

Helping Shareholders  
Vote Their Values

[**proxy**preview]<sup>TM</sup>

2016



## ABOUT THE AUTHORS



**Heidi Welsh**, the founding executive director of the Sustainable Investments Institute (Si2), has analyzed and written about corporate responsibility issues for 25 years. Welsh is the lead author of Si2's two studies about the corporate governance of political spending in the S&P 500 (2010 and 2011, with the IRRIC Institute) and of a forthcoming study on corporate lobbying at the state level. Previously, Welsh started covering proxy voting issues in 1987 at the Investor Responsibility Research Center (IRRC), where for 16 years she also ran the monitoring program on corporate compliance with the MacBride principles for fair employment in Northern Ireland. She co-authored the Carbon Disclosure Project's 2007 report on S&P 500 companies and also set up a global sustainability metrics project for RiskMetrics. In 2008 and 2009, Welsh contributed to the Global Reporting Initiative's Electric Utility Sector Working Group and to an Oxford University assessment of Northern Ireland's fair employment law. Welsh received her bachelor's degree in political science, cum laude, with a concentration in science, technology and public policy, from Carleton College. She holds a master's degree from the Institute for Conflict Analysis and Resolution at George Mason University.



**Michael Passoff** is the founder and CEO of Proxy Impact. Michael has over 20 years of experience in corporate social responsibility, shareholder advocacy, philanthropy, and proxy research and education. For more than a decade Michael served as the Senior Program Director for As You Sow's Corporate Social Responsibility Program. In 2005 he launched the annual Proxy Preview to alert foundations to upcoming shareholder resolutions that are relevant to their missions. The Preview is hailed as the "Bible for socially progressive foundations, religious groups, pension funds and other tax-exempt organizations" by the Chicago Tribune. Michael has led and participated in more than 300 shareholder dialogues and resolutions and worked closely with shareholder advocates in the sustainable, responsible, impact investor (SRI), pension fund, labor, philanthropic, and faith-based communities. His shareholder advocacy work led him to be named as one of 2009's "100 Most Influential People in Business Ethics" by Ethisphere Magazine. He also received the 2009 Climate Change Business Journal award for a shareholder campaign that resulted in the first environmental resolution to receive a majority vote, and prompted greenhouse gas emission reductions and new renewable energy projects at a public utility.

## SPONSORS

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

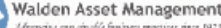
**Proxy Promoter:** Jonathan Scott at Singing Field Foundation.

**Proxy Players:** Rosemary Kelly at Broadridge; Stu Dalheim and Shirley Peoples at Calvert Investments; Mary Jane McQuillen at ClearBridge Investments; George Gay, Steven Scheuth and Holly Testa at First Affirmative Financial Network; Tim Smith and Steve Viederman at Foundation Partnership for Corporate Responsibility; Aaron Bernstein at Global Proxy Watch; Fran Tepitz at Green America; Victor de Luca at Jessie Smith Noyes Foundation; Dr. Marcy Murningham at Murningham Post; Tony Hay and Hugh Whelan at Responsible Investor; Tim Little at Rose Foundation for Communities and the Environment; Robert Kropp at Social Funds; Jonas Kron, Lisa MacKinnon, Matt Patsky and Randall Rice at Trillium Asset Management; Peter Webster at Vigeo Eiris.

**Proxy Pals:** Natasha Lamb at Arjuna Capital; Patricia Karr Seabrook at Miller/Howard Investments; Jerome L. Dodson and Iyassu Essayas at Parnassus Investments; Patricia Farrar-Rivas at Veris Wealth Partners; Tim Smith and Heidi Vanni at Walden Asset Management.



**Broadridge**



## ACKNOWLEDGEMENTS

**Proxy Preview 2016 was made possible with the cooperation of the following proponents, either individually or through shareholder advocacy coordinators that include most prominently:** AFSCME, the Interfaith Center on Corporate Responsibility, the Ceres Coalition, the Center for Political Accountability and the Investors Environmental Health Network.

AFL-CIO; Amalgamated Bank; Antonio Maldonado; Arjuna Capital; As You Sow; Benedictine Sister of Boerne, Texas; Bernice Schoenbaum; Bill Fleming; Boston Common Asset Management; California State Teachers' Retirement System; Calvert Investment Management; Change to Win; Christopher Reynolds Foundation; City of Philadelphia Public Employees Retirement System; Clean Yield Asset Management; Congregation of Sisters of St. Agnes; Congregation of St. Joseph; Connecticut Retirement Plans; Dignity Health; Domini Social Investments; Edith Neimark; Evangelical Lutheran Church in America; First Affirmative Financial Network; Franciscan Sisters of Perpetual Adoration; Friends Fiduciary; Green Century; Harrington Investments; Heartland Initiative; Holy Land Principles; International Brotherhood of Electrical Workers; Investor Voice; James McRitchie; Jantz Management; Jesuit Conference; Jing Zhao; Joy Loving; Mary Patt Tift; Maryknoll Sisters; Mercy Investment Services; Miami Firefighters; Michael Haverly; Midwest Capuchins; Midwest Coalition for Responsible Investment; Miller/Howard Investments; Missionary Oblates of Mary Immaculate; Nathan Cummings Foundation; National Center for Public Policy Research; Needmor Fund; New York State Common Retirement Fund; Newground Social Investment; Nickolaus Leggett; Nikki Sweeden Bollaert; North Carolina Retirement Systems; NorthStar Asset Management; NW Women Religious Inv. Trust; NYC pension funds; Open Mic; Oxfam America; Pamela Morgan; Pax World Funds; People for the Ethical Treatment of Animals; Philadelphia Firefighters; Presbyterian Church (USA); Pride Foundation; Priests of the Sacred Heart; Richard Berg; Robert Fredrich; Robert Vanderhye; Sinsinawa Dominicans; Sonen Capital; Sisters of Mercy; Sisters of St. Dominic of Caldwell; Sisters of St. Francis of Dubuque, Iowa; Sisters of St. Francis of Phila.; Sisters of the Presentation of the Blessed Virgin Mary; Sisters of the Sorrowful Mother of Wisconsin; International Brotherhood of Teamsters; The Sustainability Group; The Thirty Percent Coalition; Thomas Van Dyck; Trillium Asset Management; Trinity Church Wall Street; Trinity Health; Tri-State Coalition for Responsible Investment; Unitarian Universalists; United Methodist Church Foundation; United Steel Workers; Ursuline Sisters of Tildonk; Vigeo Eiris; Walden Asset Management; Wespath Investment Management; Zevin Asset Management.

Research and editorial support were provided by As You Sow staff members Andrew Behar, Danielle Fugere, Conrad MacKerron, Andrew Montes, Betsy McMahon, Kristin Costa, Katie Levitt, Rosanna Landis Weaver and Austin Wilson; Si2's research director, Robin Young, and Si2 editor Carolyn Mathiasen.

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

# TABLE OF CONTENTS

<b>LETTER FROM THE PUBLISHER</b>	4
<b>EXECUTIVE SUMMARY</b>	5
<b>Overview and New Issues in 2016</b>	6
<i>ERISA Endorses ESG Investing</i>	7
<b>INTRODUCTION</b>	9
<b>Key Shareholder Proposal Trends</b>	9
<b>Major Players</b>	10
<i>New Leadership at The Interfaith Center on Corporate Responsibility</i>	11
<b>THE 2016 PROXY SEASON</b>	12
<b>ENVIRONMENT</b>	12
<i>Bringing the COP21 Paris Climate Change Agreement into Corporate Boardrooms</i>	13
<b>CLIMATE CHANGE</b>	13
<b>Moral Imperative</b>	14
<i>Fossil Fuel Companies' Climate Deception Draws Scrutiny</i>	14
<b>Impacts and Strategies</b>	14
<b>Shale Energy</b>	17
<i>The Need to Make the Invisible Visible</i>	18
<b>Carbon Accounting</b>	19
<i>Accounting for a Transition to a Clean Energy Future</i>	20
<b>Renewable and Distributed Energy</b>	20
<i>Big Future for Distributed Energy</i>	22
<b>Other Climate Issues</b>	22
<b>ENVIRONMENTAL MANAGEMENT</b>	23
<b>Recycling and Waste</b>	24
<i>Challenging Food Companies on Freshwater Risks</i>	24
<b>Water</b>	25
<b>Solar Storms</b>	25
<b>TOXICS</b>	25
<b>INDUSTRIAL AGRICULTURE</b>	26
<i>Antibiotics in Factory Farming Create Superbugs and Investor Risk</i>	26
<b>SOCIAL ISSUES</b>	28
<b>CORPORATE POLITICAL ACTIVITY</b>	28
<i>Corporate Lobbying Disclosure is Material Investor Information</i>	29
<b>Lobbying</b>	29
<b>The CPA Campaign and Indirect Spending</b>	32
<i>Companies Making Political Disclosure the Norm</i>	34
<b>Other Political Issues</b>	34
<b>DIVERSITY IN THE WORKPLACE</b>	35
<i>When Will Tech Solve Its Gender Diversity Problem?</i>	37
<b>DECENT WORK</b>	37
<i>Economic Inequality as a Business Risk</i>	38
<i>Thriving Poultry Industry Built on the Backs of Vulnerable Workers</i>	40
<b>HUMAN RIGHTS</b>	41
<b>Conflict Zone Operations</b>	41
<b>Risk Assessment and Human Trafficking</b>	43
<i>Putting a Dent in Human Trafficking by Educating Key Industry Sectors</i>	44
<b>Tobacco</b>	44
<b>Indigenous Peoples' Rights</b>	45

<b>Prisons and Executions</b>	45
<b>Guns</b>	45
<b>Data Privacy</b>	45
<b>HEALTH</b>	46
<b>Prescription Drugs and Natural Cures</b>	46
<i>Challenging the Pharmaceutical Industry on Drug Take Back</i>	46
<b>Childhood Obesity</b>	47
<b>ANIMAL WELFARE</b>	47
<i>Investors Recognize Animal Welfare Risks</i>	48
<b>SUSTAINABLE GOVERNANCE</b>	48
<b>BOARD DIVERSITY</b>	48
<i>Promoting Board Diversity: A Role for Investors</i>	50
<b>BOARD OVERSIGHT</b>	51
<i>Transitioning to a Climate-Competent Board</i>	51
<b>Environmental Experts</b>	52
<b>Sustainability Oversight</b>	52
<b>Indemnification Report</b>	52
<b>SUSTAINABILITY OVERSIGHT AND REPORTING</b>	53
<b>Reporting</b>	54
<b>ESG Pay Links</b>	54
<i>Integrating Sustainability Metrics into Executive Compensation Criteria</i>	55
<b>Proxy Voting</b>	56
<b>OTHER GOVERNANCE</b>	56
<i>The NYC Pension Funds' Boardroom Accountability Project</i>	56
<i>Executive Compensation Vote Outlook for 2016</i>	57
<i>SEC Approves CEO-Employee Pay Ratio Disclosure</i>	58
<i>Executive Compensation and Stock Buybacks</i>	58
<i>Paying CEOs to Underinvest for the Future</i>	58
<b>CONSERVATIVE GROUPS</b>	59
<b>ALIGNING INVESTMENT AND MISSION</b>	60
<i>Proxy Voting, Corporate Engagement and Fiduciary Duty</i>	61
<i>Higher Ed Ramping Up Sustainable Investment Efforts</i>	62
<b>APPENDIX</b>	63
<b>More on the Web: Rule 14a-8, Resources and Contributors</b>	63
<b>2015 Proxy Season Results</b>	64
<b>Company Index</b>	70
<b>About Proxy Preview</b>	74
<b>Sponsors</b>	75

## Updates on Information in Proxy Preview

Information about the proposals and companies mentioned in the *Proxy Preview* was accurate as of February 17, 2016. 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 status of all proposals—for updates on proposals at select companies, follow our Proxy Season Updates at [www.proxypreview.org](http://www.proxypreview.org).

# LETTER FROM THE PUBLISHER



This 2016 proxy season, in a critical election year, once again points out that investors should vote their proxies in an informed and intentional way. The growing integration of issues is apparent like never before: political spending intertwined with climate change; sustainability directly linked to CEO pay; human rights, environmental justice, and questions of corporate accountability and even morality are all under a microscope. Investors continue to demand that companies take a broad, systemic look at their policies and integrate them into responsible action in the broader economy.

There is an even greater focus on boards of directors. After last year's proxy access votes, led by the New York City Comptroller, 70 companies amended their by-laws to enable shareholders to nominate and run board candidates. Another 59 companies are expected to join those ranks this year. Investors, large and small, are united to demand this right. The democratization of board nominations promises to have major impacts in years to come on all environmental, social and governance issues.

Now in our 12th year, *Proxy Preview* renews its focus on aligning values and investing. While institutional investor voting is of great concern, new financial transparency tools are emerging to give individual shareholders a window into stock holdings within their mutual funds, exchange traded funds and other investment vehicles that long have been opaque. This puts pressure on fund managers to more carefully scrutinize their voting and many are moving to align ESG investment considerations with proxy voting policies—at least partially in response to shareholder demands for consistency. Resolutions at BlackRock and State Street on CEO pay, as well as pressure on Vanguard and other funds about their stance on political spending disclosure are just the tip of the iceberg as workers demand changes to their retirement plan offerings to include companies that have diverse boards and low carbon footprints.

Politically, our polarized country and government are gridlocked. But shareholder relationships with some corporate managers are identifying common ground, as more negotiated withdrawals are announced and company policies change. The questions are always: “is it enough?” and “is it in time?” For climate change, the needed transition must be rapid. The UN Paris climate treaty has shifted the time horizon for business plan modeling from a vaguely defined future to more precise five-year stages; when progress is regularly re-examined, the treaty parties may ratchet up goals if emissions reductions are insufficient. For citizens like those in Flint, Michigan, it is clear that short-term savings on environmental protection can bring massive long-term, and even lifetime liabilities, and that both public policymakers and businesses must look carefully at the human and environmental costs of their decisions.

*Proxy Preview* continues to spotlight how corporate policies affect every person, our planet and our lives every day, 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.

