have helped educate IR teams through presentations to local National Investor Relations Institute chapters as well as a recent presentation at the NYSE to 200 corporate IR officers about ESG and shareholder value from an investor's perspective.

Our two-plus decades of experience working with IR provides useful perspectives on the value of these partnerships.

"The Good"

At its very best, IR can serve as a company communicator, facilitator, and internal advocate on ESG. Good IR officers have the ear of the CFO and CEO and are well informed on the sustainability strategy of the company. Successful ClearBridge CFO/CEO engagements facilitated through IR include a large media company, a consumer products company and a biotech company who have reached out to ClearBridge's sector analysts with updates on their company's sustainability initiatives or requesting feedback.

"The Bad"

Unfortunately, IR teams can also work to the detriment of ESG efforts. In these instances, IR plays the role of gatekeeper, blocking or limiting access to company management due to indifference, defensiveness or being overly skeptical of the value of ESG. These laggard IR experiences are less common in our investments, but have happened when conducting initial due diligence. For example, IR for a major retailer would for years put the general counsel on our calls whenever the words "environment" or "labor" were mentioned. Meanwhile, IR for a media company questioned why we were interested in sustainability and said that we had no business asking about such topics.

"The Uninformed"

Some IR teams are simply unaware of what is taking place internally in ESG, have no idea that there are corporate sustainability initiatives, and believe investor engagement is only about governance and executive compensation. IR for a financial services company couldn't understand why we were interested in carbon emissions as it was not a coal company. This company was overlooking the tremendous amount of energy used for their offices around the country and business travel. We have found that it is well worth the time our sector analysts spend on engagement, as once IR learns about ESG from both a competitive and a sustainable shareholder standpoint, companies are more likely to incorporate these practices. For example, an IR officer for a consumer discretionary company said he had no idea about sustainability, but that he would "find some people in the company" and that he would listen in as well "to be educated on ESG." That company went on to be an industry leader.

The goal of our ClearBridge sector analyst engagements with IR is to turn these crucial corporate contacts into our ESG advocates within the companies where we are shareowners.

THE 2017 PROXY SEASON

This section of the report presents information on all the social and environmental proposals investors have filed for the 2017 proxy season that have surfaced so far. Proxy season runs from April to June and is when 90 percent of all U.S. annual meetings occur—and nearly all shareholder resolution voting. Additional proposals for spring votes will show up as the season progresses and only a dozen or so more are likely to be filed for meetings that occur after the spring. More than a dozen proposals are not described in detail but are included in the aggregate totals since they have yet to be made public. Consequently, the *Proxy Preview* encompasses the vast majority of social and environmental resolutions and issues that shareholders will raise in 2017.

Categories—Information is presented in five main areas—Environmental Issues, Social Issues, Sustainable Governance, Other Governance and Conservative Groups. The first three sections correspond with environmental, social, and governance (ESG) issues commonly raised by investors. 'Other governance' highlights key governance issues, such as high

CEO pay, being raised by the investor community that this report does not track. Shareholders with a conservative perspective tend to file resolutions on a different set of issues and those are discussed separately.

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. That rule (14a-8) allows companies to omit proposals from their proxy statements if they fall into certain categories such as dealing with mundane, "ordinary business" issues. *(See Appendix for a link to 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.

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 annual meeting. Confirmed dates become available when companies issue their proxy statements, four to six weeks in advance of the meetings.

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

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

Environmental Issues

Climate change continues to be the primary concern of environmentally focused shareholder proposals. The climate conversation in the proxy process is still all about carbon accounting and risk management disclosure—with 82 resolutions on these topics (compared with about 90 at this date in 2016). Other environmental management topics grew to 31 proposals this year, up from two dozen in 2016. These for the most part cover familiar ground on recycling, water, toxic materials, antibiotic use and animal welfare in industrial food production.

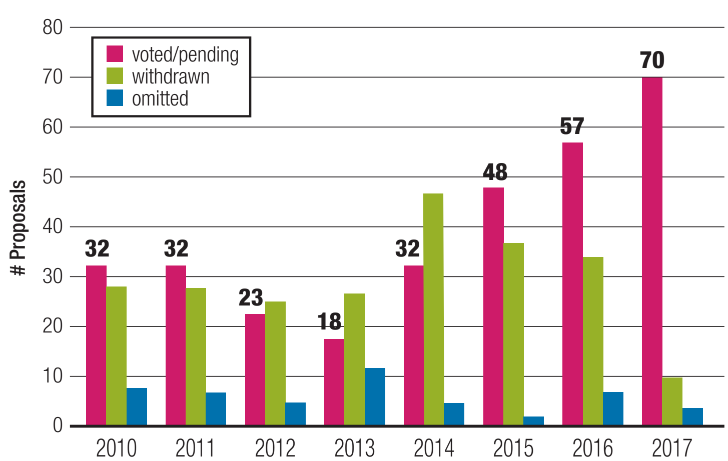
(The section on Sustainable Governance, p. 58, examines related reporting proposals, most of which also request more transparency from companies about environmental management at their own operations and in their supply chains, in conjunction with reporting on social and other issues.)

CLIMATE CHANGE

Investors are entering the 2017 proxy season facing a new set of public policy priorities in Washington, with President Donald Trump's administration starting to roll back disclosure requirements and environmental protections cherished by many shareholder proponents. This stands in sharp contrast to last year, when the just-inked December 2015 Paris treaty suggested there might be a real shift in global government action on climate change. Most observers expect the Trump administration will move to nullify key provisions of the Obama Clean Power Plan and its goal to curb U.S. utility sector emissions, although climate change will still challenge the sector and renewable energy development continues. Many large institutional investors are convinced that companies and governments must take urgent action to address climate risks and opportunities and they continue to evaluate their portfolio companies' performance on these metrics. This informs this year's shareholder resolutions and provides the context for proxy season in 2017, within a rapidly shifting regulatory environment that promises in the near term less regulation and more resource extraction.

Climate change proposals, mostly at the most intensive fossil fuel producers and users, address how a warming globe will affect companies and ask about how they will respond. Twenty-five request reports on these impacts and strategies. As in the

Climate-Related Proposals Since 2010



past, additional resolutions raise concerns about the many impacts from the use of hydraulic fracturing to extract domestic oil and gas, focusing on methane leaks (15 proposals). Twenty-two ask companies to set targets to cut their carbon footprints and report. Half as many proposal seek action on renewable energy this year (10 versus 24 last year), seeking goals and reports. Another 14 proposals address deforestation, carbon finance and divestment, coal impacts and oil trains.

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), non-profit shareholder advocates, and some individuals. Both investor activists and a growing number of mainstream investors suggest that any new regulatory regimes that require lower-carbon fuel sources may 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, whatever the current administration's aspirations; this underpins a number of the pending proposals, with new variants in 2017.

(Sections below on Environmental Management, p. 25 and Sustainable Governance, p. 58 , contain information on proposals about topics that touch on both climate change and additional environmental and social matters.)

Impacts and Strategies

Proponents are asking 25 fossil fuel producers and utilities to report on how a world retooled for only a 2 degrees Celsius temperature increase, as envisioned by the Paris Agreement, would affect them, with variations about the physical and regulatory impacts, company strategy and potentially stranded assets. 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 are more general. A total of 22 resolutions are pending and just two have been withdrawn so far; nine are resubmissions.

Impact assessments: The biggest group includes 18 resolutions asking how changes in technology and government regulation will affect companies, in either their generation of electricity or in their energy product offerings.

At utilities **AES**, **Ameren**, **Dominion Resources**, **DTE Energy**, **Duke Energy**, **PNM Resources** and **Xcel Energy** it asks that each company,

> with board oversight, publish an assessment (at reasonable cost and omitting proprietary information) 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.

Slightly different formulations at six oil and gas companies—**Anadarko Petroleum**, **Devon Energy**, **ExxonMobil**, **Kinder Morgan**, **Hess** and **Noble Energy**—are asked about the long-term impacts on "portfolio reserves and resources" through 2040 of technological advances or innovation and "carbon restrictions or related rules or commitments adopted by governments consistent with the Paris Agreement's 2-degree C global warming target." The Devon and ExxonMobil proposal calls for an assessment of "resilience," while it adds at Kinder Morgan that capital planning impacts should be included. The Hess and Noble Energy proposals leave out "technological innovation."

Other resolutions at **Chevron** and **Occidental** ask for annual reports on "plausible climate change scenarios," which

> explain how capital planning and business strategies incorporate analyses of the short- and long-term financial risks of a lower-carbon economy. Specifically, the report should outline impacts of multiple, fluctuating demand and price scenarios on the company's existing reserves and resource portfolio—including the International Energy Agency's "450 Scenario," which sets out an energy pathway consistent with the internationally recognized goal of limiting global increase in temperature to 2 degrees Celsius.

Individual proponent Elaine Wells is asking at **Berkshire Hathaway** that "The effect of the many potential, inter-connected [climate risk] exposures be investigated, modeled, analyzed, and reported to the shareholders" at the next annual meeting.

The Christopher Reynolds Foundation filed a second, more detailed, proposal at **ExxonMobil** that asked for a climate risk management plan that reviews and reports on specific risks:

- Risks as cited by World Economic Forum "The Global Risks Report 2016: 11th Edition"
- Failure of Climate Change mitigation and adaptation [#1 risk cited in the report]
- Extreme weather events
- Water crises
- Food security risk in the context of climate change
- Ocean acidification including implications for aquatic food chain
- Profound social and political instability and potential conflict
- Large scale involuntary migration (created by water and food scarcity and resulting social political instability)
- Systemic risk—leading to slowing of global economic growth

The foundation withdrew after the company "committed to continue dialogue, and will bring strategic planning staff into the discussions to address issues raised" in the proposal.

Strategic alignment: Three of the strategy and impact resolutions explicitly ask that corporate strategy be aligned with a world in which warming is limited to a 2 degree increase. **FirstEnergy** and **Southern** are asked to report on their "strategy for aligning business operations" with the 2 degree goal articulated in the Paris Agreement, "while maintaining the provision of safe, affordable, reliable energy." Similarly, **Marathon Petroleum** should issue a report by next December "on the Company's 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."

Stranded assets: As You Sow and Walden Asset Management zero in on potentially stranded assets at four utilities. At **NRG Energy** the proposal asks for a description of "the risk of stranded assets and coal demand reductions associated with global climate change, including analysis of long and short term financial risks to the company under the International Energy Agency's 450 scenario." At **PNM Resources** it wants the company to identify "all PNM generation assets that might become stranded, in what time frame, and quantifying low, medium, and high financial risk associated with each respective asset." At **Southern**, the report should disclose "the financial risks to the Company of stranded assets related to climate change and associated coal demand reductions," while at **Xcel Energy** it should assess the "risk of stranded assets resulting from global

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CARBON ASSET RISK COMES OF AGE

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DANIELLE FUGERE
President & Chief Counsel, As You Sow

In only a short time, investors have brought carbon asset risk from an obscure concept to one that many consider "material." It now dominates the financial landscape. In 2011, Carbon Tracker's seminal report, *Unburnable Carbon*, first presented the potential for large-scale stranded assets to the financial mainstream. In laying out what Bill McKibben termed a "terrifying new math," Carbon Tracker explained that under a scenario where nations acted to keep global average temperature rise to 2 degrees Celsius, up to 80 percent of all fossil fuel assets must remain unburned. This led shareholders to ask the obvious and important question: What impact would this or similar scenarios have on fossil-fuel based energy companies? Had companies addressed, quantified, and disclosed the risk to shareholders? What actions were companies taking to address and reduce these risks?

In 2012, *As You Sow* filed the first carbon asset risk resolution asking these questions. In September 2013, Ceres partnered with Carbon Tracker, the Institutional Investors Group on Climate Change (IIGCC) and over 70 investors holding more than $3.5 trillion in assets under management to launch an industry-wide shareholder engagement of 45 of the world's largest fossil fuel companies. Since these first steps, dozens of shareholders have initiated engagements with over 50 companies, resulting in significant new disclosures and engaging the broader financial system in a conversation about the materiality of climate risk.

Where companies have been non-responsive, shareholders have filed resolutions asking for analysis and disclosure of stranded asset risks; reduced capital investments in high cost and high carbon reserves; assessment and disclosure of 2 degrees scenario analysis to identify financial risk and demonstrate portfolio resilience; de-linkage of executive compensation from reserves replacement; and transition planning to reduce these growing risks.

By 2015, the Bank of England, led by Mark Carney, warned that investors faced huge financial losses associated with climate change. Increased investor and business support for climate action helped lead to the historic Paris Agreement and the Financial Stability Board—which monitors and makes recommendations about the global financial system—announced a Task Force on Climate-related Financial Disclosures (TCFD), chaired by former New York City mayor Michael Bloomberg. **Barclays**, **BlackRock**, **HSBC**, **Moody's**, **Morgan Stanley** and **S&P** all have issued guidance and warnings about the need to address climate risk. In December 2016, after a year of analysis and public proceedings, the TCFD released its proposal underscoring the growing risks of carbon asset risk and highlighting the types of disclosures companies should make to shareholders, including the importance of 2 degree scenario analysis.

The growing pressure has persuaded many companies, including **BP**, **Total**, **Saudi Aramco** and **Shell**, to move from dismissing the stranded asset risk to acknowledging that it is driving market strategies. The 2016 proxy season marked a turning point as a transatlantic investor collaboration pushed support for 2 degree resolutions to some of the highest tallies ever for climate resolutions. As the energy transition continues to move forward, investors expect even broader support for shareholder proposals raising the issue of climate risk in 2017.

climate change and related fossil fuel demand reductions, including a quantitative analysis of potential short and long term financial losses due to its fossil fuel generation facilities being stranded."

SEC action: Companies have challenged only a few of the resolutions. **AES** argued that its resolution about impacts could be omitted because the company's current reporting makes it moot and that it was so vague as to be misleading since it referenced an external standard not described in the proposal—but the SEC staff demurred.

Other challenges to which the SEC has yet to respond are at **Dominion Resources**, which says the proposal is moot—an argument it tried last year with no success. **PNM Resources** also contends that its extensive public reporting in regulatory filings and sustainability reports makes the climate impact report proposal moot. The company also says the stranded asset proposal concerns ordinary business and is too vague.

As You Sow withdrew at **Xcel Energy** after the company agreed to provide more information and to continue discussion on coal supply, carbon asset risk and coal plant retirements. Xcel had challenged at the SEC, arguing it was planning to include the climate impact proposal it received first from the Unitarian Universalists. (SEC rules enable companies to omit the second of two similar resolutions they receive.)

Impact & Strategy

Company	Proposal	Lead Filer	Status
AES	Report on climate change	Mercy Investment Services	April
Ameren	Report on climate change	Mercy Investment Services	April
Anadarko Petroleum	Report on climate change	As You Sow	May
Berkshire Hathaway	Report on climate change	Elaine Wells	April
Chevron	Report on climate change	Wespath Investment Management	May
Devon Energy	Report on climate change	George Gund Foundation	June
Dominion Resources	Report on climate change	New York State Common Retirement Fund	May
DTE Energy	Report on climate change	New York State Common Retirement Fund	May
Duke Energy	Report on climate change	New York State Common Retirement Fund	May
Exxon Mobil	Report on climate change	New York State Common Retirement Fund	May
Exxon Mobil	Report on climate change	Christopher Reynolds Foundation	withdrawn
FirstEnergy	Report on climate change strategy	As You Sow	May
Hess	Report on climate change	As You Sow	May
Kinder Morgan	Report on climate change	First Affirmative Financial Network	May
Marathon Petroleum	Report on climate change strategy	Mercy Investment Services	April
Noble Energy	Report on climate change	Presbyterian Church (USA)	April
NRG Energy	Report on stranded assets business risks	As You Sow	April
Occidental Petroleum	Report on climate change	Nathan Cummings Foundation	April
PNM Resources	Report on climate change	Max and Anna Levinson Foundation	May
PNM Resources	Report on stranded assets business risks	Walden Asset Management	May
Southern	Report on climate change strategy	Srs. of St. Dominic of Caldwell	May
Southern	Report on stranded assets business risks	As You Sow	May
Xcel Energy	Report on climate change	Unitarian Universalists	May
Xcel Energy	Report on stranded assets business risks	As You Sow	withdrawn

Shale Energy

Fifteen resolutions seek more information about how companies are measuring, managing and seeking to cut their emissions and other impacts from operations in U.S. shale energy operations. Most are about methane.

Hydraulic fracturing: All three of the proposals about hydraulic fracturing ask for annual reports. At new recipients **Pioneer Natural Resources** and **Whiting Petroleum** the proposal asks for a report "using quantitative indicators, [on] the results of company policies and practices, above and beyond regulatory requirements, to minimize the adverse environmental and community impacts from the company's hydraulic fracturing operations associated with shale formations."

SEC action—At **ExxonMobil**, which has received proposals on the subject every year since 2010, the request this year is slightly different, asking for an annual report "using quantitative indicators, on the company's actions beyond regulatory requirements to minimize methane emissions, particularly leakage, from the company's hydraulic fracturing operations." The company has challenged the proposal at the SEC, arguing it can be excluded because it concerns ordinary business and in essence duplicates a proposal about climate change reporting from the New York State Common Retirement System (NYSCRF) on climate change strategy (described above) that it intends to include.

Methane:

Storage and transport—At **Berkshire Hathaway** and **Dominion Resources**, Arjuna Capital asks for a report by October "reviewing the Company's policies, actions and plans to measure, monitor, mitigate, disclose, and set quantitative reduction targets for methane emissions resulting from all operations, including storage and transportation, under the Company's financial or operational control." At Berkshire Hathaway it highlights the company's Northern Natural Gas Company subsidiary, which the proponent says has "the 11th highest volume of natural gas in the country."

Targets—Miller/Howard Investments wants more disclosure about storage and transportation at **Kinder Morgan**, as well as targets. Both it and **Occidental Petroleum** face resubmitted proposals that each earned 33 percent last year; the request is for a report by October with a review of "the Company's policies, actions, and plans to measure, disclose, mitigate, and set quantitative reduction targets for methane emissions and flaring resulting from all operations under the company's financial or operational control."

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METHANE LEAKS MAY BE CLIMATE TIPPING POINT

LUAN JENIFER

Executive Vice President, Miller/Howard Investments

Methane makes the news regularly. We know it's worrisome and invisible. But what is it?
Methane, the primary component of natural gas, is a greenhouse gas. It is found in the production and transportation of fossil fuels, and can "also result from livestock and other agricultural practices and by the decay of organic waste in municipal solid waste landfills."

Why it matters: The enemy of my friend is my enemy

Methane emissions have one thing going for them: they're easy to oppose. Environment? Business? Operations? There is no shortage of reasons to be concerned about methane emissions:

- **Outsized environmental impact**: The Environmental Defense Fund says methane "is more than 100 times more potent at trapping energy than carbon dioxide (CO_2), the principal contributor to man-made climate change…its impact on an integrated weight basis is 84 times more potent after 20 years and 28 times more potent after 100 years."
- **Loss of revenue**: *Forbes* reports that leaked methane represented $30 billion dollars of lost revenue in 2012.
- **Operational integrity**: Oversight is a key indicator of management quality and governance. If a company is not tracking loss of saleable product, investors may wonder about other weaknesses in policies or practices.
- **Industry security**: Failure to minimize methane emissions jeopardizes the oft-touted environmental benefits of natural gas over other fossil fuels, as *The Guardian* notes.

What's so "super" about super-emitters?

There are over 400 gas storage facilities around the country. Identifying and targeting the riskiest offenders helps investors and others push for improvements where they will make the most impact. A 2016 Stanford University study found that "just a few natural gas wells account for more than half of the total volume of leaked methane gas in the United States. Fixing leaks at those top emitters could significantly reduce leaks of methane..."

What many investors want to see

We believe that strong programs of measurement, mitigation, target setting, and disclosure reduce legal risk, maximize gas for sale and bolster shareholder value. This could help avoid accidents such as the 2015-16 failures at Aliso Canyon Storage Field in Los Angeles, which many followed with grave concern. A casing failure precipitated the release of over 100,000 tons of methane into the atmosphere, at one point "doubling the rate of methane emissions in the entire Los Angeles Basin." Similar problems loom; **Kinder Morgan** has over twenty storage facilities that may face similar risks, for instance.

Methane vs. Investors

Environmental risks are not mitigated by regulatory negligence: while hard-earned regulations are in jeopardy, and a regulatory floor that would ensure a base level of protection is fast disappearing. But the investment risks remain.

Both methane and investors can play an outsized role in climate change, with opposite effect. One exacerbates it, and the other has a unique opportunity to mitigate it by ensuring science-based targets and operational integrity remain paramount, whether for pipelines or storage facilities.

As You Sow has withdrawn another proposal seeking methane reduction goals, at **Sempra Energy**, after the company agreed to more disclosure and action. It asked Sempra for information on

> Company's enterprise-wide policies for assessing, monitoring, and reducing its methane emissions; describing the climate change risk its methane emissions creates for the Company; and discussing the feasibility of setting quantitative methane emission reduction targets across its operations.

Risk management strategies—The California State Teachers' Retirement System (CalSTRS) has returned to **Cimarex Energy** and **WPX Energy** asking each to report by the end of the year,

> describing how the company is monitoring and managing the level of methane emissions from its operations. The requested report should include a company-wide review of the policies, practices, and metrics related to [the company's] methane emissions risk management strategy.

The fund withdrew at Cimarex, as it did last year, but the resolution remains pending at a new recipient, **Black Hills**, as well as at WPX where last year it earned 50.8 percent of the shares cast for and against – the accounting method used by the SEC to determine if a resolution may be resubmitted. (The company reported it did not pass because it counts abstentions as votes against and using that method, the proposal earned only 42.3 percent.)

A similar proposal from Calvert Investments (acquired since last proxy season by Eaton Vance) asks first-time recipient **CenterPoint Energy** for a report using almost the same language as CalSTRS did, but it also wants an estimate about greenhouse gas emissions from company operations.

A final proposal to **Southern** asks for an explanation of "how it will reduce climate risk by controlling its methane emissions, including disclosing its current enterprise-wide methane emissions and the practices used by the Company to measure, monitor, and mitigate" them.

SEC action and withdrawals—At **EOG Resources**, Trillium Asset Management withdrew a resolution asking for "time-bound, quantitative, company-wide goals for reducing methane emissions" and a report, after the company said it would provide more information on its methane emissions, including an intensity figure. EOG had argued at the SEC that it concerned ordinary business and was moot, false and misleading.

As You Sow withdrew a proposal at **WGL Holdings**, the parent company of Washington Gas, after the company agreed to more engagement with stakeholders and disclosure about its new methane leak detection efforts. The National Transportation Safety Board launched an investigation about an August 2016 explosion in Silver Spring, Maryland, and the company initially argued at the SEC it need not include the proposal since it was responding to the investigation and because it concerned ordinary business. The proposal had asked for a report by September 2018

> quantifying the financial risk that methane leaks in its natural gas infrastructure pose to the company and its investors. Shareholders request that the report estimate a) the likely cost of climate change related regulation of its methane leaks, and b) estimate the likelihood, brand damage, and cost of potential catastrophic explosions.

Shale Energy

Company	Proposal	Lead Filer	Status
Berkshire Hathaway	Report on methane emissions/reduction targets	Arjuna Capital	April
Black Hills	Report on methane emissions/reduction targets	CalSTRS	April
CenterPoint Energy	Report on methane emissions/reduction targets	Calvert Investment Management	April
Cimarex Energy	Report on methane emissions/reduction targets	CalSTRS	withdrawn
Dominion Resources	Report on methane emissions/reduction targets	Arjuna Capital	May
EOG Resources	Adopt methane reduction targets	Trillium Asset Management	withdrawn
ExxonMobil	Report on hydraulic fracturing/shale energy risks	As You Sow	May
Kinder Morgan	Report on methane emissions/reduction targets	Miller/Howard Investments	May
Occidental Petroleum	Report on methane emissions/reduction targets	Arjuna Capital	April
Pioneer Natural Resources	Report on hydraulic fracturing/shale energy risks	Miller/Howard Investments	May
Sempra Energy	Report on methane emissions/reduction targets	As You Sow	withdrawn
Southern	Report on methane emissions/reduction targets	As You Sow	May
WGL Holdings	Report on methane emissions/reduction targets	As You Sow	withdrawn
Whiting Petroleum	Report on hydraulic fracturing/shale energy risks	As You Sow	May
WPX Energy	Report on methane emissions/reduction targets	CalSTRS	May

A proposal similar to one again pending this year at **Dominion Resources** was omitted in 2016 after the company successfully argued it was moot since it had provided a detailed report. The company has again challenged the proposal for this reason, in an effort that seems likely to succeed.

Carbon Accounting

A mainstay of the proxy season is proposals about carbon accounting and this is the case again. The proponents continue to ask companies to track, manage and set specific carbon emissions reduction goals. Eighteen proposals are pending and four have been omitted.

Carbon Accounting

Company	Proposal	Lead Filer	Status
Air Products & Chemicals	Adopt GHG reduction targets	Unitarian Universalists	omitted
Amazon.com	Report on GHG emissions targets	Amalgamated Bank	May
Apple	Adopt GHG reduction targets	Jantz Management	omitted
C.H. Robinson Worldwide	Report on GHG emissions	Srs. of the Presentation BVM	May
Danaher	Adopt GHG reduction targets	Calvert Investment Management	May
Danaher	Adopt GHG reduction targets	The Sustainability Group	omitted
Deere	Adopt GHG reduction targets	Jantz Management	omitted
Emerson Electric	Adopt GHG reduction targets	Walden Asset Management	33.9%
Fluor	Adopt GHG reduction targets	New York State Common Retirement Fund	May
Gilead Sciences	Adopt GHG reduction targets	The Sustainability Group	May
Netflix	Report on GHG emissions targets	Amalgamated Bank	June
Nucor	Adopt GHG reduction targets	Calvert Investment Management	May
PayPal	Report on GHG emissions targets	Amalgamated Bank	May
Schweitzer Mauduit International	Adopt GHG reduction targets	Midwest Capuchins	April
TJX	Adopt GHG reduction targets	Jantz Management	June
Tractor Supply	Adopt GHG reduction targets	Trillium Asset Management	May
United States Steel	Adopt GHG reduction targets	Portico Benefit Services	April
Verizon Communications	Report on GHG emissions targets	Trillium Asset Management	May

Setting targets: **Emerson Electric** investors have already voted on a resubmission that asked the company to "adopt time-bound, quantitative, company-wide goals for reducing total greenhouse gas (GHG) emissions, taking into account the goals of the Paris Climate Agreement, and issue a report…on its plans to achieve these goals." It earned 34 percent, down from 36.8 percent last year. NYSCRF has resubmitted a slight variation on this proposal with nearly identical language to **Fluor**; it earned 42.9 percent last year. A new recipient of the proposal is the drug company **Gilead Sciences**.

Five proposals, all still pending, ask companies to adopt "science-based goals," at **Danaher**, **Nucor**, **Schweitzer Mauduit International**, **Tractor Supply** and **United States Steel**. The resolutions say each should,

> To help reduce the profound social harm from climate change…adopt time-bound, quantitative, company-wide, science-based goals for reducing total greenhouse gas (GHG) emissions, taking into account the goals of the Paris Climate Agreement, and report…on its plans to achieve these goals.

At Tractor Supply, it specifies "from products and operations."

SEC action—Two resolutions asking for aggressive corporate action to curb emissions and set net-zero goals were omitted, at **Apple** and **Deere**, after the SEC agreed with company contentions that they concern ordinary business because they were too detailed. The resolution went to a vote last year at Deere and earned 7.3 percent, while at Apple a proposal in 2016 that asked for a report on a plan to reach net-zero emissions earned 7.1 percent. This year, the proposal said the companies should

> generate a feasible plan for the Company to reach a net-zero GHG [defined as greenhouse gas] emission status by the year 2030 for all aspects of the business which are directly owned by the Company and major suppliers, including but not limited to manufacturing and distribution, research facilities, corporate offices, and employee travel, and to report…by one year from the 2017 annual meeting.

Other omissions were for technical reasons. Proponents got their wires crossed and filed two GHG goals requests at **Danaher**, where Calvert Investments got its resolution in first and a second from Arjuna Capital was omitted. At **Air Products & Chemicals**, the company received the proposal past the submission deadline.

advocacyposition

COMMITTING TO NET ZERO CARBON EMISSIONS

IVAN FRISHBERG

First Vice President, Sustainability Banking, Amalgamated Bank

Science and the laws of nature are immune to the wildly vacillating politics of climate change. Through the highs of the Paris climate agreement and the lows of the U.S. elections, the temperature kept on rising and the carbon budget kept up its steady course to a dangerous deficit.

Fortunately, powerful economic voices have rallied and do not believe that climate denial, obstruction and scientific indifference is either moral or a good business practice. Following the Paris climate agreement, **Amalgamated Bank** and several other financial and technology sector leaders joined RE100, a collaborative of major companies committed to go to 100 percent renewable energy.

Starting in 2017, Amalgamated Bank will also emit net-zero carbon across our operations. Working with the Environmental Defense Fund, we assessed our emissions and made the decision to invest early in meeting a carbon target that the Intergovernmental Panel on Climate Change and the Paris climate agreement have set for mid-century. That goal is to "achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century."

The net-zero goal is the future, and no president, country or company can ignore or avoid taking thoughtful steps to meet it.

Amalgamated Bank and our LongView Investment funds, on behalf of our investment management clients, filed shareholder resolutions with **Amazon**, **Netflix**, **PayPal**, **Carmax** and **Game Stop** to ask that they begin work assessing the feasibility of achieving net-zero carbon emissions by 2030. Our goal is to ensure that investors are protected by companies' plans that ignore the current political chaos and instead assume the long term objectives and trends that were enshrined in the Paris Agreement.

We selected these companies to begin this strategy as we believe they represent a variety of strategic options and challenges for meeting the targets. These companies to date have not published sustainability reports that could inform shareholders on their strategies in this area generally. They also are highly visible and have corporate leaders accessible to the public and to many young consumers who will carry the greatest burden of a disrupted climate.

These targets are long term, but they are right around the corner. They will require planning now for new technology and strategy later. So while we were able to make these commitments and to take action quickly, our expectation with each of these companies is for them to step up to the plate and ensure they are ready for the economy of the future.

The 'carbon budget'—the maximum amount of carbon that can be released into the atmosphere while keeping a reasonable chance of staying below a given temperature rise—and the science behind the Paris targets are not #AlternativeFacts, and the private sector and its investors will only be successful if they keep their collective eye on the reality of a balanced climate.

Reporting on targets: Three technology companies have requests from Amalgamated Bank for reports on how they might aggressively cut their carbon footprints, as at Apple last year. The proposal to **Amazon.com** is the most detailed (a slight variation is at **PayPal**), requesting 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.

In a similar vein at **Netflix**, Amalgamated wants a report evaluating "the feasibility of the Company achieving by 2030 'net-zero' emissions of greenhouse gases from all aspects of the Company's business and activities."

Two other proposals ask for reports on carbon emission goal-setting. At **C.H. Robinson Worldwide**, which has never had a similar proposal, the Sisters of the Presentation of the Blessed Virgin Mary says,

> Given the risks to society and the transport sector created by climate change…issue a report assessing the feasibility and benefits of measuring, monitoring, and managing greenhouse gas (GHG) emissions associated with our company's services, taking into account the goals of the Paris Climate Agreement.

Trillium Asset Management is requesting that **Verizon Communications'** "senior management, with oversight from the Board of Directors, issue a report assessing the feasibility of adopting science-based greenhouse gas (GHG) reduction targets consistent with the 2 degree scenario." Company investors last year gave a proposal asking it to set renewable energy targets 8.3 percent support.

SEC action—**PayPal** has challenged the net-zero goals reporting resolution at the SEC, arguing it concerns ordinary business and duplicates a separate proposal the company intends to include from the New York State Comptroller's Office about sustainability reporting.

Renewable Energy

A total of ten resolutions have been filed on renewable energy and nine are still pending.

Goal-setting: Investor activists want companies to use more renewable energy, and this year they again are asking both producers and large retail customers about their goals to achieve greater uptake.