A stylized, handwritten signature in blue ink, appearing to read 'A Behar'.

Andrew Behar  
CEO, As You Sow

# EXECUTIVE SUMMARY

Shareholder activists have filed fewer resolutions in 2016 concerned solely with environmental and social issues at U.S. companies—a total of 370 as of February 15, down from the record 433 filed at this point last year and 417 in 2014. But when you add in the 72 sustainability resolutions from the New York City pension funds that ask for “proxy access” rights to enable large investors to easily nominate their own directors, the total is about where it has been for the last several years. (The NYC resolutions are at companies that have high carbon footprints, low levels of board diversity and low investor support for executive pay.)

Corporate political activity and climate change remain the key issues for investors to consider in 2016 proxy statements. All told, environmental and sustainable governance resolutions combined represent 40 percent of the total, just slightly more than in 2015. There is a new emphasis encouraging greater use of renewable energy at utilities, along with the longstanding concern about what will happen to fossil fuel producers if governments enact restrictions on burning their products—as promised in the landmark December 2015 climate treaty in Paris. Political activity again accounts for just over one-quarter of the total, although the count is down to 98 proposals, below the high of 139 two years ago; some of these make connections between climate change inaction and corporations’ lobbying and election activity.

Health proposals include an interesting new approach that posits large drug companies should initiate prescription drug take-back programs to help alleviate the opioid addiction epidemic, while providing protective benefits to the environment. A handful of additional new resolutions also address other current hot-button issues, including assault weapons sales and discriminatory portrayals of Native Americans.

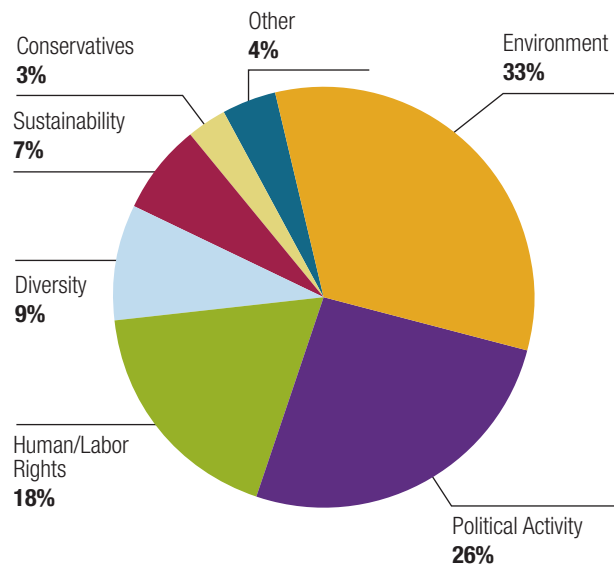
Human and labor rights resolutions this year have a different makeup, with new proposals about the Israeli-Palestinian conflict. Decent work proposals take different stabs at addressing growing economic inequality, as proxy season reflects growing national concerns about its damaging impacts. A diminishing number of resolutions asks about workplace protections for lesbian, gay, bisexual and transgender (LGBT) employees, given legal progress. Corporate solutions to sex trafficking, such as the group Truckers Against Trafficking, are being promoted in a continued initiative by faith-based investors from the Interfaith Center for Corporate Responsibility. Further, board diversity proposals show no sign of diminishing, although most of the two dozen filings will likely be withdrawn, as in the past.

Early filings at the Securities and Exchange Commission (SEC) suggest the big surge in resolutions from conservatives groups, led most prominently by the National Center for Public Policy Research (NCPPI), may be over, although that remains uncertain. The center has new look-a-like resolutions on human rights that inveigh against certain company operations abroad and social policies at home, but so far there is little sign that last year’s campaign for the political free speech rights of companies is continuing.

Sustainability reporting resolutions may be a casualty of their own success; half of the two dozen proposals about sustainability are not on reporting, but rather seek executive pay incentives for implementing sustainability policies—illustrating practical ways in which companies may be persuaded to change.

**The current tally:** A total of 314 pending shareholder resolutions are covered in this report, alongside 17 which have been omitted after challenge at the SEC and 36 withdrawn by proponents—often after company accords. Last year in mid-February, there were 334 resolutions pending, with 324 the year before. (A few more are likely to surface.) Companies have lodged many fewer challenges seeking to omit proposals at the SEC this year—just 71 compared with 113 at this time in 2015. To date, the commission has rejected 14 omission requests, lodged under the Shareholder Proposal Rule 14a-8—leaving just 33 still to be decided. This is half the number of challenges pending in mid-February last year (62), and below the 49 pending

## Proposals Filed in 2016



Source: Si2, n=370, as of 2-17-15

challenges in 2014. Proponents have withdrawn nine of these contested resolutions—down from 21 last year—sometimes after agreements with the companies and sometimes for tactical reasons because they have concluded they will lose. Last year, it seemed that there was an uptick in corporate legal resistance to shareholder resolutions, but this no longer seems accurate. (See Appendix for a list of reasons why proposals may be omitted.)

**Contributors to this report:** We are grateful to all the shareholder proponents who provided detailed information about their plans for the upcoming proxy season, in particular the Interfaith Center on Corporate Responsibility, the Ceres coalition, the Center for Political Accountability and AFSCME. This report would not have been possible without the cooperation of all proponents.

## Overview and New Issues in 2016

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 areas, 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. We also include a section with commentary from key players on additional governance topics not otherwise covered in this report. Finally, the report describes ten proposals from political conservatives worried about what they see as excessively liberal corporate actions.

### Environmental Issues

**Climate change and energy:** More proposals than ever before address climate change—94 compared with 82 in 2015. Twenty-two query energy extractors and suppliers about how the warming planet will affect their operations and how they will respond if governments follow through with commitments they made in the Paris climate treaty in December to keep fossil fuel assets in the ground to prevent damaging temperature increases.

A further 18 focus on the risks from using hydraulic fracturing to extract energy from shale deposits, including 12 related requests about methane reduction targets. Nineteen ask companies to set greenhouse gas emissions targets, a perennial topic. Proponents this year are heavily focused on what they see as actionable near-term options that can change the U.S. energy mix, addressing the demand side of the energy equation. They have expanded a campaign at utilities about deploying renewable, distributed energy; the two dozen proposals about renewables also include 13 resolutions on setting targets to use more of this energy.

The climate slate is rounded out by another 11 proposals that include a new one about changing energy reserves accounting at two companies and another new one suggesting executive bonuses should be linked to fossil fuel reserves accounting changes.

**Environmental management:** A baker’s dozen of resolutions include a new proposal on recycling food waste but otherwise raise previous, familiar requests for more recycling and consideration of water use risks.

**Toxics:** Two proposals are pending about nanomaterials in food products, at snack food companies **Hershey** and **Mondelez International**, but other resolutions about PCBs in the Hudson River and BPA in packaging have been omitted after SEC challenges.

**Industrial agriculture:** Chicken processing companies are under fire both from religious investors concerned about impacts on water and an Oxfam America proposal on worker safety (covered under Decent Work in this report). Investors seem to be having success in recruiting companies to consider action on neonicotinoid pesticides, an issue raised in last year’s proxy season that is pending at just **PepsiCo** this year. Two proposals are on genetically modified crops, three take up the overuse of antibiotics in animal feed, and one about confining pregnant sows at **Tyson Foods** already has gone to a vote, earned 12.8 percent, a respectable result at the closely held company.

### Social Issues

**Animals in entertainment:** People for the Ethical Treatment of Animals (PETA) wants **SeaWorld Entertainment** to end its orca breeding program, but a pending company challenge at the SEC makes the fate of this proposal uncertain. A resolution



to **Amazon.com** about selling cruelly produced items and another about roadside zoos at **Groupon** both face SEC challenges and it is not clear there will be any votes.

**Corporate political activity:** One of the biggest perennial issues of proxy season—the extent to which companies should report on their spending and involvement in the political arena—is continuing and may face increased national attention in this Presidential election year. The total number of resolutions has fallen this year to 98, though, down from a high of 139 in 2014. Some of this can be attributed to the growing acceptance by companies that they need to adopt better oversight and



## ERISA ENDORSES ESG INVESTING

**LISA WOLL**

*CEO, US SIF*

**MEG VOORHES**

*Director of Research, US SIF*

Last October, Secretary of Labor Tom Perez announced that the Department of Labor was rescinding a 2008 bulletin that had discouraged investors from considering environmental and social factors in the companies and funds in which they invest. In its place, the Department issued a new bulletin that assures that fiduciaries of private sector retirement plans “need not treat commercially reasonable investments as inherently suspect or in need of special scrutiny merely because they take into consideration environmental, social, or other such factors.”

This is welcome news to practitioners of sustainable, responsible, and impact investing (SRI), for whom the consideration of environmental, social and corporate governance (ESG) risks, opportunities and impacts is a central part of investment analysis.

### A Chilling Effect

The rescinded 2008 Department of Labor bulletin on Economically Targeted Investments (ETIs) had strongly suggested that fiduciaries of private sector retirement plans subject to the 1974 Employee Retirement Income Security Act (ERISA) would expose themselves to additional legal scrutiny if they either:

- took into account environmental, social, and governance factors in assessing investment risks and opportunities, or
- considered the collateral environmental or social benefit an investment option might offer beyond its financial returns to the plan.

These instructions were clearly out of step in a financial marketplace where, to name just two examples, investors increasingly have to worry about stranded fossil fuel investments and see green bonds as an investment opportunity.

### A Welcome Update

The new Bulletin, in contrast, nods to the growing consensus that fiduciary duty may compel fiduciaries to consider ESG factors in investment analysis and ownership practices. The updated guidance assures that “[c]onsistent with fiduciaries’ obligations to choose economically superior investments, the Department does not believe ERISA prohibits a fiduciary from addressing ETIs or incorporating ESG-related tools, metrics and analyses to evaluate an investment’s risk or return or choose among otherwise equivalent investments.”

As a result, US SIF expects that investment managers will extend their use of ESG analysis to include their ERISA clients and that more SRI options will be incorporated into private sector retirement plans.

[Research by the US SIF Foundation](#) documents that SRI and ESG investing was on the upswing even with the old bulletin in place. At the start of 2014, \$6.57 trillion in assets were held by US institutional investors and investment firms that review ESG risks and opportunities for their portfolio companies and funds. This \$6.57 trillion represents one in six dollars under professional management in the United States today, up from one in nine dollars in 2012.

A number of prominent investment managers now specifically say they practice ‘ESG integration’ as they perform investment due diligence analysis.

Many of these asset owners and managers also use their votes and voices as shareholders to encourage their portfolio companies to improve the sustainability of their operations and their potential value over the long term.

The Secretary of Labor’s updated guidance to ERISA fiduciaries allows them—and ultimately their plan beneficiaries—to benefit from additional analytical tools to assess risks, opportunities and impact of their retirement plans.

Just as important, it frees investment professionals to exercise their judgment and expertise in the service of beneficiaries.

disclosure. As has been the case for the last several years, there are more proposals about lobbying (55) than about election spending (40). This pressure helped prompt Wal-Mart Stores to start releasing state-by-state lobbying expenditure information, which might produce similar disclosure from others. A new wrinkle in the campaign for more disclosure this year is an effort to recruit shareholder proposal support from the Vanguard mutual funds, which so far have been reluctant to support these resolutions—although this is not requested in a shareholder resolution.<sup>1</sup> Nine companies have resolutions seeking oversight and disclosure of *both* election and lobbying expenditures.

A potent example of cross-cutting concerns that address the two main themes of proxy season—energy and politics—is a resolution at **Pinnacle West**, which owns an Arizona public utility mired in controversy over its spending to influence elections of the state’s public utility commissioners. Taking up alleged undue influence in another sector, the AFL-CIO has a new resolution at three large banks—**Bank of America**, **Citigroup** and **Morgan Stanley**—that asks for a prohibition on what it terms a “government service golden parachute.”

**Decent work:** Popular concern about the high economic and social costs of economic inequality appears to be driving a slew of new proposals about decent working conditions and fair pay this proxy season. A new resolution is asking half a dozen low-wage sector companies about adopting principles for minimum wage reform, three technology companies received proposals on the gender pay gap and three more ask about pay inequality. As noted above, a new Oxfam report and campaign seeks to address both wage and working conditions at three chicken processors, and another proposal went to **Wendy’s** about farmworkers’ rights in its supply chain.

**Diversity in the workplace:** Resolutions seeking protections for LGBT employees continue to diminish, given the broad and growing acceptance of these rights made clear by last July’s U.S. Supreme Court ruling, *Obergefell v. Hodges*, which legalized gay marriage. Just five shareholder proposals now pending ask for LGBT-friendly policies. But three out of four filed proposals asking for information on the gender and racial breakdown of companies also are pending. Further, in a new resolution that could presage further scrutiny of LGBT protections up and down the value chain, NorthStar Asset Management filed but then withdrew a proposal on this subject after reaching an accord.

**Health:** The deadly national opioid epidemic was at least partly the inspiration for a novel new resolution from As You Sow at three drug companies. It seeks to apply the principles of recycling to prescription drug take-back challenges, arguing this also could address environmental hazards associated with improper drug disposal in the consumer waste stream. Two tobacco control proposals also are pending. On another subject, a single proposal about advertising and childhood obesity is pending at **Alphabet** (formerly Google).

**Human rights:** The biggest new feature for human rights proposals in 2016 is a growing emphasis on the conflict between Palestinians and Israel. This accounts for at least 10 of the 42 proposals about human rights, with a new proposal about business ties to Israeli settlements. Eight more resolutions seek implementation of the Holy Land Principles, which received low levels of support when they went to votes last year. Still one more at **Boeing** asks for a report on military sales to Israel.

The Interfaith Center on Corporate Responsibility (ICCR) has a novel new proposal at four trucking companies trying to recruit their help in the fight against human trafficking. More resolutions reprise requests for human rights risk evaluations and rights in global supply chains. The disparate slate of proposals includes a handful more about respecting indigenous rights, prisons and execution drugs and proposed assault weapons bans.

## Sustainable Governance

**Board diversity:** Investors have already withdrawn four of the 23 proposals filed seeking greater board diversity in the campaign being coordinated by the Thirty Percent Coalition, and more withdrawals are likely as the season progresses. Last year, 18 out of 25 resolutions filed were withdrawn. Proponents have been steadily filing on this subject for years, with about two dozen resolutions annually in each of the last four years—spurred by the continued low representation of women and minorities on corporate boards.

**Board oversight:** The number of resolutions focused specifically on board oversight has fallen sharply this year, although this concept is baked into resolutions on most of the topics covered in this report. Si2 has identified just six resolutions so far, down from a total of 19 in 2015. Five are pending—with one asking about human rights, another on sustainability generally and three asking for environmental experts to be nominated to the board.

1. Coalition members reached out to Vanguard customers through social media and email campaigns this fall, providing them with a [model letter](#) to send to the company asking it to support political spending disclosure shareholder proposals.



The [Board Room Accountability Project](#) led by New York City Comptroller Scott Stringer, begun last year, gets to the heart of investor concerns about board oversight, however. It seeks the right for groups holding large stakes in companies to nominate directors on corporate-issued proxy statements—“proxy access.” The comptroller is targeting 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 so far in 2016. As of early January 2016, 115 had 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 this year are resubmissions at companies that have yet to enact the requested reform, while 36 are new recipients. Full coverage of this issue is beyond the scope of this report but it will remain a matter of keen interest to many in the 2016 proxy season. (See Appendix for more information.)

**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 has fallen to only 24 this year, with just 10 asking for reports (down from 28 last year), 11 seeking pay links and three asking for proxy voting support for sustainability. The pay links proposals include a new proposition at two oil majors—**Chevron** and **ConocoPhillips**—that says falling oil prices and their impact on reserves accounting should be considered in executive pay calculations. In another new proposal at three companies, NorthStar Asset Management wants to see CEO pay tied to diversity increases in senior management.

## Conservatives

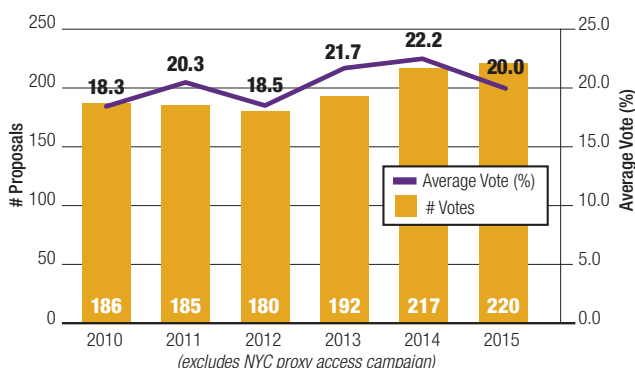
So far there appear to be fewer proposals from political conservatives, with just 10 that have cropped up. The main actor, the National Center for Public Policy Research (NCPPr), has published nothing about its plans, although a few of its resolutions have shown up in the challenge files at the SEC. SEC filings show it is using a new human rights framework to question company operations in the Arab world, China and India, saying these are inconsistent with the values espoused by **Apple**, **Eli Lilly** and **General Electric**. It also is using 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 seek to turn back LGBT rights protection.

# INTRODUCTION

## Key Shareholder Proposal Trends

Shareholder proposals on social and environmental issues had been on an ever-upward climb, but 2016 marks a plateau, if the new proxy access campaign from the New York City pension funds is taken into account. Not counting this effort, there are 92 fewer resolutions filed than last year. Average support dropped some last year, too, falling to 20.0 percent in 2015, down from the previous two years that were closer to 22 percent. (The average was dragged down by an unusually high number of votes

**U.S. Environmental and Social Shareholder Proposal Votes, 2010-2015**



**Status Trend, Environmental, Social & Sustainable Governance Proposals**



below 3 percent, including what may have been the lowest vote ever, less than one-half of 1 percent of a resolution at **Domino's Pizza** on offering vegan menu options.) The number of proposals voted in 2015 was at the highest number for the decade, though—220, up from 217 in 2014.

From 2006 to 2011, the proportion of proposals omitted because they did not conform to the Shareholder Proposal Rule has varied a little but not changed dramatically.

**Overall trends:** Four subject categories stand out from the others (see *top chart, right*). While the number of environmental resolutions has grown and has been at about 120 proposals for the last three years, the flood of political activity resolutions is drying up a little and has dropped below 100. Excluding the New York City proxy access campaign, sustainable governance concerns are now less common than in the past, with less than 40 for the first time in the decade. Human rights issues are on the rise, though, rebounding from a low in 2012. When the proxy access campaign is included in the tally, (see *bottom chart, right*), the proposal volume is the same this year as it was in 2014.

## Major Players

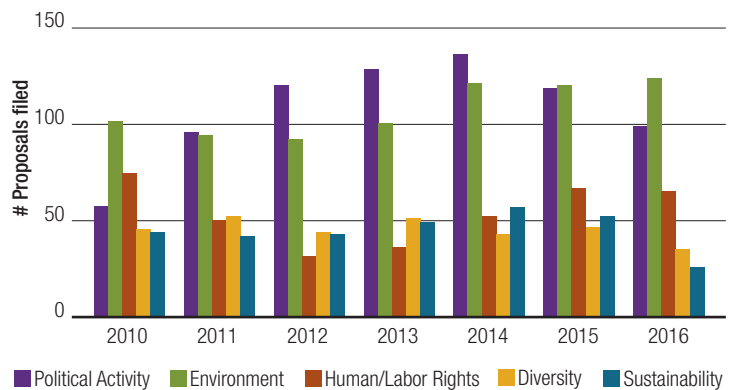
Proposals often have many co-filers with one lead or primary filer. The following is based on the primary filers for this year's social, environmental and sustainable governance resolutions.

**Sustainable and responsible investors (SRIs)** take into consideration a company's social, environmental, and governance performance alongside its financial returns. SRIs have been the single largest filer group since 2013, overtaking pension funds. This year they are the primary filers of 123 resolutions representing 33 percent of filings, about the same proportion as in 2015. Leading this year's effort are Trillium Asset Management (primary filer on 28) Walden Asset Management (14), and Zevin Asset Management (12), along with Northstar Asset Management (10) and Arjuna Capital (10). Domini Social Investments (9), Calvert Investments (8) and Clean Yield Asset Management (7). Many SRI firms, like other types of proponents, work in concert with others and regularly co-file proposals.

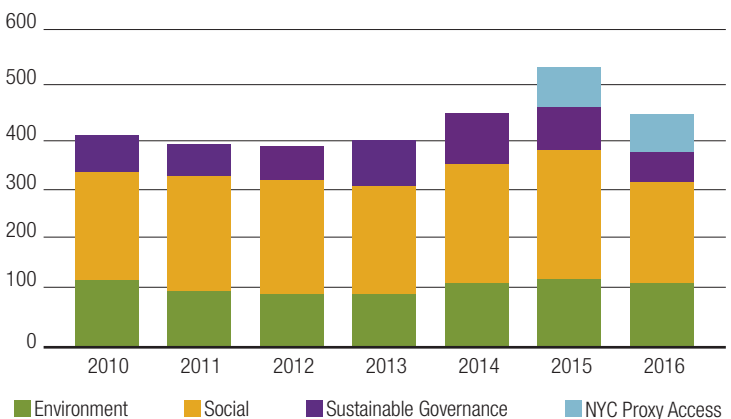
**Faith-based institutions** set up the Interfaith Center on Corporate Responsibility (ICCR) in 1971 and pioneered the shareholder advocacy movement for social change. For four decades, faith-based investors were the most prolific resolution filers; they continue to play a crucial role both as innovators and coordinators of shareholder networks today but now are involved in more dialogues than shareholder resolutions. They are the primary filers of 14 percent of 2016 resolutions, down from 21 percent last year, and co-file many more. The most active institutions are Mercy Investment Services (15 proposals), the Unitarian Universalists (5) and the Midwest Capuchins (Capuchin Franciscans, St. Joseph Province) (5). ICCR publishes an annual book detailing the proxy season activity of its members and making recommendations on how to vote; the 2016 edition is available on its [website](#).

**Pension funds** hold a unique role as active shareholders. On the one hand, they are among the largest filers of social and governance resolutions, yet, simultaneously, they often work behind the scenes to develop initiatives and benchmarks that help set standards for corporate behavior. Pension funds account for 17 percent of resolutions covered in *Proxy Preview*, up from 14 percent last year. The New York State Common Retirement Fund (NYSCRF; 39 resolutions) and the New York City pension funds between them have filed the most; almost all from the city are proxy access resolutions at companies targeted because of their performance on key sustainability metrics. The California State Teachers Retirements System (CalSTRS) is also an important player.

## Key Topic Trends Since 2010



## Environmental, Social and Sustainable Governance Proposals Filed





## NEW LEADERSHIP AT THE INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

### JOSH ZINNER

*CEO, Interfaith Center On Corporate Responsibility*

The unique role of faith-based investors' voices in pressing large companies to be responsible and accountable corporate citizens is as relevant today as it was during the Interfaith Center on Corporate Responsibility's (ICCR) founding, during the time of apartheid in South Africa. While ICCR's membership has evolved to include a wider variety of organizations—faith-based and secular—we are bound together through a deep commitment to economic, social and environmental justice, and the issues we address together as a shareholder coalition remain fundamentally about the effect of corporate practices on communities.

Because so many of ICCR's faith-based members are linked to ministries on the ground, we are uniquely positioned to bring community perspectives to the table so that companies better understand the true impact of their practices on affected people in the U.S. and globally. There is tremendous potential in growing this collaborative model to further extend the reach of our engagements and truly hold corporations accountable. We hope to expand our partnerships with community-based organizations, and to find other ways to bring the voices of people they represent into our corporate engagements, including by working through our own faith-based members with deep roots in communities.

As a public interest lawyer and in my previous leadership roles at NGOs, I have had a specific focus in pressing for greater corporate accountability in the financial sector—concentrating in particular on the effect of banking and financial services practices on low income communities and communities of color prior to, during, and in the aftermath of the financial crash. We were successful by forging partnerships with key allies, raising up community voices, using communications effectively and strategically engaging stakeholders, including policymakers and companies. My years of experience have given me an appreciation of how critical it is to constructively engage corporations, as well as an understanding of how to maximize the impact of those engagements through multi-stakeholder collaboration. Mobilizing and activating our networks in the investor, NGO and faith-based communities will continue to be a key engagement strategy for us.

ICCR is focused this year on developing more sophisticated tracking tools to better understand the impact of our engagement strategies: what works well and what is not as effective. Being able to more effectively measure the tactics and dynamics that make for productive corporate engagement will help us develop best practices across the organization and member base, and increase our ability to effect change. It is clear that the larger SRI community is also looking for ways to better measure not just the progress being made by companies, but our own effectiveness against the goals we're setting.

Thanks in large part to the efforts of the SRI community, corporations are more focused than ever on the effect of reputational and legal risk on their bottom lines. This creates unprecedented opportunities to work together creatively as investors to influence corporations on some of the most critical issues of our times. I look forward to working together with all of you to meet these challenges.

**Labor unions** have played a key role in the development of the shareholder advocacy movement, particularly with regard to corporate governance issues such as executive compensation and shareholder access to the proxy statement. Union concerns on labor rights, worker safety and political spending account for 8 percent of the social and environmental resolutions filed this year (30 resolutions), the same proportion as in 2014. The American Federation of State, County and Municipal Employees (AFSCME) and the UAW Retiree Medical Benefits Trust (primary filers of eight each), along with the Laborers' International Union (six) and the AFL-CIO (four).

**Foundations** have discovered that shareholder advocacy can support their missions and strengthen financial management of their investments. As You Sow has been a leader among foundations in using proxy voting and shareholder advocacy, filing more than 245 resolutions since 1998. Foundations as primary filers account for 14 percent of resolutions in 2016, up substantially from 2015, again led by As You Sow (primary filer of 40 out of the 51 foundation-sponsored proposals in *Proxy Preview*) and the Nathan Cummings Foundation (5). Additional foundations serve as co-filers on many proposals.

**Special interest groups** have used shareholder resolutions to promote their own specific issues. Their resolutions often get low votes but in some cases—such as animal welfare—they still can be part of effective corporate reform initiatives. Special interest groups account for 8 percent of this year's resolutions, as they did last year—with filings led by the Holy Land Principles organization (9 resolutions) and the conservative National Center for Public Policy Research (only seven filings to date, half last year's tally).

**Individual proponents** have become increasingly important as filers for resolutions covered in *Proxy Preview* and this year so far have 22 proposals, 6 percent of the total. These are harder to track given the lack of institutional affiliation, and may pop up unexpectedly in proxy statements or when companies lodge challenges to them at the SEC. Last year there were 49 during the whole year. While a small number of very active individual investors mostly have been filing corporate governance resolutions for years, the number of individual proponents of social and environmental resolutions has grown in the last several years.

**Universities:** While institutions of higher education—notably Loyola University of Chicago, Swarthmore College and Wesleyan University—have filed proposals in the last few years, they are not primary filers on any resolutions this year. Most of the biggest endowed schools vote their proxies, although the proportion of directly held stock has shrunk dramatically given changes in endowment management practice, prompting a reexamination of options for engagement at some institutions. This is coming even as many grapple with increasingly insistent student demands to sell fossil fuel stock. The [Intentional Endowments Network](#), formed in 2014, continues to build connections between those responsible for endowment management and other stakeholders. (See p. 62 for an update on the group and its work.)

## THE 2016 PROXY SEASON

This section of the report presents information on all the social and environmental proposals that investors have filed for the 2016 proxy season according to Si2 research—a total of 370 resolutions as of February 15, down from the high of 433 resolutions at the same point last year and 417 in 2014. (Not included in this tally are 72 proposals filed by the New York City Comptroller’s office asking for the right to nominate directors using the company proxy statement—known as “proxy access.” These proposals are prompted by social, environmental and governance concerns at the companies targeted but their inclusion is beyond the scope of this report. (See *Appendix for a list of the companies and information on the Boardroom Accountability Project.*) Additional proposals for spring votes will surface as the season progresses and a dozen or so more are likely to be filed for meetings that occur after June. When the proxy access campaign is included, the volume is about where it has been for the last few years.