At three retailers (**CVS Health**, **Lowe's** and **Supervalu**) and at **United Parcel Service**, the resolution is the same and asks for a

> report assessing the climate benefits and feasibility of adopting enterprise-wide, quantitative, time-bound targets for increasing [the company's] renewable energy sourcing and/or production....This proposal does not prescribe matters of operational or financial management.

The proponents withdrew at UPS after it announced it is exploring a renewable energy goal as part of a revamped overall climate strategy; dialogue with the proponents is to continue in 2017. A simpler version is before **Kroger**, leaving off the qualifying statement about "operational or financial management."

advocacyposition

SHAREHOLDERS PUSH COMPANIES TO SEIZE RENEWABLE ENERGY BENEFITS

ROB BERRIDGE

Director of Shareholder Engagement, Ceres

To meet global climate change goals set out in the Paris Agreement, the Intergovernmental Panel on Climate Change (IPCC) estimates that the U.S. needs to reduce annual greenhouse gas (GHG) emissions approximately 80 percent by 2050. This will be possible only with a near total shift to electricity generated without GHG emissions.

Fortunately, between 2008 and 2015, the cost of wind power, rooftop solar and utility-scale solar fell 41, 54 and 64 percent respectively. Partly as a result, in 2016 solar and wind power made up over 75 percent of electric capacity additions in the U.S.—totaling over $70 billion in new capital investment.

A rapidly growing number of companies use renewable energy. Members of RE100, a global initiative of businesses committed to 100 percent renewable electricity, currently includes 87 influential companies. Among them are **Apple**, **Facebook**, **General Motors**, **Goldman Sachs**, **H&M**, **Johnson & Johnson**, **Ikea**, **Procter & Gamble**, **Steelcase**, **Starbuck's** and **WalMart**.

The business case for companies to switch to renewable energy involves three primary elements: cost savings, reduced variability of energy spending and reputational benefits.

- **Cost savings:** In large swaths of the U.S., unsubsidized wind or solar energy sources now are cheaper than coal, nuclear or natural gas. General Motors reports savings of $5 million annually from using renewable energy, with additional savings expected as more projects come on line.
- **Reduced variability of energy costs:** Because wind and solar power have no fuel costs, many companies can purchase the power using long-term, fixed-price contracts. **Autodesk** notes that powering its business with 100 percent renewable energy provides "a competitive advantage as we protect ourselves against future rises in energy costs."
- **Reputational benefits:** Purchasing power that supports renewable energy projects provides an excellent opportunity for positive public relations that can be documented. Not only can companies take credit for reducing their own emissions, but they also are helping to drive down the price of renewables worldwide given declining cost curves for renewable technology. Consider solar: For every doubling of global solar capacity (recently doubling roughly every 2.2 years), the price of solar power falls approximately 20 percent. And once renewable energy is cheaper than fossil fuel-based energy, market forces take over, creating change on a massive scale.

Clearly, wind and solar are among the most exciting solutions for companies wanting to address climate change and save money. But let's not forget the additional benefits to society. These include contributions to: U.S. energy independence, helping to limit gas and oil prices by reducing demand for both, and creating lots of jobs in the U.S.

In 2016, the solar workforce increased 25 percent over the previous year to 374,000 employees, compared with 187,117 electrical generation jobs in the coal, gas and oil industries combined. And wind technician is the fastest growing job category in the U.S.

The time has come for companies to embrace all the benefits of renewable energy, and wise shareholders are nudging them forward.

Renewable Energy

Company	Proposal	Lead Filer	Status
Ameren	Report on renewable energy goals	Midwest Sierra Club	April
CVS Health	Report on renewable energy goals	Zevin Asset Management	May
Dominion Resources	Report on energy efficiency/renewables programs (biomass)	As You Sow	May
Entergy	Report on distributed energy	Arjuna Capital	May
Great Plains Energy	Report on renewable energy goals	Renew Missouri	May
Kroger	Report on renewable energy goals	As You Sow	June
Lowe's	Set renewable energy targets	David Brook	May
PepsiCo	Set renewable energy targets	Zevin Asset Management	May
Supervalu	Report on renewable energy goals	Nathan Cummings Foundation	July
United Parcel Service	Report on renewable energy goals	Walden Asset Management	withdrawn

At **Ameren**, the Midwest Sierra Club resubmitted a resolution that earned 11.2 percent last year when it was sponsored by As You Sow. It seeks a report,

> analyzing how Ameren 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% renewable energy by 2030.
> 2. Increasing Ameren's energy mix to 100% 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.

Similarly, a proposal to **Great Plains Energy** asks for a report "analyzing the profit potential for shareholders of Great Plains supplying 25%, 50%, 75%, and 100% of the power sold to its customers from Renewable Energy by 2040."

SEC action—CVS and Lowe's both have lodged ordinary business challenges at the SEC, while Lowe's also says it is moot since it has been trying to cut its carbon emissions, the essential concern of the proposal. In addition, **Great Plains** says this is an ordinary business matter, but the SEC has yet to respond to these challenges.

Distributed energy: Last year, the New York State Comptroller sought information from utilities about how they might increase their deployment of carbon-free "distributed energy"—such as that produced from solar panels on customers' rooftops or from small-scale windmills, but this effort seems to be on hold in the proxy season, aside from one refiled resolution pending at **Entergy**. Arjuna Capital earned 37 percent last year on the proposal, which again asks the company to describe

> 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 societal greenhouse gas emissions consistent with limiting global warming to no more than 2 degrees Celsius over pre-industrial levels.

Energy from biomass combustion: For several years, proponents have been asking **Dominion Energy** about burning biomass to make energy. As You Sow this year wants a report

> on the climate change impacts of its increased use of biomass…evaluating the net greenhouse gas impact from each of the company's current and planned biomass facilities, on a timeframe relevant to the near term need to reduce CO2 emissions, and assessing risks to the company's finances and operations posed by emerging public policies on climate change as they relate to biomass.

Critics worry that Dominion is classifying biomass as "renewable" generation but say these plants emit more carbon per megawatt hour than coal plants—although the company disagrees and notes Virginia regulators say it may use biomass to meet its renewable portfolio standards goals. Previous similar resolutions earned about 22 percent support in 2015 and 2014.

Other Climate Issues

Deforestation: There are six deforestation proposals this year and four make explicit the connection with human rights, illustrating the cross-cutting nature of problems caused by forest destruction. Three ask for policies to stop deforestation and three want more disclosure; they are new issues for all the companies save Domino's, where a reporting proposal last year earned 26.2 percent.

A resubmission from NYSCRF to **Domino's Pizza** changes last year's reporting language and now requests that it "develop a comprehensive, cross-commodity policy and implementation plan to eliminate deforestation and related human rights issues from its supply chain." The same proposal is also pending from the Sisters of St. Francis of Assisi, an ICCR member, at **Yum! Brands**. Likewise, Green Century Capital Management wants **McDonald's** to "develop an implementation plan to eliminate deforestation and related human rights issues from its supply chain."

advocacyposition

SUPPLY CHAIN POLICIES THAT PROTECT FORESTS AND CURB CLIMATE CHANGE

LESLIE SAMUELRICH
President, Green Century Capital Management

Deforestation is a leading contributor to climate change. In fact, forest destruction accounts for nearly the same amount of global greenhouse gas emissions as the entire global transportation sector, with demands for agriculture the biggest driver. Deforestation causes habitat destruction of endangered species, increased human rights violations and water cycle disruption. From an investment perspective, deforestation within company supply chains also can create regulatory risks and hinder companies' social license to operate, which in turn can threaten access to raw materials, production and overall brand equity.

Green Century's Forest Protection Campaign works with companies, global investors, policy makers, certification consultants and additional stakeholders to ensure that the corporate commitments we obtain have the implementation tools and conducive political atmosphere needed to thrive. As the only U.S. firm represented on the United Nations Principles for Responsible Investment (PRI) Forest Commodity Advisory Board, we have been able to work across geographic regions, such as the U.S., Europe, Southeast Asia, Latin America and Africa to identify and help implement mechanisms to drive systemic change at the corporate, public policy and certification level.

For example, we secured several zero deforestation policies from companies at various tiers throughout the palm oil supply chain, including **Kellogg** and **Wilmar International**, the latter of which is the largest palm oil trader in the world. As a result of these commitments, Kellogg's now traces 92 percent of its palm oil from zero deforestation suppliers and the Wilmar International agreement will avoid 1.5 gigatons of carbon pollution by 2020. At the public policy level, we have worked with the Indonesian government to support President Joko Widodo's forest moratorium, which prohibits the issuing of new licenses to establish palm oil plantations. The moratorium has already been credited with helping spare 850,000 hectares of forest land within the country and recent revisions to the regulation could equal an emissions reduction of 5.5 to 7.8 gigatons of carbon dioxide. And lastly, at the certification level, we recently acted as the investor voice to help construct Reporting Guidance for Responsible Palm, which will help create a standardized system of measurement for investors and other stakeholders to effectively measure how companies work to achieve sustainable palm oil. Through our comprehensive approach of policy, certification and corporate engagement, we have influenced the global palm oil supply chain. We now are working with the Norwegian government to apply this successful model to additional at-risk forest commodities such as soy, cattle, timber and rubber in Latin America and Africa.

Of all the mechanisms identified to help curb climate change through the Paris accord, forest preservation has arguably garnered the least attention. We encourage and welcome interested investors to join us in one or more of these efforts. We hope our work has highlighted the opportunities available to shareholders to engage companies to limit deforestation throughout their supply chains and help address climate change, what we believe to be the most pressing environmental issue of our time.

Domini Social Investments wants **Kraft Heinz** to report by November on how it is "assessing the company's supply chain impact on deforestation and associated human rights issues, and its plans to mitigate these risks." A similar reporting proposal from Green Century is before **Kroger** and **Target**, requesting that they "issue reports to investors…providing quantitative metrics on supply chain impacts on deforestation, including progress on time bound goals for reducing such impacts."

Financing, investment and dividends: Proponents are taking aim at fossil-fuel holdings and project financing with a couple of new approaches in 2017.

In a new proposal to **Bank of America**, Trillium Asset Management said

> Due to the significant climate, reputational, and financial impacts of fossil fuel financing, shareholders request Bank of America:
> 1. Broaden its Coal Policy to include reducing credit exposure to companies materially involved in constructing and/or operating coal-fired power plants; LNG export terminals; oil and gas pipeline projects; Arctic oil and gas drilling projects; Canadian tar sands extraction and production projects; and/or ultra-deep water offshore oil and gas drilling projects.
> 2. Establish a time-bound commitment to fully eliminate credit exposure to companies materially involved in each of the fossil fuel activities mentioned herein.

Trillium withdrew after what it termed "productive dialogue," which it indicated would likely continue. Proposals in 2015 and 2014 also asked for more disclosure on financing high carbon projects, earning 8.8 percent in 2015 and 24 percent in 2014.

In another new proposal, the Nebraska Peace Foundation is asking **Berkshire Hathaway** to "divest its holdings in companies

advocacyposition

COAL COMPANIES TRY TO NAVIGATE A NEW FUTURE

AMELIA TIMBERS
Energy Program Manager, As You Sow

Volatile, shifting energy policy highlights the success of investors' multi-year effort to move the electric power sector away from coal. Investors have long argued that coal use creates unjustifiable financial, regulatory and climate risk for companies, with resolutions on this topic starting in 2010 and running through today. Shareholder resolutions for the 2017 proxy season include resolutions on the risk of stranded coal assets; coal ash risk; and requests for transparency on utility efforts to adapt their business models to reduce coal.

Given the long life of energy plants and related infrastructure, when utilities bet wrong, it can lead to billions of dollars in losses and even bankruptcy, both of which the power sector has seen recently. Utilities therefore are looking at the future and beginning to make significant capital investments in low carbon infrastructure while retiring coal-fired power as quickly they can. Market forces favoring natural gas, the growing need for climate action and the decades-long lives of utility infrastructure investments (which means they may become stranded assets)—means that no amount of political largesse will be sufficient to resuscitate the coal industry.

The move away from coal is happening in states with and without policy support for low carbon infrastructure. **Southern**, for example, has invested in over 4,000 megawatts of renewable energy since 2012. While Southern still has one of the largest coal portfolios in the United States, and its corporate posture towards climate change approaches climate denial, the company nonetheless is aggressively installing renewable energy in its territory.

Another company pivoting away from coal is **American Electric Power** (AEP). AEP is the self-proclaimed 'largest consumer of coal in the Western hemisphere,' whose territory includes over five million customers in Midwest, South, and Southwest states. AEP recently undertook an aggressive effort to shift the company's assets away from coal generation by driving major capital into transmission and distribution. Where the majority of its 2006 capital investment was in coal generation, in the near future the majority of its investments will be in transmission. Transmission investments earn returns and enhance the company's ability to integrate renewables, which will be needed for the nearly nine gigawatts of renewable energy AEP plans to bring on line by 2033.

Coal's deteriorating business case is underscored by companies and investors seeking long term revenue while minimizing risk. Low carbon investment is the path to both these things.

involved in the extracting, processing, and/or burning of fossil fuels within 12 years to protect its investment portfolio from financial losses."

At **Chevron**, Arjuna Capital wants the company to sell off its most carbon-intensive assets; its new resolution requests a report

> assessing how it can respond to climate change and the resultant transition to a low carbon economy by evaluating the feasibility of altering the company's energy mix by separating or selling off its highest carbon-risk assets, divisions, and subsidiaries, and/or buying or merging with companies with outstanding assets or technologies in low carbon or renewable energy.

As You Sow is taking the same approach at **ExxonMobil**, with co-filers Arjuna and Zevin Asset Management. They want a report

> summarizing strategic options or scenarios for aligning its business operations with a low carbon economy (such as the International Energy Agency's 450 climate change scenario), including for example altering the company's energy mix by separating or selling some of its highest carbon-risk assets, divisions, and subsidiaries; buying, or merging with, companies with assets or technologies in low carbon or renewable energy; or internally expanding its own renewable energy portfolio.

The final resolution in this group is a resubmission from another filer but coordinated by Arjuna at **ExxonMobil**, asking it to give shareholders a dividend instead of developing more oil and gas reserves. This proposal earned about 4 percent last year and must reach 6 percent support this year to be resubmitted. It says the company should "commit to increasing the total amount authorized for capital distributions (summing dividends and share buybacks) to shareholders as a prudent use of investor capital in light of the climate change related risks of stranded carbon assets."

SEC action—Two challenges from ExxonMobil are pending at the SEC. The company says the high-carbon divestment proposal duplicates a separate one from NYSCRF (described earlier) that it intends to include, about annually assessing climate risk from its oil and gas portfolio. Exxon also is trying again with a more detailed version of its argument to knock out the dividend proposal, although this approach did not succeed last year; it did succeed in omitting a 2015 dividend proposal on the grounds it was moot.

Bank of America also had challenged the proposal about financing high-carbon projects at the SEC, arguing it was too vague and concerned ordinary business, but a withdrawal came before the commission staff responded.

Coal and oil trains: Three more proposals about climate issues have been filed in 2017. Friends Fiduciary has withdrawn a proposal at **Norfolk Southern** that asked it to "issue a report describing current company efforts to assess, review, and mitigate risks of hazardous material transportation, including crude oil, within six months of the

2017 annual meeting." The company had challenged it at the SEC, arguing it concerned ordinary business and was moot, but the withdrawal came before any SEC response.

Two other resolutions concern coal. The Midwest Coalition for Responsible investment wants **Ameren** to report within six months of the annual meeting on its

> 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.

A similar resolution in 2016 earned 10.8 percent support.

At **Duke Energy**, As You Sow and the Daughters of Charity, Province of St. Louise want the company to

> publish 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 last proposal to ask Duke about coal energy earned 12 percent in 2012, but it focused more on the commodity cost of coal as an investment risk, as opposed to the community health concerns expressed this year.

Other Climate Change Issues

Company	Proposal	Lead Filer	Status
Ameren	Report on coal ash risks	Midwest Coalition for Responsible Investment	April
Bank of America	Limit high carbon financing	Trillium Asset Management	withdrawn
Berkshire Hathaway	Divest fossil-fuel holdings	Nebraska Peace Foundation	April
Chevron	Report on high carbon asset divestment	Arjuna Capital	May
Domino's Pizza	Report on supply chain deforestation impacts	New York State Common Retirement Fund	April
Duke Energy	Report on coal risks	As You Sow	May
ExxonMobil	Increase authorized dividend given stranded assets	Arjuna Capital	May
ExxonMobil	Report on high carbon asset divestment	As You Sow	May
Kraft Heinz	Report on supply chain deforestation impacts	Domini Social Investments	May
Kroger	Report on supply chain deforestation impacts	Green Century	June
McDonald's	Report on supply chain deforestation impacts	Green Century	May
Norfolk Southern	Report on oil and gas transport risks	Friends Fiduciary	withdrawn
Target	Report on supply chain deforestation impacts	Green Century	June
Yum Brands	Report on supply chain deforestation impacts	Sisters of St. Francis of Assisi	May

ENVIRONMENTAL MANAGEMENT

Proponents continue to raise concerns outside the direct climate and energy umbrella, even though that context affects all the environmental resolutions. Recycling still has the biggest share of this pie—eight of the total of 12.

Recycling and Waste

As You Sow has several programs that encourage companies to recycle more and use more recyclable material in product packaging. The group has been the most active proponent of recycling resolutions for many years, seeking change in how major retailers and restaurant companies handle their packaging and waste. Food waste is a relatively recent topic for investors to consider and this year there are new resolutions, at companies that have not considered the issue before.

Recycling: As You Sow is focused in 2017 on Styrofoam packaging. It wants **Amazon.com** and **Target** to

> issue a report at reasonable cost…assessing the environmental impacts of continued use of foam packing materials, 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.

The proposal at **McDonald's** is the same, but swaps "polystyrene foam beverage cups" for "foam packing."

At **Kroger**, **Kraft Heinz** and **Mondelez International**, the resolution is a resubmission from 2016, when it earned about 26 percent support at each of the companies. It again asks that each firm "issue a report, at reasonable cost, omitting confidential information, assessing the environmental impacts of continuing to use unrecyclable brand packaging."

advocacyposition

ADDRESSING THE THREAT OF PLASTIC WASTE TO OCEANS

CONRAD MACKERRON

Senior Vice President, As You Sow

In 2017, *As You Sow* will expand its leadership work on ocean plastic pollution as new reports cite increased risks to marine life from plastic waste, and NGO activism kicks into high gear. A landmark report last year by the Ellen MacArthur Foundation, *The New Plastics Economy – Rethinking the Future of Plastics*, concluded that without significant actions, there may be more plastic than fish in the ocean by 2050. This was a big wakeup call for many companies. Then last September, more than 500 NGOs launched a global campaign called Break Free From Plastic. These groups appear to be gearing up to press for phasing out wasteful single use plastic applications, many of which get swept into waterways.

Only a fraction of plastic ocean pollution is visible. Most of it consists of tiny degraded particles swirling in vast gyres spread across 16 million square kilometers of ocean surface, an area the size of the United States and Australia combined.

As You Sow has filed five ocean plastics-related proposals for 2017; three on polystyrene foam, and two on recyclable packaging. We have asked major companies that use harmful polystyrene foam packaging—**Amazon**, **McDonald's** and **Target**—to make plans to phase it out. McDonald's agreed to phase out foam beverage cups in the U.S. in 2013, but it continues to use foam in foreign markets and our proposal asks for a global phaseout. We also filed resolutions with Amazon and Target which use polystyrene foam as packing material in their e-commerce operations. **Ikea** and **Dell** have begun to phase out use of foam packing.

Polystyrene foam used for coffee cups, takeout containers and packing materials is rarely recycled. It is often swept into waterways and is one of the top items found in ocean beach cleanups. Foam packaging materials break down into small indigestible pellets which animals mistake for food. Ingestion can result in death as demonstrated in birds, turtles and whales. Its base compound, styrene, also poses a production health threat, since the International Agency for Research on Cancer cites it as a possible human carcinogen.

The updated 2017 report, *The New Plastics Economy – Catalyzing Action*, calls for replacing polystyrene globally and the leaders of 15 big brands including **Coca-Cola Co**, **Danone**, **Dow Chemical**, **L'Oreal**, **Marks & Spencer**, **Mars**, **PepsiCo**, **Procter & Gamble** and **Unilever** endorsed its findings. Having the support of industry leaders sends a powerful message that industry can redesign consumer packaging materials to be less toxic and more recyclable. Ten countries and more than 100 U.S. cities or counties have banned or restricted foam packaging.

We also filed proposals with **Kroger**, **Kraft Heinz** and **Mondelez International** asking about using non-recyclable packaging; previous similar proposals at these companies received the support of more than 25 percent of shares voted. Brands that are placing plastic packaging on the market need to redesign it to be fully recyclable, and most importantly, take responsibility for dramatic improvements in actual recycling of packaging through producer responsibility programs so it stays out of waterways.

Another packaging proposal from SustainInvest Asset Management at **Dunkin' Brands** asks for a report by October, "assessing the environmental impacts of continuing to use K-Cup Pods brand packaging."

A different proposal from As You Sow is more comprehensive, requesting that **Dunkin' Brands** "prepare a report on the feasibility of developing a comprehensive recycling and reuse policy for food and beverage packaging to conserve resources, and reduce water pollution and greenhouse gas emissions."

SEC action—Amazon.com is arguing the Styrofoam proposal concerns ordinary business since it is about the company's products and their packaging. Kroger is contending at the SEC that it already has implemented the proposal about K-Cups, that it also relates to ordinary business and that it is false and misleading.

Dunkin' is fighting both resolutions at the SEC. It says the K-Cup resolution is moot, concerns ordinary business and is misleading. It says the recycling proposal also is moot, relates to ordinary business and is not significantly related to the company's business. As You Sow withdrew this proposal in 2016 after announcing the company had agreed to issue a report, which it did in August 2016, but now says the report was insufficient, so it refiled.

Food waste: Trillium Asset Management is the key player on food waste. It resubmitted a proposal from last year to **Whole Foods Market** and filed it for the first time at **Costco Wholesale** and **Target**, asking them to report "on company-wide efforts (above and beyond its existing reporting) to assess, disclose, reduce and optimally manage food waste." Trillium withdrew at Costco after the company agreed to address food waste issues in its next sustainability report that will come out at the end of the year, and to continue discussions with the proponents thereafter.

Recycling & Waste

Company	Proposal	Lead Filer	Status
Amazon.com	Report on packaging	As You Sow	May
Costco Wholesale	Report on food waste management	Trillium Asset Management	withdrawn
Dunkin' Brands Group	Report on packaging	Sustainvest Asset Management	May
Dunkin' Brands Group	Report on recycling strategy	As You Sow	May
Kraft Heinz	Report on packaging	As You Sow	May
Kroger	Report on packaging	As You Sow	June
McDonald's	Report on packaging	As You Sow	May
Mondelez International	Report on packaging	As You Sow	May
Target	Report on food waste management	Trillium Asset Management	June
Target	Report on packaging	As You Sow	June
Walmart Stores	Set food waste reduction goals	Mary Pat Tifft	June
Whole Foods Market	Report on food waste management	Trillium Asset Management	30.4%

One more food waste resolution is before **Walmart Stores**. Individual investor Mary Pat Tifft, who has filed other resolutions at the company in the past, wants the company to "establish time-bound, quantitative goals for reducing U.S. food waste and issue a report…on its plans to achieve these goals." Walmart says it already has done so and wants to omit the proposal, but the SEC has yet to weigh in.

Nuclear Power

Just one resolution was filed and then omitted about nuclear power and its risks. The Missouri Coalition for the Environment, a new proponent, asked Ameren about its Callaway power plant, a longtime source of contention. The resolution asked for disclosure in the next corporate annual report on

> its estimated shareholder losses for the continued storage of high-level nuclear waste at Callaway 1 for 100 years, 200 years, 300 years, 400 years, and 500 years beginning with the year 2010. The report will detail the cost and maintenance of the current and future dry cask storage system, including costs associated with regulatory compliance, personnel costs for the maintenance and security of the dry cask storage facilities, costs associated with the transfer of fuel rods from one dry cask storage unit to a new dry cask storage unit, the disposal costs of used dry casks, and other associated costs for complying with the safe storage of onsite high level spent fuel for each of the years 2010, 2110, 2210, 2310, and 2410.

The company successfully challenged the proposal at the SEC, which agreed the proponent did not provide sufficient proof of stock ownership.

TOXICS

Lead: Arjuna Capital is taking a new approach with home improvement firms **Home Depot** and **Lowe's**, suggesting they could help educate the public about the risks posed by lead paint. The resolution calls for "a report…on the risks and opportunities that the issue of human lead exposures from unsafe practices poses to the company, its employees, contractors, and customers." Both companies have told the SEC this concerns ordinary business and Lowe's also says it is moot, but commission staff has not yet responded.

Nanomaterials: As You Sow is asking two new companies about nanomaterials—targeting health care companies instead of food firms as in the past. It wants **Mead Johnson Nutrition** and **Walgreens Boots Alliance** to report within a year of the annual meeting

> on potential health hazards of nanomaterials [nano-HA at Mead Johnson], identifying the types of the company's products or packaging that currently contain nanoparticles, and stating any actions management is taking to reduce or eliminate health and environmental impacts, such as eliminating the use of such nanomaterials until or unless they are proven safe through long-term testing.

Toxics

Company	Proposal	Lead Filer	Status
Home Depot	Report on lead risks	Arjuna Capital	May
Lowe's	Report on lead risks	Arjuna Capital	May
Mead Johnson Nutrition	Report on nanomaterials	As You Sow	May
Walgreens Boots Alliance	Report on nanomaterials	As You Sow	withdrawn

The resolution asserts that Friends of the Earth found "engineered hydroxyapatite (HA) nanoparticles in both needle-like and non-needle-like forms" in infant formula offered by both companies—which it says is unsafe, particularly for babies. As You Sow withdrew at Walgreens, saying the company plans to address its concerns, but the proposal remains pending at Mead Johnson. Walgreens had challenged the proposal at the SEC, arguing it concerns ordinary business because it relates to product development and is not significantly related to the company's business, but the withdrawal came before any SEC response.

INDUSTRIAL AGRICULTURE

Members of the Interfaith Center on Corporate Responsibility, working with social investment firms, have filed a new proposal asking restaurant and food companies and a chicken processor for a ban on the use of antibiotics in animal feed in meat supply chains. There are 14 resolutions in all, which also address animal welfare, pesticides and water use.

Antibiotics

Vote: An early vote occurred at **Sanderson Farms** in February where the proposal asked for "an enterprise-wide policy to phase out the use of medically important antibiotics for growth promotion and disease prevention in its supply chain," as well as timetables and measures for implementing this policy." It earned 31.5 percent support. As You Sow, the proponent, noted the growing number of large restaurant chains that are adopting policies that prohibit the routine use of antibiotics for their meat suppliers and tightening regulation. But the company asserted its legal compliance and said most of the antibiotics it uses are not medically important for humans. It also said its use of antibiotics improves food safety and livestock living conditions and reduces environmental impacts, and denied that confined livestock systems exacerbate those problems. The company disputes the science connecting agricultural antibiotic use with antibiotic resistance to human drugs.

Pending: Two more proposals are pending. At **McDonald's**, the proposal is a resubmission that earned 26.3 percent last year. It asks for an update to the company's food animal stewardship policy for meat suppliers to include the following:

1. Globally in the poultry supply chain prohibit the use of antibiotics in classes of drugs used in human medicine for purposes other than treatment or non-routine control of veterinarian-diagnosed illness (e.g. for growth promotion and routine disease prevention), allowing only for use in treatment of veterinarian-diagnosed illness in a flock, and;
2. Set global sourcing targets with timelines for pork and beef raised without the non-therapeutic use of medically-important antibiotics.

In 2015, McDonald's had announced an end to the use of antibiotics in its chicken supply chain and proponents withdrew a resolution on the subject, as noted in an NPR story and an ICCR press release on the agreement. The new resolution is slated for a vote.

Also still pending is a proposal at **Yum! Brands** that seeks "an enterprise-wide policy to phase out the use of medically important antibiotics for growth promotion and disease prevention in its meat and poultry supply chain," as well as "timetables and measures for implementing this policy."

Withdrawals: Proponents withdrew a proposal like the one at McDonald's at two other companies. **Starbucks** agreed to phase out the routine use of medically important antibiotics in its poultry supply chain by 2020, as did **Jack in the Box**.

Vegetarian Impact

Green Century Capital Management wanted **Tyson Foods** to report on how the rising number of vegetarians will affect the company's business, as a leading meat processor. The resolution said the company should report "on the possible risks and challenges to Tyson and its investors from the increased prevalence of plant-based eating, and any specific steps the company is taking to address those risks and challenges." But they withdrew after the company announced it had acquired Beyond Meat, which makes meatless products. Tyson also had challenged the proposal at the SEC, arguing it concerned ordinary business, but the SEC did not respond before the withdrawal.

Eggs

A resolution from Calvert Investments earned 24.3 percent support at **Post Holdings**. It asked the company to report on "the possible risks associated with the cage confinement of chickens within its egg supply chain and operations," with information on "major potential risks and impacts, including those regarding brand reputation, customer relations, infrastructure and equipment, animal well-being, and regulatory compliance." The company says it is committed to a transition to cage-free housing and already is the biggest cage-free egg supplier. Egg products make up 28 percent of the company's net sales.

Pesticides

Four proposals call for reporting on pesticides. One already has gone to a vote at **Monsanto**, where Harrington Investments asked it to report on

> the effectiveness and risks associated with the company's policy responses to public policy developments intended to control pollution and food contamination from glyphosate, including but not limited to the impact of recent reclassification of glyphosate as "probably carcinogenic," and quantifying potential material financial risks or operational impacts on the Company in the event that proposed bans and restrictions world-wide are enacted.

The proposal was a resubmission and earned 5.5 percent, compared with 5.3 percent in 2016—not enough support to qualify for another resubmission. Harrington has filed a resolution at the company every year since 2011, earning at most 7.6 percent in 2013. It has long been concerned about the use of glyphosate, the key ingredient in Monsanto's widely used Roundup pesticide.

advocacyposition

NEW RISKS RELATED TO COMMON PESTICIDES

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AUSTIN WILSON
Environmental Health Program Manager, As You Sow

Pesticides are the lynchpin of modern industrial agriculture and the 2017 proxy season is highlighting a new risk from the pre-harvest application of glyphosate, the primary ingredient in **Monsanto's** Roundup. The pesticide, increasingly, is being sprayed on beans, grains and oilseeds crops just before they are harvested, in addition to being directly applied to most genetically engineered crops well before harvest.

But concerns about the safety and environmental impacts of pesticides have been growing significantly for years, focusing on neonicotinoids ("neonics") and glyphosate:

- Neonicotinoids ("neonics"), a major class of insecticides, have emerged as a prime suspect in the global decline of bees and other pollinators. The world's agriculture system depends heavily on pollinators; for example, one out of every three bites we eat comes from plants pollinated by honeybees.
- Glyphosate is the world's most used herbicide. The World Health Organization's (WHO) cancer authority categorized it as a "probable human carcinogen" in 2015, and it was similarly listed by California's Environmental Protection Agency later that year. The WHO report ignited a worldwide controversy about the safety of glyphosate.

Pollinator declines and WHO's new view on glyphosate have spurred shareholder inquiries across the food industry. A shareholder proposal with **Kellogg** this year requests the company assess its options to minimize environmental and public health harms from glyphosate. Another proposal with **Monsanto** requested that the company assess its responses to public policy developments regarding glyphosate and quantifying impacts from potential bans and restrictions of glyphosate worldwide.

But these are not the only pesticides of significant concern. For example, organophosphates have been linked to neurological problems, and 2,4-D, a chemical used in Agent Orange, is prone to drift far from its target. In July 2016, a broad coalition of environmental groups, scientists, neurologists, and other health providers issued a national call to action to reduce exposures to chemicals including organophosphate pesticides, citing growing evidence of health harms. Recognizing the necessity of a comprehensive approach, investors refiled a proposal on pesticide pollution with **PepsiCo** requesting a report on strategies and policy options to protect public health in addition to pollinators through reduced pesticide usage in its supply chain. A similar proposal has been filed with **Dr Pepper Snapple Group**. Both companies provide specific details on a range of sustainability–related issues, but are notably silent on pesticides.