Some of the proposals included in the aggregate totals at the beginning of this report have yet to be made public. Just 14 resolutions are not described in detail because proponents have not yet made them public.

**Structure of the report:** Information is presented in four main areas, as noted above—Environment, Social and Sustainable Governance—plus Conservatives. (Commentary from experts in the field on other governance issues also appears.) Discussions of the proposals note how many have been filed in all, which of these remain 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), which issues opinions on the admissibility of resolutions under the Shareholder Proposal Rule (14a-8). The analysis focuses on the resolved clause requests and how these are different or the same compared with previous proposals. The report notes the levels of support that can be expected based on previous trends, and how much support resubmitted proposals received in the past. It takes particular note of new developments.

**Key information**—Within each section, at-a-glance information is presented in tables that provide the name of each company, a short description of each resolution, the primary sponsor of the proposal, and the projected month for each company’s 2016 annual meeting, if a proposal is going to a vote. Otherwise, the last column indicates if a proposal has been omitted (after the SEC staff agrees with a company challenge) or withdrawn by the proponent.

**Voting eligibility**—To vote on proposals, investors must own the stock as of the “record date” set by the company, usually about eight weeks before the annual meeting.

## Environment

Climate change continues to be the primary focus of all environmental shareholder proposals. The climate conversation in the proxy process is still all about carbon accounting and risk management disclosure—with 94 resolutions on these topics (up from 83 at this date in 2015). Other environmental management topics are raised in only 24 proposals this year—down a bit from the 28 at this point last year. These include a new one on food waste but otherwise cover the familiar ground of recycling, water, toxic materials, antibiotic use and animal welfare in industrial food production.



## BRINGING THE COP21 PARIS CLIMATE CHANGE AGREEMENT INTO CORPORATE BOARDROOMS

**SHANNA CLEVELAND**

*Senior Manager, Carbon Asset Risk Initiative, Ceres*

For decades, investors have called on the fossil fuel industry to take climate risk seriously. Events of the past year have placed the issue in even starker relief. In December world leaders—not only the heads of state of 195 nations, but also the heads of businesses, markets and investment firms—came together in Paris to act on climate and to declare that the world would seek to keep global average temperature to well below 2 degrees Celsius above pre-industrial levels and to pursue all efforts to limit it to no more than 1.5 degrees Celsius. That means that 2 degrees is no longer the floor, but the ceiling for temperature rise—a level that will require fundamental changes in how the world produces and consumes energy. Investors this season filed three types of shareholder resolutions that ask companies to address the risks associated with this transition.

The first is a set of resolutions that asks 12 companies to stress test their business and capital planning decisions against the 2 degree target so that investors can understand how the company is planning to survive the energy transition. Ten global oil and gas companies announced their support of the 2 degree target prior to Paris, and **Shell, BP** and **Statoil** all endorsed shareholder resolutions from the 'Aiming for A' coalition asking them to test the resilience of their portfolios during last year's proxy season. Recent analysis from Barclay's shows what is at stake—over \$34 trillion in fossil fuel revenues is at risk between now and 2040 under a 2 degree scenario. Any company that expects investors to believe that it will maintain a competitive edge in that scenario should be releasing an analysis of its own.

The second is a set of resolutions that asks 10 utilities to recognize how rapidly the electric grid is changing and to present their plans for adapting to more distributed generation and low carbon resources. Reaching the 2 degree target requires that utilities take advantage of the rapidly dropping prices of solar and wind, but some have chosen to fight against regulatory changes rather than develop new strategies. A Pricewaterhouse Coopers survey recently found that 94 percent of electric power industry representatives [predict](#) that the power utility business model will be either completely transformed or significantly changed by 2030. These resolutions call on the companies to start planning for the future now, since power plants they build or upgrade today are likely to last well over 30 years.

The third resolution type tackles the issue of executive compensation and reserves replacement. Even as earnings have taken a nosedive, executive compensation packages have remained healthy at many oil and gas companies. A new set of resolutions filed at five companies this year calls into question whether reserves replacement has outlasted its usefulness as a value metric.

*(The section on Sustainable Governance, p. 48, examines 24 more related 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

The Paris climate treaty reached in December 2015 has prompted optimism from many about new prospects for a real shift in global government action to address climate change. But the just-announced U.S. Supreme Court decision to delay implementation of President Barack Obama's Clean Power Plan that would curb U.S. utility sector emissions—while a lawsuit challenging the plan proceeds—may undercut the Paris accord. Nonetheless, many large institutional investors are convinced that companies and governments must take urgent action to address climate risks; they are paying ever closer attention to how their portfolio companies are strategically situated to handle climate-related risks and opportunities. This informs the 2016 shareholder resolutions and provides the context for the current proxy season, despite the continuing U.S. political dysfunction that makes meaningful national energy legislation out of reach in the short term.

The 94 climate change proposals, commonly filed at the most intensive fossil fuel producers and users, address the impacts a warming globe will have on corporate operations and ask companies to be better prepared for the fallout. Twenty-two request more robust analysis about strategic changes they can make to facilitate a transition to a lower carbon future that presents the least risk to investors and the planet. As in the past, additional resolutions raise concerns about the many impacts of hydraulic fracturing in oil and gas extraction (six proposals), as well as methane releases from this activity (12). Nineteen ask companies to set targets to cut their carbon footprints and report on their efforts, carrying forward the longstanding investor focus on carbon accounting. Twenty-four, mostly at utilities and retailers, ask about renewable energy use and goals and new models for electricity generation. Eleven round out the slate by asking for analysis of additional specific climate-related impacts and suggest further strategic responses to encourage changes in company behavior, addressing deforestation, reserves accounting and links to executive pay and dividends. Two ask for revised reporting to the SEC using energy units rather than units of oil and gas – in an effort to redefine industry members as “energy” companies.



The [Ceres](#) coalition coordinates nearly all these proposals, working with the [Investor Network on Climate Risk](#) (INCR) and a broad coalition of institutional investors and some individuals. Both Ceres and a growing chorus of 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, and this concern underpins a number of the pending proposals.

*(Sections below on Environmental Management, p. 23 and Sustainable Governance, p. 48, contain information on proposals about these related topics that touch on both climate change and additional environmental and social matters.)*

## Moral Imperative

The Sisters of St. Dominic of Caldwell, N.J., which for years has asked **ExxonMobil** to take a more proactive approach to mitigating its impacts on the climate, now is using a more explicitly moral frame. Invoking the June *Laudato Si* papal encyclical, [discussed](#) in *The New York Times*, it asks that the board “adopt a policy acknowledging the imperative to limit global average temperature increases to 2 degrees C above pre-industrial levels,” and support goals that would keep warming to less than this level.

## Impacts and Strategies

Proponents are asking 11 oil and gas companies to provide reports on how a world retooled for only a 2 degrees Celsius temperature increase would affect them. Several challenge the producers to reveal more about their capital expenditure plans,



### FOSSIL FUEL COMPANIES' CLIMATE DECEPTION DRAWS SCRUTINY

**KATHY MULVEY**

*Climate Accountability Campaign Manager, Union of Concerned Scientists*

This proxy season, fossil fuel producers are facing growing scrutiny about the discrepancy between their internal knowledge of climate science and their public denial of climate change. Last July, the Union of Concerned Scientists (UCS) released [The Climate Deception Dossiers](#), a report documenting how, over the past three decades, many of the world's largest fossil fuel companies have intentionally spread disinformation about climate science. The fossil fuel industry's campaigns to sow confusion and block action to address global warming are highlighted in seven 'deception dossiers'—collections of internal company and trade association documents that have either been leaked to the public, come to light through lawsuits, or been disclosed through Freedom of Information (FOIA) requests.

Each collection provides an illuminating inside look at this coordinated campaign of deception, an effort underwritten by **ExxonMobil, Chevron, ConocoPhillips, BP, Shell, Peabody Energy** and other fossil fuel companies. UCS also found that ExxonMobil had been factoring the reality of fossil fuel-driven climate change into its internal oil and gas extraction plans as early as 1981—much earlier than anyone had realized and years before there was much public awareness of the problem.

A few months after the report's release, two news organizations published a series of articles that filled in more detail about what ExxonMobil scientists knew about the threat posed by climate change and when they knew it. Both [Inside Climate News](#) and the [Los Angeles Times](#) uncovered evidence from company archives and interviews with former employees showing that ExxonMobil was a leader in climate research in the 1970s and 1980s before becoming one of the most ardent climate science deniers, and that the company rejected warnings from its own scientists that the consequences of global warming could be catastrophic.

In light of these revelations, several members of Congress, three Presidential candidates, more than 60 leading environmental, science and social justice groups, and nearly 400,000 individuals have called for the U.S. Justice Department to investigate ExxonMobil for deliberately deceiving the public, much in the same way the tobacco industry lied about the link between smoking and disease.

New York's Attorney General Eric Schneiderman has begun an inquiry, telling *PBS NewsHour*, “we have laws against defrauding the public, defrauding consumers, defrauding shareholders.” California's Attorney General is reportedly also investigating whether ExxonMobil lied to shareholders and the public about the risks from climate change and whether such actions amount to securities fraud and violations of state environmental laws. Meanwhile, 45 members of Congress sent leading fossil fuel company CEOs [a letter](#) citing [The Climate Deception Dossiers](#) that asked whether the companies intentionally spread disinformation about climate science.

These developments and the landmark Paris climate agreement set the context for heightened investor engagement with oil, gas and coal companies about their response to climate change. This proxy season, shareholders are calling on companies such as ExxonMobil, Chevron and ConocoPhillips to disclose how they are positioning their companies in a carbon-constrained world and to address issues relating to their public policy advocacy on climate and energy.

positing 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, but some are more general. The formulations vary:

- Wespeth Investment Management wants **Chevron** and **Occidental Petroleum** to assess annually “long-term portfolio impacts of public climate change policies,” explaining “how current capital planning processes and business strategies incorporate analyses of the short—and long-term financial risks of a lower carbon economy,” evaluating “the impacts of fluctuating demand and price scenarios on the company’s existing reserves and resource portfolio.” Very similar resolutions are at **Marathon Oil**, from the Unitarians, and **Noble Energy**. At the latter, the Presbyterian Church (USA) wants an “analysis of the impact” of carbon-limiting public policies “upon demand for and pricing of the company’s products and options for aligning company goals with such policy, demand, and pricing trends.”
- At **ExxonMobil**, and in nearly identical language at **Devon Energy**, the New York State Common Retirement System says the requested  

assessment can be incorporated into existing reporting and should analyze the impacts on ExxonMobil’s oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2 degree target. The reporting should assess the resilience of the company’s full portfolio of reserves and resources through 2040 and beyond and address the financial risks associated with such a scenario.
- Two resolutions, both from As You Sow, explicitly reference stranded assets. At **Anadarko Petroleum**, the report should discuss “how the Company will address the risk of stranded assets presented by global climate change and associated demand reductions for oil and gas, including analysis of long and short term financial and operational risks,” while at **Hess** it adds that there should be “a range of stranded asset scenarios” presented, “such as scenarios in which 10, 20, 30, and 40 percent of the Company’s oil reserves cannot be monetized.”
- Likewise, First Affirmative Financial Network wants pipeline company **Kinder Morgan** to analyze how its capital expenditure strategies are consistent with carbon-limiting public policies, covering short- and long-term “financial risks to the company associated with transporting high production-cost fossil fuels in low-demand scenarios, as well as analysis of options to mitigate related risk and harm to society.” (This is a third-year proposal that received 22.3 percent in 2015 and 24.4 percent in 2014.)

## Impacts & Strategies

Company	Proposal	Lead Filer	Status
AES	Report on climate change	Mercy Investment Services	April
American Electric Power	Report on stranded assets business risks	As You Sow	April
Anadarko Petroleum	Report on stranded assets business risks	As You Sow	May
Chevron	Report on climate change strategy	Wespeth Investment Mgt.	May
ConocoPhillips	Report on climate change strategy	Walden Asset Mgt.	withdrawn
Devon Energy	Report on climate change strategy	NYSCRF	June
Dominion Resources	Report on climate change	Pamela Morgan	May
Dominion Resources	Report on climate change strategy	Calvert Investment Mgt.	May
Duke Energy	Report on climate change strategy	CT Retirement Plans	May
ExxonMobil	Report on climate change strategy	NYSCRF	May
FirstEnergy	Report on stranded assets business risks	As You Sow	May
Great Plains Energy	Report on stranded assets business risks	As You Sow	May
Hess	Report on stranded assets business risks	As You Sow	May
Kinder Morgan	Report on climate change	FAFN	May
Marathon Oil	Report on climate change	Unitarian Universalists	April
Noble Energy	Report on climate change strategy	Presbyterian Church (USA)	April
Occidental Petroleum	Report on climate change	Wespeth Investment Mgt.	May
PG&E	Report on climate change strategy	As You Sow	May
Portland General Electric	Report on climate change strategy	As You Sow	May
Southern	Report on climate change strategy	Tri-State Coalition for Resp. Inv.	May
Southern	Report on stranded assets business risks	As You Sow	May

Eleven more proposals at utility companies take a similar approach but address risk and mitigation strategy from the demand side of the spectrum. Again raising the specter of asset stranding, As You Sow wants **American Electric Power**, **FirstEnergy** and **Great Plains Energy** each to quantify “the potential financial losses to the company associated with stranding of its fossil fuel generation facilities [coal generation at FirstEnergy] under a range of climate regulation scenarios requiring greenhouse gas reductions beyond Clean Power Plan reductions,” including a 2 degrees Celsius increase scenario.

Taking on the concept of clean coal directly, As You Sow also wants **Southern** to provide a similar financial loss estimate for its coal assets, and to “include possible financial losses if coal gasification and/or CCS is rejected by policymakers as a technical climate mitigation strategy, or if they cannot be cost effectively implemented. Shareholders also request that Southern disclose, in the report, its total investments in CCS and coal gasification technologies.”

Mercy Investment Services is asking **AES** to assess “the long term impacts on the company’s portfolio of public policies and technological advances” that would keep warming to “no more than 2 degrees Celsius over pre-industrial levels.” The Tri-State Coalition for Responsible Investment wants a report from **Southern** on its “strategy for aligning business operations” with the same scenario, “while maintaining the provision of safe, affordable, reliable energy.” (This is one of two proposals at Southern on climate impacts and strategies.)

At two more utilities, investors worry about how companies will keep pace with industry trends. Calvert Investments wants a study from **Dominion Resources** about “the potential future threats and opportunities presented by climate change driven technology changes in the electric utility industry” and asks it to report on the “company’s plan to meet these challenges, protect shareholder value, and reduce the company’s substantial carbon emissions.” The Connecticut Retirement Plans’ proposal is also pending at **Duke Energy**, where similar resolutions earned about 24 percent support in 2015 and 2014.

Specific types of extreme weather patterns are the issue at three more electric companies. Pamela Morgan is reprising her previous resolution about storms at **Dominion Resources**, asking for a report detailing “the financial risks to Dominion Resources posed by climate change and resulting impacts on share value, specifically including the impact of more frequent and more intense storms.” This yielded about 24 percent support in each of the last two years.

A new resolution from As You Sow asks **Portland General Electric** and **PG&E** about water shortages, requesting a report by October that quantifies

the financial and operational risk to the company associated with climate-change driven ‘mega-droughts,’ such as those that reduce hydroelectric resources by 75 to 100% for an extended period of years. Shareholders request that the report also describe how the company would avoid increased GHG emissions in mega-drought conditions.

**Withdrawal:** Walden Asset Management asked **ConocoPhillips** to “annually publish the scenario analysis the company has been conducting of the potential impact on its business operations and oil and gas reserves portfolio against four scenarios including three that are consistent with achieving a reduction of greenhouse gas emissions to limit global warming to 2 degrees Celsius,” and to “explain how ConocoPhillips uses the results of the analysis to inform its business strategies and capital planning processes.” Walden withdrew after the company agreed to update carbon asset risk information in its 2015 sustainability report, due in mid-2016, to continue dialogue with proponents about climate change and to consider how to present information about its different climate change scenario assessments.

**SEC challenges:** **AES** unsuccessfully challenged the proposal about industry technology changes, arguing it was too vague, could not be implemented and concerned ordinary business; SEC staff disagreed on all points.

There is no response yet from the commission on other challenges:

- **ExxonMobil** is arguing at the SEC that the “moral imperative” resolution is too vague and that it already has sufficiently addressed climate change concerns.
- **Chevron** says that the scenario analysis request is ordinary business and substantially similar to two earlier proposals that did not earn enough for resubmission. It asserts that last year’s resolution about paying out a dividend instead of exploring for more oil and gas, which earned 3.2 percent, is similar to a 2011 proposal about climate risk that earned 7.3 percent. If this argument holds, the 2015 dividend resolution would have required a vote of at least 10 percent to allow this year’s resolution to proceed. (The dividend proposal has also been resubmitted this year, separately, by Arjuna Capital.)
- **Hess** also is contending that its scenario analysis proposal relates to ordinary business and is moot. Dominion Resources says this is also true of the utility business model change proposal, and PG&E says the same thing about the drought proposal.

## Shale Energy

**Hydraulic Fracturing:** **Carrizo Oil & Gas** and **ExxonMobil** face resubmitted proposals that ask them to start reporting annually “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.” In 2015 this proposal earned about 25 percent at ExxonMobil and nearly 44 percent at Carrizo. It is newly submitted to **Newfield Exploration** and highlights that firm’s low score on a December 2015 disclosure [ranking](#) from the Investor Environmental Health Network and violations in Pennsylvania.

At **Continental Resources**, the resolution is slightly different, targeting fracking’s use in “unconventional gas and oil resources.” A withdrawal accord seems possible because the company and proponents reached agreements on sustainability reporting in 2015 and setting flaring goals in 2013. (A separate proposal about methane is also pending at Continental, noted below.)

The language at **Chevron** specifies it is interested in “water resources and community impacts.” This resolution, from the Sisters of St. Francis of Philadelphia, earned 26.8 percent in 2015, but support was down from a high of 40.5 percent in 2011. It will be going to a vote for the sixth time.

**Freeport-McMoRan**, which has recently expanded beyond its large global mining operations into oil and gas, now faces a resolution a little bit different than the others. As You Sow and Newground Social Investment want a report

on company actions being taken (excluding actions taken to comply with law) to reduce and mitigate potential health harms, environmental harms, and negative community impacts that arise from Freeport’s enhanced oil recovery operations (such as hydraulic fracturing, steam injection, gravel packing, and acidizing) in urban areas of California.

**Methane:** A dozen resolutions that seek data and goals for methane, which has a far greater impact on climate change than carbon dioxide. Continuing an ongoing effort, the California State Teachers’ Retirement System wants several companies to report on how they are “monitoring and managing the level of methane emissions” from their operations, including “a company-wide review of the policies, practices, and metrics related to... methane emissions risk management strategy.” This resolution is being proposed for the first time at six companies—**Antero Resources**, **Cimarex Energy**, **Gulfport Energy**, **Continental Resources**, **Pioneer Natural Resources** and **WPX Energy**. It is a resubmission at **Energen** (29.4 percent in 2015 and 26.8 percent in 2014) and **Kinder Morgan** (22.8 percent in 2015 and 17.7 percent in 2014).

Two of these targets previously had fracking disclosure proposals; one at WPX in 2015 earned 32.8 percent, while another to Pioneer received 41.7 percent in 2015 and was withdrawn after an agreement in 2014. Also, Mercy Investment withdrew a 2013 proposal at Continental about flaring and tight oil production, after the company agreed to future disclosure in its securities filings.

Shale Energy			
Company	Proposal	Lead Filer	Status
Antero Resources	Report on methane emissions/reduction targets	ELCA	June
Carrizo Oil & Gas	Report on hydraulic fracturing/shale energy risks	As You Sow	May
Chevron	Report on hydraulic fracturing/shale energy risks	Srs. of St. Francis of Phila.	May
Cimarex Energy	Report on methane emissions/reduction targets	CalSTRS	May
Continental Resources	Report on methane emissions/reduction targets	CalSTRS	May
Continental Resources	Report on hydraulic fracturing/shale energy risks	Mercy Investment Services	May
Dominion Resources	Report on methane emissions/reduction targets	Robert Vanderhye	omitted
Energen	Report on methane emissions/reduction targets	CalSTRS	April
EOG Resources	Report on methane emissions/reduction targets	Trillium Asset Mgt	withdrawn
ExxonMobil	Report on hydraulic fracturing/shale energy risks	As You Sow	May
Freeport-McMoRan	Report on hydraulic fracturing/shale energy risks	As You Sow	June
Gulfport Energy	Report on methane emissions/reduction targets	CalSTRS	June
Kinder Morgan	Report on methane emissions/reduction targets	Miller/Howard Investments	May
National Fuel Gas	Report on methane emissions/reduction targets	Arjuna Capital	March
Newfield Exploration	Report on hydraulic fracturing/shale energy risks	As You Sow	May
Occidental Petroleum	Report on methane emissions/reduction targets	Arjuna Capital	May
Pioneer Natural Resources	Report on methane emissions/reduction targets	CalSTRS	May
WPX Energy	Report on methane emissions/reduction targets	CalSTRS	May



## THE NEED TO MAKE THE INVISIBLE VISIBLE

### LUAN STEINHILBER

*Director of Operations and Shareholder Advocacy, Miller/Howard Investments*

With oil spills, we see it. We see the oil slicking our oceans and waterways; we see the oil coating wildlife; we see the oil on the soil and sand of our beaches. The images are stark and immediate. As a regulator, investor or company, it is simpler to make the case for action based on what you can see.

#### What about spills you can't see?

Methane avoids detection by the human senses of sight and smell: we can't see it and we can't smell it. We rely on infrared imaging technologies and [malodorous additives](#) to expose it, and on companies to manage and disclose it.

Recent events show how disclosure is important, but not enough. Adequate disclosure undergirds industry-wide best practices, emission reduction targets and industry-binding regulation.

A [massive methane leak](#) near Los Angeles in Aliso Canyon, California, was first noted on October 23, 2015. The [LA Times](#) reported that "[A]t its height, the leak more than doubled the methane emissions of the entire Los Angeles Basin and surpassed what is released by all industrial activity in the state." [Thousands of families](#) have been displaced, [schools were relocated](#) and the site was declared a temporary [no-fly zone](#).

With the egregious and worrisome methane leak comes an opportunity to bring increased understanding of methane to companies, investors and regulators.

#### Invisible and Insidious:

**Methane Is A Climate Heavy-Hitter:** "[M]ethane's lifetime in the atmosphere is much shorter than carbon dioxide (CO<sub>2</sub>), but CH<sub>4</sub> is more efficient at trapping radiation than CO<sub>2</sub>. Pound for pound, the comparative impact of CH<sub>4</sub> on climate change is [more than 25 times greater than CO<sub>2</sub>](#) over a 100-year period."

**The Regulatory Landscape Is Moving Quickly:** Grounded in science and a recognition of the non-linear, accelerating and human costs of climate change, countries and non-state actors made commitments at [COP21](#) to take actions to hold the global average temperature to below 2 degrees Celsius above pre-industrial levels. In 2015, the EPA announced new rules to cut methane emissions from the oil and gas sector to 40-45 percent below 2012 levels by 2025. The [glaring loophole](#), however, is that the new regulations do not apply to existing facilities and infrastructure and "roughly 90% of emissions in 2018 are forecast to come from existing sources."

**But Companies Are Stalling:** In 2016, the [EDF](#) found, "that none of the 65 market leaders reviewed in the production and midstream segments disclose targets to reduce methane emissions and less than a third report such emissions via accessible, investor-facing data sources."

**Investors Are Leading:** [Shareholder resolutions](#) and dialogues are urging companies to improve disclosure and management of methane emissions, to [support the proposed EPA rules](#), and to share best practices.

We may not see the methane in our sky, but we will see it in the environmental and health consequences, and often also at the reckoning of regulators and litigators. Yet, even if we can't see it, we *can* measure and therefore manage it. Shareholders can help make the invisible visible by engaging companies on methane emissions disclosure.

There are three more, including one that has been challenged. Arjuna Capital is asking **Occidental Petroleum** for the third year in a row to report "reviewing 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." It earned 33.1 percent in 2015 and 30.4 percent in 2014. Arjuna also wants **National Fuel Gas** to provide the same report, for the first time; Miller/Howard Investments withdrew a fracking disclosure proposal last year at the company.

**SEC challenge**—Also still pending is a resolution at **Dominion Resources** from Robert Vanderhye, who wants a report on how the company "is measuring, mitigating, setting reduction targets, and disclosing methane emissions." He earned 25 percent in 2015 and 21.9 percent on similar resolutions. The company is contending at the SEC that it has already provided the requested information in a detailed report it has published.

**Withdrawal**—Trillium Asset Management withdrew a methane reduction target proposal at **EOG Resources** this year after the company agreed to disclose its methane emissions rate and its leak, detection and repair rates, and to discuss these issues in its 2016 proxy materials. The company and proponents have a history of discussions that has produced several accords over the years.



## Carbon Accounting

Carbon Accounting			
Company	Proposal	Lead Filer	Status
Apple	Report on GHG emissions targets	Jantz Mgt	7.1%
CBS	Adopt GHG reduction targets	Midwest Capuchins	May
Chevron	Adopt GHG reduction targets	Tri-State Coalition for Resp. Inv.	May
Deere	Adopt GHG reduction targets	Jantz Mgt	February
Dillard's	Adopt GHG reduction targets	Franciscan Srs. of Perp. Adoration	May
Dollar General	Adopt GHG reduction targets	Srs. of the Presentation BVM	withdrawn
Emerson Electric	Adopt GHG reduction targets	Walden Asset Mgt.	36.80%
ExxonMobil	Adopt climate change action principles	Srs. of St. Dominic of Caldwell, NJ	May
Fluor	Adopt GHG reduction targets	NYSCRF	April
General Dynamics	Adopt GHG reduction targets	NYSCRF	May
HD Supply Holdings	Adopt GHG reduction targets	Calvert Investment Mgt	May
Hologic	Adopt GHG reduction targets	Trillium Asset Mgt	withdrawn
International Business Machines	Adopt GHG reduction targets	Jantz Mgt	withdrawn
Marathon Petroleum	Adopt GHG reduction targets	Mercy Investment Services	April
Mastercard	Adopt GHG reduction targets	The Sustainability Group	June
McDonald's	Adopt GHG reduction targets	Srs. of St. Francis - Dubuque	May
Nucor	Adopt GHG reduction targets	Pax World Funds	May
Phillips 66	Adopt GHG reduction targets	Presbyterian Church (USA)	May
PNM Resources	Adopt GHG reduction targets	Walden Asset Mgt.	May
Wal-Mart Stores	Adopt GHG reduction targets	Mary Patt Tift	June

Investors have for many years insisted that companies will be able to reduce their carbon emissions only if they track, manage and set specific reduction goals—prompting scores of proposals to set targets. This year is no different, with 17 resolutions about goal-setting. Eleven of them are identical, asking a range of companies—**CBS, Dillard's, Dollar General, Emerson Electric, Fluor, General Dynamics, HD Supply Holdings, Mastercard, McDonald's, Nucor** and **PNM Resources**—

to adopt time-bound quantitative, company-wide goals, taking into consideration the most recent Intergovernmental Panel on Climate Change (IPCC) guidance for reducing total greenhouse gas (GHG) emissions, and issue a report.

The resolution is new to all but Dillard's (it earned 21.4 percent there last year) and HD Supply (25.8 percent in 2015). It already has gone to a vote at Emerson, earning 36.8 percent at the company's February 2 annual meeting.