Other best practices provide a clear roadmap for a more just and sustainable food system. In the produce sector, the Equitable Food Initiative fosters collaboration among conventional growers, unions, and retailers to improve ntegrated pest management, working conditions and food safety. As consumers increasingly favor sustainable food, companies will have to grapple with complex supply chains and new standards for responsible production. As they do, they implicitly are asking U.S. companies to rethink the American way of food production, which today features single-crop farms that use large amounts of fertilizers and pesticides, with an eye to the rest of the world that continues to be fed largely by small-scale agriculture that does not rely on these inputs.

Industrial Agriculture

Company	Proposal	Lead Filer	Status
Dr Pepper Snapple Group	Report on supplier pesticide use	Green Century	May
Hormel Foods	Adopt water stewardship policy	Tri-State Coalition for Responsible Investment	withdrawn
Jack in the Box	Phase out antibiotic use in animal feed	Green Century	withdrawn
Kellogg	Report on pesticide monitoring	As You Sow	April
McDonald's	Phase out antibiotic use in animal feed	Benedictine Sisters, Boerne, Texas	May
Monsanto	Report on pesticide monitoring	Harrington Investments	5.5%
PepsiCo	Report on supplier pesticide use	The Sustainability Group	May
Pilgrim's Pride	Adopt water stewardship policy	Socially Responsible Investment Coalition	April
Post Holdings	Report on cage-free eggs	Calvert Investment Management	24.3%
Sanderson Farms	Phase out antibiotic use in animal feed	As You Sow	31.5%
Starbucks	Phase out antibiotic use in animal feed	Green Century	withdrawn
Tyson Foods	Adopt water stewardship policy	Tri-State Coalition for Responsible Investment	14.7%
Tyson Foods	Report on impact of more vegetarians	Green Century	withdrawn
Yum Brands	Phase out antibiotic use in animal feed	As You Sow	May

At **Kellogg**, a proposal is still pending that raises a new concern about glyphosate. It asks the company to report on "options for adoption of policies, above and beyond legal compliance, to prevent or minimize environmental and public health harms from glyphosate." As You Sow highlights its widespread use "shortly before harvest [on] certain crops, including wheat, other grains, beans, and oilseeds," since it "kills foliage and promotes drying, which makes harvesting easier, especially in wetter climates." The resolution expresses concern about residues on food and "drift onto nearby crops," noting this use has been banned in Austria and Germany.

Neonicotinoids: Controversy about another common class of pesticide, neonicotinoids, surfaced two years ago in response to widespread scientific concern about declining populations of pollinators, including but not limited to bees. This year, a proposal on the subject is pending at **Dr Pepper Snapple Group** and **PepsiCo**, asking for a "report on company strategies and/or policy options to protect public health and pollinators through reduced pesticide usage in [the company's] supply chain." The proposal earned 8.8 percent last year at Pepsi and 7.6 percent the year before. Proponents withdrew last year at Kellogg after it agreed to publish a statement in its next sustainability report supporting the White House Pollinator Health Task Force begun under President Obama in 2015.

Water

ICCR members filed three proposals that express concern about meat producers' water stewardship policies. One has been withdrawn, at **Hormel**, after it agreed to strengthen policies. Hormel had challenged the resolution at the SEC, arguing it is ordinary business. The company had meetings and discussions with the proponents and appears to have made substantial commitments. The resolution asked it to "adopt and implement a water stewardship policy designed to reduce risks of water contamination" of its own and from contract suppliers.

The same resolution went to a vote already at **Tyson Foods**, earning 14.7 percent—a high vote given the founding family's majority ownership of company stock. It is pending at **Pilgrim's Pride**.

Social Issues

ANIMAL WELFARE

Long-time animal rights proponent People for the Ethical Treatment of Animals (PETA) this year has just three proposals and all raise issues investors have considered in the past.

Zika virus risk: Last year, PETA raised the prospect of Zika virus contamination from laboratory animals. The resolution to **Laboratory Corp. of America** earned 5.3 percent support and is pending again. The group has long been concerned about animal welfare issues at LabCorp's Covance division, which it acquired in 2013. The resolution asks for an annual report "on the measures [the company] is taking to prevent, detect, and control Zika virus infection of nonhuman primates and human employees at our company's U.S. facilities and in surrounding human populations."

The Covance division, from which LabCorp derives 27 percent of its revenue, has a research animal unit in Texas with about 10,000 monkeys. PETA contends that the monkeys are at risk and could pose harm to the company, since potential Zika-hosting mosquitoes are in Texas, and since the monkeys live outside, they might catch the illness and spread it to employees and those who purchase research animals. Zika virus has spread widely in Latin America and poses a serious public health threat recognized by the World Health Organization and the Centers for Disease Control and Prevention; mosquito-borne transmission has occurred in Miami over the last year in the United States. In response to PETA's assertions, LabCorp last year said it is closely monitoring the situation, has mosquito control protocols in place and does not believe the monkeys pose a threat. The company formally recognizes that the welfare and use of research animals pose potential financial risks to its business through possible disease transmission.

Primates in labs: PETA has a new resolution to **Charles River Laboratories** about primates used in laboratory use. It says,

> in order to end its support of illegal and inhumane practices that often lead to flawed science, shareholders urge the board to prohibit conducting business with primate dealers and laboratories that have repeatedly violated the minimum standards of the federal Animal Welfare Act or are under investigation by the U.S. Department of Agriculture Investigative Enforcement Services. Such investigations are undertaken when serious violations are believed to have occurred and action is warranted to correct significant problems.

Earlier resolutions from PETA to Charles River in 2013 and 2012 asking for a report about animal welfare earned about 4 percent support. PETA has long-standing concerns about animal welfare at the company. Information about how many animals companies use in laboratories, and reports from Animal Welfare Act inspectors that until now have been available from the U.S. Department of Agriculture, has become scarce under the Trump administration's leadership. The department removed from its website reports from the Animal and Plant Health Inspection Agency shortly after the inauguration in January and the agency has posted a notice on its website saying that the reports have been removed to protect individual privacy. It is unclear when or if these reports will become available again and the website notes interested parties may file Freedom of Information Act requests to obtain data.

Orcas: Last year, PETA withdrew a resolution to **SeaWorld Entertainment** asking it to end its orca breeding program after the company did just that. This year, it suggests further changes at the company:

> to combat the ongoing decline in SeaWorld's value and public image—as evidenced by a steady drop in attendance, profits, and stock value for more than three years, as well as hundreds of employee layoffs; the passing of legislation in California banning captive-orca breeding; and SeaWorld's failed attempts to counteract consumers' opposition to captivity—shareholders urge the board to retire the current resident orcas to seaside sanctuaries and replace the captive-orca exhibits with innovative virtual and augmented reality or other types of non-animal experiences.

The company has challenged the resolution at the SEC, arguing it would be illegal, is false and misleading, cannot be implemented and concerns ordinary business. The SEC has not responded so far.

Animal Welfare

Company	Proposal	Lead Filer	Status
Charles River Laboratories International	Take animal welfare action for suppliers	PETA	May
Laboratory Corporation of America	Report on animal welfare issues	PETA	May
SeaWorld Entertainment	Retire orcas and replace with non-animal alternatives	PETA	June

CORPORATE POLITICAL ACTIVITY

The number of resolutions on corporate political activity remains high, even as it has fallen from a peak of 139 filed in 2014; controversies about corporate involvement have only intensified and promise to continue. At least 90 resolutions have been filed so far for 2017, compared with 96 in mid-February last year and 113 the year before at this time, but more will emerge as the year progresses. This is the fifth year in which more resolutions address lobbying spending and oversight, rather than election spending, and disclosure remains the main focus. *(See chart next page showing the rare occurrence of other resolution types.)* Despite the drop in the number of proposals filed, the tally going to votes increased between 2015 and 2016, driven by lobbying resolutions. *(See second chart next page.)*

Companies are far 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, however, despite the continued reticence about disclosing 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.

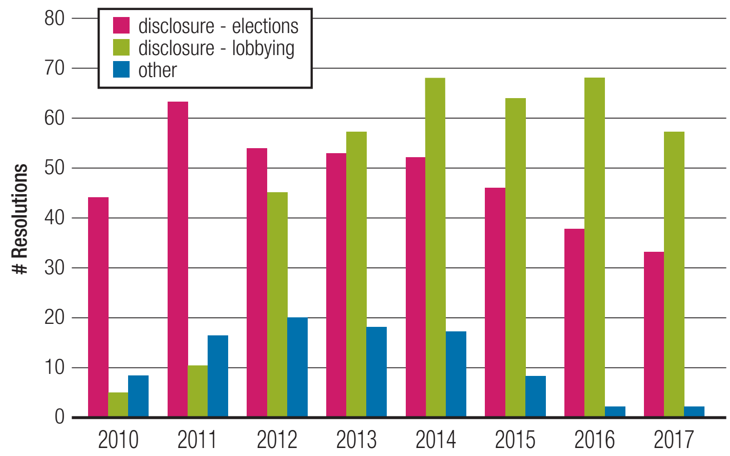
Looking ahead, one coming flashpoint for investors could be the Trump administration's proposal that would allow churches and other charities to donate to political candidates, which they presently cannot do, although the outlook for the proposal is unclear.

Shareholder proponents include social investment and religious organizations, leading pension funds such as the New York City pension funds and NYSCRF, 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 disclosure approach remains the standard that proponents also model lobbying resolutions on. The umbrella Corporate Reform Coalition includes many shareholder proponents but also other reformers. The coalition's call for mandated election spending disclosure through a proposed SEC mandate is effectively dead for now but the coalition is casting a skeptical eye on the new administration's Securities and Exchange Commission and will continue to pressure the mutual fund Vanguard about its voting on resolutions about political activity given its track record for always supporting management.

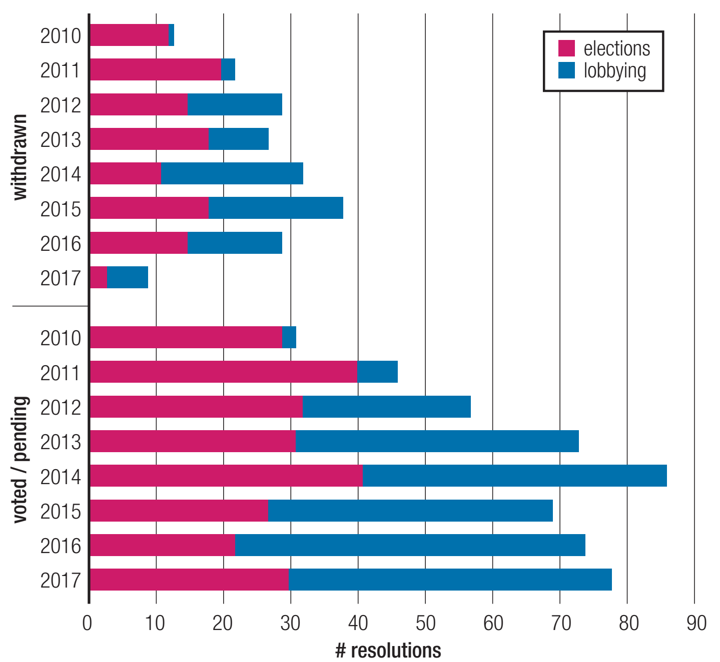
Key references for investors are the CPA's CPA-Zicklin Index, most recently updated in September 2016 with information on the entire S&P 500 index included for the first time. The Conference Board's Committee on Corporate Political Spending offers a more corporate perspective on disclosure and oversight.

Multiple proposals: Since 2013, proponents have been able to file both election spending and lobbying proposals at the same company after a shift in SEC policy that year holding that those proposals were not duplicative, and this year six companies have two such requests—**Alphabet**, **AT&T**, **Emerson Electric**, **ExxonMobil**, **FedEx** and **Goodyear Tire & Rubber**.

Corporate Political Activity Proposals Since 2010



Political Disclosure Votes and Withdrawls Since 2010



Lobbying

The lobbying transparency campaign begun in 2012 is coordinated by Walden Asset Management and the American Federation of State, County and Municipal Employees (AFSCME).

Primary resolution: The resolved clause for the main campaign resolution remains the same and has been filed at 50 companies, with 46 now pending and four withdrawn; about 50 proposals have been filed each year since 2013. Most are resubmissions but 13 companies are new targets for the proponents. *(See table.)*

Lobbying

Company	Proposal	Lead Filer	Status
AbbVie	Report on lobbying	Zevin Asset Management	May
Aetna	Report on lobbying	Mercy Investment Services	May
Alphabet (formerly Google)	Report on lobbying	Walden Asset Management	June
Anthem	Report on lobbying	Sisters of St. Francis of Philadelphia	omitted
AT&T	Report on lobbying	Walden Asset Management	April
Bank of America	Report on lobbying	Nathan Cummings Foundation	April
BlackRock	Report on lobbying	AFL-CIO	May
Boeing	Report on lobbying	Philadelphia Public Employees Retirement System	May
Calpine	Report on lobbying	AFSCME	May
Caterpillar	Report on lobbying	Le Fonds de Solidarite	June
CenturyLink	Report on lobbying	Friends Fiduciary	May
Charles Schwab	Report on lobbying	AFL-CIO	May
Chevron	Report on lobbying	Philadelphia Public Employees Retirement System	May
Cisco Systems	Report on lobbying	Unitarian Universalists	Dec.
Citigroup	Prohibit government service golden parachutes	AFL-CIO	April
Citigroup	Report on lobbying	Change to Win	April
Comcast	Report on lobbying	Friends Fiduciary	May
ConocoPhillips	Report on lobbying	Walden Asset Management	May
Devon Energy	Report on lobbying	Rhode Island Pension Fund	June
Devon Energy	Review/report on climate change advocacy	Needmor Fund	June
Dominion Resources	Report on lobbying	Bernice Schoenbaum	May
Duke Energy	Install and lobby for renewable energy	Meggs	omitted
Duke Energy	Report on lobbying	Mercy Investment Services	May
Eli Lilly	Report on lobbying	New York State Common Retirement Fund	May
Emerson Electric	Report on lobbying	Zevin Asset Management	40.0%
ExxonMobil	Report on lobbying	United Steel Workers	May
Facebook	Report on lobbying	Philadelphia Public Employees Retirement System	June
FedEx	Report on lobbying	Clean Yield Asset Management	Sept.
FirstEnergy	Report on lobbying	Nathan Cummings Foundation	May
Ford Motor	Report on lobbying	Unitarian Universalists	May
Frontier Communications	Report on lobbying	AFL-CIO	May
General Electric	Report on lobbying	Philadelphia Public Employees Retirement System	April
Goldman Sachs	Prohibit government service golden parachutes	AFL-CIO	omitted
Goodyear Tire & Rubber	Report on lobbying	Unitarian Universalists	April
Honeywell International	Report on lobbying	Philadelphia Public Employees Retirement System	April
HP	Report on lobbying	AFL-CIO	April
International Business Machines	Report on lobbying	Walden Asset Management	April
Johnson & Johnson	Report on lobbying	Mercy Investment Services	withdrawn
JPMorgan Chase	Prohibit government service golden parachutes	AFL-CIO	May
Monsanto	Report on lobbying	As You Sow	28.3%
Morgan Stanley	Prohibit government service golden parachutes	AFL-CIO	May
Motorola Solutions	Report on lobbying	Mercy Investment Services	May
Nucor	Report on lobbying	Domini Social Investments	May
Occidental Petroleum	Review/report on climate change advocacy	Needmor Fund	withdrawn
Oracle	Report on lobbying	Unitarian Universalists	Nov
Pfizer	Report on lobbying	Christopher Reynolds Foundation	withdrawn
Pinnacle West Capital	Report on political spending and lobbying	As You Sow	withdrawn
Tesoro	Report on lobbying	United Steel Workers	May
Textron	Report on lobbying	New York State Common Retirement Fund	April
Travelers	Report on lobbying	First Affirmative Financial Network	May
Tyson Foods	Report on lobbying	Mercy Investment Services	11.9%
United Parcel Service	Report on indirect lobbying	Zevin Asset Management	May
United Parcel Service	Report on lobbying	Walden Asset Management	withdrawn
UnitedHealth Group	Report on lobbying	New York State Common Retirement Fund	June
Vertex Pharmaceuticals	Report on lobbying	Friends Fiduciary	June
Walgreens Boots Alliance	Report on lobbying	Walden Asset Management	withdrawn
Walt Disney	Report on lobbying	Zevin Asset Management	3/8/17
WEC Energy	Lobby for and implement carbon tax	Michelle L. Guilette	omitted
Wells Fargo	Report on lobbying	Nathan Cummings Foundation	April

expertinsight

STATE LOBBYING TRANSPARENCY REMAINS FUZZY

HEIDI WELSH
Executive Director, Sustainable Investments Institute (Si2)

Si2 has just released *How Leading U.S. Corporations Govern and Spend on State Lobbying*, with support from the IRRC Institute. It looks at how corporations oversee and govern money spent on corporate lobbying at the state level and establishes a baseline for that spending, looking at the 100 biggest U.S. companies. Key findings include:

Corporate Policies

- Just one-quarter of the S&P 500 have board-level policies about lobbying, an increase from 16 percent in 2013. Yet policies and disclosure about election spending abound, with 90 percent of the index having policies on election activity and half requiring board oversight of it.
- The contrast between disclosure to investors about election spending and lobbying is stark. Only 12 percent of S&P 500 companies report how much they spend on lobbying; most of it about federal action. Voluntary disclosure about state lobbying on company websites is nearly non-existent.

State Spending Trends

- State lobbying spending is concentrated among a small number of very large companies. **AT&T**, **Altria**, **Verizon** and **Chevron** top the list. Each incurred four-year state lobbying expenses of more than $13.5 million in the six states analyzed (California, Florida, Minnesota, New Jersey, New York, and Washington). This is five times more than that of the average company in the study which spent a total of $2.6 million in the six states over four years.
- Looking at the intensity of state lobbying (amount spent per $1 million of revenue) largely confirms that the biggest companies are the heaviest spenders, and that health care firms top the list. **Altria** stands out starkly with a rate four times that of its closest finisher, laying out $143.70 per $1 million in revenue. Runner-up **Pfizer** spent $36.40. For comparison purposes, the study found that the average company spent $11.40 per million in revenue.
- Health care firms dominate the spending of the 100 biggest companies. This sector spent $41 million from 2012 to 2015 in the six states studied, not surprising since the study period coincided with the Affordable Care Act's setup. **UnitedHealth Group** alone spent $5.5 million.
- State lobbying by energy companies rose at a rapid clip and **Chevron's** expenditures dominated, with $15.7 million (more than half the nearly $30 million the sector spent in four years). Nearly all was in California, where the state's Global Warming Solutions Act aims to curb greenhouse gas emissions.
- Just two utilities spent in the six states studied, but the collective spending to influence state government by **Duke Energy** and **Exelon** rose more quickly from 2012 to 2015 than that of any other sector.

Conclusion

- Even if there is voluntary reporting by companies, the state level disclosures required by law do not allow for an easy understanding of what companies spend on lobbying. Instead, they often provide an illusory sense of transparency that in practice explains little.
- When companies indicate they are in compliance with mandatory disclosure requirements and provide links to state websites, that, in and of itself, does not in general provide investors with meaningfully useful data on what they spend in the states on lobbying.
- Key questions therefore remain for investors who want to know more about their portfolio companies' lobbying at the state level. Only half the states mandate any sort of lobbying disclosure at present and much more could be done to better illuminate the picture.

Recommendation

- If investors want to see this more precise map of spending, to better understand the related risks and benefits it involves, they may want to develop a model framework for voluntary disclosure, with standardized metrics to allow benchmarking.

Sign up for the March 22 webinar to discuss the report's findings. Profiles of the 100 companies, detailing their lobbying governance and expenditures in the six states studied, are available on the IRRC Institute website.

The main proposal asks for a 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.

Votes—Just three votes are available so far—resubmissions that earned 40.1 percent at Emerson Electric, 28.3 percent at **Monsanto** and 11.9 percent at **Tyson's Foods**.

SEC action—Lobbying proposals have survived SEC scrutiny for several years, but this year **Anthem** succeeded in its challenge that contended the resolution is similar both to its 2016 predecessor as well as election spending resolutions in 2012 and 2013—and thus that the 2016 proposal did not meet the required 10 percent threshold for a fourth resubmission. The argument turned on whether trade group spending mentioned in all three proposals makes them similar enough to qualify as being duplicative in the SEC's eyes. SEC staff were convinced and the proposed will not appear in the proxy statement.

Withdrawals—Proponents have withdrawn four lobbying proposals so far after agreements, at **Johnson & Johnson**, **Pfizer**, **United Parcel Service** and **Walgreens Boots Alliance**. At Pfizer, the proposal was a resubmission from 2016, when it received 30.6 percent support, and Pfizer agreed to annually review its lobbying priorities and spending at the board level, amending the charter of its governance committee to reflect this. It also agreed to consider acting in concert with other companies to support climate change statements and review the possibility of supporting renewable energy at the state and local level. At **UPS**, the resubmission had earned 22.6 percent support last year and after the company agreed to make some concessions on lobbying and to strengthen the role of its lead director, Walden Asset Management withdrew.

Hybrid proposals: So far, just one of the resolutions asks for both lobbying and election spending information and it has been withdrawn, at **Pinnacle West**. In a resubmission that earned 34.5 percent last year, As You Sow asked for disclosure of all recipients and contributions from company funds with any non-tax-deductible expenses for political activities incurred related to:

- 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 withdrawal came after an agreement in which the company agreed to implement the proposal. Consumer advocates have been concerned about the extent to which the company may be trying to influence the Arizona public utility commission, which regulates the activities of Arizona Public Service Co. (APS), a Pinnacle West subsidiary. APS previously said that more transparency about its political spending would "impinge" on its First Amendment free speech rights.

Climate connections: Two new lobbying proposals from individual stockholders tried to tie lobbying to climate change issues but both have been omitted on ordinary business grounds:

- **Duke Energy** was asked to "install and own wind generators and solar installations to be operated for the profit of Duke Energy stockholders" and "to vigorously lobby state and national legislatures and regulators to remove obstacles to development of renewable sources of energy." The company convinced SEC staff this concerns ordinary business because it deals with a specific aspect of its business.

- In a similar vein, **WEC Energy** was asked to "publicly endorse federal legislation that places an initially low but steadily rising fee on fossil-carbon-based fuels, adjusts the fee at the border to protect domestic manufacturers from countries where such a policy does not exist and returns all revenue collected to households." The SEC agreed it was too specific and therefore related to ordinary business.

In addition, for the last four years, political spending reformers and climate change activists also have asked energy companies about their support for public policies that could mitigate global warming. This year a refiling from the Needmor Fund at **Devon Energy** remains pending; last year it earned 21.2 percent support. **Occidental Petroleum** argued at the SEC that this proposal concerns ordinary business and the proponent has withdrawn.

Indirect lobbying: In addition to the broad campaign noted above, **United Parcel Service** again is facing an indirect lobbying resolution from Zevin Asset Management that the firm withdrew last year after a challenge. It asks UPS to "initiate a review and assessment of organizations in which UPS is a member or otherwise supports financially for involvement in lobbying on legislation at federal, state or local levels" and to report to shareholders.

Government service: The AFL-CIO has returned to four companies with its proposal that calls for an end to what it calls "government service golden parachutes," with resubmissions pending at **Citigroup**, **JPMorgan Chase** and **Morgan Stanley**. The resolution says each should "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,

advocacyposition

COMPANY AND TRADE ASSOCIATION MIXED MESSAGES SHOW NEED FOR LOBBYING DISCLOSURE

JOHN KEENAN

Corporate Governance Analyst, AFSCME Capital Strategies

In 2017, investors remain committed to engage on corporate lobbying disclosure. There was $3.1 billion spent on federal lobbying in 2016, and companies and trade associations spend millions each year to lobby at the federal and state levels. With a new Republican administration, it is unlikely the Securities and Exchange Commission will take up corporate political spending rulemaking, leaving the onus upon persistently patient investors to seek disclosure through proposals and dialogues with companies.

For this proxy season, a coalition of over 60 investors have filed more than 50 proposals which ask companies to disclose their lobbying, including federal and state lobbying amounts and payments to trade associations and third parties used for indirect lobbying. These efforts are part of an ongoing campaign; since 2012, the coalition of public pension funds, labor funds, asset managers, individual investors, international investors, foundations and religious investors has filed over 300 shareholder proposals which have averaged 25 percent support and at the same time produced over 50 settlements for improved disclosure.

Lobbying disclosure helps to safeguard corporate reputation and protect shareholder value. A company's board has a fiduciary duty to ensure that corporate assets are used to further the long-term interests of the company and shareholders. Disclosure allows shareholders to evaluate whether a company's lobbying is consistent and in the best interests of the company and shareholders. Furthermore, companies are required to report all of federal lobbying and have this information internally, so disclosing it to shareholders can be done at little to no expense.

State lobbying and lobbying through trade associations are two areas where disclosure remains uneven and insufficient for investors. Compiling state lobbying disclosure is a difficult task, as disclosure rules and regulations vary by state. State lobbying is often less visible than federal lobbying, given less media coverage at the state level. Yet companies lobby extensively in the states, spending more than $1 billion yearly with lobbyists outnumbering state lawmakers by six to one.

Trade associations spend over $100 million annually to lobby indirectly on behalf of their member companies without disclosing the sources of funding. A problem arises when there is a clear contradiction in a position taken by a company and its trade association. So a company can claim one position that looks supportive of a major issue, while at the same time contributing to trade association lobbying that actively undermines the issue. Climate presents a clear example: many companies have programs to address climate change, yet are also members of the Chamber of Commerce, which sued to block the EPA Clean Power Plan. Investors believe these positional incongruities present reputational risks, and that companies need to disclose what process manages issue non-alignment.

For 2017, the bulk of proposals remain focused on companies that spend the most to lobby, which includes many defense, drug, energy, financial and telecommunication companies. The investor demand for corporate lobbying disclosure remains steady and widespread and, in the absence of a uniform disclosure requirement, will not be going away soon.

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."

SEC action—The fourth target, **Goldman Sachs**, successfully challenged the resolution at the SEC, arguing it can be omitted because it did not earn the 10 percent last year it needed to be reconsidered. A similar proposal earned 19.1 percent in 2016 and 4.8 percent in 2015.

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 each company 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.

Proponents have filed the resolution at 31 companies, proposing it for the first time this year at 10 of them—including **Berkshire Hathaway**, **CONSOL Energy**, **Equifax**, **Goodyear Tire & Rubber**, **J.B. Hunt Transport**, **Occidental Petroleum**, **PNC Financial** and **PPG Industries**. *(See table for the full list; two more are not yet public.)*

Elections

Company	Proposal	Lead Filer	Status
Aetna	Report on indirect political spending	Domini Social Investments	May
Allstate	Review/report on political spending	New York State Common Retirement Fund	May
Alphabet (formerly Google)	Review/report on political spending	Clean Yield Asset Management	June
American International Group	Review/report on political spending	Unitarian Universalists	withdrawn
AT&T	Report on indirect political spending	Domini Social Investments	April
Berkshire Hathaway	Review/report on political spending	Clean Yield Asset Management	April
CarMax	Review/report on political spending	Teamsters	June
CONSOL Energy	Review/report on political spending	New York State Common Retirement Fund	May
Emerson Electric	Review/report on political spending	Trillium Asset Management	40.3%
Equifax	Review/report on political spending	New York State Common Retirement Fund	May
ExxonMobil	Review/report on political spending	Investor Voice	May
FedEx	Review/report on political spending	Newground Social Investment	Sept.
Fluor	Review/report on political spending	Philadelphia Public Employees Retirement System	May
Goodyear Tire & Rubber	Review/report on political spending	New York State Common Retirement Fund	April
J.B. Hunt Transport Services	Review/report on political spending	Teamsters	April
McKesson	Review/report on political spending	Philadelphia Public Employees Retirement System	July
NextEra Energy	Review/report on political spending	New York State Common Retirement Fund	May
NIKE	Review/report on political spending	Newground Social Investment	Sept.
NiSource	Review/report on political spending	New York State Common Retirement Fund	withdrawn
Occidental Petroleum	Review/report on political spending	New York State Common Retirement Fund	April
PNC Financial Services Group	Review/report on political spending	Trillium Asset Management	withdrawn
PPG Industries	Review/report on political spending	Clean Yield Asset Management	April
Range Resources	Review/report on political spending	Nathan Cummings Foundation	May
Republic Services	Review/report on political spending	Teamsters	May
Western Union	Review/report on political spending	New York State Common Retirement Fund	May
Wyndham Worldwide	Review/report on political spending	Mercy Investment Services	May
Wynn Resorts	Review/report on political spending	New York State Common Retirement Fund	April

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ACHIEVING CORPORATE POLITICAL ACCOUNTABILITY IN THE AGE OF TRUMP

BRUCE F. FREED
President, Center For Political Accountability

NANYAMKA SPRINGER
Associate Director, Center For Political Accountability

Donald Trump's victory in November and a Republican-controlled Congress have dashed prospects for achieving corporate political transparency and accountability through regulation or legislation in Washington. But the 2016 election results also reinforce the importance of the Center for Political Accountability (CPA) shareholder effort, now entering its 14th year, which is bringing sunlight and board oversight to company political spending.

Today, sidestepping the political system is the only feasible route to confronting the dual issues of corporate political spending and the rise of "dark money." By using corporate governance, best practices voluntarily established by a growing number of companies have put in place better disclosure, decision-making and board oversight of their political spending. The result: corporate political transparency and accountability is moving from a common practice to a new norm.

Corporations today are the dominant force in setting the nation's policy agenda and underwriting its politics. While they are not heavy spenders at the presidential level, a CPA analysis has identified businesses as the biggest source of political money in congressional and down-ballot races in the states, where companies increasingly are turning for action. In the 2014 election cycle, National Institute on Money in State Politics data show that business interests spent $1.1 billion on election-related activity. By comparison, labor groups spent $215 million, and ideological or single-issue groups spent $137 million.

Much of the company money is secret, flowing through trade associations and "social welfare" organizations that aren't required to disclose their donors. This exposes companies and shareholders to serious risks and poses a grave threat to our democracy.

The strong foundation built through voluntary action is reflected in the 2016 CPA-Zicklin Index of Corporate Political Disclosure and Accountability:

- More than 300 companies have adopted some form of political disclosure, including more than 150 through agreements with CPA and investor partners.
- 111 companies have policies requiring board oversight of political spending and board committee review of company policies, political expenditures and trade association payments; this number increased 28 percent over 2015.
- 143 companies (29 percent) have placed some level of restriction on their political spending, compared to 124 (25 percent) in 2015.
- Almost half of the S&P 500 (45 percent) disclosed some level of payments to trade associations or directed them not to use these payments to influence elections. That's up from 41 percent in 2015.

Eleven companies reached agreements last year to adopt political disclosure and accountability policies. When resolutions did go to a vote, the average vote in support was 33 percent—the fifth year that support topped 30 percent. Shareholders registered their support with 40-plus percent at six companies.

In the 2017 proxy season, CPA is building on earlier successes through the filing of more than 30 resolutions. Already, three companies (**NiSource**, **AIG** and **PNC Financial**) have reached agreements.

As its next step, CPA is focusing on making disclosure more uniform and universal, and persuading companies to adopt and follow robust and effective board oversight and compliance policies. When combined with existing programs, these new initiatives will bring meaningful change to the corporate political spending arena.

Votes: 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 resolution notes the company fared poorly on the CPA-Zicklin index.

Withdrawals: Proponents have withdrawn after three agreements in which the companies will put in place more board oversight and more disclosure of election spending—at **American International Group**, **NiSource** and **PNC Financial Services Group**. The NiSource proposal was in its fourth year and NYSCRF withdrew after the company agreed to disclose its spending. In 2016 it earned 50.2 percent, up from 44.5 percent in 2015 and 33.4 percent in 2014. It is one of the few proposals to have received majority support. PNC agreed to changes in its political spending disclosures which will boost its CPA-Zicklin Index score from 37 to 53, persuading Trillium to withdraw. More agreements and withdrawals are likely.