Five other emissions goals proposals to oil and gas companies differ a little. Two ask that goals encompass company products:

- At **Chevron**, the Tri-State Coalition for Responsible Investment wants the company to “adopt long-term, quantitative, company-wide targets for reducing greenhouse gas emissions in products and operations,” considering UN goals to limit warming to 2 degrees Celsius. This resubmitted proposal earned 8.2 percent in 2015.
- Another resubmission, from Mercy Investment Services to **Marathon Petroleum**, asks for quantitative goals “based on current technologies” for company “products and operations.” It earned 12.7 percent last year, down from 35.8 percent in 2015 when it first went to a vote. A similar resubmission is pending at **Phillips 66** from the Presbyterian Church (USA); it earned 28 percent last year and 22.1 percent in 2014.

Jantz Management is taking a different and more aggressive approach at **Deere** and **International Business Machines**, asking each to “generate a feasible plan for the Company to reach a net-zero greenhouse gas emission status by the year 2030 for all aspects of the business which are directly owned by the Company, including but not limited to manufacturing and distribution, research facilities, corporate offices, and employee travel, and to report.” It will go to a vote at Deere on Feb. 24. Jantz also is asking **Apple** about net-zero GHG goals, but is asking only for a report on their feasibility, “setting forth policy options for the Company to reach a net-zero greenhouse gas emission status for its facilities and major suppliers by 2030.”

The final goals proposal is a resubmission to **WalMart Stores** that is unlikely to go to a vote. From individual investor Mary Patt Tift, it asks the company to set goals to cut GHG emissions from its international marine shipping of products sold in its stores and clubs. But it earned only 1.7 percent in 2015, not enough to qualify for resubmission—a point made by the company in its pending challenge at the SEC.



## ACCOUNTING FOR A TRANSITION TO A CLEAN ENERGY FUTURE

**DANIELLE FUGERE**

*President & Chief Counsel, As You Sow*

Carbon-related transitions are occurring swiftly in energy markets today. Oil and gas companies are faced with a slew of new carbon reduction regulations, rapid energy efficiency increases that reduce oil and gas market share, decreasing costs of competing renewables, and disruptive technologies such as electric vehicles. A path toward rapid decarbonization of energy markets was solidified when global governments agreed to maintain global warming below 2 degrees Celsius at the December 2015 COP21 climate talks in Paris. In that agreement, governments acknowledged the need to significantly decarbonize the economy by mid-century.

Investors understand that in a rapidly decarbonizing economy, oil and gas companies must develop new business models. One clear path is to diversify into new types of energy such as renewables, becoming true energy companies rather than just oil and gas companies. **Statoil** and **Total** are examples of companies adopting this new path.

The current system of oil and gas reserve accounting, however, hampers flexibility in moving away from oil and gas development and creates negative incentives for management to diversify. Oil and gas companies today are valued on their ability to replace their reserves. Reserves are measured in barrels of oil and cubic feet of gas. Where reserve replacement—denominated in oil and gas units—is not fully achieved, a company's stock value is likely to be impaired and top executives may not receive full incentive packages. This fuel-specific reporting metric does not allow management to receive credit for moving capital away from oil and gas into other types of energy production.

In As You Sow's Carbon Accounting Transition (CAT) proposal asks **Chevron** and **ExxonMobil** to quantify and report to shareholders their energy resources, by resource category, in energy units known as BTUs—British Thermal Units, a widely accepted unit of energy that is resource agnostic. Such reporting would be in addition to the reserve reporting currently required by the Securities and Exchange Commission.

Reporting in energy units creates a new measure of successful operation and energy development whether those energy units consist of traditional oil and gas resources or renewable resources such as biofuels, solar, wind, or geothermal. Metrics that account equally for all types of energy production, instead of incentivizing the production of carbon-based energy, will help incentivize companies to transition to a climate appropriate resource mix. Moving to an energy-neutral reserve reporting system will also help investors understand the relative value of energy resources produced by the companies. Whether they are developing biofuels or solar farms, what matters to investors and the markets is that the companies can develop energy reserves that the market is interested in buying as the economy transitions to a clean energy future.

**SEC challenges and withdrawals:** **CBS** is contending the resolution can be omitted because it relates to ordinary business and is moot but the SEC has yet to weigh in. The Sisters of the Presentation of the Blessed Virgin Mary withdrew at **Dollar General** because it filed too late. Jantz withdrew at **IBM** after the company told the SEC the proposal could be omitted because it was too specific and therefore related to ordinary business, and because IBM's current actions to cut its emissions made the proposal moot. As noted, the **Walmart** challenge will likely succeed.

But healthcare company **Hologic** agreed to set GHG emissions reduction goals for its products and operations and report, as requested, so Trillium Asset Management withdrew.

## Renewable and Distributed Energy

Shareholder proponents advocating great deployment and use of carbon-free energy, with particular attention to the role utility companies can play in reducing the demand for fossil fuels, have filed 24 resolutions; 19 are pending.

Last year, NYSCRF asked **DTE Energy** for the first time about how it might encourage the deployment of non-carbon energy production in its customer base and earned 27.5 percent support. Proponents have significantly expanded their reach on the issue this year and the resolution is now pending again at DTE as well as at nine additional utilities—**Allele**, **Avista**, **Duke Energy**, **Entergy**, **Northwestern**, **OGE Energy**, **PPL**, **SCANA** and **Westar Energy**. It asks each to produce a report describing how it “could adapt its company-wide business model to significantly increase deployment of distributed-scale non-carbon-emitting electricity resources as a means of reducing societal greenhouse gas emissions and protecting shareholder value.” At Avista, As You Sow adds the proponents’ definition of distributed energy: “renewable power infrastructure located on customer property”—such as solar panels or wind turbines.

Most companies are new recipients, but some previous resolutions have raised the issue at a few of this year's targets. At Duke, a 2012 proposal that asked for report on “providing comprehensive energy efficiency and renewable energy programs

to its customers” was omitted on the grounds the company already made such information public. Further, greenhouse gas reduction goals proposals in 2015 earned 24.2 percent at OGE and 33.5 percent at PPL.

In addition, As You Sow is asking **Coca-Cola** and **Kroger** to report on how and if they might benefit from “adopting enterprise-wide, quantitative, time bound targets for increasing [the company’s] renewable energy sourcing.” In the same vein, a very specific proposal from As You Sow to **Ameren** asks for a report on how it can

protect shareholder value, reduce the risk of stranded assets, and decrease its climate change impacts by aggressive renewable energy adoption including:

1. Increasing Ameren’s energy mix to 30 – 50% renewable energy by 2030.
2. Increasing Ameren’s energy mix to 70 – 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, Trillium Asset Management wants **Amgen** to analyze and propose how it “can increase its renewable energy sourcing and/or production.”

Socially responsible investment firms and NYSCRF are asking eight retailers and telecommunications companies to “set company-wide quantitative targets by September 2016 to increase renewable energy sourcing and/or production.” The resolution is pending at **Akamai Technologies, AT&T, Best Buy, CVS Health, Nordstrom, PepsiCo, TJX** and **Verizon Communications**.

**SEC challenge rejected:** DTE Energy and Northwestern challenged NYSCRF’s filing about distributed energy on the grounds that it concerns ordinary business, but failed to persuade SEC staff, which rejected the request to omit the proposal. CVS Health has challenged the renewable energy goals resolution, saying it concerns ordinary business and is moot, but the SEC has not yet responded.

**Other energy use proposals:** Two more resolutions raise energy use concerns. In one pending proposal, Walden Asset Management is asking **Hubbell** to “set public goals to increase company-wide energy productivity,” and to report “on programs, metrics and progress in meeting these goals.” Individual proponent Edith Neimark’s resolution at **Unitil** has been omitted because she did not provide sufficient proof of her stock ownership. Neimark wanted the company to report in more detail on where the utility sources its energy and if any sources are renewable.

Renewable & Distributed Energy			
Company	Proposal	Lead Filer	Status
Akamai Technologies	Set renewable energy targets	Trillium Asset Mgt	May
Allete	Report on distributed energy	NYSCRF	May
Ameren	Report on renewable energy goals	As You Sow	April
Amgen	Report on renewable energy goals	Trillium Asset Mgt	May
AT&T	Set renewable energy targets	Trillium Asset Mgt	withdrawn
Avista	Report on distributed energy	As You Sow	May
Best Buy	Set renewable energy targets	NYSCRF	June
Coca-Cola	Report on renewable energy goals	As You Sow	April
CVS Health	Set renewable energy targets	Zevin Asset Mgt	May
DTE Energy	Report on distributed energy	NYSCRF	May
Duke Energy	Report on distributed energy	Nathan Cummings Fndn	May
Entergy	Report on distributed energy	As You Sow	May
Hubbell	Set energy use reduction targets	Walden Asset Mgt.	May
Kroger	Report on renewable energy goals	As You Sow	June
Nordstrom	Set renewable energy targets	NYSCRF	May
Northwestern	Report on distributed energy	NYSCRF	Not in proxy
OGE Energy	Report on distributed energy	NYSCRF	May
PepsiCo	Set renewable energy targets	Zevin Asset Mgt	May
PPL Corporation	Report on distributed energy	NYSCRF	May
SCANA	Report on distributed energy	Dignity Health	April
TJX	Set renewable energy targets	Zevin Asset Mgt	June
Unitil	Report on energy sources	Edith Neimark	omitted
Verizon Communications	Set renewable energy targets	Trillium Asset Mgt	May
Westar Energy	Report on distributed energy	NYSCRF	May



## BIG FUTURE FOR DISTRIBUTED ENERGY

### PATRICK DOHERTY

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

Consumer demands for cleaner energy and less dependence on fossil fuels are rapidly transforming the U.S. power sector. Consumers and investors alike are looking to renewable energy technologies to help combat climate change. Accordingly, the New York State Common Retirement System in the 2016 proxy season has joined with other investors to ask energy companies in our portfolio to assess how they are adapting (or could adapt) their business models to enable increased deployment of distributed low-carbon electricity generation resources as a means to reduce societal greenhouse gas emissions and protect shareholder value.

Distributed energy systems that use renewable energy sources, such as biomass, small hydro, solar and wind power, combined with increasingly advanced technologies, are playing an important and growing role in the electric power distribution system. However, U.S. companies are behind many of their peers in Europe and elsewhere in seriously responding to distributed energy's potential. In May 2014, Barclay's downgraded the entire U.S. electric industry due to the risk of rapidly improving solar power and energy storage technology cutting into their profit margins. Moody's also noted in that same year that "a proactive response to distributed energy is credit positive as it gives utilities improved rate designs and helps in the long-term planning for their infrastructure."

To their credit, many in the energy industry are beginning to recognize that change is coming. A recent Pricewaterhouse Coopers survey of power industry representatives found that 94 percent agreed that the current power industry business model will be either completely transformed or significantly changed between now and the year 2030. Some electric power companies such as **NRG Energy** and **Green Mountain Power** are already capitalizing on providing energy efficient services, and some large commercial and industrial customers have already discovered the benefits of distributed energy technologies. A vivid recent example is our own Empire State Building in New York City. The Rocky Mountain Institute worked with **Johnson Controls** and others to do a deep retrofit of the building, which succeeded in cutting energy use by 38 percent and saving \$2.4 million in just the first year alone.

The U.S. Department of Energy has long been a strong proponent of distributed energy programs, and has stated that, "[d]istributed energy offers solutions to many of the nation's most pressing energy concerns, power quality issues, tighter emissions standards, transmission bottlenecks, and the desire for greater control of energy costs." We agree with that assessment, and considering the significantly beneficial outcomes of expanded use of distributed energy systems, we believe as fiduciaries that it clearly makes sense for our portfolio corporations in the power sector to seriously assess their potential.

## Other Climate Issues

**Deforestation:** Four of the five deforestation proposals this year make explicit the connection with human rights. The Sisters of the Sorrowful Mother of Wisconsin and Trillium Asset Management are asking **Church & Dwight** and **WhiteWave** how they are working to "curtail the company's actual impact on deforestation and human rights violations, beyond simply purchasing RSPO mass balanced palm oil." (RSPO is the [Round Table on Sustainable Palm Oil](#), a multi-stakeholder group.) Similarly, NYSCRF is asking **Domino's Pizza** for a report that "establishes a time-bound plan to address its supply chain impact on deforestation and associated human rights issues." Clean Yield wants **DuPont** to describe how it is "assessing the company's supply chain impact on deforestation and the company's plans to mitigate these risks," and it also wants **Whole Foods Market** to provide "metrics and key performance indicators demonstrating the extent to which Whole Foods is curtailing the actual impact of its palm oil supply chain on deforestation and human rights, but withdrawn after discussions."

**Fossil fuel reserves:** Proponents have two new approaches at energy companies that seek action on fossil fuel reserves, from different angles. As You Sow is proposing that **Chevron** and **ExxonMobil** each report annually on their "reserve replacements in BTUs, by resource category, to assist the Company in responding appropriately to climate-change induced market changes. Such reporting shall be in addition to reserve reporting required by the Securities and Exchange Commission, and should encompass all energy resources produced by the company." ExxonMobil has challenged it at the SEC, arguing it relates to ordinary business and is inadmissibly vague.