Indirect political spending: Domini Social Investments has filed again at **AT&T** and **Aetna**, asking them to report semi-annually on indirect expenditures "used for political purposes, i.e., to participate or intervene in any political campaign on behalf of (or in opposition)." It says the report should indicate how much was spent, who received it and the title of the company officer responsible for the contribution. A similar proposal earned 28.9 percent last year, up a little from 2015 and 2014. This is the fifth year for this proposal at Aetna and it earned 25.5 percent in 2016.

Other Political Issues

Only three more resolutions about corporate political involvement have been filed and all are pending, although one has been challenged at the SEC.

Values: Reprising a resolution it has proposed to a number of companies over the years, NorthStar Asset Management is asking **Home Depot** and **Intel** to report at each annual meeting on its political spending, including the following:

- the Company's and [its] PAC policies on electioneering and political contributions and communications,
- any political contributions known to be anticipated during the forthcoming fiscal year,
- management's analysis of the congruency with company values and policies of the company's and HD PAC's policies on electioneering and political contributions and communications, and of the resultant expenditures for the prior year and the forthcoming year, and an explanation of the rationale for any contributions found incongruent;
- management's analysis of any resultant risks to our company's brand, reputation, or shareholder value;
- and providing an advisory shareholder vote on those policies and future plans.

Neither company has received the proposal in the past, but resolutions from NorthStar and Harrington Investments with a similar thrust earned around 6 percent support last year at **CVS Health** and **McDonald's**.

Charitable giving: Harrington Investments has a different proposal at McDonald's, targeting what it sees as a disconnect between the company's charitable giving and its food menu. 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.

The company has challenged the proposal at the SEC, arguing it concerns ordinary business, given its focus on a specific concern—childhood nutrition. Similar challenges have succeeded.

Other Political Issues

Company	Proposal	Lead Filer	Status
Home Depot	Report on political spending and values	NorthStar Asset Management	May
Intel	Report on political spending and values	NorthStar Asset Management	May
McDonald's	Report on charitable contributions	Harrington Investments	May

advocacyposition

FROM BIG TECH TO BIG BANKS: SHAREHOLDERS EXPAND OUTREACH ON GENDER PAY GAP

NATASHA LAMB
Director Of Equity Research And Shareholder Engagement, Arjuna Capital

Research tells us that having more women in the top ranks of corporate America is a good thing. Gender diverse teams lead to greater profitability, return on equity, stock price performance and innovation—key performance measures for any company. As such, structural biases that keep women from advancing into leadership positions, including the gender pay gap, are significant barriers to outperformance.

Yet the gap persists—women continue to make 79 cents on the dollar, compared to men, while African American and Latina women only make 60 and 55 cents, respectively. This shortfall is not expected to close for another 40 years. That is, at the current rate of change.

Thankfully, bigger change is in the air. Over the last year, the outcry, action and momentum to close the gender wage gap has escalated and investors have successfully pressed top companies to commit to fair pay. California, Massachusetts, New York and Maryland have passed the strongest equal pay laws to date. And more than 100 companies have signed the White House Equal Pay Pledge, issued by President Obama.

Recognizing the business case for building and maintaining a robust pipeline of female talent, Arjuna Capital filed the first shareholder proposals on equal pay with Big Tech companies beginning in 2015. Arjuna focused on the tech sector, which has a reputation as a boy's club, because its female talent gap is simply bad for business. Innovation is job one in Silicon Valley and gender diverse leadership teams create more innovation.

And the tech industry has heeded the call. Beginning last February, seven of the nine companies where proposals were filed—**Apple**, **Intel**, **Expedia**, **Amazon.com**, **Adobe**, **Microsoft** and **eBay**—have committed to publicly disclose and close their pay gaps.

But Arjuna is not the only investor calling for change—shareholders are lending increasing support. Arjuna's equal pay proposal at eBay garnered a majority vote of 51 percent at the 2016 annual meeting, up six-fold from the prior year's result, prompting eBay's CEO to commit to "fix the problem." And Baldwin Brothers, Clean Yield Asset Management, Pax World, Proxy Impact, The Sustainability Group, Walden Asset Management and Zevin Asset Management are filing and co-filing shareholder proposals across sectors, from Big Tech to Big Banks.

The banks are important because the financial services industry boasts one of the highest gender pay gaps overall, and female financial advisors face the widest gap of any occupation—61 cents on the dollar. Eight financial services firms face proposals this year, including **Citigroup**, **JP Morgan**, **Wells Fargo**, **Bank of America**, **Bank of New York Mellon**, **Goldman Sachs**, **American Express** and **Mastercard**.

Achieving gender equity will require systemic change on all levels—corporate, investor, regulatory and societal. As investors, we must continue to press the companies in which we invest to lead. For in the absence of corporate change, women will continue to hit that glass ceiling. But if corporations can begin to institutionalize progress through transparency and accountability, women can give leadership a real crack.

DECENT WORK

Last year proponents started to focus in earnest on the growing concerns about economic inequality in the United States and the erosion of the middle class and they are continuing to do so in 2017, with a mix of old and new resolutions that address pay inequality for women and minorities, and economic inequality drivers in general. The volume of filings has increased dramatically this year, driven by a big increase in pay equality proposals. *(See chart, next page.)* Fully 29 address pay, while nine (not all public) are about labor standards and working conditions.

Gender Pay Equity

There are two similar proposals this year that ask companies to address the problem of unequal pay for women. Pax World Investments has pending resolutions at **Bank of New York Mellon** and **Verizon Communications**, asking each to report,

> on the Company's policies and goals to reduce the gender pay gap. For investors to assess the Company's strategy and performance, the report should include the percentage pay gap between male and female employees, policies to address the pay gap and reduction targets. The Organization for Economic Cooperation and Development has defined the gender pay gap as the difference between male and female earnings expressed as a percentage of male earnings.

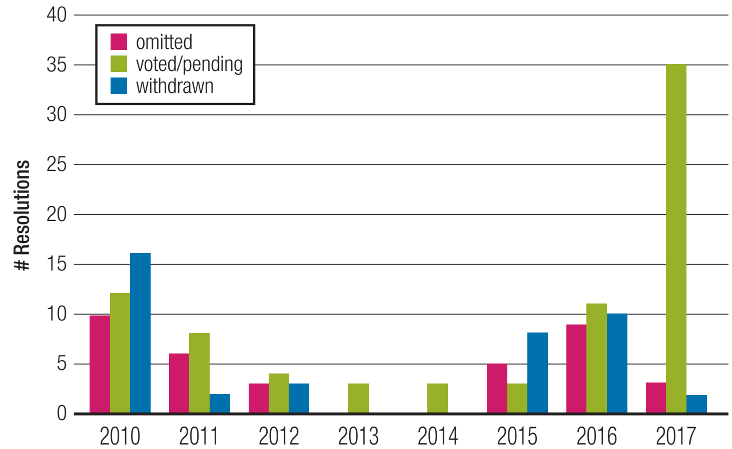
Arjuna Capital has a slightly less detailed request pending at **Alphabet**, **American Express**, **Bank of America**, **Citigroup**, **Facebook**, **JPMorgan Chase**, **Mastercard**, **NIKE**, **Walmart Stores** and **Wells Fargo**. It is asking each to report by the fall "on the Company's policies and goals to reduce the gender pay gap," noting the same gender pay gap definition provided by Pax.

SEC action and withdrawals—Pax has withdrawn its proposal at **AT&T**, noting that the company has agreed to continue discussions on the subject; this came after an SEC challenge in which AT&T argued the resolution concerns ordinary business. It also withdrew at **Goldman Sachs** and **Qualcomm**.

Income Inequality

Last year's interest in addressing income inequality by requiring more disclosure about differential pay levels in general and paying higher minimum wages is continuing unabated in 2017, with a few more resolutions filed as well on related topics.

Decent Work Proposals Since 2010



Minimum wage principles: Social investment firms came up with a new resolution they submitted to traditionally low-wage restaurant and retail companies in 2016, asking them to sign on to a set of principles about wages. But the effort was quashed at the SEC, which agreed with company assertions this was an ordinary business issue. Zevin Asset Management and Trillium Asset Management are trying again with a modified version of the same proposal this year, requesting that companies "adopt principles for minimum wage reform," noting that the resolution "does not encompass payments used for lobbying, or ask the company to take a position on any particular piece of legislation." To get around the ordinary business exclusion, they have added a new qualifier—that it does not "seek to address the Company's internal approach to compensation, general employee compensation matters, or implementation of its principles for minimum wage reform. The appropriate timing for publishing the principles should be in the Board's discretion."

The resolution is pending for a second time at **Chipotle Mexican Grill**, **CVS Health** and **TJX** and for the first time at **Amazon.com** and **Home Depot**. All but CVS again are contending at the SEC that it can be omitted because it relates to ordinary business but the SEC has yet to respond.

Pay disparity: Two resolutions ask four companies about pay inequality. One has been filed at **CVS Health** (where it earned 7.3 percent last year) and at **TJX** for the first time, asking each to review and report by October with the following information:

1) A comparison of the total compensation package of senior executives and our employees' median wage (including benefits) in the United States in July 2007, July 2012 and July 2017;
2) an analysis of changes in the relative size of the gap and an analysis and rationale justifying this trend;
3) an evaluation of whether our senior executive compensation packages (including, but not limited to, options, benefits, perks, loans and retirement agreements) should be modified to be kept within boundaries, such as that articulated in the Excessive Pay Shareholder Approval Act; and
4) an explanation of whether sizable layoffs or the level of pay of our lowest paid workers should result in an adjustment of senior executive pay to more reasonable and justifiable levels and how the Company will monitor this comparison annually in the future.

The other proposal is from the AFL-CIO and the Trowel Trades union, asking **BB&T** and **SL Green Realty** each to require the

> Compensation Committee of the Board of Directors 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. Compliance with this policy is excused if it will result in the violation of any existing contractual obligation or the terms of any existing compensation plan.

Both firms unsuccessfully challenged the resolution at the SEC, arguing it was so vague as to be false and misleading and that it concerned ordinary business. The SEC disagreed.

Race, gender and ethnicity links to pay inequality: A new resolution from Zevin Asset Management is pending at **Colgate-Palmolive** and **TJX**, tying together concerns about economic inequality based on race, gender and ethnicity. It asks for a report on each firm'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.

Colgate unsuccessfully challenged the proposal at the SEC, which did not agree it can be excluded because it is too vague and inconsistent. Unless withdrawn, it will go to a vote.

Higher minimum wage: In addition to the minimum wage principles question noted above, an individual investor asked **McDonald's**, because of its leadership role and since it "is in a position to affect the living conditions of its workers and those throughout the industry," to ensure that its workers "be guaranteed a living wage of $15.00/hour." The company successfully challenged the proposal at the SEC, which agreed it can be excluded because the proponent did not pledge to hold his shares through the annual meeting date as required.

Incentive risks: Harrington Investments has a new resolution that seeks information from **Bank of America** and **Wells Fargo** about their incentive practices for low-level (and lower-paid) employees and ethics problems such as those that arose at Wells Fargo about sales incentives for employees, in which misconduct ended up costing the company the company a $185 million fine levied in September 2016, as *The New York Times* reported. The resolution asks for a report on:

- whether compensation and incentives policies relating to low level employees may create pressures exposing the Company to an aggregate of material losses, and
- categories of incentives or activities posing greatest risk.

The Board may integrate, as appropriate, any information developed as a result of arrangements or consent orders with the CFPB.

Both banks have challenged the resolution at the SEC. Bank of America says it is too vague and concerns ordinary business. Well Fargo also says it is similar to a different proposal it received first that it intends to include in the proxy statement, making it duplicative; that proposal is from the St. Sisters of Francis of Philadelphia and asks for a report on fraud and risk management. The SEC has yet to respond.

Labor Standards and Working Conditions

Proponents have filed a total of at least seven proposals about supplier labor standards, but information is public on only four of them. At **Foot Locker** and **Mattel**, NYSCRF has a resolution that asks for a report

> that outlines the steps that the company is taking, or can take, to monitor the use of subcontractors by the company's overseas apparel suppliers. This report, which should be prepared at reasonable cost and omit proprietary information, should include:
>
> - Company policy on sub-contractors in its overseas apparel procurement.
> - The extent to which company codes of conduct are applied to apparel suppliers and sub-contractors.
> - Process and procedures for monitoring compliance with corporate codes of conduct by apparel suppliers and subcontractors, and
> - Process and procedures that the company has in place for dealing with code non-compliance by apparel suppliers and sub-contractors.

Foot Locker has told the SEC the proposal should be excluded from the proxy statement because it is not significantly related to its operations, concerns ordinary business and is moot. Mattel is also arguing it has been implemented already and deals with ordinary business. The SEC has yet to respond to either.

At **Motorola Solutions** and **Xerox**, Domini Social Investments and Mercy Investments specifically focus on forced and slave labor. They ask for an annual report

> disclosing specific remedial efforts taken to ensure that its global supply chain is 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.

Accident prevention: The United Steelworkers have returned to **Marathon Petroleum** with a resolution that they also have filed this year at **Chemours**, the Du Pont spinoff. The resolution asks for a report by next year's annual meeting "on the steps [the company] has taken to reduce the risk of accidents. The report should describe the Board's oversight of Process Safety Management, staffing levels, inspection and maintenance of facilities and other equipment." At Chemours, the resolution notes a contract worker for a different company was killed at a company facility in Florida in April 2016 and that another fatality at a plant now owned by Chemours occurred in 2010. The firm was spun off from Du Pont in July 2015 and a 2016 resolution to Du Pont on this subject earned 30 percent in 2016. The Marathon resolution also references a fatal accident involving a contract worker in 2016 at a company refinery in Texas.

Both companies challenged it at the SEC, but only Chemours was successful, convincing the SEC it dealt with ordinary business because it was about workplace safety. Marathon argued it was moot but the SEC rejected its challenge so it will go to a vote unless the parties reach an accord.

Thanksgiving working hours: Another proposal about limiting working hours on Thanksgiving at Walmart Stores from an individual investor, Mark Stevens, was filed too late and omitted after a company challenge. It had asked for a policy that

> any Black Friday sale event begin no earlier than 5:00am local store time, on the morning following Thanksgiving Day. Furthermore, the policy must include that no type of sale event be offered from 12:01 am local store time on Thanksgiving Day until 4:59 am on the morning following Thanksgiving Day. Lastly, the Company must adopt a policy that insures associates have time off with family on Thanksgiving Day, that no staffing reductions are made in the pay week Thanksgiving Day falls upon to insure the Company's customers are taken care of in a timely manner in order to avoid a loss of sales revenues for the Company.

Decent Work

Company	Proposal	Lead Filer	Status
Gender Pay Equity			
Alphabet (formerly Google)	Report on female pay disparity	Arjuna Capital	June
American Express	Report on female pay disparity	Arjuna Capital	May
AT&T	Report on female pay disparity	Pax World Funds	withdrawn
Bank of America	Report on female pay disparity	Arjuna Capital	April
Bank of New York Mellon	Report on female pay disparity	Pax World Funds	April
Citigroup	Report on female pay disparity	Arjuna Capital	April
Facebook	Report on female pay disparity	Arjuna Capital	June
Goldman Sachs	Report on female pay disparity	Pax World Funds	withdrawn
JPMorgan Chase	Report on female pay disparity	Arjuna Capital	May
Mastercard	Report on female pay disparity	Arjuna Capital	June
NIKE	Report on female pay disparity	Arjuna Capital	Sept.
Qualcomm	Report on female pay disparity	Pax World Funds	withdrawn
Verizon Communications	Report on female pay disparity	Pax World Funds	May
Walmart Stores	Report on female pay disparity	Arjuna Capital	June
Wells Fargo	Report on female pay disparity	Arjuna Capital	April
Income Inequality			
Amazon.com	Adopt minimum wage reform principles	Zevin Asset Management	May
Bank of America	Report on incentive risks for low paid employees	Harrington Investments	April
BB&T	Report on pay disparity	AFL-CIO	April
Chipotle Mexican Grill	Adopt minimum wage reform principles	Trillium Asset Management	May
Colgate-Palmolive	Report on income inequality	Zevin Asset Management	May
CVS Health	Adopt minimum wage reform principles	Zevin Asset Management	May
CVS Health	Report on pay disparity	Zevin Asset Management	May
Home Depot	Adopt minimum wage reform principles	Trillium Asset Management	May
McDonald's	Pay higher minimum wage	Thomas August	omitted
SL Green Realty	Report on pay disparity	Trowel Trades	June
TJX	Adopt minimum wage reform principles	Trillium Asset Management	June
TJX	Report on income inequality	Zevin Asset Management	June
TJX	Report on pay disparity	Priests of the Sacred Heart	June
Wells Fargo	Report on incentive risks for low paid employees	Harrington Investments	April
Labor Standards & Working Conditions			
Chemours	Report on accident prevention efforts	United Steel Workers	omitted
Foot Locker	Report on supplier labor standards	New York State Common Retirement Fund	May
Marathon Petroleum	Report on accident prevention efforts	United Steel Workers	April
Mattel	Report on supplier labor standards	New York State Common Retirement Fund	May
Motorola Solutions	Report on supplier labor standards	Domini Social Investments	May
Walmart Stores	Limit Thanksigiving working hours	Mark Stevens	omitted
Xerox	Report on supplier labor standards	Mercy Investment Services	May

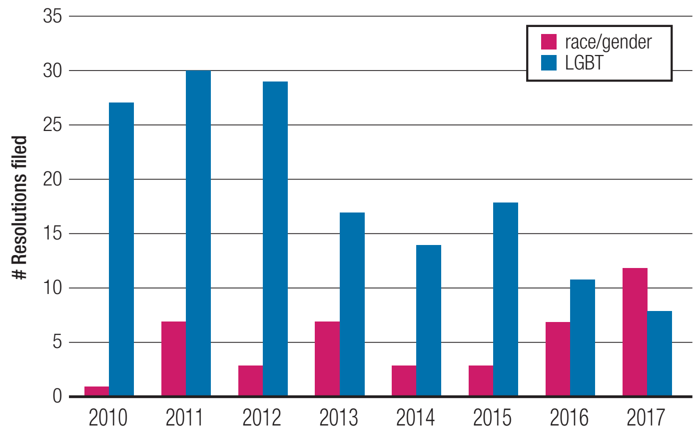
DIVERSITY IN THE WORKPLACE

Shareholder proponents address workplace diversity in two areas—seeking non-discrimination protections for lesbian, gay, bisexual and transgender (LGBT) people and encouraging more disclosure and action to provide equal employment opportunities for women and minorities.

Women and minorities: This year is witness to a resurgent effort to support equal rights for women and minorities in the workplace. Twelve proposals ask for disclosure of workplace diversity and reports on affirmative action. Most are from Trillium Asset Management, and most are to financial services companies.

(This year also will see a continued push that began last year for greater gender pay equity; 21 resolutions are covered in the Decent Work section, p. 40. The Sustainable Governance section (p. 58), describes a further 28 proposals making the case for greater board diversity—again mainly focused on women although minorities remain deeply underrepresented on corporate boards.)

Workplace Diversity Proposals Since 2010



LGBT rights: The 2017 proxy season is unfolding as historic legal achievements providing equal protection to LGBT people are being undermined by some state laws aimed at protecting "religious liberty" rights to ignore non-discrimination protections. *(Shareholder resolutions with these themes are covered in the section of the report about conservatives' campaigns, p. 71.)* While recently established federal protections are in place, on February 12 the Trump administration announced it would not defend Obama-era protections for transgender students in public schools—an about-face for U.S. Justice Department. Still, the Trump administration did say in late January that federal workplace LGBT protections issued in 2014 will remain.

Diversity in the Workplace

Company	Proposal	Lead Filer	Status
Women & Minorities			
AFLAC	Report on EEO and affirmative action	Trillium Asset Management	May
Amazon.com	Report on background checks in hiring	AFL-CIO	May
F5 Networks	Report on EEO and affirmative action	Trillium Asset Management	withdrawn
Fifth Third Bancorp	Report on EEO and affirmative action	Trillium Asset Management	April
First Republic Bank	Report on EEO and affirmative action	Trillium Asset Management	May
Home Depot	Report on EEO and affirmative action	Benedictine Sisters, Boerne, Texas	May
Jones Lang LaSalle	Report on EEO and affirmative action	Trillium Asset Management	withdrawn
Omnicom Group	Report on EEO and affirmative action	Walden Asset Management	May
PNC Financial Services Group	Report on EEO and affirmative action	Trillium Asset Management	April
Stifel Financial	Report on EEO and affirmative action	Trillium Asset Management	June
T. Rowe Price Group	Report on EEO and affirmative action	Trillium Asset Management	April
Travelers	Report on EEO and affirmative action	Trillium Asset Management	May
Visa	Report on EEO and affirmative action	Trillium Asset Management	withdrawn
LGBT Rights			
Brown & Brown	Adopt sexual orientation and gender identity anti-bias policy	Walden Asset Management	May
Cato	Adopt sexual orientation and gender identity anti-bias policy	Walden Asset Management	May
DENTSPLY Sirona	Adopt gender identity anti-bias policy	Trillium Asset Management	May
EOG Resources	Adopt gender identity anti-bias policy	Trillium Asset Management	withdrawn
Johnson Outdoors	Adopt sexual orientation and gender identity anti-bias policy	NorthStar Asset Management	withdrawn
Netgear	Adopt sexual orientation and gender identity anti-bias policy	Walden Asset Management	June
Verisk Analytics	Adopt gender identity anti-bias policy	Trillium Asset Management	withdrawn
Western Union	Report on anti-gay law impacts	NorthStar Asset Management	May

Investor proponents of diversity have scaled back an earlier campaign to put in place formal corporate LGBT policies since a firm majority of corporate America now has such protections. *(Chart, page 44)* In 2017, just nine resolutions are asking for non-discrimination policies regarding sexual orientation and/or gender identity. In response to new state restrictions, though, last fall NorthStar Asset Management asked **FedEx** and **Procter & Gamble** to explain how anti-LGBT laws in the states, such as HB 2 in North Carolina, may affect their workers and operations. Investors gave them only modest support, however—not more than about 6 percent; another of these resolutions is now pending at **Western Union**.

Investors, coordinated by Trillium and the New York City Comptroller and representing more than $2 trillion in assets under management, called on North Carolina state officials to reject their state's current wave of anti-LGBT legislation. A similar call about pending similar Texas legislation is in the works.

Women and Minorities

Reporting: A newly expanded campaign, with Trillium Asset Management the major player, seeks more disclosure on how companies encourage diversity in their workforces. Pending at **AFLAC**, **Fifth Third Bancorp**, **First Republic Bank**, **Omnicom Group**, **PNC Financial Services Group**, **Stifel Financial**, **T. Rowe Price Group** and **Travelers** is a request for a report with the following information:

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

The resolution notes the continuing lack of diversity at leading companies. 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 EEOC, and that some leading asset managers have begun to acknowledge a lack of gender diversity in senior management. The resolution further points to a new 2016 EEOC rule that went into effect in September 2016 that requires private employers and federal contractors with more than 100 employees to report on how much they pay employees, disaggregating data in 12 job categories by gender, race and ethnicity. Employers will submit their first reports in March 2018—if the new rule is not rolled back by the Trump administration.

At **Omnicom**, the resolved clause from Walden Asset Management seeks not just the race and gender breakdown by job category overall, but also "A description of policies and programs enacted to increase the number of minority and female employees in job categories where they are underutilized, including middle and senior level manager positions." It points out racial disparity problems specific to the advertising industry, and that senior company officials in the sector in 2016 "stepped down amidst controversies related to gender or racial discrimination." The resolution also notes research that found racial disparities in the industry are worse than in the U.S. labor market as a whole:

- Racial disparity is 38% worse in the advertising industry than in the overall U.S. labor market;
- The "discrimination divide" between advertising and other U.S. industries is more than twice as wide as it was 30 years ago;
- Black college graduates working in advertising earn 80 cents for every dollar earned by their equally-qualified White counterparts; and
- About 16% of large advertising firms employ no Black managers or professionals, a rate 60% higher than in the overall labor market.

A slightly different proposal is at longtime recipient **Home Depot**; similar proposals have been considered at the company for more than a decade, although not in 2015 when the proponents tried substituting dialogue for a resolution. The proposal earned 29.9 percent last year, up from around 25 percent previously. 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.

Withdrawals—The main EEO resolution has been withdrawn following agreements at **F5 Networks**, **Jones Lang LaSalle** and **Visa**. F5, for instance, agreed to report in its upcoming sustainability report this spring about diversity. It also will evaluate appropriate criteria for targets to demonstrate continuous improvement, Trillium says.

Background checks: Racial inequality is also raised in a new resolution from the AFL-CIO that asks **Amazon.com** to report before the 2018 annual meeting

> 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.

CONTINUED STRUGGLE FOR LGBT RIGHTS

JONAS KRON
Director of Shareholder Advocacy, Trillium Asset Management

Whether companies provide a safe and inclusive workplace for their LGBT employees is still an open and important question for investors, even in 2017. A surprising number of companies still do not have workplace policies that extend to their LGBT employees. And as we have seen in North Carolina and now Texas, some elected state officials have begun a campaign of officially sanctioned LGBT discrimination.

To address these twin problems, shareholders have been using two familiar tools: shareholder proposals and investor statements. But beyond these instruments of shareholder advocacy, we are using a new strategy, engaging a mutual fund company on how it votes on LGBT non-discrimination proposals.

At the company level, **JB Hunt** updated its non-discrimination policies in 2016 after a Trillium shareholder proposal received a majority 54 percent vote at the company's summer annual meeting. While it was unfortunate that the proposal had to go to a vote, the overwhelmingly high vote made investor sentiment abundantly clear to the Board. In the end, JB Hunt's management expressed their appreciation for the engagement and has embraced the issue by implementing awareness training programs for its 19,000 employees across the country.

Other companies that received LGBT non-discrimination proposals or inquiry letters in the 2016-2017 season include **Webster Financial**, **Palo Alto Networks**, **Tractor Supply**, **Acuity Brands**, **Five Prime Therapeutics**, **Ansys**, **Deckers**, **Dentsply**, **EOG Resources**, **Quanta**, **Sonoco** and **Verisk**.

Trillium has also employed an approach pioneered by Zevin Asset Management and Walden Asset Management, by filing a shareholder proposal at **BlackRock** asking the company to explain why it does not vote in favor of LGBT non-discrimination shareholder proposals. Despite strong internal policies and programs, BlackRock has voted against all LGBT non-discrimination proposals over the last four years. This practice calls into question BlackRock's assertions that it seeks to engage companies on material social issues.

At the state level, Trillium, the New York City Comptroller and the Croatan Institute organized over $2 trillion in investors to call on North Carolina to repeal its state-sanctioned transgender discrimination law, HB2, most commonly referred to as the "bathroom bill." The statement received significant national and statewide media attention and forced Governor McCrory to respond publicly.

Building on the North Carolina effort, Trillium and the New York City Comptroller are now focusing investor attention on Texas. That state is currently considering a bill called Senate Bill 6 (SB6), which is virtually identical to North Carolina's HB2. To be proactive, we are organizing an investor coalition to send a letter to Texas's elected officials urging them not to adopt SB6 and pointing out how damaging it may be to the state's business climate if they do.

The proposal points out that people of color are disproportionately more likely to have had contact with the criminal justice system and asserts that using criminal record information may violate the Civil Rights Act of 1964 and EEOC guidelines. It says that the "disparate impact" of barring anyone with a conviction from work "may also work against our company's commitment to diversity," and states, "We believe that previously incarcerated individuals who have paid their debt to society deserve a chance to achieve gainful employment." Finally, it cites stepped up background checks at Amazon as possibly being responsible for the termination of "dozens of primarily black and Latino delivery drivers in the Boston area."

The company has challenged the resolution at the SEC, arguing it concerns ordinary business; commission staff have yet to respond.

LGBT Rights

Company policy: Walden's resolution pending at **Brown & Brown**, **Cato** and **Netgear** is the familiar proposal that asks each to "amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity or expression and report on its programs to substantially implement this policy." A narrower proposal by Trillium is still pending and asks **DENTSPLY Sirona** to amend its "written equal employment opportunity policy to explicitly prohibit discrimination based on gender identity or expression and to take concrete action to implement the policy."

SEC action—**Cato** is arguing at the SEC that the request for it to include LGBT protections in its nondiscrimination policy concerns ordinary business and is moot because company 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.

advocacyposition

WILL WELLS FARGO "INVEST" IN INTEGRITY AND TRANSFORMATIVE GOVERNANCE?

SR. NORA M. NASH, OSF

Sisters of St. Francis of Philadelphia

The financial "spotlight" story of 2016 had to be the **Wells Fargo** fiasco; the "cross-selling" of products and what *The Wall Street Journal* called "Wells Fargo's Textbook Case of Botched Crisis Management."

Wells Fargo's distressful ethical, economic, and cultural lapses become evident to the world when the Consumer Financial Protection Bureau (CFPB) fined the company a record penalty of $185 million in September.

Members of the Interfaith Center on Corporate Responsibility (ICCR) had been concerned about Wells Fargo's leadership and management for several years and consistently challenged the company about economic justice and discriminatory practices. We raised concerns about various aspects of its codes and policies and confronted the company on its responsibility to ensure the financial suitability of its products for its customers. We were convinced that, in spite of Wells Fargo's "Vision and Values" statement, there was an underlying culture at the company that put excessive pressure on employees to oversell. As we now know, this culture had the practical effect of incentivizing fraud through a tactic known as "cross-selling," which sought to persuade retail customers to sign up for multiple products they likely didn't need, and in many cases they were signed up without their knowledge.

Over the last several years, the Sisters of St. Francis of Philadelphia and other ICCR members exerted pressure on Wells Fargo to end excessive credit card fees and predatory lending products. Concern after the financial crisis of 2008 set in motion a new report from ICCR and Sustainalytics called *Ranking the Banks* which surveyed the top seven U.S. banks on topics such as risk management protocols, responsible lending, political activities and executive compensation. It was not a surprise that Wells Fargo had the lowest overall ranking among the banks we surveyed, and underperformed significantly in responsible lending and risk management.

Initially, Wells Fargo argued that a separate Business Standards Review wasn't necessary because its Vision and Values and Code of Ethics had guided it for thirty years. Again, we urged the bank to align its business practices with its stated ethics and principles. In what we hoped was a breakthrough, we withdrew a resolution proposed from the floor of the 2014 annual meeting on Business Standards when the company agreed to review its major policies. Once again, the insular culture prevailed. The board for the most part was passive and while corporate leadership amassed excessive salaries, workers were abused and millions of customers were being defrauded.

On October 7, 2016, we filed a resolution calling for a review and report on business standards. On October 26, we met with the new chair of the board and other top management. In February 2017, we met with the new CEO, Mr. Timothy Sloan, to begin a new chapter with Wells Fargo. We will continue to seek answers to the seven main points that are the essence of our resolution and we hope that shareholders will join us by supporting and voting for our resolution.

Withdrawals—NorthStar Asset Management withdrew at **Johnson Outdoors** after the company changed its policy language to include gender identity, sexual orientation and gender expression. Trillium also withdrew the gender identity proposal at **EOG Resources** and **Verisk Analytics** after agreements.

Anti-gay law impacts: As noted above, NorthStar Asset Management last fall raised concerns about how laws that seek to roll back LGBT protections affect companies. It has another of these proposals pending at **Western Union**, asking it to report by October,

> detailing the known and potential risks and costs to the Company caused by any enacted or proposed state policies supporting discrimination against LGBT people, and detailing strategies above and beyond litigation or legal compliance that the Company may deploy to defend the Company's LGBT employees and their families against discrimination and harassment that is encouraged or enabled by the policies.

EQUITABLE FINANCE

Two proposals about probity and fairness in the financial services industry have been filed—one at **Wells Fargo** and one more at the student loan servicing company **Navient**.

Wells Fargo: The Sisters of St. Francis of Philadelphia is asking the bank for "a comprehensive report…by October 2017 on the root causes of the crisis [affecting the company] and steps taken to improve risk management and control processes going forward."

Student loans: The Rhode Island Pension Fund also asked **Navient** to report,

> providing a comprehensive review of Navient's ability 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.

Equitable Finance			
Company	Proposal	Lead Filer	Status
Navient	Report on student loans	Rhode Island Pension Fund	May
Wells Fargo	Report on ethics and oversight	Sisters of St. Francis of Philadelphia	April

It will not go to a vote, however, since the company successfully challenged the resolution at the SEC, which agreed it concerns ordinary business. The Connecticut Retirement Funds co-filed the proposal.

HEALTH

Pharmaceutical Drug Pricing

ICCR members have longstanding concerns about health care affordability, especially in the pharmaceutical sector, and proposed a new resolution in 2017, but it appears to have been too specific for the SEC. The resolution filed at 11 companies asks for a report by November,

> listing the rates of price increases year-to-year of our company's top selling branded prescription drugs between 2010 and 2016, including the rationale and criteria used for these price increases, and an assessment of the legislative, regulatory, reputational and financial risks they represent for our company.

advocacyposition

THE NEED FOR TRANSPARENCY ON DRUG PRICING

DONNA MEYER PH.D.

Director, Shareholder Advocacy, Mercy Investment Services

In recent years, rising drug costs have outpaced other healthcare costs. With no signs of a change in this trend, Interfaith Center on Corporate Responsibility (ICCR) shareholders have filed resolutions and engaged in corporate dialogues seeking more comprehensive disclosure from leading drug companies on the hefty price increases for pharmaceuticals.

Mercy Investment Services and fellow members of ICCR, a coalition of faith-based and values-driven investors, have long advocated for equitable access to health care to reduce the impact of unmanaged illness on the health of millions and the significant cost burdens to the broader economy. We ask companies for the rationale and criteria for price increases, as well as an assessment of the legislative, regulatory, reputational and financial risks that these price increases represent. ICCR members believe this information is not only material to shareholders, but is a critical first step in developing strategies to understand the value of these medicines and to create healthy competition in the marketplace.

The Centers for Medicare & Medicaid Services (CMS) reports that overall health spending grew by 5.8 percent in 2015, with prescription drug spending outpacing all other services. In June 2016, *Bloomberg* reported price increases of more than double the rate of inflation for 30 medicines with largest global sales from 2009 to 2015. Widespread increases such as these, coupled with recent drug pricing scandals, have resulted in significant loss in shareholder value for the companies involved and given the pharma sector a reputation for price gouging. A recent Kaiser poll showed that as many as eight in 10 Americans believe prices are unreasonable and support various ideas to lower costs, such as enforcing caps on some high-priced medicines.

To address these concerns, shareholders are seeking more comprehensive disclosure about the rationale for price increases. We believe that the companies can benefit by creating value and playing a positive role in reforming the health system. The companies say they are committed to improving the access and affordability of their medicines, but shareholders have not seen information that justifies the unrelenting increases. Both the companies and their trade associations are increasing the amounts they spend on campaigns to defend their pricing practices and repair brand images.

In addition to reputational risk, drugmakers face potential legislative and regulatory risks. The National Conference of State Legislatures notes drug pricing transparency legislation was filed in at least 16 states in 2015-16 and passed in Vermont. As many as 35 states are considering proposals to control their budget for medicines, and a bill was introduced in the U.S. Senate last fall to require transparency in drug price increases.

As shareholders, we are concerned that legislative and public pressure increases the risk to our companies. We seek to constructively address the issue and add our voice to the rising chorus of criticism about pharmaceutical pricing. Our hope is that by raising attention to the issue, pharmaceutical companies will consider the impact of their pricing practices and increase their transparency.

The proponents give statistics about the high prices Americans pay for drugs compared to the rest of the world and the steep increases in these costs, which despite improvements in insurance pose significant barriers to access for many, especially for those in poor health. Looking at legislative risks, the proponents point to a proposed California ballot initiative that would require drug prices to be offered at the lowest rate negotiated by the Department of Veterans Affairs—thus raising risks for the companies if they do not satisfy critics.

The resolution is still pending at two companies, **AbbVie** and **Biogen**—neither of which challenged it at the SEC—so it still may go to a vote there.

SEC action: Other companies—**Amgen**, **Bristol-Myers Squibb**, **Eli Lilly**, **Gilead Sciences**, **Johnson & Johnson**, **Merck**, **Pfizer** and **Vertex Pharmaceuticals**—may omit the proposal since the SEC agreed with their challenges that it concerns ordinary business. In letters all released on February 10, commission staff said, "we note that the proposal relates to the rationale and criteria for price increases of the company's top ten selling branded prescription drugs in the last six years."

Withdrawal: The proponents withdrew at **Regeneron Pharmaceuticals** after reporting "productive discussions" and a company "willingness to engage" about drug access and pricing.

Safe Drug Disposal

A campaign that saw three votes last year and aims to convince big drug makers to help safely dispose of their products after use has been stymied at the SEC, as well. The resolution asks for a report

> reviewing the company's existing policies for safe disposition by users of prescription drugs to prevent water pollution, and setting forth policy options for a proactive response, including determining whether the company should endorse partial or full industry responsibility for take back programs by providing funding or resources for such programs.

The same resolution went to votes last year at AbbVie, Johnson & Johnson and Merck, earning 6 percent to 7 percent. None of the companies challenged it then at the SEC, but this year **Johnson & Johnson** did and the SEC agreed it relates to ordinary business. **Pfizer** made this argument, too, but As You Sow withdrew before the commission responded. It remains pending at **AbbVie**, which has not lodged a challenge, and may go to a vote there again; the vote last year was 7.5 percent. AbbVie makes Vicodin, a widely abused opioid pain treatment, but says it does not support take-back programs and contends all stakeholders must work together to find a solution, instead of operating on their own.

Health

Company	Proposal	Lead Filer	Status
Drug Pricing			
AbbVie	Report on pharmaceutical pricing	Sisters of Charity of the Blessed Virgin Mary	May
Amgen	Report on pharmaceutical pricing	Mercy Investment Services	omitted
Biogen Idec	Report on pharmaceutical pricing	Dignity Health	June
Bristol-Myers Squibb	Report on pharmaceutical pricing	Trinity Health	omitted
Eli Lilly	Report on pharmaceutical pricing	Mercy Investment Services	omitted
Gilead Sciences	Report on pharmaceutical pricing	Trinity Health	omitted
Johnson & Johnson	Report on pharmaceutical pricing	Trinity Health	omitted
Merck	Report on pharmaceutical pricing	Province of St. Joseph of the Capuchin Order	omitted
Pfizer	Report on pharmaceutical pricing	Trinity Health	omitted
Regeneron Pharmaceuticals	Report on pharmaceutical pricing	Dignity Health	withdrawn
Vertex Pharmaceuticals	Report on pharmaceutical pricing	Trinity Health	omitted
Safe Disposal			
AbbVie	Report on safe drug disposal policy	As You Sow	May
Johnson & Johnson	Report on safe drug disposal policy	As You Sow	omitted
Pfizer	Report on safe drug disposal policy	As You Sow	withdrawn
Tobacco and Cannabis			
Altria	Limit tobacco advertising	Midwest Capuchins	May
Eli Lilly	Support legalization of marijuana	Fred Pfenniger	omitted
Reynolds American	Limit tobacco advertising	Midwest Capuchins	May
Walgreens Boots Alliance	Report on tobaco sales	Sisters of St. Francis, Dubuque, Iowa	omitted

Tobacco and Cannabis

Tobacco: The Midwest Capuchins have a new resolution this year pending at **Altria** and **Reynolds American** asking that each "will not allow any images of its logo or products be placed anywhere outside any store, in store windows or anywhere else inside any store selling its tobacco products and will stop incentives to any retailer for such placements." The body of the resolution discusses a preponderance of tobacco ads in stores that cater to the poor.

Taking a different approach, the Sisters of St. Francis of Dubuque, Iowa, proposed that **Walgreens Boots Alliance** issue a report "assessing the financial risk, including long-term legal and reputational risk, of continued sales of tobacco products in our stores." But it will not go to a vote since the SEC agreed with the company's contention that it concerns ordinary business because it is about the sale of products as well as legal compliance.

Cannabis: A proposal that asked **Eli Lilly** to support the legalization of marijuana by announcing its "support for the descheduling of cannabis" will not go to a vote, either. The company successfully challenged the resolution at the SEC, which agreed it was submitted too late. The resolution pointed out that in the early part of the 1900s, Eli Lilly sold several products containing cannabis before it was outlawed.

HUMAN RIGHTS

Half of the 42 shareholder resolutions filed this year on human rights are related to the Israeli-Palestinian conflict and conditions for people living and working in contested areas, mostly in Israel and Palestinian territories. New among the additional 19 proposals are five about indigenous peoples' rights, referencing the Dakota Access Pipeline, as well as others about compliance with standards and reporting, privacy rights, the penal system and water rights.

Conflict Zone Operations

Israelis and Palestinians: All but two of the resolutions about conflict zones were filed by the Holy Land Principles organization. After many of the resolutions promoting its set of principles for fair employment for Arabs and Jews received levels of support last year low enough to prevent their resubmission, the organization has tried this year for a second bite of the apple in requests for a workforce breakdown identifying Arab and non-Arab workers. But the SEC has agreed with companies' contention that both address the same issue and the new ones are therefore ineligible, whittling down the number that will go to votes.

The main proposal, which is familiar from earlier years, asks 16 companies *(see chart for a list)* to "Make all possible lawful efforts to implement and/or increase activity on each of the eight Holy Land Principles," an eight-point code of conduct about workplace equal opportunity. The resolution is new to all except **McDonald's**, where it earned 3.6 percent last year, **PepsiCo** (3.8 percent in 2016) and **UPS** (8.6 percent in 2016).

The new resolution asks five companies—**Cisco Systems**, **Coca-Cola**, **General Electric**, **General Motors** and **Intel**—to provide within four months of the annual meeting "A chart of employees in Palestine-Israel identifying the number who are Arab and non-Arab broken down by the nine EEO-1 job categories for each of the past three years." Resolutions about the Holy Land Principles last year did not earn enough for resubmission at these firms, getting less than 3 percent at Coca-Cola and GM and less than the 6 percent needed in their second year at GE and Intel. A Cisco proposal last year asked for the Arab employee breakdown and earned 4.4 percent; an earlier Holy Land Principles resolution earned 2.8 percent, not enough for resubmission; Cisco did not challenge the second type of proposal.

SEC action and withdrawals—As noted above, the SEC agreed with challenges from Coca-Cola and General Electric that asserted the Arab employee breakdown request raised the same issues as the Holy Land Principles implementation proposals and they will be omitted. Intel lodged a challenge making this argument and the proponent withdrew before any SEC comment. The workforce breakdown proposal is still pending at GM and so far no SEC challenge has surfaced, but the company has time to make such a challenge and so does Cisco, which does not have its meeting until December.

AT&T was successful using another argument; the SEC agreed with its contention the proposal is moot because the company's current policies address the resolution's concerns.

Withdrawal—The Holy Land Principles organization says it has withdrawn at **Corning** after an agreement—its first at any company—following discussions. The company will publish a breakdown of its workforce in the region.

Other conflict zone proposals: Azzad Asset Management, which offers faith-based solutions using Islamic principles, has a new proposal at **Chevron** that notes the plight of the Rohingya people in Burma 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."

A second new resolution, from Mercy Investments, seeks details on how **Intel** does business in areas with "situations of belligerent occupation." It asks for a report

> on 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 consider the appropriateness of supplementing Intel's Human Rights Principles with additional rules and procedures enabling the company 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.

Conflict Zones

Company	Proposal	Lead Filer	Status
3M	Implement Holy Land Principles	Holy Land Principles	April
Alphabet (formerly Google)	Implement Holy Land Principles	Holy Land Principles	June
AT&T	Implement Holy Land Principles	Holy Land Principles	omitted
Boeing	Implement Holy Land Principles	Holy Land Principles	May
Chevron	Report on anti-genocide policy	Azzad Asset Management	May
Cisco Systems	Disclose workforce breakdown in Israel-Palestine	Holy Land Principles	Dec.
Coca-Cola	Disclose workforce breakdown in Israel-Palestine	Holy Land Principles	omitted
Corning	Implement Holy Land Principles	Holy Land Principles	withdrawn
Crawford	Implement Holy Land Principles	Holy Land Principles	May
General Electric	Disclose workforce breakdown in Israel-Palestine	Holy Land Principles	omitted
General Motors	Disclose workforce breakdown in Israel-Palestine	Holy Land Principles	June
Intel	Disclose workforce breakdown in Israel-Palestine	Holy Land Principles	withdrawn
Intel	Report on conflict zone operations	Mercy Investment Services	May
Lockheed Martin	Implement Holy Land Principles	Holy Land Principles	April
Marriott International	Implement Holy Land Principles	Holy Land Principles	May
Marsh & McLennan	Implement Holy Land Principles	Holy Land Principles	May
McDonald's	Implement Holy Land Principles	Holy Land Principles	May
Merck	Implement Holy Land Principles	Holy Land Principles	May
PepsiCo	Implement Holy Land Principles	Holy Land Principles	May
Pfizer	Implement Holy Land Principles	Holy Land Principles	April
Procter & Gamble	Implement Holy Land Principles	Holy Land Principles	Oct.
United Parcel Service	Implement Holy Land Principles	Holy Land Principles	May
Xerox	Implement Holy Land Principles	Holy Land Principles	May

Other Human Rights Proposals

Indigenous rights: Three of the five new proposals about indigenous peoples' rights deal with financial companies' policies and two are at oil and gas companies and address acquisitions. Filed by As You Sow, NYSCRF, SumOfUs, the Presbyterian Church (USA) and a dozen other ICCR members, they all mention the Dakota Access Pipeline, the controversial project near the Standing Rock Sioux reservation that was blocked by the Obama administration and has been newly cleared for construction by the Trump administration's Army Corps of Engineers.

advocacyposition

GROWING INVESTOR OPPOSITION TO DAKOTA ACCESS PIPELINE (DAPL)

STEVEN HEIM

Managing Director and Director of ESG Research and Shareholder Engagement, Boston Common Asset Management

#NoDAPL has become a rallying cry for people globally supporting the Standing Rock Sioux Tribe (Tribe) in its peaceful protests to block and reroute the construction of the Dakota Access Pipeline by **Energy Transfer Partners** (ETP). Investors have focused on the environmental and social risks of DAPL to their portfolios and/or social missions.

ETP, **Sunoco Logistics**, **Phillips 66**, **Marathon Petroleum** and **Enbridge** are expected to own DAPL collectively once it is completed. Over 30 banks are financing DAPL and/or the Energy Transfer group companies. Investors including large banks and American Indian nations have divested shares and/or engaged the DAPL pipeline companies and/or some of the banks.

Background: Since 2014, the Standing Rock Sioux Tribe has opposed DAPL's projected route, which crosses its drinking water, sacred sites and treaty territory without meeting international standards for consultation and Free, Prior, and Informed Consent. In January 2017, President Trump directed the U.S. Army Corps of Engineers to expedite a new environmental review that the Corps required in December 2016. On February 8, the Army Corps granted the final permit needed to complete the pipeline to cross under Lake Oahe, a half mile north of the Tribe's reservation. The Tribe is fighting in court to require a full environmental review and protect their treaty rights. In fall 2016, DAPL protestors, called "water protectors," were injured and the risk of conflict remains with new protests.

Starting in August 2016, the Tribe reached out to investors for help after the Army Corps issued a legal finding of "no significant impact" in its environmental assessment. The Tribe asked First Peoples Worldwide (FPW) to help coordinate investor actions about DAPL. Boston Common Asset Management and other investors have worked closely with FPW, through the new Investors & Indigenous Peoples Working Group (IIPWG) and the Interfaith Center on Corporate Responsibility to organize webinars, develop strategy and coordinate investor actions.

Investors have engaged both the DAPL pipeline companies and the banks financing DAPL through letters, dialogue meetings and shareholder proposals. (Investors did not file shareholder proposals with ETP and Sunoco Logistics because of their master limited partnership structure.) Boston Common and other investors met with the lead banks financing DAPL—**Citigroup**, **TD Bank**, **Mitsubishi UFJ** and **Mizuho Bank**, as well as others.

An NGO campaign led by BankTrack has targeted the DAPL banks. To date, consumers have closed bank accounts with banks financing DAPL or the Energy Transfer group companies worth over $66 million—and are threatening to pull another $2.3 billion. In February, the City of Seattle decided to move its $3 billion in funds from **Wells Fargo** because of its stance on the issue.

As of February 2017, the Tribe has met with several of the DAPL project finance banks seeking support for rerouting the pipeline. Investors with over $685 billion AUM and led by Boston Common, Storebrand and Calvert, with support by CalPERS and several City of New York pension funds, issued an investor statement that asked the banks to address or support the Tribes request to reroute DAPL and use their influence to reach a peaceful resolution.

At **Goldman Sachs**, the proposal asks for 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.

At **Morgan Stanley**, the request is for a report

> assessing how its indigenous rights policy could be extended to the financing of companies involved in energy, mining, oil and gas, and infrastructure (including pipelines, dams, roads, railroads) operations, where such companies are currently, or might in the future be, involved in projects located in indigenous territories, even if those projects are not directly financed by our company. Policy options considered in the report should include, for instance, review of the financed companies' due diligence policies or practices for consistency with Morgan Stanley's project-financing commitments such as consent and impact avoidance and mitigation.

The proposal at **Wells Fargo** is the most detailed. It seeks a policy "regarding the rights of indigenous peoples…which includes respect for the free, prior and informed consent of indigenous communities affected by" the bank's financing, which

> should acknowledge rights of indigenous peoples to the following:
> - property, culture, religion, and non-discrimination in relation to lands, territories and natural resources, including sacred places and objects;
> - health and physical well-being in relation to a clean and healthy environment;
> - setting and pursuing their own priorities for development; and
> - making authoritative decisions about external projects or investments.
>
> The policy should include a description of WFC's process for identifying, addressing, and periodically evaluating the impact of its business activities on:
> - lands and natural resources subject to traditional ownership or under customary use;
> - relocation of indigenous peoples from lands and natural resources they have traditionally owned or used; and
> - cultural heritage that is essential to the identity and/or cultural, ceremonial, or spiritual aspects of indigenous peoples' lives.
>
> The policy should include the oversight mechanisms for its continued development, evaluation and implementation, as well as the process by which indigenous peoples are consulted in developing the policy. The policy should describe the process by which the board of directors will monitor implementation of the policy. The policy should be posted on the WFC website by May 2018.

The resolution to **Marathon Petroleum** and **Phillips 66** asks each 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 environmental and social 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 the company has an exit option in DAPL (defined therein as the Dakota Access Pipeline);
> - Whether [the company] will adjust its policies and practices so as to not become entangled with such situations in the future.

SEC action—Three of the recipients of proposals related to the Dakota pipeline have challenges pending before the SEC. Goldman Sachs and Marathon Petroleum are making multiple similar arguments—that the resolution consists of multiple proposals, concerns ordinary business, is not significantly related to its business and is false and misleading because it impugns company employees. Morgan Stanley says only that it concerns ordinary business, while Marathon adds that it was submitted too late. The SEC has yet to respond to any of these challenges.

Withdrawal—The Presbyterian Church (USA) withdrew at Phillips 66 after the company agreed to "work towards disclosing and strengthening the company's human rights and Indigenous rights policies" and to participate in further dialogue in 2017.

Risk assessment & management: ICCR members have been trying to convince companies to conduct detailed evaluations of the risks they face from human rights risks in their operations, invoking the UN Principles on Business and Human Rights, also known as the "Ruggie Principles" after Harvard professor John Ruggie who led the effort to articulate the approach. Just two are pending this year, a resubmission at **Kroger** and a new submission at **Newmont Mining**. The resolution asks for a report by the fall on the

> process for identifying and analyzing potential and actual human rights risks of [the company's] products, operations and supply chain (referred to herein as a "human rights risk assessment") addressing the following:
> - Human rights principles used to frame the assessment
> - Frequency of assessment
> - Methodology used to track and measure performance
> - Nature and extent of consultation with relevant stakeholders in connection with the assessment
> - How the results of the assessment are incorporated into company policies and decision making.

It says the report requested "is separate and distinct from a sustainability report or adoption of human rights policy statement." At Newmont, it adds that the report should include "Actual and/or potential human rights risks identified in the course of the human rights risk assessment (or a statement that no such risks have been identified)."

advocacyposition

REDEFINING HUMAN RIGHTS IN TODAY'S BUSINESS ENVIRONMENT

PAT ZEREGA
Senior Director of Shareholder Advocacy, Mercy Investment Services

In 1948, the United Nations called for the "recognition of the inherent dignity and the equal and inalienable rights of all members of the human family" by adopting the Universal Declaration of Human Rights. Since then, investors have advocated for implementation of this declaration in a variety of codes, guidelines and standards and have called on many companies to develop new corporate human rights policies. At the same time, shareholders have seen some of these policies 'sit on the shelf' or only implemented around one aspect of human rights, while other serious issues affecting the business are left unanswered. Examples include looking only at child labor while torture or prison labor are not addressed, or looking at migrant rights while turning a blind eye to unethical labor recruitment. Recently, one company boasted of winning a human rights award for ten consecutive years. Yet the award recognized diversity in hiring—certainly a part of human rights but not all-encompassing for a multinational corporation. A common agreement on the responsibility of addressing human rights in business operations has been long in coming.

For several years the UN Special Representative for Business and Human Rights, Professor John Ruggie, consulted with businesses, investors and communities to develop a common frame of reference and blueprint for action. The resulting report, "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy,' Framework", and endorsed by the UN Human Rights Council June 2011 organizes these principles in three pillars:

- The State Duty to Protect Human Rights
- The Corporate Responsibility to Respect Human Rights
- The need for greater Access to Remedy for victims of business-related abuse.

Although stakeholders welcomed the framework, they still have difficultly agreeing on how to implement the principles to protect those at risk of harm from corporate actions. The UN Guiding Principles Reporting Framework provides guidance for corporations on:

- Governance of respect for human rights
- Defining the focus of reporting; and
- Management of salient human rights issues.

This framework allows corporations to not only commit to human rights at the highest levels of company governance, but to embed these commitments into everyday language used throughout the company. The need to define salient issues, the geographic area on which to focus and severity of impact move companies to look at the risk faced throughout their entire footprints. Companies must integrate findings into actions and track and disclose performance on the issues including remediation efforts. Over time, reporting will show trends and patterns of impacts for each human rights challenge identified.

With implementation of the guidelines, business should be able to not only address past concerns, but also to improve management of future human rights risks, preserve corporate reputation and improve community relationships. The opportunity to gain access to business opportunities and recruit young leaders who believe corporate responsibility is important is also a hoped-for positive effect. Investors today can use this comprehensive global approach to human rights as their lens.

Fair Food Program: The Congregation of St. Joseph is again asking **Wendy's** to "join the Fair Food Program as promptly as feasible for the purpose of protecting and enhancing consumer and investor confidence in the Wendy's brand as it relates to the purchase of produce," and then report on policy implementation. Last year the same proponent withdrew this resolution given a technical problem with the filing. The previous year, Calvert Investments withdrew a resolution about sustainable agriculture and human rights in the company's supply chain after discussions. (The Fair Food Program is an effort championed by a group called the Alliance for Fair Food, which works to bolster farmworkers' rights.)

Human trafficking: Last year ICCR members made a big push to get trucking companies to help fight the problem of human trafficking, but its efforts seem to be scaled back some this year after successful recruitment of several firms to the group Truckers Against Trafficking. Just one resolution is pending directly on this subject in 2017, with Mercy Investments asking **XPO Logistics** to "prepare a report on the implementation of a program to address human trafficking internally and in its supply chain" and report by October.

expertinsight

NEW TOOLS TO BENCHMARK SUPPLY CHAINS ON FORCED AND SLAVE LABOR

KILIAN MOOTE

Project Director, KnowTheChain

When John Ruggie, former UN Special Representative for Business and Human Rights, introduced the Guiding Principles on Business and Human Rights, he remarked on the state of human rights impact measurement as being "at the end of the beginning." This introduction of the UN Guiding Principles in 2011 established a global framework for business and human rights, a move that created a common language and approach for businesses, investors and stakeholders to address human rights issues.

It was also the prologue for an emerging market of tools to help investors and businesses understand how to prioritize and manage human rights impacts. These tools build upon the Guiding Principles and define actionable business practices to help ensure respect for human rights.

KnowTheChain (KTC) equips investors with an analysis of what 60 companies in high-risk sectors should do to address forced labor in their supply chains. With an estimated 21 million people in slavery around the world today, investors are exposed since forced labor taints every product sold in today's global marketplace. Through a robust research methodology backed by the ESG firm Sustainalytics, and informed by leading NGOs (Business & Human Rights Resource Centre, Humanity United and Verite), KTC provides an assessment of global companies in the apparel and footwear, food and beverage and information and communications technology sectors. It looks at how companies address forced labor in their supply chains by evaluating their commitment and governance, purchasing practices, supply chain transparency, worker engagement, recruitment practices, auditing procedures and remediation efforts. Individual scorecards with company-specific commendations and recommendations are available for each company evaluated. These scorecards enable investors to integrate conversations about forced labor into ongoing dialogues with companies.

In the first year of KTC's existence, both mainstream and faith-based global investors, working in coalitions as well as individually, collectively engaged more than 40 companies. In addition, one investor has begun engagement and is planning to file a resolution with a company that scored zero on the KTC scorecard.

The Corporate Human Rights Benchmark (CHRB) is another new resource, endorsed by a coalition of more than 80 investors with $5 trillion in assets under management. CHRB provides an assessment of 100 companies in the agricultural products, apparel, and extractive industries on their efforts to address human rights issues.

The CHRB and KnowTheChain benchmarks are just two tools that are available today for investors. Others include the UN Guiding Principles Reporting Framework developed by the Shift Project and resources from The Business & Human Rights Resource Centre.

If the establishment of the Guiding Principles for Business and Human Rights signaled the end of the beginning, the emergence of these investor tools is accelerating us to the end goal. These tools make it easy and actionable for any investor to engage, regardless of institutional knowledge or expertise. Only through engagements led by investors will human rights considerations be incorporated into how companies do business.

Technology and privacy: Zevin Asset Management and Trillium Asset Management are each asking the two leading telecommunications companies to address different problems that arise with their technologies. On the one hand, Zevin wanted **AT&T** to report on the company's "progress toward providing Internet service and products for low-income customers." On the other, Zevin also coordinated a proposal from a different sponsor to **AT&T** asking it to review and report

> on the consistency between AT&T's policies on privacy and civil rights and the Company's actions with respect to U.S. law enforcement investigations. This proposal addresses programs in use domestically like Hemisphere. It does not request information on international activity, national security, nor disclosures that would violate any laws.

But the resolutions will not go to votes since the SEC agreed that both address ordinary business issues.

At **Verizon**, however, Trillium asks for a review and report "on Verizon's progress toward implementing its various commitments pertaining to privacy, free expression and data security." The company has challenged the resolution at the SEC, also arguing it concerns ordinary business. Trillium withdrew a similar proposal about government access to private data in 2014 after Verizon agreed to issue semi-annual reports on government information requests. This year's proposal references the company's planned acquisition of **Yahoo**, which has cooperated with U.S. intelligence services to provide customer data. The SEC has yet to respond to the challenge.

Penal system: A resolution from individual proponent Alex Friedmann, a prison rights activist, will not go to a vote at either **CoreCivic** (formerly Corrections Corp. of America) or **GEO Group** because the SEC agreed with the companies' contention it concerns ordinary business. The resolution asked the companies to require "operational audits" by independent organizations of their "correctional and detention facilities" on a staggered bi-annual schedule, examining benchmarks including "rates of violence and use of force incidents, disciplinary and grievance systems, contraband, lockdowns and positive drug tests," excluding financial issues and any "sexual abuse or misconduct to the extent such incidents are subject to separate audits under the Prison Rape Elimination Act." It also asked for public reports on the audits.

Water: Just one of three resolutions from NorthStar Asset Management about the human right to water is still pending. It asks **California Water Service Group**, a first-time recipient, "to create a comprehensive policy articulating our company's respect for and commitment to the human right to water." NorthStar withdrew at **American States Water** after the company agreed to adopt a policy affirming the United Nations human right to water. It also withdrew at **American Water Works** a new proposal that asked for detailed information about "progress toward implementation of the Company's "Commitment to Human Rights," including United Nations' identified rights to safe, sufficient, acceptable, and physically accessible water for personal drinking and sanitation use," recommending the report

> include metrics for each of the preceding three years such as number of:
>
> - customer grievances received;
> - shutoffs completed, including average length of shutoff per customer;
> - customers that have had their water shutoff for longer than 30 days;
> - customers that experienced boil water warnings or other water quality issues, with personal demographics;
> - customers that experienced water shortages.
>
> Shareholders also recommend that the report include, to the extent available, demographics of customers that experienced shutoffs or shortages (e.g. age, race, ethnicity, number of children, elderly or ill in the home, income level).
>
> Finally, the report should discuss company actions or policies to improve its human rights performance on these issues.

The company challenged it at the SEC, noting it was filed too late and arguing it already had been implemented and concerned ordinary business. The company withdrew its challenge and the proponent also withdrew the proposal before any SEC response, but with no agreement.

Other Human Rights

Company	Proposal	Lead Filer	Status
American States Water	Adopt policy on human right to water	NorthStar Asset Management	withdrawn
American Water Works	Report on human right to water performance	NorthStar Asset Management	withdrawn
AT&T	Report on internet products for the poor	Zevin Asset Management	omitted
AT&T	Report on privacy protection oversight	Zevin Asset Management	omitted
California Water Service Group	Adopt policy on human right to water	NorthStar Asset Management	May
CoreCivic (formerly Corrections Corp. of America)	Report on prisoner policies	Alex Friedmann	omitted
GEO Group	Report on prisoner policies	Alex Friedmann	omitted
Goldman Sachs	Report on indigenous peoples policy	As You Sow	May
Kroger	Report on human rights risk assessment	Sisters of St. Francis of Philadelphia	June
Marathon Petroleum	Report on indigenous peoples policy	New York State Common Retirement Fund	April
Morgan Stanley	Report on indigenous peoples policy	As You Sow	May
Newmont Mining	Report on human rights risk assessment	SumOfUs	April
Phillips 66	Report on indigenous peoples policy	Presbyterian Church (USA)	withdrawn
Verizon Communications	Report on technology use and human rights	Trillium Asset Management	May
Wells Fargo	Report on indigenous peoples policy	As You Sow	April
Wendy's	Join the Fair Food Program	Congregation of St. Joseph	May
XPO Logistics	Report on human trafficking policies/practices	Mercy Investment Services	May

MEDIA

A new resolution from Arjuna Capital addresses the problem of "fake news." It asks **Alphabet** and **Facebook** to report

> reviewing the public policy issues associated with fake news (as well as associated hate speech) enabled by Google AdSense Internet advertising mechanisms [or by Facebook]. The report should review the impact of current fake news flows and management systems on the democratic process, free speech, and a cohesive society, as well as reputational and operational risks from potential public policy developments.

Neither company has filed a challenge so far at the SEC but each has time to do so given the June meetings.

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"FAKE NEWS" BUT REAL SHAREHOLDER RISK

FARNUM BROWN
Chief Strategist, Arjuna Capital

Throughout the recent presidential election season, the American media ecosystem was all but drowning in "fake news." *Buzzfeed* reports that in the last three months of the presidential campaign, false headlines generated more social media shares, reactions and comments than the 20 best performing mainstream news stories.

Fake news poses an existential threat to democracy by undermining what Thomas Jefferson famously claimed to be one of its requisites: an informed electorate. If we can't tell real from fake news, then all news, all information, becomes suspect and up for grabs. That way goes the mob.

Fake news is a byproduct of the digital media revolution, which allows anyone with a smartphone to become a global publisher, no credentialing or authentication required.