Another resolution takes aim at executive pay incentives for expanding oil and gas reserves. The Nathan Cummings Foundation has proposed that **Chesapeake Energy's** board compensation committee "adopt a policy that it will not use 'proved reserves organically added,' 'proved reserves growth,' or any other metric based on reserves to determine the amount of any senior executive's incentive compensation." As You Sow has proposed the same thing at **Devon Energy**. (*Additional ESG pay link proposals are discussed starting on p. 54, in the section on Sustainability.*)

## Other Climate Change Issues

Company	Proposal	Lead Filer	Status
Chesapeake Energy	De-link executive pay and fossil fuel reserves	Nathan Cummings Fndn	May
Chevron	Change reserve replacement accounting	As You Sow	May
Chevron	Increase authorized dividend given stranded assets	Arjuna Capital	May
Church & Dwight	Report on palm oil supply chain	Srs. of the Sorrowful Mother - Wisc.	May
Devon Energy	De-link executive pay and fossil fuel reserves	As You Sow	June
Domino's Pizza	Report on supply chain deforestation impacts	NYSCRF	April
E.I. Du Pont De Nemours	Report on supply chain deforestation impacts	Clean Yield Asset Mgt.	May
ExxonMobil	Change reserve replacement accounting	As You Sow	May
ExxonMobil	Increase authorized dividend given stranded assets	Arjuna Capital	May
WhiteWave Foods	Report on palm oil supply chain	Trillium Asset Mgt	May
Whole Foods Market	Report on palm oil supply chain	Clean Yield Asset Mgt.	Withdrawn

**Dividends:** Finally, in a reprise from last year, Arjuna Capital, which co-filed with As You Sow last year, has gone back to **Chevron** with its request that the company “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.” The proposal earned 3.2 percent in 2015 and the company is arguing now that it can be excluded because it is similar to both last year’s proposal and a 2011 resolution about climate risk that earned 7.3 percent—which means last year’s proposal would have had to attain at least 6 percent support to be eligible for resubmission. In addition, Chevron says the proposal inadmissibly relates to specific dividend amounts and concerns ordinary business.

Last year Arjuna filed a proposal similar to the Chevron resolution at **ExxonMobil** and were turned back when the SEC agreed it was moot. The group has recast the proposal, which now uses the same language as the Chevron proposal, noted above. The company has gone to the SEC again, though, and says its implementation would be illegal and that it is moot, concerns a specific dividend amount and relates to ordinary business. The SEC has yet to respond to either challenge.

## ENVIRONMENTAL MANAGEMENT

Shareholder proponents are raising some additional environmental concerns outside the direct climate and energy umbrella—with a new food waste proposal at **Whole Foods Market** and ongoing concerns about packaging and recycling (six resolutions), water (three) and toxic materials (six).

### Environmental Management

Company	Proposal	Lead Filer	Status
Amazon.com	Report on electronics recycling strategy	As You Sow	June
Chipotle Mexican Grill	Adopt recycling goals	As You Sow	May
Dean Foods	Report on water use risks	Calvert Investment Mgt	May
Dr Pepper Snapple Group	Adopt recycling goals	As You Sow	May
Dunkin’ Brands Group	Report on recycling strategy	As You Sow	May
Flowers Foods	Report on water use risks	Walden Asset Mgt.	June
Flowers Foods	Report on water use risks	Walden Asset Mgt.	June
Fresh Del Monte Produce	Report on water use risks	Calvert Investment Mgt	April
Kroger	Report on packaging	As You Sow	June
Mondelez International	Report on packaging	As You Sow	May
Monsanto	Report on water use risks	Midwest Coalition for Res. Inv.	withdrawn
Verizon Communications	Report on solar storms	Nickolaus Leggett	omitted
Whole Foods Market	Report on food waste management	Trillium Asset Mgt	March
Yum Brands	Adopt recycling goals	As You Sow	May



## Recycling and Waste

As You Sow has several programs that encourage companies to recycle more and use more recyclable material in product packaging. This year it is asking restaurant companies **Dunkin' Brands Group**, **Yum! Brands** and **Chipotle Mexican Grill** to “adopt a comprehensive recycling policy for on-site food and beverage packaging.” As You Sow had reached an agreement with Yum! in 2013 after a similar shareholder proposal appeared in the proxy statement and it did not go to a vote, but discussions since have fizzled. Now, the company has challenged the proposal at the SEC, arguing it is moot because it has a recycling policy posted on its website. Chipotle, however, is a new target, as is Dunkin’ — where the resolution also says that this approach will “conserve resources, and reduce water pollution and greenhouse gas emissions.”

A resolution to **Dr Pepper Snapple Group** asks it again to “adopt a comprehensive recycling strategy for beverage containers sold by the company” and explain its implementation. It says, “The strategy should include aggressive quantitative recycled content goals, and container recovery goals for plastic, glass and metal containers.” Similar resolutions have earned more than 30 percent support in 2015, 2014 and 2012.

At **Amazon.com**, a proposal asks for a report “on the company’s policy options to reduce potential pollution and public health problems from electronic waste generated as a result of its sales to consumers, and to increase the safe recycling of such wastes.” The company has challenged it at the SEC, arguing it concerns ordinary business since it relates to the recycling of customers’ waste, not its own, and thus is a matter of customer relations, and that it is moot since the company already offers e-waste recycling options.



## CHALLENGING FOOD COMPANIES ON FRESHWATER RISKS

### STU DALHEIM

*Vice President, Shareholder Advocacy, Calvert Investments*

Torrential rain and snow events aside, California is still in the throes of prolonged drought and the current El Nino is not likely to end it. Large swaths of India and China are also facing severe water stress and South Africa is gripped by the worst drought since 1992. Meanwhile, record rainfalls in England and Sri Lanka are marooning entire regions and posing disaster risks to local farmers.

And all of these events have major economic and societal implications. South Africa’s extreme heat and minimal rainfall, for example, are crushing crop production, forcing millions to go hungry and dropping the share value of major food producers. Two of the nation’s largest sugar producers, [Illovo and Tongaat](#), [recently reported](#) a 30 percent drop in share price since January, in part due to the drought.

It’s no wonder the World Economic Forum listed water availability near the world’s ‘top global risk’ in 2015 and 2016. Freshwater supplies are diminishing in all corners of the world, particularly in key global ‘bread baskets’ and ‘salad bowls’ like California, which has been forced to fallow more than 560,000 acres of productive farmland due to the four-year drought.

A recent research report by Ceres, [Feeding Ourselves Thirsty: How the Food Sector is Managing Global Water Risks](#), shows that a few food and beverage companies are beginning to take such steps, but many more appear to be asleep at the wheel.

The global food sector, which uses 70 percent of the world’s freshwater resources – mostly for irrigating crops – faces increased financial risk from shrinking water supplies.

Unfortunately, most food companies are silent on financial risks these water trends pose for their businesses, leaving their shareholders in the dark.

Investors want to know how food companies are analyzing and managing these risks. That’s why last August, more than 60 North American and European investors, managing a collective \$2.6 trillion in assets, sent letters to executives at 15 major food and beverage companies asking for more transparency. **Tyson Foods** was one such company to receive our letter. Other companies included **Archer Daniels Midland**, **Dr Pepper Snapple Group** and **Kraft Heinz**.

Ten companies have responded to the investor letter and have committed to provide more information about their exposure to water risks and plans for addressing them through the CDP Water survey in 2016.

While investors filed shareholder proposals with three companies, at this time two of the three were headed toward withdrawal as the companies were willing to provide more information about how they are assessing and managing water risks.

Greater disclosure is just an initial step, of course. We would like to see food sector companies move proactively to manage their water risks, by increasing board oversight and understanding of material water risks, by conducting robust water risk analyses that extend throughout their value chain, and by working with farmers in their supply chains to become more efficient in their water use.

Two more resolutions to food companies **Kroger** and **Mondelēz International** are resubmissions, asking them to assess “the environmental impacts of continuing to use unrecyclable brand packaging.” In 2015, the proposal earned just under 32 percent in 2015 at Kroger and nearly 28 percent at Mondelez.

**Food waste:** Trillium Asset Management is raising a new issue for investors at **Whole Foods Market**, asking it to consider, asking for a report “on company-wide efforts (above and beyond its existing reporting) to assess, disclose, reduce and optimally manage food waste.” It will go to a vote on March 9.

## Water

Three pending resolutions ask food companies to report on water use risks. Calvert Investments and Walden Asset Management would like **Dean Foods**, **Flowers Foods** and **Fresh Del Monte Produce** to report, “assessing water related risks and impacts of operations and key supply chains, and planned actions to mitigate the risks and impacts to long-term shareholder value and the environment.” Calvert has been in discussion with Dean Foods on the issue and withdrew a similar proposal there in 2015.

The Midwest Coalition for Responsible Investment had a similar request at **Monsanto**, asking it to report on how it “is assessing water risk in developing and developed countries and report data in a disaggregated format,” but withdrew saying the company will address these concerns.

## Solar Storms

Individual proponent Nickolaus Leggett asked **Verizon Communications** to study “solar geomagnetic storms and electromagnetic pulse (EMP) events” and the potential risks and opportunities they pose to the company. But this will not go to a vote because Verizon persuaded the SEC that it concerns ordinary business and is addressed in its emergency planning. The proposal appears to have been prompted by a 2012 solar storm that bypassed the Earth; an analysis from Lloyds of London that [estimated](#) the financial impact from such an event could cost the North American electrical grid up to \$2.6 trillion. In 1859, such a storm did play havoc with telecommunications: dubbed the “Carrington Event,” it disrupted early telegraph operations.

## TOXICS

**Tobacco:** The Midwest Capuchins, a longtime foe of tobacco companies, is this year proposing that **Altria** and **Reynolds American** report on harmful tobacco additives, by undertaking “a thorough analysis, engaging chemical and pharmacological experts as needed, of all the harmful liquids, additives and chemicals and their potential health consequences when each brand of our tobacco products is used as intended by consumers.”

**Nanomaterials:** As You Sow is raising concerns about nanomaterials it says are found in the food products sold by **Hershey** and **Mondelēz International**; its resolution asks each to report on their

use of nanomaterials, including the products or packaging that currently contain nanoparticles, the purpose of such, and actions management is taking to reduce or eliminate risk associated with human health and environmental impacts, such as eliminating the use of nanomaterials until or unless they are proven safe through long-term testing.

Neither company has entertained such a resolution before, and investors so far have only voted on the issue once, giving a 2014 resolution at Dunkin’ Brands 18.7 percent support which prompted Dunkin’ to commit that it would not include any nanomaterials in its products.

Toxics			
Company	Proposal	Lead Filer	Status
Altria	Report on harmful tobacco additives	Midwest Capuchins	May
Ball Corporation	Set goals to phase out BPA use	Arjuna Capital	omitted
General Electric	Report on toxic materials risks/phase out	Srs. of St. Dominic of Caldwell, NJ	omitted
Hershey	Report on nanomaterials	As You Sow	April
Mondelēz International	Report on nanomaterials	As You Sow	May
Reynolds American	Report on harmful tobacco additives	Midwest Capuchins	May

**PCBs:** **General Electric** successfully challenged a proposal from the Sisters of St. Dominic of Caldwell, N.J., which asked the company to determine if it has properly identified “all possible liability” from polychlorinated biphenyl (PCB) discharges in the Hudson River. The SEC agreed with the company’s contention that because it is involved in related litigation, the proposal raises an ordinary business matter and can be omitted from the proxy statement.

**BPA:** A resolution from Arjuna Capital to **Ball** will not go to a vote, either, because the SEC agreed with the company’s contention that its focus on particular types of packaging was too specific and related to ordinary business. The proposal had asked for a report “reviewing the Company’s policy actions, and plans to reduce Bisphenol A (BPA) use in its products and set quantitative targets to phase out the use of BPA, in light of reputational and regulatory risks.”

## INDUSTRIAL AGRICULTURE

There are again just a handful of resolutions about how food is produced, concerning water, pesticides, antibiotics and animal welfare, with only a few votes on tap.

**Water:** The Tri-State Coalition for Responsible Investment and Calvert Investments has asked two chicken processing companies to “adopt and implement a water stewardship policy designed to reduce risks of water contamination” at company-owned facilities, facilities under contract to the company and the company’s suppliers. It earned 12.0 percent at **Tyson Foods**, up from 11.1 percent last year, and 27.4 percent at **Sanderson Foods**.



### ANTIBIOTICS IN FACTORY FARMING CREATE SUPERBUGS AND INVESTOR RISK

#### AUSTIN WILSON

*Environmental Health Program Manager, As You Sow*

Investors are increasingly concerned about irresponsible antibiotic use in the meat supply chain. Overuse of antibiotics has made them less effective by contributing to the creation of antibiotic resistant superbugs. The industry’s slow response to this problem poses serious health and business risks.

In the U.S., the CDC reports that antibiotic resistant infections cause over [two million illnesses and 23,000 deaths each year](#). [The World Health Organization states](#) that, “A post-antibiotic era – in which common infections and minor injuries can kill – far from being an apocalyptic fantasy, is instead a very real possibility for the 21st Century.”

One of the main causes of antibiotic-resistant bacteria, known as ‘superbugs,’ is the overuse and misuse of antibiotics in the meat industry. Livestock consume 70 to 80 percent of antibiotics sold in the U.S. These drugs are often used prophylactically by meat producers to prevent illness caused by unhealthy conditions on commercial feedlots or to increase the rate at which animals gain weight, rather than to treat illness.

Shareholder advocates have addressed antibiotic resistance for many years, yet these efforts increased in 2015 and companies are starting to respond.

Leaders in responsible antibiotic use include **Chipotle Mexican Grill** and **Panera Bread**, whose supplier standards prohibit non-therapeutic antibiotic use. These companies received the only two ‘A’ grades issued in a [recent scorecard](#) of the top 25 restaurant chains. On the supplier side, poultry producer **Tyson Foods** has committed to phase out the use of antibiotics used in human medicine by 2017.

The [Farm Animal Investment Risk and Return](#) initiative was launched in 2015 to ensure that investors understand the risks and opportunities associated with farm animal welfare, and how to incorporate farm-animal welfare into their investment processes. Irresponsible antibiotic use in the supply chain exposes companies to three main types of risk:

- **Regulatory risk** – Use of prophylactic antibiotics is coming under increased scrutiny by U.S. and European policymakers. In 2015, [California passed a bill](#) to restrict routine antibiotic use in farm animals, and the European Parliament continues to debate [a ban on non-therapeutic mass-medication of healthy animals](#).
- **Decreased demand** – Consumer preferences are rapidly changing to prefer sustainable and safe food choices, even among populations not typically concerned with healthy eating. In a 2015 [national survey](#), 34 percent of fast-food restaurant customers said they would visit McDonald’s more often if it served meat raised without hormones or antibiotics.
- **Reputational damage** – Companies whose policies lag behind their peers face civil society campaigns and media exposure, which can undermine brand value.

The Department of Agriculture’s Economic Research Service found that [increased sanitation and vaccination could be substituted for antibiotics](#), and that the elimination of antibiotic use for growth promotion [will have little effect on wholesale prices](#) of pork and poultry.