Two other factors promoted the sudden rise of fake news last year. The first was a white-hot, hyper-partisan political contest where the stakes were as high as they get. Second was the proliferation of digital platforms that provided tools for disseminating and monetizing fake news. Demand and supply.

Facebook and **Google**, the two titans of the internet, have played and continue to play an instrumental, if unwitting and unintentional, role in the spread of fake news—while profiting from it.

Google and Facebook bear a social responsibility to address the threat that fake news poses to democracy. Failure to do so will expose them to the risk of government intervention and regulation, both in the U.S. and abroad.

Facebook and Google also bear a fiduciary responsibility to their shareholders to address the threat that fake news poses to their business models. It is a dire threat to both.

In the past election cycle, 16 percent of Americans considered social media their most important source of election information. If Facebook becomes a dumpster fire of mis- and disinformation, will Americans look to the social media giant in similar or larger numbers come 2020? If Google searches are as likely to turn up fake news as real information, will its billions of users lose trust in it as a reliable resource?

As media and information companies, Facebook and Google have built two of the largest, most successful businesses in human history—and done so in remarkably little time. They've done it by harnessing the power of the internet to make connections. Across time and space. Between people. Between information providers and seekers. If their billions of users lose faith in the connections made on these platforms, Google and Facebook might wither as rapidly as they grew.

Arjuna Capital and Baldwin Brothers are shareholders in both firms. In concert with the non-profit OpenMIC, we've given serious consideration to these issues. We don't underestimate the complexity of the risks posed by fake news or the difficulty of finding suitable responses to mitigate them. Just the opposite. This is why we are asking Facebook and Google to thoroughly review these risks and report their findings to shareholders.

Media

Company	Proposal	Lead Filer	Status
Alphabet	Report on fake news	Arjuna Capital	June
Facebook	Report on fake news	Arjuna Capital	June

Sustainable Governance

The last several years have witnessed a convergence between more traditional concerns about how companies are governed and social and environmental topics. This interest is expressed in proxy season in resolutions about how companies make their social and environmental policy decisions, at the board level, as well as proposals about how companies make themselves accountable to their investors on strategic sustainability issues. This section examines these proposals, 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 DIVERSITY

The 30 Percent Coalition includes senior business executives, national women's organizations, institutional investors, corporate governance experts and board members. It continues to support the board diversity proposals filed by its members, who want

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CRACKING THE GLASS CEILING: IS GENDER DIVERSITY FINALLY BREAKING THROUGH?

HEATHER SMITH

Lead Sustainability Research Analyst, Pax World Management

Many investors have long recognized the benefits associated with gender diversity—including superior financial performance, improved decision-making and oversight—and have engaged in a variety of initiatives aimed at increasing the representation of women across all professional levels, from entry-level positions to the C-suite and boardroom. A few investors, including Pax World, have been working to advance greater gender diversity on boards and in senior management for decades, and several developments indicate that these efforts are finally breaking through.

New Research

McKinsey bolstered the business case for diversity, reporting that the global economy could be between $12 trillion and $28 trillion larger in 2025 if gender gaps were reduced or eliminated. The Credit Suisse Research Institute's latest report found that having more women on boards and in senior management generates higher returns on equity, while still having more conservative balance sheets, and that companies with at least one woman on the board outperformed the group with no women for over 10 years, from 2006 through mid-2016. Morgan Stanley found that companies with high gender diversity had better financial performance (return on equity) and lower volatility than less diverse peers over a five-year period.

CEOs, through the Business Roundtable's 2016 Principles of Corporate Governance, linked board diversity with improved board performance and the creation of long-term shareholder value and called on Boards to develop a framework for identifying appropriately diverse candidates that allows the nominating/corporate governance committee to consider women and/or minority candidates for each open board seat.

More Women on Boards

Following a series of board diversity campaigns coordinated by the Thirty Percent Coalition's Institutional Investor Committee since 2012, over 100 companies have added women to their boards. According to the 2016 Spencer Stuart Board Index, the number of S&P 500 boards with no women dropped to six, the lowest ever, while women are being appointed to boards at increasing rates, accounting for 32 percent of new independent directors in 2016, up from 21 percent in 2011.

Despite these developments, progress remains painfully slow. Women account for just 21 percent of S&P 500 directorships while the share of minority directors among the boards of the top 200 S&P 500 companies is unchanged since 2011, standing at just 15 percent.

In response, investors are broadening the scope of their engagements, focusing resolutions and dialogues at companies not just with no diversity, but those with little gender and racial board diversity, and are asking for assessments of progress and challenges toward improved diversity. Investors are also closely examining director tenure, viewing board refreshment and routine director evaluation as a way to promote diversity and bring new insights and expertise to boards.

In an environment where there is no real threat of quotas, the role of investors has never been more critical in advancing board and executive diversity. It will require the combined efforts of many to disrupt the business as usual scenario of waiting until 2055 to achieve gender parity on boards.

boards to include more women and minority members on boards or to report on their related policies. A striking feature of the campaign this year is that a number are aimed at a group of small cap companies in the Midwest, not the typical target of shareholder resolution campaigns.

Adopt diversity policy: The UAW Retirees' Medical Benefits Trust is asking ten companies to adopt a version of the "Rooney Rule" used by the National Football League to boost the number of minority head coaches. It wants **Chimera Investment**, **Knowles**, **Littelfuse**, **Marten Transport**, **Metaldyne Performance Group**, **NACCO Industries**, **Rockwell Medical**, **SPS Commerce**, **Tile Shop Holdings** and **TransDigm Group** to adopt a policy:

> requiring that the initial list of candidates from which new management-supported director nominees are chosen (the "Initial List") by the Nominating and 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.

Miller/Howard has proposed the same thing to **Continental Resources** and Trillium Asset Management also plans a board diversity proposal at **Xilinx**, which meets later in the year.

NorthStar Asset Management has a version that asks six companies—**A.O. Smith**, **Badger Meter**, **CVS Health**, **IDEX**, **IBM** and **Johnson & Johnson** to adopt a 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.

NorthStar also wants **Costco** to

> commit to increasing the diversity of gender and race on the Board of Directors so that the composition of the Board more closely aligns with the population demographics of Costco stakeholders such as customers and employees, and report to shareholders by December 2017…on the new, specific action steps the company intends to put in place for increasing board diversity.

Individual investor Antonio Maldonado has returned to **Apple** with his resolution that asks for

> an accelerated recruitment policy requiring Apple Inc. (the "Company") to increase the diversity of senior management and its board of directors, two bodies that presently fail to adequately represent diversity and inclusion (particularly Hispanic, African American, Native American and other people of color).

The proposal is a resubmission from 2016, when it earned 5.1 percent support. In 2014, The Sustainability Group withdrew a similar resolution after Apple agreed to strengthen its language about seeking out diverse board members.

Reporting on diversity policy: Proponents have filed nine more board diversity reporting proposals, asking companies to report. Trillium, Calvert and Walden have asked **Dentsply Sirona**, **Hub Group** and **Zillow** to report on:

> 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.

The Nathan Cummings Foundation wants **Discovery Communications** to provide a similar report by September on the same steps. Oxfam America asked **Pilgrim's Pride** and **Tyson Foods** to report as well, by April 2018, on steps they are taking "to foster greater diversity on the Board over time, including but not limited to" the same steps noted above. The proponent also is concerned about working conditions, adding a different angle than usual for board diversity resolutions. It earned 2.4 percent at Tyson's.

Withdrawals—One variation included a stripped-down version of the resolution at **Whole Foods Market** that asked for a report by the end of the year "on new, specific action steps the company intends to put in place for increasing board diversity." NorthStar withdrew after an agreement with the company, which pledged to add a new section to its corporate governance principles on board refreshment, and it will during each search seek women and minority candidates. The firm also withdrew at **Costco** after discussions with the chair of the nominating committee; the company will provide updates on its search for diverse board nominees. Additional resolutions have been withdrawn by the proponents after agreements, as well *(see chart p. 61 for a list)*.

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 or suggesting specific types of committees are needed to properly oversee complicated sustainability issues. This year, these types of suggestions address environmental, social and sustainability matters as well.

Environment

The most popular idea for proponents in the environmental area is to suggest companies add an environmental expert to the board. **ExxonMobil** fulfilled a request to do just that when it added Dr. Susan Avery, an atmospheric scientist and climate change expert, to its board—prompting the Midwest Capuchins and co-proponents to withdraw. The proposal was a resubmission from 2016 and 2015 and earned 20.9 percent support each year. A resolution is still pending at **Chevron**, **Dominion**, **PNM Resources** and **Walmart Stores**, however.

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 18.7 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% 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.

Joy Loving again is trying a very similar approach at **Dominion Resources**, requesting the nomination of an independent director using the definition above. The resolution earned 19.1 percent in 2016. In 2015, Dominion successfully challenged a similar proposal but it went to a vote last year after revisions. While the resolved clause does not specify that the proposed expert have environmental expertise, the body of the resolution makes clear this is Loving's intent.

At **PNM Resources**, the proposal is a little different. It 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 by December 2017." The proponent, Edith Homans, withdrew after a company challenge at the SEC that contended the resolution is moot since the board already considers climate change risks.

At **Walmart**, the union-connected Organization United for Respect has a new request for the company about the environment and supply chains, asking for the nomination of:

> at least one candidate for election to the board at the next annual meeting of shareholders who:
>
> - has a high level of expertise and experience in environmental matters relevant to global supply chains. transportation or energy efficiency and is widely recognized in the business and environmental communities as an authority in such field…and
> - will qualify, subject to exceptions in extraordinary circumstances explicitly specified by the board, as an independent director…provided, however, that no director shall be considered independent if he or she has had a financial relationship with an organization that has received, in any year in the previous three years, more than $100,000 from Walmart's majority shareholders. a member of the Walton family or the Walton Family Foundation.
>
> The nomination should be made in a manner that does not affect the unexpired term of any director.

Walmart is contending at the SEC that the proposal would cause the company to violate the law, contrary to the shareholder proposal rule, since it would require specific director characteristics.

Social Issues

Trillium Asset Management is asking two drug companies—**Merck** and **Zimmer Biomet Holdings**—about board oversight of product safety. It calls for a report

> evaluating the merits and feasibility of [the company] (1) strengthening Board expertise in pharmaceutical manufacturing and product quality and safety, (2) adopting an independent board chair leadership structure, and (3) any other related governance improvements the Board wishes to consider. The report should include sufficient information for investors to assess the quality of the evaluation and should provide the Board's recommendations.

The Episcopal Church would like **Caterpillar** to

> nominate for Board election 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…

It uses the same definition of independence as the environmental expert proposals. ICCR members and other critics have longstanding concerns about human rights at the company connected with the sale of its equipment to regimes such as that in Sudan that are implicated in genocide as well as equipment like bulldozers used to clear Palestinian homes by the Israeli government.

At **Philip Morris International**, the Midwest Capuchins want a board level committee that will

> review, adapt, and monitor the Company's human rights policy to ensure that its global and national lobbying and marketing practices, as well as those of industry bodies to which it belongs, are not undermining efforts of sovereign countries to protect their citizen's health. This Review Committee shall report its findings annually in conjunction with PMI's annual meeting.

A similar proposal in 2012 earned 3.5 percent support.

Sustainable Governance

Company	Proposal	Lead Filer	Status
Board Diversity			
A.O. Smith	Adopt board diversity policy	NorthStar Asset Management	withdrawn
Apple	Adopt board diversity policy	Antonio Maldonado	4.9%
Badger Meter	Adopt board diversity policy	NorthStar Asset Management	withdrawn
Chimera Investment	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	withdrawn
Continental Resources	Adopt board diversity policy	Miller/Howard Investments	May
Costco Wholesale	Adopt board diversity policy	NorthStar Asset Management	withdrawn
CVS Health	Adopt board diversity policy	NorthStar Asset Management	withdrawn
DENTSPLY Sirona	Report on board diversity	Trillium Asset Management	May
Discovery Communications	Report on board diversity	Nathan Cummings Foundation	May
Hub Group	Report on board diversity	Walden Asset Management	May
IDEX	Adopt board diversity policy	NorthStar Asset Management	withdrawn
International Business Machines	Adopt board diversity policy	NorthStar Asset Management	withdrawn
Johnson & Johnson	Adopt board diversity policy	NorthStar Asset Management	withdrawn
Knowles	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	May
Littelfuse	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	withdrawn
Marten Transport	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	withdrawn
Metaldyne Performance Group	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	May
NACCO Industries	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	May
Pilgrim's Pride	Report on board diversity	Oxfam America	April
Rockwell Medical	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	June
SPS Commerce	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	withdrawn
Tile Shop Holdings	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	July
TransDigm Group	Adopt board diversity policy	UAW Retiree Medical Benefits Trust	withdrawn
Tyson Foods	Report on board diversity	Oxfam America	2.4%
Whole Foods Market	Report on board diversity	NorthStar Asset Management	withdrawn
Zillow Group	Report on board diversity	Calvert Investment Management	June
Board Oversight			
Applied Materials	Take action on board human rights oversight	Jing Zhao	omitted
Caterpillar	Nominate human rights expert to the board	Episcopal Church	June
Chevron	Nominate environmental expert to board	New York State Common Retirement Fund	May
Coca-Cola	Establish board committee on sustainability	Harrington Investments	withdrawn
Dominion Resources	Nominate environmental expert to board	Joy Loving	May
ExxonMobil	Nominate environmental expert to board	Midwest Capuchins	withdrawn
Merck	Adopt board oversight of product safety	Trillium Asset Management	May
PepsiCo	Establish board committee on sustainability	Harrington Investments	withdrawn
Philip Morris International	Establish board committee on tobacco marketing	Midwest Capuchins	May
PNM Resources	Adopt board oversight of climate change	Dee Homans	withdrawn
Walmart Stores	Nominate environmental expert to board	Organization United for Respect	June
Zimmer Biomet Holdings	Adopt board oversight of product safety	Trillium Asset Management	May

Continued on next page

Sustainable Governance (continued)

Company	Proposal	Lead Filer	Status
Reporting			
A.O. Smith	Publish sustainability report	Trillium Asset Management	withdrawn
Acadia Healthcare	Publish sustainability report	Calvert Investment Management	May
Ameriprise Financial	Publish sustainability report	Friends Fiduciary	April
Assurant	Publish sustainability report	New York State Common Retirement Fund	May
Chipotle Mexican Grill	Publish sustainability report	Domini Social Investments	May
Emerson Electric	Publish sustainability report	As You Sow	withdrawn
Ensign Group	Publish sustainability report	Calvert Investment Management	May
Goldman Sachs	Disclose ESG reporting audience	Harrington Investments	omitted
IntercontinentalExchange	Publish sustainability report	Domini Social Investments	May
Kinder Morgan	Publish sustainability report	New York State Common Retirement Fund	May
Kraft Heinz	Publish sustainability report	Midwest Capuchins	May
Middleby	Publish sustainability report	Trillium Asset Management	May
Monster Beverage	Publish sustainability report	CalSTRS	Oct.
Netflix	Publish sustainability report	New York State Common Retirement Fund	June
Nordson	Publish sustainability report	Needmor Fund	withdrawn
Oceaneering International	Publish sustainability report	Walden Asset Mgt.	withdrawn
PayPal	Publish sustainability report	New York State Common Retirement Fund	May
Pioneer Natural Resources	Publish sustainability report	New York State Common Retirement Fund	May
Texas Roadhouse	Publish sustainability report	Calvert Investment Management	May
Time Warner	Report on work to support SDGs	Trinity Health	June
Torchmark	Publish sustainability report	Friends Fiduciary	April
Pay Links			
Amazon.com	Link executive pay to sustainability metrics	Mercy for Animals	May
Chipotle Mexican Grill	Link executive pay to sustainability metrics	Clean Yield Asset Management	withdrawn
ConocoPhillips	Link executive pay to sustainability metrics	Unitarian Universalists	May
Devon Energy	Link executive pay to sustainability metrics	As You Sow	June
Discovery Communications	Link executive pay to sustainability metrics	Clean Yield Asset Management	May
Expeditors International of Washington	Link executive pay to sustainability metrics	Sonen Capital	May
RE/MAX Holdings	Link executive pay to sustainability metrics	Heartland Initiative	omitted
TJX	Link executive pay to sustainability metrics	NorthStar Asset Management	June
Walgreens Boots Alliance	Link executive pay to sustainability metrics	Clean Yield Asset Management	23.1%
Wells Fargo	Link executive pay to sustainability metrics	Unitarian Universalists	withdrawn
Proxy Voting			
Bank of New York Mellon	Review and report on proxy voting	Daniel Altschuler Trust	April
BlackRock	Review and report on proxy voting	Center for Community Change	May
BlackRock	Review and report on proxy voting	Trillium Asset Management	May
Franklin Resources	Review and report on proxy voting	Zevin Asset Management	4.5%
JPMorgan Chase	Review and report on proxy voting	Walden Asset Management	May
T. Rowe Price Group	Review and report on proxy voting	Zevin Asset Management	April

One of the social issues proposals has been omitted. It was from Chinese human rights activist Jing Zhao and asked **Applied Materials** to "improve the role and authority of the Human Resources and Compensation Committee to include multiple independent experts or sources to review and advise our executive compensation program philosophy." The SEC agreed the resolution already had been implemented.

Sustainability

Harrington Investments has withdrawn a resolution to **Coca-Cola** and **PepsiCo** that asked for

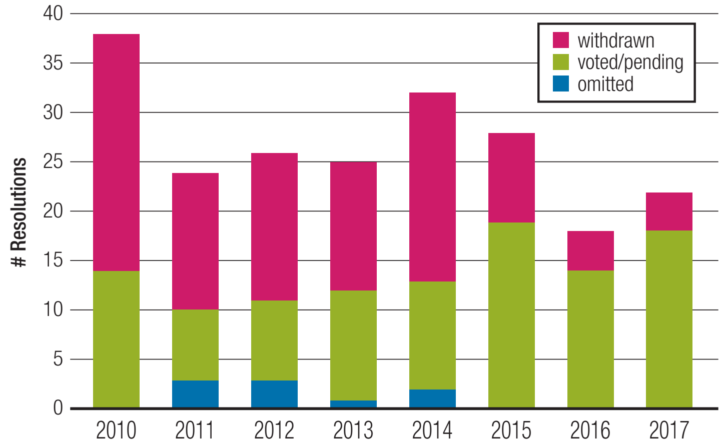
> a new Committee on Sustainability to bring priority attention to our company's vision and responses to important matters of public policy regarding sustainability. Such committee should engage in ongoing review of corporate policies. above and beyond matters of legal compliance, to assess the Corporation's response to changing conditions and knowledge of the natural environment, including but not limited to waste creation and disposal, natural resource limitations, energy use, waste usage, water use and degradation, and climate change. Such committee should also at least meet annually and review, evaluate, and make recommendations.

Coca-Cola amended the charter of its board Public Issues and Diversity Committee to explicitly include oversight of sustainability goals and progress towards reaching them, prompting the withdrawal. Coke had challenged the resolution at the SEC, arguing it was moot. Harrington also withdrew at Pepsi after an agreement.

REPORTING AND IMPLEMENTATION

After a dip last year, the number of sustainability reporting resolutions has risen some for 2017; 18 are now pending and four have been withdrawn. Sustainability reporting in corporate America has become increasingly common, leading proponents to file less generalized proposals; the number of reporting requests has fallen from its high of 39 in 2010. A big drop in agreements between proponents and companies that began in 2015 continued last year, however, yielding only four agreements out of 18 filings; previously, two-thirds of the reporting proposals filed ended up withdrawn after agreements. *(See chart, right.)*

Sustainability Reporting Resolutions Since 2010



(excludes 3 not voted for other reasons)

Ten resolutions seek executive pay links to sustainability metrics, about the same as last year. One new pay link proposal suggests that diversity metrics should be used in bonus decisions, while two suggest explicit links to climate change issues; the others are more general.

Making explicit links between mutual funds' stated corporate policies and how this is translated into votes on ESG shareholder resolutions is again an issue, regarding climate change at five companies and regarding LGBT rights at **BlackRock**.

The current campaign by the Corporate Reform Coalition to persuade the **Vanguard** mutual funds to support resolutions on political spending disclosure, noted in the section above on Political Activity, exemplifies the attention some now are paying to the role of proxy voting as a component of reform campaigns. It puts more focus on the role investment industry intermediaries play in persuading companies to adopt more sustainable business practices, which is of special interest to investors whose shareholdings are in pooled investment vehicles that do not allow for direct voting of their shares on public policy issues discussed in this report. It also is part of a larger debate over how investment managers can reflect the values of their clients in investment decisions more broadly and their role, if any, in engagement with companies on subjects they traditionally eschewed—and a sign of how ESG concerns are beginning to be integrated into the financial services industry.

Reporting

All the reporting proposals 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. Five ask specifically about climate change metrics, while the issues of safety, privacy, energy and waste each are mentioned twice. Other concerns mentioned once are human and indigenous rights, nutrition and water. In varying formulations, the resolutions ask for quantification of these metrics and assessments of related risks and opportunities perceived by the companies.

Only five of the proposals are resubmissions. Similar resolutions at those repeat companies earned 29.5 percent last year at **Acadia Healthcare**, 43.5 percent at **Chipotle Mexican Grill**, 37.4 percent at **Ensign Group**, 29 percent at **IntercontinentalExchange** and 34.1 percent at **Kinder Morgan**.

SEC action: In the sole company challenge, **Middleby** unsuccessfully argued that its current discussion of climate change in its 10-K and a sustainability report made the resolution moot. The SEC disagreed.

Withdrawals: So far, proponents have withdrawn four resolutions. **Emerson Electric** investors had seen a request for a sustainability report annually since 2011 and gave it increasing levels of support, peaking last year at 47.3 percent. The company now has agreed to the report. **Oceaneering International** and **Nordson** also will provide the requested report. Finally, Trillium says it withdrew at **A.O. Smith** "after learning of a number of steps the company is taking to mitigate environmental impact and based on a commitment to enhance reporting and continue dialogue in 2017."

Stock exchanges: The resolution to **InterContinental Exchange** is a little different, asking for a report "assessing the current global expectations by investors for ESG market disclosure," and its "recommended steps (if any, or its reasons for declining to make recommendations, if any) for encouraging ESG disclosure in the markets where Intercontinental Exchange, Inc. does business."

In addition to the reporting proposals, two other resolutions touch on sustainability. One from Harrington Investments will not go to a vote. It asked **Goldman Sachs** to report on the intended audience for its sustainability reporting, picking up a suggestion raised in an academic paper, but the SEC agreed this concerns ordinary business.

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SHAREHOLDER ENGAGEMENT DRIVES SUSTAINABILITY REPORTING AT EMERSON ELECTRIC

ANITA GREEN

Manager, Sustainable Investment Strategies, Wespath Investment Management

MARY MINETTE

Director of Shareholder Advocacy, Mercy Investment Services

Wespath Investment Management and Mercy Investment Services, as institutional investors committed to the integration of sustainable business practices, expect companies to provide disclosure about relevant environmental, social, and governance (ESG) issues. Sustainability reports are a way for companies to deliver this information, which investors use to assess ESG-related risks and opportunities. In 2016, after several years of engagement, **Emerson Electric** published a detailed Corporate Social Responsibility report.

Emerson issued its report in response to a shareholder resolution co-filed by Wespath and Mercy that received more than 47 percent support at the company's 2016 annual shareholder meeting. This represented a significant increase from the previous year's 39 percent vote and was a clear signal that investors want sustainability disclosure.

Sustainability Reporting Benefits Emerson

Emerson Electric is a leader in producing energy efficient industrial machinery. Many of the company's products help its customers achieve their objectives for reducing their carbon footprints. Emerson has invested nearly two-thirds of its research and development budget in energy efficient products and technologies, and stated an intention to operate its facilities while protecting the environment and reducing waste. However, the company had not previously provided a comprehensive sustainability report covering issues such as labor rights, environmental management and supply chain management. Hence, investors and analysts had insufficient data to develop a thorough understanding of the company's ESG-related performance.

Investors felt that Emerson's limited disclosure was not keeping pace with market developments. Emerson's primary competitors—including **General Electric**, **ABB** and **Schneider Electric**—already publish detailed sustainability data and reports, and its customers are increasingly requiring their suppliers to provide ESG performance data. The 125-year-old company recently reorganized, reducing its size by one-third and streamlining its business units. Throughout the process, investors encouraged Emerson to use the restructuring as an opportunity to establish baselines for new sustainability goals and performance measurement systems.

The original shareholder resolution was filed by Walden Asset Management and had appeared on Emerson's ballot for six years. Wespath and Mercy initially re-filed their resolution in 2017, but withdrew it when Emerson issued its report in late 2016. We met with company officials to discuss the report and provide feedback, and they intend to continue the conversation, supporting Emerson's use of sustainability information to achieve its strategic objectives.

Business Case for Sustainability Reporting

Sustainability reporting is widely accepted and expected among investors today. In 2015, the CFA Institute, an association of global investment professionals, published results of a survey regarding the use of ESG factors among 1,325 portfolio managers and research analysts. Among the findings, respondents said:

- 63 percent: Consider ESG factors in the investment decision making process to help manage investment risks
- 61 percent: Public companies should be required to report at least annually on ESG factors
- 44 percent: Demand ESG data from companies
- 38 percent: ESG is a proxy for management quality

Another resolution is from Trinity Health and asks **Time Warner** to explain how it is working to support the Sustainable Development Goals articulated by the United Nations, particularly with respect to tobacco use. It asks for "a report describing how the company will assure shareholders that its policies and practices are advancing and not undermining the Sustainable Development Goals." Despite the broad nature of the resolved clause, the resolution makes clear it is focused on smoking and tobacco use depicted in films and TV made available via Time Warner's businesses and the company is contending at the SEC that it concerns ordinary business, is similar to a previous tobacco-related proposal that did not earn enough for resubmission and is too vague. An omission seems likely.

ESG Pay Links

There are ten proposals in 2017 about linking sustainability metrics to executive compensation. At seven companies, the resolution is the same. It asks **Amazon.com**, **Chipotle Mexican Grill**, **Discovery Communications**, **Expeditors International of Washington**, **RE/MAX Holdings**, **Walgreens Boots Alliance** and **Wells Fargo**,

> when setting senior executive compensation, [to] include sustainability as one of the performance measures for senior executives under the Company's incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term.

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SMART BUSINESS: MAKING SUSTAINABILITY A FACTOR IN CEO PAY

JONATHAN SCOTT

President & Director, Singing Field Foundation

SHELLEY ALPERN

Director of Social Research and Advocacy, Clean Yield Asset Management

Singing Field Foundation's 2015 resolution asking **Walgreens Boots Alliance's** compensation committee to link their top executive pay to sustainability metrics got support from fewer than 6 percent of shareholders. Yet by 2017, support had quadrupled for a similar proposal, co-filed by Clean Yield and an individual proponent, which garnered 23 percent of shareholders' votes. Sustainability metrics are an idea whose time has come as more investors are recognizing the benefits of sustainable practices and the importance of incentivizing them.

Seven proposals seeking to integrate sustainability metrics into executive pay will be on the ballot this year, including at **Discovery Communications** and **Expeditors International**. Two others were withdrawn at **Chipotle** and **Wells Fargo** when both companies agreed to disclose more information to shareholders about their views and policies on this topic.

Linking compensation to sustainability performance is one of several increasingly popular sustainability governance mechanisms that can add triple-bottom-line value for companies—encompassing financial, social and environmental gains. Other such mechanisms include creating or designating a board committee to oversee sustainability matters and producing comprehensive sustainability reports. Our reasons for focusing on compensation include:

- The possibility that a company that aspires to make its operations more sustainable—but fails to create system wide financial incentives that start at the top—may be perceived as insincere in its commitments, and could likely see slower progress toward sustainability goals.
- Companies that demonstrate sustainability excellence—especially in Walgreens Boots Alliance's consumer, health and personal care products market—tend to outperform the competition.
- Using sustainability goals, metrics and regular, transparent reporting can help to accelerate progress and marketplace advantage synergistically.
- Undertaking the process of defining sustainability goals and metrics can create opportunities for diverse internal and external stakeholder dialogue and input, which can spur innovation and progress on sustainability and financial performance.

Each company that adopts this compensation linkage to sustainability creates momentum for broader adoption of this commonsense practice. As mission-driven investors, we want to promote changes that affects our own investments, and we want to change the larger business paradigm.

Compensation policies incorporating sustainability metrics are not yet the norm, but more companies are adopting them. Of the handful of such proposals that went to a vote in 2016, those that called for feasibility studies on making the compensation linkage received the endorsement of Institutional Shareholder Services (ISS), the influential proxy voting advisory firm. However, the ISS endorsement of the 2017 Walgreens Boots Alliance proposal represents, to our knowledge, the first time ISS has endorsed a proposal of this nature at a company where it concurrently recommended a vote in favor of the firm's broader executive compensation package.

This represents encouraging progress moving this sensible approach farther into the mainstream. The fact that this happened—in part because a foundation, an individual and a management firm engaged with the company—highlights how any shareowner can initiate a successful engagement.

We look forward to working with Walgreens Boots Alliance and with the other companies to advance this concept and help drive real-world progress on energy, climate, materials, water, toxics and other sustainability priorities.

BIG FUNDS FEELING HEAT OVER CLIMATE PROXY VOTES

TIMOTHY SMITH
Director of ESG Shareowner Engagement, Walden Asset Management

The issue of who and how investors vote their proxies in the last year has become a controversial and high profile issue. Why?

Proxy voting may seem somewhat routine, but when the focus is on climate change, executive pay, diversity or exploitative working conditions in overseas factories, it suddenly becomes much more relevant and dramatic. This has prompted a debate about how some of the world's largest investment managers exercise their voices and vote on the crucial issue of climate change.

Each year Ceres and Fund Votes publishes a study charting how major investment managers vote their shares on a cross section of climate-related shareholder resolutions. This study and public commentary highlight multiple firms like **Goldman Sachs**, **Wells Fargo**, **State Street** and **TIAA** with a forward looking voting record on climate resolutions and contrasts them to firms which vote AGAINST virtually all or all such resolutions. These include **BlackRock**, **Vanguard**, **JP Morgan** and **Bank of NY Mellon**, among others.

Ironically, the funds that ranked lowest on supporting climate proxy votes did vote "yes" on climate resolutions filed at **Shell** and **BP**. Those resolutions urged a study on the impact of climate change on the companies and how they would transition to a world where the temperature rise was kept to below two degrees Celsius (in keeping with the Paris Agreement goal). But they voted in favor because Shell and BP endorsed the resolution and the need for the study, producing votes in the high 90 percent range. Yet when faced with virtually the same resolution at **ExxonMobil** and **Chevron**, these same firms returned to voting "no."

Several U.S. investors responded last year with shareholder resolutions seeking a review and explanation of proxy vote inconsistencies. In response, BlackRock, JP Morgan and Vanguard all have added new personnel to their staffs but so far they have indicated no public interest in changing their proxy voting records on climate. In addition, other investors have filed resolutions on how the firms vote on executive compensation and LGBT non-discrimination.

We believe the combined public pressure on these industry giants can stimulate change. Press attention in Europe and the U.S. also has risen. And, of course, the argument of consistency is powerful since all these companies have studied and spoken out on carbon risk—with limited effect on the proxy voting departments.

Several years ago, State Street and **Northern Trust** were ranked at the bottom of the climate voting list as well, but after careful scrutiny of the climate risk issue they changed course and have voted for a significant number of climate resolutions in the last few years. It is harder and harder to argue that climate change is not a risky and financially material issue. It requires investors and investment firms to act vigorously and rapidly convey to companies they own that they need their leadership in addressing climate change.

More specific climate related resolutions are up for consideration at two energy companies. At **ConocoPhillips** the proposal from the Unitarian Universalists asks for an annual report

> on the extent to which ConocoPhillips' incentive compensation programs for senior executives promote resilience to low-carbon scenarios associated with efforts to limit global temperature rises to below 2 degrees Celsius ("2° Scenarios"), including the ways in which those programs:
>
> - Align performance measurement and vesting periods, on the one hand, and the time horizon of risk associated with investment decisions, on the other;
> - Link the amount of incentive pay to the volume of fossil fuel production or exploration;
> - Reward, or not penalize, consideration of demand reductions projected in 2° Scenarios when allocating capital, especially to projects with higher break-even prices; and
> - Encourage the development of a low-carbon transition strategy.

At **Devon Energy**, the request is not as detailed; The George Gund Foundation 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."

Diversity is the focus at **TJX**, where NorthStar Asset Management is continuing an approach from last year asking that the board compensation committee,

> when setting CEO compensation, include metrics regarding diversity among senior executives as one of the performance measures for the CEO under the Company's annual and/or long-term incentive plans. For the purposes of this proposal, "diversity" is defined as gender, racial, and ethnic diversity.

Proxy Voting

Proponents, led by Walden Asset Management, have refocused efforts to get large mutual fund companies to incorporate ESG metrics into their proxy voting policies, but they have not had too much success in persuading the SEC this transcends ordinary business. Nonetheless, the effort continues.

This year there is one new twist in a resolution from Trillium Asset Management at **BlackRock**, which asks for a report on the firm's proxy voting

> on workplace LGBT non-discrimination policy shareholder resolutions…[and] assess any inconsistencies between BlackRock's proxy voting record, policies, and guidelines on workplace LGBT non-discrimination shareholder resolutions and the company's public position and internal policies on this issue. It should list all instances of votes cast that may reasonably appear to be inconsistent, and provide explanations of the incongruence. The report should cover the company and its subsidiaries, and the proxy voting records of the previous year. The report should discuss measures the company can adopt to help improve such consistency.

All the other proposals question the mutual funds' voting on climate change resolutions. **Bank of New York Mellon** should "review proxy votes appearing inconsistent with the company's climate change positions and scientific consensus, and provide explanations of the incongruence. The report can also review future steps to enhance congruency between climate policies and proxy voting."

BlackRock, **JPMorgan Chase** and **T. Rowe Price** should "initiate a review and issue a report on our proxy voting policies and practices related to climate change…"

Franklin Resources was asked again to

> review and evaluate consistency between the company's focus on climate change as a sustainability issue, and its proxy voting practices for FR and its subsidiaries within the last year….
>
> This assessment should review votes cast that appear to be inconsistent with the company's emphasis on climate change as a sustainability issue and explain the incongruency. The report should also discuss policy measures that the company may adopt to help enhance congruency between climate policies and proxy voting, including how risks are managed through engagement with investee companies.

The proposal again earned 4.5 percent, as in 2016. It also is similar to one that Franklin successfully challenged in 2015 on ordinary business grounds.

Other Governance

Resolutions on proxy access and executive compensation straddle the line between traditional governance proposals (focused on management) and environmental and social proposals.

For the third consecutive year, the biggest issue is the fight to allow shareholders to put director nominees on the company's proxy statement. The goal is to make the board of directors more accountable and to ensure that shareholder's interests are being properly represented. Yet in many cases, companies are being targeted based on ESG considerations including board diversity, high carbon footprint and excessive executive compensation.

Shareholder activists were key players in the successful fight to attain what is now a required advisory vote on executive compensation known as say-on-pay. For the last few years these proposals have received very high votes leading to criticism that pension and mutual fund managers are rubber-stamping excessive CEO pay packages. Yet this year we are seeing a backlash from some of the largest investors in what will be an interesting trend to watch.

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SHAREHOLDERS WINNING THE RIGHT TO NOMINATE DIRECTORS

MICHAEL GARLAND

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

In a continuation of the Boardroom Accountability Project launched in fall 2014, New York City Comptroller Scott Stringer, on behalf of the NYC Pension Funds, submitted proxy access proposals to more than 70 companies for the 2017 proxy season. By enabling shareowners to nominate directors using the company ballot provided to all shareowners, proxy access provides investors with an important tool to make boards more diverse, climate-competent, independent and accountable.

More than **350 U.S. companies** have now enacted bylaws providing proxy access to shareowners holding at least 3 percent of the shares for three years, up from only six companies when the project launched in fall 2014. They include more than 40 of the most carbon-intensive energy firms in the U.S., whose boards must oversee the transition to a low-carbon economy consistent with the global commitments in the Paris Agreement.

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SHAREHOLDERS WINNING THE RIGHT TO NOMINATE DIRECTORS
Continued

The mere prospect of a proxy access nominee is likely to prompt these boards to be more responsive to investor concerns, particular with respect to board diversity and climate competency. In January 2017, for example, two months after **ExxonMobil** enacted proxy access, the company named Dr. Susan Avery to its board. She is an atmospheric scientist with climate change expertise.

Consistent with criteria used in 2015 and 2016, the NYC Pension Funds' 2017 focus list includes companies with little or no apparent gender or racial diversity on their boards, companies with excess CEO pay and carbon-intensive energy companies. It also includes companies with inadequate gender diversity in their C-suite, companies that have not disclosed their greenhouse gas emissions and those with other governance concerns.

In contrast to 2015, when nearly all of the NYC Pension Funds' 75 proxy access proposals went to a vote, most 2017 proposals are on track to be settled and withdrawn. While reflexive opposition to proxy access has receded in many boardrooms, **Humana**, **IBM** and **Netflix** are among the unresponsive companies where proposals likely will go to a vote in 2017.

This company-by-company effort to enact proxy access in the U.S. has taken on added significance following the November 2016 elections. Rather than advocating for new federal rules to enhance disclosure of board diversity, climate change risks and corporate political spending, among other risks, investors now confront mounting legislative and regulatory efforts to rollback existing corporate regulations, disclosure rules and investor rights.

In the absence of effective regulations to protect investors, board quality and accountability become paramount and proxy access rights become even more essential.

expertinsight

MAJOR INVESTORS SPEAK OUT ON ESCALATING CEO PAY

ROSANNA LANDIS WEAVER
Program Manager, Executive Compensation Initiative, As You Sow

Will 2017 be the year that large money managers begin to cast more votes against executive pay? *As You Sow* has just published its third annual study of Overpaid CEOs, and again this year we found that the funds with the most voting power seem to be the most reluctant to use it.

In our study, large funds including **TIAA**, **Vanguard**, **Lord Abbett**, **Fidelity**, **Blackrock** and **Norges** are among the least inclined to vote against high pay packages. Could that be about to change? There are some hopeful signs.

For years funds didn't question the level of pay if it was even nominally tied to performance. Now several of the largest are explicitly countering that stance. For instance, CEO Yngve Slyngstad of Norges (the central bank of Norway and the manager of the world's largest sovereign wealth fund) has been speaking out more on the issue. In a May 2016 article, *Norwegian wealth fund to focus on executive pay at AGMs*, Slyngstad said, "We have so far looked at this in a way that has focused on pay structures rather than pay levels. We think, due to the way the issue of executive remuneration has developed, that we will have to look at what an appropriate level of executive remuneration is as well."

Further, in May 2016 **State Street Global Advisors** (SSGA) sent its portfolio companies the report *Guidelines for Mitigating Reputational Risk in C-Suite Pay*. SSGA says it "developed a screen to identify companies that may be building up reputational risk due to the current quantum of C-Suite compensation." A new screen focused on such companies adds to its "growing suite of proprietary ESG screens developed to help identify companies for engagement and proxy voting."

The head of Blackrock's investment stewardship in Europe, Amra Balic, wrote to 300 U.K. companies and noted: "Pay should only be increased each year, if at all, at the same level of the wider employee base, and in line with inflation." According to a January 2017 article in *The Guardian*, the letter also noted, "In case of a significant pay increase year-on-year that is out of line with the rest of the workforce, BlackRock expects the company to provide a strong supporting rationale. Large increases should not be justified principally by benchmarking."

Finally, **Capital Group**, whose holdings of $1.4 trillion make it one of the largest holders of U.S. stock, oversees the big American Funds mutual fund family and it also has sharpened its public critique as well as the frequency of its votes against pay packages. Alan Berro, senior portfolio manager at Capital Group, told Reuters, "There has been this continued escalation where everybody wants to be in the upper quartile. Once one guy raises it, they all want those raises, and we are willing to say no."

Does all of this mean a true change in how funds respond to overpaid CEOs? Only time—and the voting records that come out this summer—will tell.

PATTERNS OF PAY VOTING RIGOR: A RANKING OF ASSET MANAGERS

JACKIE COOK
Founder and Curator, Fund Votes; Associate Director, Proxy Research and Services, SHARE

By just after lunchtime on the very first working day of 2016 the average S&P 500 CEO had earned what the average worker got paid for the entire year. Sometime around April, May or June his or her pay package was OK'd by 92 percent of shareholders.

Seventy-nine percent of the 463 say-on-pay resolutions held by S&P 500 companies in the 2016 proxy season (July 2015 to June 2016) earned at least 90 percent support. Only five failed. (Table 1)

This high approval reflects in no small part the pay enabling contribution of the largest financial institutions. Twenty-five of the largest asset managers supported say-on-pay 91 percent of the time in 2016. They supported compensation committee member nominations 97 percent of the time. Recommendations of management on shareholder-sponsored executive compensation resolutions were followed 78 percent of the time (Table 2).

Who are the worst enablers? Are there pay reform champions?

To examine these questions, Fund Votes ranked asset managers on a weighted combination of their support for three types of compensation-related proposals that came to votes at S&P 500 companies in 2016:

1. **Say-on-Pay** proposals, the non-binding advisory vote that shareholders cast on executive compensation every year, two years or three years, as determined by a vote of shareholders at least every 6 years, was assigned 50 percent of the weighting.
2. **Shareholder proposals on executive compensation** which, in 2016, includes 50 resolutions addressing senior executive severance pay (of which there were 26), stock retention (11), 'clawbacks' (7), use of financial performance metrics (3), and three others, was assigned one-third of the weighting as a category.

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TABLE 1: DISTRIBUTION OF 2016 PROXY SEASON SAY-ON-PAY VOTE OUTCOMES AT S&P 500 COMPANIES

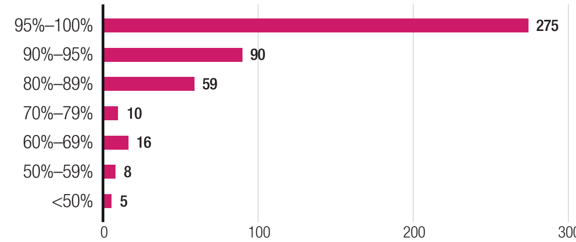
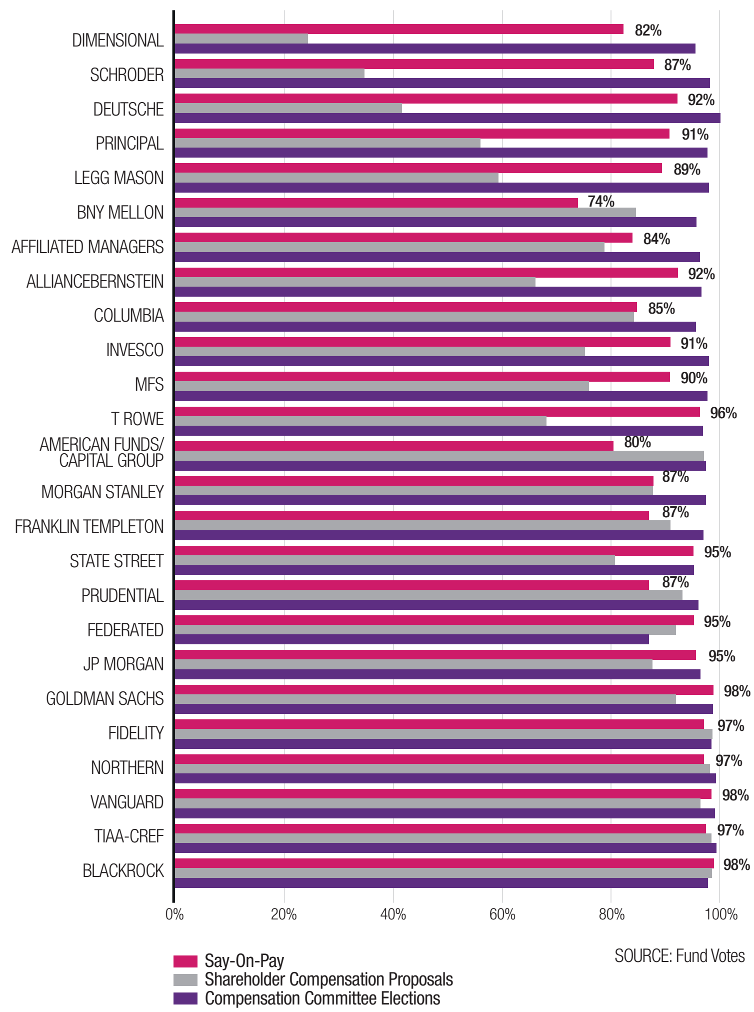


TABLE 2: LARGE FUND GROUPS RANKED BY THREE MEASURES OF PAY VOTING RIGOR, FROM MOST TO LEAST OPPOSITIONAL



SOURCE: Fund Votes

RANKING ASSET MANAGERS ON PAY VOTING RIGOR
Continued

3. **Director elections**, involving votes on 1,781 S&P 500 compensation committee members, was assigned one-sixth of the weighting. Overall, this group earned 96.7 percent support from shareholders – slightly lower than the 97.3 percent support for all 4,875 directors of S&P 500 companies. There is a correlation between shareholder votes on compensation committee members (particularly committee chairs) and on say-on-pay proposals.

This ranking reveals that the worst enablers are **BlackRock**, **TIAA-CREF**, **Vanguard**, **Northern Trust**, **Fidelity** and **Goldman Sachs**.

Asset managers' proxy voting guidelines aren't particularly helpful in justifying the high levels of support. For instance:

- Only three S&P 500 advisory votes on pay fell foul of Goldman Sachs' case-by-case proxy voting considerations, which include "internal pay disparity" and responsiveness to previous votes with less than 70 percent support.
- BlackRock, the world's largest asset manager and the strongest pay enabler, devotes a page and a half of its guidelines to the "Say on Pay Analysis Framework", Complete overkill considering how often these are invoked to oppose management.
- Vanguard's guidelines state, rather vaguely: "pay programs in which significant compensation is guaranteed or insufficiently linked to performance will be less likely to earn our support."
- The only guidelines available online for TIAA-CREF appear to five years old.

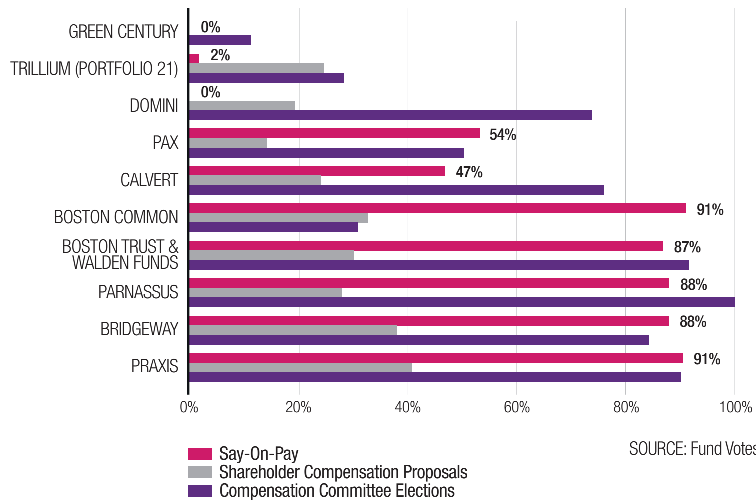
On the other end of the ranking, **Dimensional** opposed management on all but 12 of 49 shareholder-sponsored resolutions and on 18 percent of say-on-pay resolutions. **Dimensional**, **Deutsche** and **Schroder** each voted 'for' the majority of shareholder resolutions on executive pay. **BNY Mellon** was the least likely to rubberstamp say-on-pay, voting down 26 percent proposals, followed by American Funds/**Capital Group** (20 percent).

To see how far institutions go in opposing pay practices, consider the voting patterns of some of the ten socially responsible investment (SRI) groups summarised below (Table 3).

As in previous years, Green Century abstained on all say-on-pay resolutions. Trillium Asset Management and Domini voted against all say-on-pay proposals. These votes suggest a strong dissatisfaction with the entire system by which CEO pay is set.

All SRI fund groups opposed management on more than 50 percent of shareholder resolutions (in other words, they supported the shareholder proponents' positions more often than not), and Green Century, Trillium, Pax, Calvert and Boston Common where all strongly oppositional to committee member director nominees.

TABLE 3: SRI FUND GROUPS RANKED BY THREE MEASURES OF PAY VOTING RIGOR, FROM MOST TO LEAST OPPOSITIONAL



A CEO to average worker pay ratio of around 1:350 (using 2016 pay data for S&P 500 CEOs); paying one person more than $56 million, year-over-year (Leslie Moonves CEO of CBS) and the disconnect between climate realities and the performance metrics of senior executives of fossil fuel companies are all evidence of the broken system by which pay is set.

One of a variety of new strategies for putting pressure on asset manager providers of mutual funds to exercise voting stewardship is filing of shareholder resolutions that draw attention to the reputational risks of failing to oppose egregious pay practices or failing to support climate risk disclosure. It'll be interesting to see if BlackRock, **Franklin and T Rowe**, all targets in 2016, recalibrate their voting in 2017.

Conservative Groups

Politically conservative groups that file shareholder resolutions have never seen very much support from other investors, and they often see their resolutions omitted because they do not adhere to the technical requirements of the shareholder proposal rule. Nonetheless, they persist and this year have a new crop of resolutions that reflect themes popular with the right. After dropping back last year from a high-water mark of 30 filings in 2015, conservative proposals again seem to be on the increase, with 18 filings discernable so far, compared with only 10 at this point last year. *(See chart p. 72.)* More are likely to emerge as the season progresses as the filers tend not to share their plans in advance.

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 Amy and David Ridenour, two of its principals. NCPPR said this January that it is "the nation's preeminent free-market activist group focusing on shareholder activism and the confluence of big government and big business," and that it has participated in 89 corporate annual meetings, "advancing free-market ideals in the areas of health care, energy, taxes, subsidies, regulations, religious freedom, food policies, media bias, gun rights, workers' rights" and other issues.

The final resolution tally of conservative-backed proposals for 2017 remains unclear as of this writing; NCPPR does not respond to Si2 inquiries for information, although in late January it issued a press release about an engagement it planned at the Walgreens Boots Alliance annual meeting; it said that the group planned to ask the company about supporting the repeal and replacement of the Affordable Care Act.

Corporate Political Activity

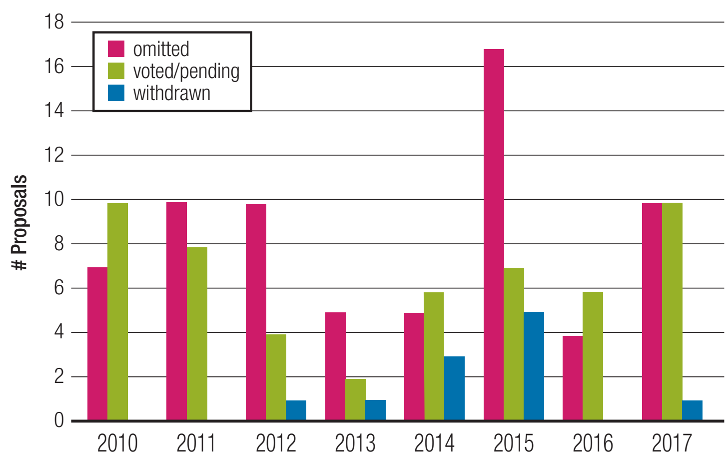
NCPPR supports unfettered corporate spending in the political arena, but uses the language of proponents who do not. It also is critical of companies that support environmental regulation and (previously) health care reform, and it incorporates these values in its resolutions. In 2017 the group has a new resolution that suggests companies put themselves at political risk if they use mainstream media outlets to advertise their products. In a resolution filed at **Bristol-Myers Squibb**, **CBS**, **Comcast**, **Ford Motor**, **Merck** and **Pfizer**, it asks for a report by December on each company's "assessment of the political activity resulting from its advertising and its exposure to risk resulting therefrom." It does not appear the resolution will go to a vote since the SEC has already told three companies it agrees that the matter relates to ordinary business, and the remaining companies all have challenged using the same reasoning.

Amy and David Ridenour also are asking **McDonald's** and **UnitedHealth Group** about their public policy advocacy, seeking a report on each company's

> process for identifying and prioritizing legislative and regulatory public policy advocacy activities. The report should:
>
> 1. Describe the process by which the Company identifies, evaluates and prioritizes public policy issues of interest to the Company;
> 2. Identify and describe public policy issues of interest to the Company;
> 3. Prioritize the issues by importance to creating shareholder value; and
> 4. Explain the business rationale for prioritization.

Both companies are contending the Ridenours did not provide sufficient proof of stock ownership. UnitedHealth also says the proposal improperly duplicates a different resolution about lobbying that it received first, which it intends to include in the proxy statement.

Conservative Proposals Since 2010



(excludes one not voted for another reason)

Conservative

Company	Proposal	Lead Filer	Status
Corporate Political Activity			
Bristol-Myers Squibb	Report on biased news media	National Center for Public Policy Research	omitted
CBS	Report on biased news media	National Center for Public Policy Research	May
Comcast	Report on biased news media	Amy Ridenour	May
Eli Lilly	Report on biased news media	National Center for Public Policy Research	May
Ford Motor	Report on biased news media	National Center for Public Policy Research	omitted
McDonald's	Report on public policy advocacy	Amy Ridenour	May
Merck	Report on biased news media	National Center for Public Policy Research	omitted
Pfizer	Report on biased news media	National Center for Public Policy Research	omitted
Time Warner	Report on biased news media	National Center for Public Policy Research	May
UnitedHealth Group	Report on public policy advocacy	David Ridenour	omitted
Human Rights			
Best Buy	Report on religous freedom laws	National Center for Public Policy Research	June
Boeing	Report on human rights policy	David Ridenour	omitted
Duke Energy	Report on religous freedom laws	National Center for Public Policy Research	May
ExxonMobil	Report on religous freedom laws	National Center for Public Policy Research	omitted
Johnson & Johnson	Report on religous freedom laws	National Center for Public Policy Research	April
Lowe's	Report on religous freedom laws	National Center for Public Policy Research	May
Mondelez International	Report on religous freedom laws	National Center for Public Policy Research	omitted
Salesforce.com	Report on country selection/assessment	David Ridenour	June
Walmart Stores	Report on religous freedom laws	National Center for Public Policy Research	withdrawn
Philanthropy			
Apple	Report on charitable contributions	National Center for Public Policy Research	2.2%
PG&E	End charitable contributions	Strobhar, T.	May

Human Rights

"Religious freedom": On the human rights front, NCPPR newly suggests that seven companies should report by December on

> the known and potential risks and costs to the Company caused by pressure campaigns to oppose religious freedom laws (or efforts), public accommodation laws (or efforts), freedom of conscience laws (or efforts) and campaigns against candidates from Title IX exempt institutions, detailing the known and potential risks and costs to the Company caused by these pressure campaigns supporting discrimination against religious individuals and those with deeply held beliefs, and detailing strategies that the Company may deploy to defend the Company's employees and their families against discrimination and harassment that is encouraged or enabled by such efforts.

Title IX is the federal statute that protects students against gender-based discrimination, including sexual assault. The new Secretary of Education Betsy De Vos, in her confirmation hearing, would not commit to enforcing it using the same approach the Obama administration did to protect transgender and gay students, as noted in a February article in *The New York Times*. But the NCPPR proposal envisions the opposite type of discrimination, which it believes occurs when gay rights and diversity protections are in place. In the resolution's supporting statement, it says the companies should "consider adhering to equal and fair employment practices in hiring, compensation, training, professional education, advancement and governance without discrimination based on religious identity."

SEC action—Most of the companies with this proposal pending have challenged it on ordinary business grounds but the SEC has yet to respond. Challenges from **Best Buy**, **Duke Energy**, **ExxonMobil**, **Johnson & Johnson** and **Lowe's** are awaiting decisions. One of the resolutions has been omitted for lack of sufficient proof of stock ownership, at **Mondelez International**.

Withdrawal—NCPPR referenced discussions with **Walmart** about religious freedom issues and withdrew, although the company also had challenged the resolution at the SEC like the other recipients.

Human rights policy: Another resolution from David Ridenour that asked **Boeing** to "review its policies related to human rights to assess areas in which the Company may need to adopt and implement additional policies and to report its findings" has been omitted on the grounds that it is moot. The resolution suggested the report it sought could include:

1. Whether the Company operates in regions that have a pattern of human rights abuses. Some of these abuses might include disparate treatment of women, disparate treatment of minorities or unequal access to education.
2. Whether the Company operates in regions where some or all individuals are not permitted to partake in their government.
3. Whether the Company operates in regions where individuals face potential retribution for partaking in their government.
4. The Company's strategies for engaging with stakeholders to ensure its commitments to human rights.

In another resolution that borrows from the ICCR proponents, Ridenour is also asking **Salesforce.com** to

> review the company's guidelines for selecting countries/regions for its operations and issue a report, at reasonable expense excluding any proprietary information, to shareholders by December 2017. The report should identify Salesforce's criteria for investing in, operating in and withdrawing from high-risk regions.

The company is contending it was submitted too late, however, so the resolution probably will not go to a vote.

Philanthropy

A resolution from David Ridenour at **Apple** asked for an annual report on the company website with:

> the company's standards for choosing recipients of company assets in the form of charitable contributions; the business rationale and purpose for each of the charitable contributions, if any; personnel participating in the decision to contribute; the benefits to society at-large produced by company contributions; and a follow-up report confirming the contribution was used for the purpose stated.

Apple does not disclose much about its oversight of charitable contributions or its other contributions and Ridenour contends Apple contributions to politically controversial groups may put it at risk and wants more data. The proposal earned just 2.2 percent at the company's February 28 meeting, not enough for resubmission.

A long-time occasional proponent and anti-abortion activist Tom Strobhar wants **PG&E** to end its charitable giving program "unless a majority of our customers positively affirm it through a public vote." The company has faced criticism from some about its support for gay rights. PG&E is arguing at the SEC that Strobhar failed to prove his stock ownership and that the resolution is too vague, improper under state law and concerns ordinary business.

ALIGNING INVESTMENT AND MISSION

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

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 progressive corporate practices, 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 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.

expertinsight

CLIMATE CHANGE DEMANDS FOUNDATIONS GO BEYOND GRANTMAKING

DAVID ABBOTT
Executive Director, The George Gund Foundation

Philanthropy occupies a privileged place in our society. With few regulatory restrictions we are able to deploy money to do good, for which we are effusively thanked and rarely criticized. But life on that pedestal can be quite isolating. The world where decisions are made that directly affect what we care about can seem both distant and distasteful. For many years, The George Gund Foundation has worked to overcome those barriers by supporting a wide array of nonprofit policy advocates for issues we support. They range from organizations working to advance criminal justice reform to activists for early childhood education and many others. However, it was only a few years ago that we began to use our power as a corporate shareholder to push for the same change that we seek to advance with our grantmaking. Our foundation made the decision to push for climate change action by corporations.

This was a natural step for The George Gund Foundation because we have long supported environmental causes, including action to address climate change. About a decade ago, we began requiring grant applicants to explain as part of their requests what, if anything, they were doing about climate change. We chose that issue—just as we have chosen it as our avenue into shareholder activism—because it is such a universal existential threat. We accept the scientific consensus; it provides the data-based foundation for decision-making that in business or government would normally drive all actors to take action. But, as we know, this issue has become insanely politicized and is the most significant casualty of the post-factual world we have entered.

Consequently, we are using our roughly $500 million in equity holdings to vote on climate change-related resolutions as they arise. And, more importantly as an expression of activism, we have co-sponsored and now are solely sponsoring a resolution as a shareholder of **Devon Energy** to require that company to undertake a formal assessment of the risk that climate change regulations pose to the company's bottom line. We, like many other shareholders, anticipate that regardless of what comes and goes over time in Washington, D.C., the clear reality of climate change and the need to address it will force Devon to "strand" many of its oil and gas assets in the ground, thus dampening the company's value. Over the last two years, support for this resolution has progressed from 23 percent support to 36 percent. We plan to keep pushing it. And as we grow more accustomed to this role, we likely will look for other ways to call for action by our corporate partners. When you look at how we use our grantmaking to create a better world, it only makes sense that the investments behind those grants are also put to effective social use.

Screened Investments and ESG Integration

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. 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.

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. These include repowering facilities with solar energy, improving irrigation systems to save water, relamping streetlights with low energy LEDs and loans for hybrid and electric plug-in vehicles.

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**.

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2016 Proxy Season Results

The total number of environmental and social policy shareholder resolutions filed in 2016 dropped to 431, down from 465 in 215. But 241 went to votes, more than ever before, and the final tally included nine majority votes (including two not opposed by management). However, the number of withdrawn proposals dropped to the lowest level of the decade, suggesting that proponents and companies are simply not agreeing as much as in the past. Combined with the high votes, this seems to set the stage for more confrontation about the hard questions of sustainability and corporate responsibility in the coming year, as investors and companies enter the 2017 proxy season.

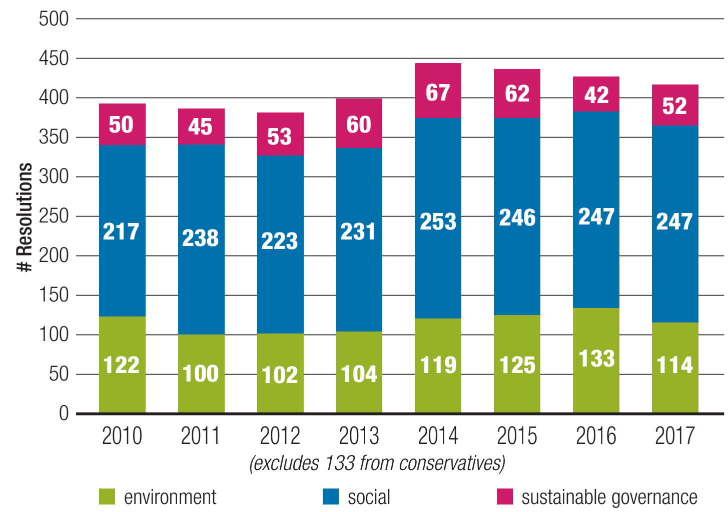
Average overall support was 20.5 percent (for resolutions opposed by management), compared with 20.2 percent last year. Notably, the proportion of resolutions withdrawn fell to its lowest level of the last 10 years—just one-third, and the proportion omitted because they failed to meet SEC standards for inclusion in proxy statements fell back to 11 percent, close to historic lows.

HIGH VOTES

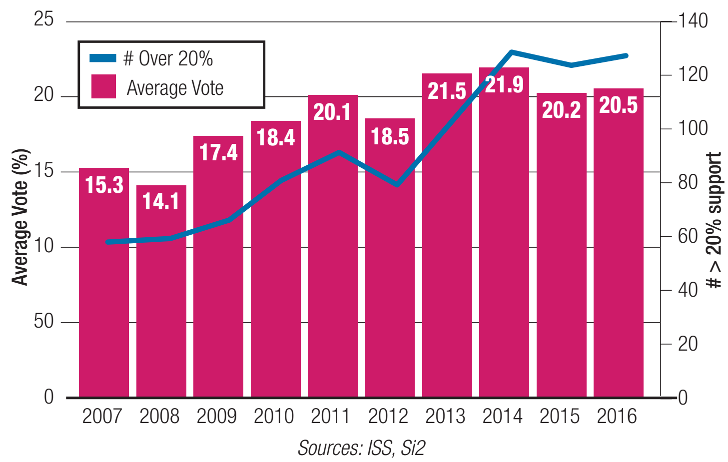
The majority votes ran the gamut from the more expected—for political spending transparency (61.9 percent at **Fluor** and 50.3 percent at **NiSource**), LGBT rights (54.7 percent at **J.B. Hunt Transport**) and board diversity (72.4 percent at **FleetCor Technologies** and 52.4 percent at **Joy Global**)—to the unprecedented. Extra ordinary results were the 60.8 percent vote for sustainability reporting at **Clarcor**, 51.2 percent for reporting on gender pay disparity at **eBay** and 50.8 percent for more transparency about methane emissions and targets at **WPX Energy**. Additional high votes were near majorities for more election spending reporting at **NRG Energy** (49.4 percent) and a climate change reporting request at **Occidental Petroleum** (49 percent). The latter was the highest vote ever on an environmental proposal at a leading energy company.

In addition to the majority votes, another 19 earned between 40 percent and 49 percent. More of the top-scorers related to the environment and sustainability (14) than any other categories, but eight concerned political activity and four were about diversity. A commendation about an animal welfare policy supported by management also earned top marks. *(See list, next page.)*

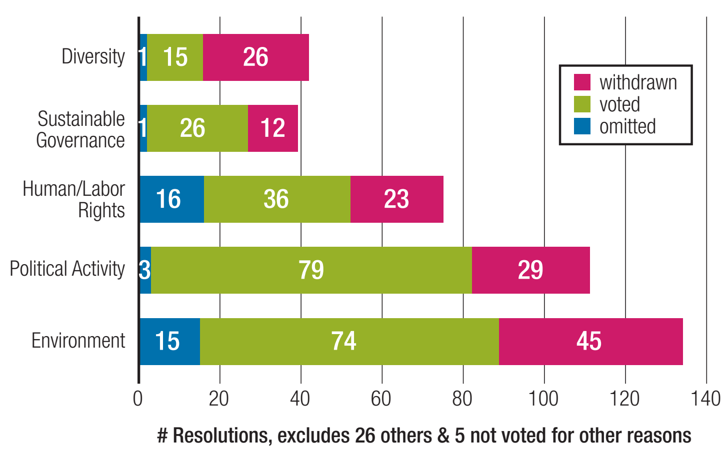
Subjects Raised in Proposals Since 2010



Support Trends for Proposals, 2007–2016



Results for Major Topics in 2016



AGREEMENTS

Proponents measure success not just by vote tallies, but also by negotiated withdrawals. Yet the number of withdrawals continued the drop begun last year, both in volume (139, down from 178 in 2015), but also as a proportion of those filed—33 percent, down from about 40 percent the previous several years. *(Top bar chart, previous page.)* In 2016, proposals about diversity were most likely to be withdrawn (62 percent of filings), compared with about one-third for the other major topics considered. *(Chart, above.)*

ENVIRONMENT

Climate change and energy: More proposals than ever before addressed climate change in 2016—107 compared with 82 in 2015. Forty queried energy extractors and suppliers about how changing global temperatures will affect their operations and how they will respond to changes in government policies that aim to moderate these changes; the core question is how fast—or even *if*—legislative change will occur to implement the climate treaty signed in Paris last December.

Keeping track of carbon emissions—including those from methane releases associated with the U.S. gas boom—prompted 32 proposals, while 25 at utilities and retailers concerned renewable energy and new electricity generation business models. Ten more raised a range of old and new issues on the climate, including new angles on energy reserves accounting and ties to executive pay. Proponents focused heavily on relatively near-term options that can change the U.S. energy mix, addressing energy demand as well as production.

Risk—Some of the climate risk votes were unprecedented. Most prominent were high votes on requests for assessments of the long-term effects of new government climate policies, including a 49 percent vote for a resolution from the Nathan Cummings Foundation at **Occidental Petroleum** (the highest-ever climate change financial risk vote), 41 percent at **Chevron** and 38 percent **ExxonMobil** (the highest votes to date at these companies). In what may be an important development, proponents withdrew when **ConocoPhillips** promised to provide more information in its next sustainability report about carbon asset risk scenario planning. Among utilities, the highest vote was about planning to keep global warming to less than 2 degrees Celsius, with 42.2 percent at **AES**, which generates about 86 percent of its electricity from coal-fired plants. Key withdrawals occurred when **American Electric Power** and **Great Plains Energy** both said they would explain more about their plans for change, as they phase out aging coal plants and they decide how to use renewable generation versus highly efficient natural gas plants that nonetheless emit carbon. Other votes at utilities were between 20 percent to 30 percent.

Accounting—For carbon accounting, with a few exceptions, votes were in the 30 percent to 40 percent range—showing a growing number of investors agree that keeping track of emissions so they can be more tightly managed is a good idea. The highest votes were 43 percent at engineering and construction company Fluor and 42 percent at industrial distributor **HD Supply Holdings**. Resolutions that broadly asked for emissions accounting got more support than those that requested accounting be extended to company products (at **Chevron** and **Marathon Petroleum** resolutions in the latter category got only 8 percent and 15 percent, respectively). A new proposal also asked two tech companies, a retailer and the industrial firm **Deere** how they might achieve net-zero greenhouse gas emissions but the two votes that went to a vote only got 7 percent. *(For 2017, the SEC has told companies this resolution is too specific.)* Regarding methane emissions management and goals-setting, the votes were consistently higher and included a majority of 50.8 percent for a proposal at **WPX Energy**, an oil and gas exploration and services company, from the California State Teachers Retirement System (CalSTRS), a key player on this issue. Another of its proposals, at **Gulfport Energy** (another exploration firm), also got a near-majority of 47.6 percent. There was a single low vote of just 5.6 percent at **Continental Resources**, but insiders control nearly 80 percent of its stock. In a development to note, the SEC agreed that a methane report proposal at **Dominion Resources** was moot given current company reporting, showing proponents must carefully target their resolutions.

Renewables—A key focus of the renewable energy proposals was on users of energy, as noted. Six retail, health and tech companies reached agreements with proponents, while the four votes on setting renewable energy use targets or reporting on them ranged from a low of 8 percent at **PepsiCo** to a high of 28 percent at **Kroger**. In an expanded set of resolutions about distributed energy at utilities, votes were consistently much higher than that, reaching at their apex 42.6 percent at **PPL** and 37 percent at **Entergy**. Ceres coalition members working with the Investor Network on Climate Risk plan to continue pushing utilities to increase non-carbon-emitting energy production going forward, although proposals in 2017 are proving to be less prescriptive on this topic.

Other climate issues—In 2016 other climate resolutions included several new angles, but did not get much affirmation from investors. These included calculating energy reserves in BTUs and altering executive bonuses tied to fossil fuel reserve accounting changes; resubmitted proposals addressed boosting dividends because of purportedly stranded carbon assets and reporting on the lack of support for climate change shareholder resolutions at mutual funds. None of the eight votes on these issues was above 9 percent and most were lower.

Environmental management: A baker's dozen of environmental management resolutions included familiar requests for more recycling, where the highest vote was on beverage container recycling at **Dr Pepper Snapple Group** (37.8 percent). Otherwise, there was a low vote about nuclear plant permits at **Dominion Resources** of 4.3 percent. Three companies—**Chipotle Mexican Grill**, **Dunkin' Brands Group** and **Yum! Brands**—agreed to cut their waste streams by encouraging on-site recycling of their food and drink packaging so As You Sow withdrew its proposals.

Toxics: Investors and the SEC have yet to warm up to proposals about nanomaterials in food products and gave a resolution about Good and Plenty candy at **Hershey** only 3.8 percent. But As You Sow did get **J.M. Smucker** to evaluate its use of nano-titanium dioxide and report—so withdrew. Other resolutions about PCBs in the Hudson River and BPA in packaging were omitted, though.

Industrial agriculture: The highest votes on industrial agriculture issues were 27.4 percent for water management at **Sanderson Farms** and 26.3 percent on antibiotics in the meat animal supply chain, at **McDonald's**. Others dealt with genetically modified food, neonicotinoid pesticide use in the supply chain and animal welfare, but little stood out other than further examination by food companies about limiting antibiotic use.

SOCIAL ISSUES

Animals in entertainment: People for the Ethical Treatment of Animals (PETA) focused on orca breeding at **SeaWorld Entertainment**, and withdrew when it announced an end to this program, but another vote about promoting the use of animals in entertainment at online promoter **Groupon** earned almost no support (0.4 percent). Still, a provocative resolution about how the Zika virus might spread via research monkeys housed outdoors in Texas, at **Laboratory Corporation of America**, provided food for thought and earned 5.3 percent. (The company says no such risk exists.) Investors will consider this proposal again in 2017.

Corporate political activity: About one-quarter of all social and environmental resolutions were on corporate political activity and more than half (65 proposals) related in some fashion to lobbying, while another 38 were on election spending. The total number of resolutions fell to 105, down from a high of about 140 in 2014, but an increasing number of companies have adopted more robust oversight and disclosure. The critical sticking point stopping more accords between critics and companies is whether firms should be fully transparent about their contributions to intermediary groups like trade associations that spend on both elections and lobbying. About half a dozen resolutions about the revolving door between industry and government, from the AFL-CIO; a few more on this topic have been filed for 2017.

Lobbying—The highest votes were 49.4 percent for a resolution about both election and lobbying spending at **NRG Energy**, alongside 43.9 percent at **Travelers** for a lobbying-only disclosure proposal. Most votes were above 20 percent, with an average for the main lobbying resolution of about 24 percent. Seven companies reached agreements with proponents about more disclosure. The highest vote for the new revolving door resolution was 30.5 percent at **Citigroup** and **Bank of America** prompted a withdrawal on this issue when it said anyone who leaves to work for the government forfeits accelerated vesting of equity awards—the core AFL-CIO complaint.

Elections—There were two majority votes for the Center for Political Accountability's resolutions—now more than a decade old—on oversight and disclosure of election spending: 61.9 percent at Fluor and 50.3 percent at **NiSource**. Five others earned more than 40 percent, at **McKesson**, **NextEra Energy**, **Range Resources**, **Western Union** and **Wyndham Worldwide**. For 14 of the 15 resolution withdrawals, companies and proponents reached agreements. The average CPA proposal earned 33 percent, a new highwater mark.

Decent work: Popular concern about the high economic and social costs of economic inequality drove a slew of new proposals about gender pay equity and income inequality during 2016—a theme that is again dominant in 2017. One-third of the 30 proposals in 2016 went to votes, a third were withdrawn after agreements and a third were omitted after SEC challenges.

Wages—A new resolution to a dozen low-wage sector companies about adopting principles for minimum wage reform fell to SEC challenges; in 2017 proponents have modified the proposal and are hoping to succeed. On the more positive side, six of the tech companies that Arjuna Capital asked to boost the number of women and minorities who work for them agreed to do so. In a surprise development, one of these that did go to a vote earned a majority, at **eBay** (51.2 percent).

Safety—Workplace safety was at issue at both chicken processors and industrial firms, and earned the most at **Du Pont** (30 percent) and **Sanderson Farms** (24.9 percent, where an Oxfam report in October 2015 described problematic conditions for low-paid workers, mostly in the American South).

2016 Resolutions With More than 40 Percent Support

Company	Proposal	Proponent	Vote (%)
Kellogg	Commend animal welfare policy	Humane Society of the U.S.	98.2*
FleetCor Technologies	Report on board diversity	NYSCRF	72.4**
Fluor	Review/report on political spending	Philadelphia PERS	61.9
Clarcor	Publish sustainability report	Walden Asset Management	60.8
J.B. Hunt Transport	Adopt sexual orientation/gender ID policy	Trillium Asset Management	54.7
Joy Global	Adopt board diversity policy	Amalgamated Bank	52.4
eBay	Report on female pay disparity	Arjuna Capital	51.2
WPX Energy	Report on methane emissions & targets	CalSTRS	50.8
NiSource	Review/report on political spending	NYSCRF	50.3
NRG Energy	Report on political spending and lobbying	NYC pension funds	49.4
Occidental Petroleum	Report on climate change	N. Cummings Foundation	49.0
Gulfport Energy	Report on methane emissions & targets	CalSTRS	47.6
Emerson Electric	Publish sustainability report	Mercy Investments	47.3
McKesson	Review/report on political spending	Philadelphia PERS	44.4
Travelers	Report on lobbying	FAFN	43.9
Chipotle Mexican Grill	Publish sustainability report	Domini Social Investments	43.5
Esco Technologies	Publish sustainability report	Walden Asset Management	43.5
Range Resources	Review/report on political spending	Nathan Cummings Foundation	43.3
Fluor	Adopt GHG reduction targets	NYSCRF	42.9
NextEra Energy	Review/report on political spending	NYSCRF	42.8
PPL	Report on distributed energy	NYSCRF	42.6
AES	Report on climate change	Mercy Investments	42.2
Anadarko Petroleum	Report on stranded assets business risks	As You Sow	42.0
Western Union	Review/report on political spending	NYSCRF	41.7
HD Supply Holdings	Adopt GHG reduction targets	Calvert Investments	41.5
Chevron	Report on climate change strategy	Wespath Investments	40.8
PNM Resources	Publish sustainability report	Walden Asset Management	40.6
Wyndham Worldwide	Review/report on political spending	Mercy Investments	40.1

** Supported by management* *** Not opposed by management*

Diversity in the workplace: Resolutions seeking protections for lesbian, gay, bisexual and transgender (LGBT) employees continued to decline in number given recent legal affirmation of these rights and all but one were withdrawn after companies agreed to act. The one vote was a majority—54.7 percent at **J.B. Hunt Transport**, which then agreed to adopt the requested policy. A new resolution that sought company reporting on the impact of anti-gay laws went to a vote at **FedEx** and **Procter & Gamble** in the fall but did not crack 10 percent; another of these is pending in 2017 at **Western Union**. Further scrutiny of LGBT protections up and down the value chain may be in the offing, as well, as reflected in a resolution that NorthStar Asset Management filed but then withdrew on this subject at **Stryker**.

Other equality proposals were on EEO disclosure and they earned in the mid- to high 20 percent range at **American Express**, **Charles Schwab** and **Omnicom Group** and were withdrawn after disclosure agreements at three more firms.

Health: The deadly national opioid epidemic partly inspired a novel new resolution from As You Sow at three drug companies (**AbbVie**, **Johnson & Johnson** and **Merck**), but it earned 7.5 percent or less. It sought to apply the principles of recycling to prescription drug take-backs, arguing this also could reduce environmental hazards associated with improper drug disposal in the consumer waste stream. None of three resolutions about tobacco advertising and childhood obesity went to a vote but there were two votes on tobacco policy, with the highest 8.2 percent at **Philip Morris International** on a proposal questioning the company's efforts internationally to weaken tobacco control legislation.

Human rights: The most notable feature for human rights proposals in 2016 was the growing emphasis on the conflict between Palestinians and Israel. This accounted for 15 of the 44 proposals in the human rights category, with new proposals about business ties to Israeli settlements and the complicated issues they raise. Eight more resolutions sought implementation of the Holy Land Principles for fair employment. All the Israel-Palestinian conflict proposals earned low marks from investors, getting at the apex 8.6 percent for a Holy Land Principles fair employment resolution at **United Parcel Service**.

The AFL-CIO tried to persuade tobacco and food companies to use an international human rights mediation mechanism set up by the Organization for Economic Cooperation and Development; these earned only modest support at six companies, but **PepsiCo** said it would use the method and the union withdrew there. This issue will come up again in 2017 resolutions that call for reports on the process. Proponents also withdrew four of six resolutions seeking human rights risk assessments called for by UN methodology and otherwise saw relatively high votes of about 25 percent at **Amazon.com** and **Kroger**. Four trucking companies and a casino company signed on to help stop human trafficking, prompting withdrawals in a success for ICCR members. The disparate slate of additional proposals included a handful about respecting indigenous rights, criminal justice and gun control and privacy, with notable votes of 21.5 percent at prison company **GEO Group** and 22 percent on government access to private information at **American Express**.

SUSTAINABLE GOVERNANCE

Board diversity: The push for more women and minority board members continued from The 30 Percent Coalition, and 15 companies agreed to modify their governance procedures as requested. Two majority votes occurred: One at **FleetCor Technologies** when the company did not make a recommendation on the proposal (72.4 percent) and the other at **Joy Global** (52.4 percent). At **Apple**, a new resolution from an individual called for greater diversity in upper management as well as on the board, but it earned only 5 percent after the company averred diversity was critical to the company's success. The proponent filed the resolution again for 2017 consideration.

Board oversight: Most resolutions seek greater corporate board oversight of environmental and social issues, but those that focus only on the mechanism of oversight tend to get little support, as they did in 2016, earning 6 percent or less in three instances. Proposals that sought environmental experts to be nominated as nominees were more successful, with votes of 19 percent at **Chevron** and **Dominion Resources** and 21 percent at **ExxonMobil**. *(As noted elsewhere in this report, the vote was enough to help convince ExxonMobil to add a scientist to its board early in 2017.)*

The Board Room Accountability Project led by New York City Comptroller Scott Stringer, begun in 2015, gets to the heart of investor concerns about board oversight. It seeks the right for groups holding large stakes in companies to nominate directors on corporate-issued proxy statements— "proxy access." The comptroller targeted companies with low levels of board diversity, high carbon intensity and low investor support for executive pay packages and filed resolutions at 75 companies in 2015 and 72 in 2016. A majority of S&P 500 companies now have enacted what the comptroller's office calls "meaningful proxy access," a huge jump from only six at the start of the campaign in November 2014. Thirty-six of the proposals in 2016 were resubmissions at companies that had yet to enact the requested reform, while 36 were new recipients. Large investor groups have yet to offer up their own board nominees on company proxy statements, however.

Despite the rapid adoption of proxy access rights, not all is pacific: Reaction also includes a new set of principles in August from The Business Roundtable, the association of prominent CEOs, which asserts that investors should not use the shareholder proposal process to "pursue social or political agendas that are largely unrelated and/or immaterial to the company's business, even if permitted by the proxy rules." This seems to have been a warning shot across the bow and those sympathetic to significant restrictions on the shareholder proposal process are developing proposals that the Trump administration is likely to favor.

Sustainability oversight and reporting: At the peak just three years ago, in 2014, investors filed 54 resolutions asking companies to produce sustainability reports and/or link sustainability implementation to executive pay. The number fell to only 30 in 2016, with 18 asking for reports (down from 28 in 2015), and 12 seeking pay links. The pay links proposals included a new proposition that said falling oil prices and their impact on reserves accounting should be considered in executive pay calculations; it received 6.9 percent at **ConocoPhillips** and was withdrawn when Chevron said it already does this. Among others, a resolution at struggling **Chipotle Mexican Grill** earned the most, with 23.3 percent.

CONSERVATIVES

There were fewer proposals from political conservatives in 2016—16 instead of the 18 filed in 2015. The main actor, the National Center for Public Policy Research, used a new human rights frame to question company operations in the Islamic world, China and India, saying these were inconsistent with the values espoused by **Apple** and five other companies. It also used NorthStar Asset Management's political spending values congruency approach from earlier proxy seasons to question other companies' past support for climate change cap-and-trade and health care reform. Additional proposals from individuals sought to turn back LGBT rights protections. None of the votes were more than 4 percent.

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	Political Activity	Other Social	Governance - Boards	Governance - Disclosure & Action	Other	Grand Total
3M		✓						1
A.O. Smith					✓	✓		2
AbbVie			✓	✓✓				3
Acadia Healthcare						✓		1
AES	✓							1
Aetna			✓✓					2
AFLAC		✓						1
Air Products & Chemicals	✓							1
Allstate			✓					1
Alphabet		✓✓	✓✓	✓				5
Altria				✓				1
Amazon.com	✓✓	✓✓				✓		5
Ameren	✓✓✓✓							4
American Express		✓						1
American Intl Group			✓					1
American States Water		✓						1
American Water Works		✓						1
Ameriprise Financial						✓		1
Amgen				✓				1
Anadarko Petroleum	✓							1
Anthem			✓					1
Apple	✓				✓		✓	3
Applied Materials					✓			1
Assurant						✓		1
AT&T		✓✓✓✓	✓✓					6
Badger Meter					✓			1
Bank of America	✓	✓✓	✓					4
Bank of New York Mellon		✓				✓		2
BB&T		✓						1
Berkshire Hathaway	✓✓✓		✓					4
Best Buy							✓	1
Biogen				✓				1
Black Hills	✓							1
BlackRock			✓			✓✓		3
Boeing		✓	✓				✓	3
Bristol-Myers Squibb				✓			✓	2
Brown & Brown		✓						1
C.H. Robinson Worldwide	✓							1
California Water Service Group		✓						1
Calpine			✓					1

Continued on next page

Company	Environment	Human Labor/Rights	Political Activity	Other Social	Governance - Boards	Governance - Disclosure & Action	Other	Grand Total
CarMax			✓					1
Caterpillar			✓		✓			2
Cato		✓						1
CBS							✓	1
CenterPoint Energy	✓							1
CenturyLink			✓					1
Charles River Laboratories Intl				✓				1
Charles Schwab			✓					1
Chemours		✓						1
Chevron	✓✓	✓	✓		✓			5
Chimera Investment					✓			1
Chipotle Mexican Grill		✓				✓✓		3
Cimarex Energy	✓							1
Cisco Systems		✓	✓					2
Citigroup		✓	✓✓					3
Coca-Cola		✓			✓			2
Colgate-Palmolive		✓						1
Comcast			✓				✓	2
ConocoPhillips			✓			✓		2
CONSOL Energy			✓					1
Continental Resources					✓			1
CoreCivic		✓						1
Corning		✓						1
Costco Wholesale	✓				✓			2
Crawford		✓						1
CVS Health	✓	✓✓			✓			4
Danaher	✓✓							2
Deere	✓							1
DENTSPLY Sirona		✓			✓			2
Devon Energy	✓		✓✓			✓		4
Discovery Communications					✓	✓		2
Dominion Resources	✓✓✓		✓		✓			5
Domino’s Pizza	✓							1
Dr Pepper Snapple Group	✓							1
DTE Energy	✓							1
Duke Energy	✓✓		✓✓				✓	5
Dunkin’ Brands Group	✓✓							2
Eli Lilly			✓	✓✓			✓	4
Emerson Electric	✓		✓✓			✓		4
Ensign Group						✓		1
Entergy	✓							1
EOG Resources	✓	✓						2
Equifax			✓					1
Expeditors Intl of Washington						✓		1
ExxonMobil	✓✓✓✓✓		✓✓		✓		✓	9
F5 Networks		✓						1
Facebook		✓	✓	✓				3
FedEx			✓✓					2
Fifth Third Bancorp		✓						1
First Republic Bank		✓						1

Continued on next page

Company	Environment	Human Labor/Rights	Political Activity	Other Social	Governance - Boards	Governance - Disclosure & Action	Other	Grand Total
FirstEnergy	✓		✓					2
Fluor	✓		✓					2
Foot Locker		✓						1
Ford Motor			✓				✓	2
Franklin Resources						✓		1
Frontier Communications			✓					1
General Electric		✓	✓					2
General Motors		✓						1
GEO Group		✓						1
Gilead Sciences	✓			✓				2
Goldman Sachs		✓✓	✓			✓		4
Goodyear Tire & Rubber			✓✓					2
Great Plains Energy	✓							1
Hess	✓							1
Home Depot	✓	✓✓	✓					4
Honeywell International			✓					1
Hormel Foods	✓							1
HP			✓					1
Hub Group					✓			1
IDEX					✓			1
Intel		✓✓	✓					3
IntercontinentalExchange						✓		1
IBM			✓		✓			2
J.B. Hunt Transport Services			✓					1
Jack in the Box	✓							1
Johnson & Johnson			✓	✓✓	✓		✓	5
Johnson Outdoors		✓						1
Jones Lang LaSalle		✓						1
JPMorgan Chase		✓	✓			✓		3
Kellogg	✓							1
Kinder Morgan	✓✓					✓		3
Knowles					✓			1
Kraft Heinz	✓✓					✓		3
Kroger	✓✓✓	✓						4
Laboratory Corporation of America				✓				1
Littelfuse					✓			1
Lockheed Martin		✓						1
Lowe's	✓✓						✓	3
Marathon Petroleum	✓	✓✓						3
Marriott International		✓						1
Marsh & McLennan		✓						1
Marten Transport					✓			1
Mastercard		✓						1
Mattel		✓						1
McDonald's	✓✓✓	✓✓	✓				✓	7
McKesson			✓					1
Mead Johnson Nutrition	✓							1
Merck		✓		✓	✓		✓	4
Metaldyne Performance Group					✓			1
Middleby						✓		1

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Company	Environment	Human Labor/Rights	Political Activity	Other Social	Governance - Boards	Governance - Disclosure & Action	Other	Grand Total
Mondelez International	✓						✓	2
Monsanto	✓		✓					2
Monster Beverage						✓		1
Morgan Stanley		✓	✓					2
Motorola Solutions		✓	✓					2
NACCO Industries					✓			1
Navient				✓				1
Netflix	✓					✓		2
Netgear		✓						1
Newmont Mining		✓						1
NextEra Energy			✓					1
NIKE		✓	✓					2
NiSource			✓					1
Noble Energy	✓							1
Nordson						✓		1
Norfolk Southern	✓							1
NRG Energy	✓							1
Nucor	✓		✓					2
Occidental Petroleum	✓✓		✓✓					4
Oceaneering International						✓		1
Omnicom Group		✓						1
Oracle			✓					1
PayPal	✓					✓		2
PepsiCo	✓✓	✓			✓			4
Pfizer		✓	✓	✓✓			✓	5
PG&E							✓	1
Philip Morris International					✓			1
Phillips 66		✓						1
Pilgrim's Pride	✓				✓			2
Pinnacle West Capital			✓					1
Pioneer Natural Resources	✓					✓		2
PNC Financial Services Group		✓	✓					2
PNM Resources	✓✓				✓			3
Post Holdings	✓							1
PPG Industries			✓					1
Procter & Gamble		✓						1
Qualcomm		✓						1
Range Resources			✓					1
RE/MAX Holdings						✓		1
Regeneron Pharmaceuticals				✓				1
Republic Services			✓					1
Reynolds American				✓				1
Rockwell Medical					✓			1
Salesforce.com							✓	1
Sanderson Farms	✓							1
Schweitzer Mauduit Intl	✓							1
SeaWorld Entertainment				✓				1
Sempra Energy	✓							1
SL Green Realty		✓						1
Southern	✓✓✓							3

Continued on next page

Company	Environment	Human Labor/Rights	Political Activity	Other Social	Governance - Boards	Governance - Disclosure & Action	Other	Grand Total
SPS Commerce					✓			1
Starbucks	✓							1
Stifel Financial		✓						1
Supervalu	✓							1
T. Rowe Price Group		✓				✓		2
Target	✓✓✓							3
Tesoro			✓					1
Texas Roadhouse						✓		1
Textron			✓					1
Tile Shop Holdings					✓			1
Time Warner						✓	✓	2
TJX	✓	✓✓✓				✓		5
Torchmark						✓		1
Tractor Supply	✓							1
TransDigm Group					✓			1
Travelers		✓	✓					2
Tyson Foods	✓✓		✓		✓			4
United Parcel Service	✓	✓	✓✓					4
United States Steel	✓							1
UnitedHealth Group			✓				✓	2
Verisk Analytics		✓						1
Verizon Communications	✓	✓✓						3
Vertex Pharmaceuticals			✓	✓				2
Visa		✓						1
Walgreens Boots Alliance	✓		✓	✓		✓		4
Walmart Stores	✓	✓✓			✓		✓	5
Walt Disney			✓					1
WEC Energy			✓					1
Wells Fargo		✓✓✓	✓	✓		✓		6
Wendy's		✓						1
Western Union		✓	✓					2
WGL Holdings	✓							1
Whiting Petroleum	✓							1
Whole Foods Market	✓				✓			2
WPX Energy	✓							1
Wyndham Worldwide			✓					1
Wynn Resorts			✓					1
Xcel Energy	✓✓							2
Xerox		✓✓						2
XPO Logistics		✓						1
Yum Brands	✓✓							2
Zillow Group					✓			1
Zimmer Biomet Holdings					✓			1
Grand Total	**112**	**97**	**89**	**25**	**38**	**37**	**21**	**419**

ABOUT PROXY PREVIEW

PROXY PREVIEW 2017 IS A COLLABORATION BETWEEN

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

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Calvert

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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 twenty-five 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

The **Jessie Smith Noyes Foundation** was established in 1947 by Charles F. Noyes as a memorial to his wife. We support grassroots organizations and movements in the United States working to change environmental, social, economic and political conditions to bring about a more just, equitable and sustainable world. We seek to build the power of people – those most impacted and those who have been marginalized – to be actively involved in advancing solutions to the problems they face. We believe foundations should harmonize philanthropic mission and endowment management. We avoid investing in companies whose environmental or social impact contribute to the problems the Foundation's grantmaking seeks to address. We also look for investment opportunities that further the Foundation's mission and make a positive impact. www.noyes.org

Miller/Howard Investments, Inc. is an independent, SEC-registered investment boutique managing equity portfolios for institutions and individuals in dividend-focused strategies. We are passionate investors in companies with solid financials, and a proven history of dividends and dividend growth. For our ESG strategies and products, we seek companies with a strong commitment to high operational standards, the environment, social responsibility, and good governance. Our firm believes that this integrated approach 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 a member of Ceres and the Interfaith Center on Corporate Responsibility (ICCR), among other organizations. www.mhinvest.com

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The Murninghan Post is a platform for educating, engaging, and empowering concerned citizens about how to bridge the equity gap by using the tools of the Internet and capital markets to fix the abuses of capital markets. The aim is bold but clear: advance sustainable prosperity along with racial and economic justice via a range of transparent and accountable investment strategies that are rooted in shared civic values. At a time when public mistrust of capitalism is at an all-time high, we work to cultivate an ethic of civic duty among tax-exempt institutional investors. That involves the interrelated concepts of "civic fiduciary" and "civic financial literacy" that give voice and agency to taxpayers while helping to achieve a more prosperous, sustainable, and just world. murninghanpost.com

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Building the transition to sustainable prosperity and justice

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.

THE NATHAN CUMMINGS FOUNDATION

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

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ESG and sustainable finance

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

ROSE FOUNDATION for COMMUNITIES and the ENVIRONMENT

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.

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

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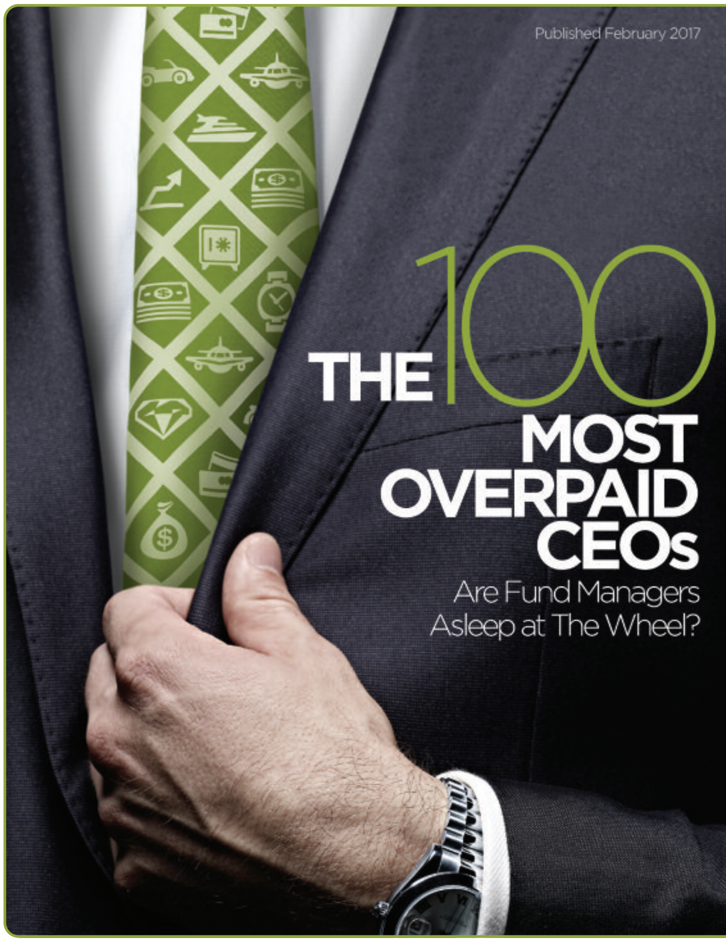

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