Industrial Agriculture			
Company	Proposal	Lead Filer	Status
Hormel Foods	Phase out antibiotic use in animal feed	Trinity Health	withdrawn
Kellogg	Report on supplier pesticide use	Maryknoll Sisters	withdrawn
McDonald's	Phase out antibiotic use in animal feed	Benedictine Srs., Boerne - TX	May
Monsanto	Report on pesticide monitoring	Harrington Investments	5.30%
PepsiCo	Report on supplier pesticide use	Trillium Asset Mgt	May
PepsiCo	Label GMO products	Bill Fleming	omitted
Sanderson Farms	Adopt water stewardship policy	Calvert Investment Mgt	27.4%
Tyson Foods	Adopt water stewardship policy	Tri-State Coalition for Resp. Inv.	12.10%
Tyson Foods	Report on pig gestation crates	Green Century	12.80%
Wendy's	Phase out antibiotic use in animal feed	As You Sow	June

**GMOs:** Just two proposals concern themselves with genetically modified organisms (GMOs) in 2016, a drop from recent years for an issue that has tended to move in and out of prominence in the shareholder scene. Harrington Investments has filed resolutions at **Monsanto** on the subject every year since 2011. This year, it earned 5.2 percent on a request for a report about glyphosate, known widely by its brand name Roundup. The resolution came on the heels of recent action labeling it as carcinogenic to humans by the World Health Organization and the state of California, and asked for an assessment of the company's response to "public policy developments," as well as a quantification of "potential material financial risks or operational impacts...in the event that proposed bans and restrictions are enacted."

Another resolution from individual investor Bill Fleming to **PepsiCo** about GMO labeling was omitted because Fleming did not provide sufficient proof of his stock ownership.

**Neonicotinoids:** Last year resolutions raised concerns for the first time about a widely used class of pesticides—neonicotinoids, or "neonics"—that appears to be linked to worldwide pollinator declines. Trillium Asset Management has a resubmission pending at **PepsiCo** asking for a report "on the Company's options to minimize impacts on pollinators of neonics in its supply chain." It earned 7.6 percent last year. The Maryknoll Sisters withdrew a similar resolution at **Kellogg** after the company agreed to publish a statement in its next sustainability report that it supports the [White House Pollinator Health Task Force](#). It will continue discussions with ICCR members, as well.

**Antibiotics:** Three resolutions in 2016 address the overuse of antibiotics in animal feed, which is a contributing factor to growing antibiotic resistance, a developing and serious risk to public health. The Benedictine Sisters of Bourne, Texas, have returned to **McDonald's**, asking it to

- Prohibit the use of antibiotics important to human medicine globally in the meat supply chain (including for chicken, beef, and pork), for purposes other than disease treatment or non-routine control of veterinarian-diagnosed illness (e.g. prohibit use for growth promotion and routine disease prevention also known as prophylaxis).
- Identify timelines for global implementation of vision including for meats currently not supplied by dedicated suppliers.

Last year, the Benedictines helped prompt the company to end the use of antibiotics in its chicken supply chain, but it refilled this year because McDonald's has not extended this commitment to other meats.

Taking a similar but very detailed approach, As You Sow wants **Wendy's** to phase out "the non-therapeutic use of antibiotics in the meat supply chain (including for poultry, beef, and pork)." It defines "non-therapeutic use" as:

- administration of antibiotics to an animal through feed and water (or, in poultry hatcheries, through any means) for purposes (such as growth promotion, feed efficiency, weight gain, or disease prevention) other than therapeutic use or non-routine disease control; and includes
- any repeated or regular pattern of use of antimicrobials for purposes other than therapeutic use or non-routine disease control.

Trinity Health also asked **Hormel Foods** to adopt a policy "for both the company's own hog and turkey production and (except when precluded by existing contracts) its contract suppliers of hogs and turkeys, to phase out the routine use of antibiotics in classes of drugs used in human medicine." The proponents withdrew after productive discussions with the company and plan an announcement about the result soon, they told Si2.

**Pigs:** Animal rights advocates have been successful in convincing many food retailers and restaurants to change their supply chains to address animal cruelty concerns, even though most shareholder resolutions have received quite low votes. This year, just one resolution, from Green Century, has surfaced and it already has gone to a vote, at **Tyson Foods**. The proposal asked

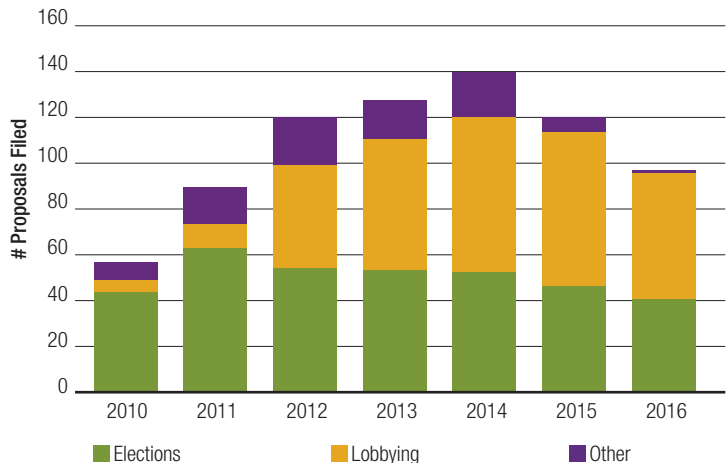
for the company's assessment of "the potential risks and operational impacts associated with indefinitely allowing 'gestation crates' in its supply system, including those regarding impacts on animal cruelty, brand reputation, customer relations, public perception, and regulatory compliance." It earned 12.8 percent, a relatively high vote at Tyson where the founding family controls a large portion of the stock.

## Social Issues

### 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 in the political arena are far from over and continue to capture public attention as the U.S. presidential election season heats up this year. A total of 98 resolutions have been filed so far, compared with 113 in mid-February 2015 and 126 at this point the previous year. More will likely emerge as the year progresses, from the broad coalition of investors and allied public interest groups that wants companies to disclose more on how they spend on elections and lobbying, with oversight from boards of directors. On proxy ballots, there continue to be even more resolutions about lobbying than election spending, with four this year on related subjects, including a new "government service golden parachute proposal from the AFL-CIO. After some withdrawals and SEC decisions, a total of 88 resolutions are now pending; proponents have withdrawn 20 so far. As always, full disclosure with board oversight remains the primary demand of shareholder resolution advocates, rather than an end to corporate spending on politics. (See bar chart, above, for a breakdown of resolution types over time.)

#### Political Activity Proposals



Companies are far more willing to explain how they oversee and spend on elections than on lobbying, and they spend much more on the latter, although transparency is increasing about the policies in place for all types of activity. The primary stumbling block to reaching agreements on the resolutions is still disclosure of corporate memberships and payments to groups that need not disclose their funders—trade associations, "social welfare organizations" (known as 501 (c)4 groups for their tax exemption in the Internal Revenue code) and charitable groups. Social welfare groups in particular are active conduits for undisclosed support of political campaigns, and both sides of the political spectrum use them to further their agendas, which doesn't sit well with large and active institutional investors or many members of the public.

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 pre-dates the landmark 2010 *Citizens United* U.S. Supreme Court decision that opened up new avenues for corporate spending; the campaign was started more than a decade ago by the [Center for Political Accountability](#) (CPA), which developed the model shareholder proposal still in use for disclosure of election spending. Members of the umbrella [Corporate Reform Coalition](#), which includes many shareholder proponents but a range of other reformers as well, will be active in the upcoming proxy season.<sup>2</sup> The coalition continues to press for mandated election spending disclosure by way of a proposed SEC mandate but to date has been stymied; this year it is seeking to influence votes at mutual fund companies on the subject and has targeted Vanguard, which in the past has voted often with management.

**Multiple proposals:** In the early days of the shareholder campaigns on political issues, the SEC allowed companies that received separate proposals on lobbying and on contributions to exclude the one that was postmarked later. After the SEC modified its stance, since 2013, proponents have been filing both political spending and lobbying proposals, taking care to make clear each excludes the other subject to make it through the SEC's requirements. This year, nine companies—**Alphabet, American Airlines Group, AT&T, CenterPoint Energy, Emerson Electric, Raytheon, Spectra Energy, Travelers and Verizon Communications**—have received both types.

2. SI2 has provided research to the Corporate Reform Coalition and collected data for the Center for Political Accountability but does not participate in any lobbying efforts or the CPA's scoring process.





## CORPORATE LOBBYING DISCLOSURE IS MATERIAL INVESTOR INFORMATION

**JOHN KEENAN**

*Corporate Governance Analyst, AFSCME Capital Strategies*

The justification for corporate political spending is that it is being done to advance the best interests of shareholders. If this is the case, then these expenditures, including lobbying, are clearly material information for shareholders, and companies should not oppose disclosure of their spending. But currently there is no uniform standard of disclosure, and any shareholder looking for this information must gather piecemeal information from a variety of sources which do not even cover all lobbying expenditures. Moreover, companies are required to report their lobbying, including any indirect lobbying through trade associations, so they have this information and it could easily be provided in an annual report for shareowners.

Against this backdrop, a coalition of 66 investors have filed at least 50 proposals for 2016 which ask companies to disclose their lobbying, including federal and state lobbying, payments to trade associations and third parties used for indirect lobbying, and any payments to tax exempt organizations that write and endorse model legislation. Since 2011, more than 80 investors have filed over 200 shareholder proposals seeking lobbying disclosure. During that time, the proposals have averaged more than 25 percent support while also leading to over 40 withdrawal agreements for improved disclosure.

Investors believe lobbying disclosure safeguards corporate reputation and protects shareholder value. One concern is reputational risk associated with controversial political spending or third party involvement. Companies with a high reputational rank perform better financially, and executives find it much harder to recover from reputation failure than to maintain reputation. The 2016 proposals continue to focus on risks of membership in the American Legislative Exchange Council (ALEC), a tax-exempt organization that convenes state lawmakers and corporations to adopt model laws that include Voter ID and climate change denial. Highlighting a need to manage reputational risks of third party involvement, more than 100 companies have publicly announced leaving ALEC.

Opposition to lobbying disclosure often centers on providing trade association disclosure. Trade associations use corporate donations to spend hundreds of millions of dollars annually to influence policy decisions, but most without accountability for the companies providing the funds. While a number of companies now disclose their indirect lobbying through trade associations, the vast majority still do not, leaving a blind spot. Undisclosed trade association payments used for lobbying amounts to corporate influence laundering that allows companies to avoid any scrutiny of the issues they are seeking to influence.

For 2016, most of the proposals are focused on industries which spend large sums to lobby and keep undisclosed third party lobbying, including the oil and energy, telecommunications, health insurance, pharmaceutical and bank sectors. The investor request for lobbying disclosure is a call for transparency and accountability in the spending of shareholder resources. Lobbying requires expenditures of shareholders' money. Shouldn't companies tell their shareholders where they are spending it?

## 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). For the last three years, political spending reformers and climate change activists also have been asking energy companies about their support for public policies that could mitigate global warming, tying together the two main themes of recent proxy seasons, but these resolutions for the most part are filed "to make a point" but withdrawn before they go to votes.

**Primary resolution:** The resolved clause for the main campaign resolution remains the same and has been filed at 47 companies, with 40 still pending—compared with 53 filings in 2015, 50 in 2013 and 40 in 2012. The eight new recipients are **AbbVie, American Airlines Group, Caterpillar, CONSOL Energy, Duke Energy, Navient, Tesoro and Travelers**. (See table for a complete list of companies.) Six more, discussed below, either ask for information just on indirect lobbying or on a combination of lobbying and election spending—direct, indirect or all sorts.

The 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**— There have been three votes so far. The highest was 39.8 percent for a third-year resubmission at **Emerson Electric** (it received 39.8 percent in 2015 and 41.6 percent in 2014), 20.8 percent at **Monsanto** (also a resubmission that earned 24.4 percent last year) and 9.7 percent at closely held **Tyson Foods**, where it went to a vote for the first time.

**Withdrawal after SEC challenge**—Lobbying proposals mostly have survived SEC scrutiny for several years, but this year Du Pont lodged a challenge at the SEC, arguing it was moot. As You Sow withdrew, although it also said the company has agreed to additional disclosure and continued dialogue. (This resolution had earned 20.4 percent in 2015 and 33.4 percent in 2013.)

**Indirect lobbying:** In addition to the broad campaign noted above, **United Parcel Service** challenged a indirect lobbying resolution from Zevin Asset Management, arguing it duplicated the standard proposal described above; Zevin decided to withdraw before the SEC responded. At Occidental, a resubmission on indirect lobbying via trade groups also is pending; it earned 29.4 percent last year. (*Indirect lobbying also comes up in a couple of hybrid resolutions noted below.*)

**SEC challenge**—At **WalMart Stores**, Zevin is highlighting indirect lobbying via trade associations and noting the company does not disclose its memberships in or payments to these groups. WalMart has challenged the resolution at the SEC, arguing that Zevin has not proved its stock ownership; the SEC response is not yet out. Zevin withdrew a similar proposal in 2015 after the company agreed to expand its disclosures about lobbying, and told Si2 it is to have further talks with the company this year. Its new disclosures are significant: it now provides information on its lobbying at the state level, something done by only a tiny number of large companies, as Reuters [pointed out](#) last May. Mandated state level lobbying disclosures exist in only about half the states and the nature of what companies must make public varies significantly, making it impossible to obtain an accurate picture of direct state-level lobbying expenditures unless companies voluntarily disclose them. As Zevin points out, indirect spending at the state level is another frontier. (*The hybrid resolution discussed below at **Pinnacle West** makes this point clearly.*)

**Climate change advocacy:** For the third year in a row, proponents are asking leading oil and gas companies to review company “positions, oversight and processes related to public policy advocacy on energy policy and climate change. This would include an analysis of political advocacy and lobbying activities, including indirect support through trade associations, think tanks and other nonprofit organizations.” The proponents are using the resolution process to make a point about the connection between energy company political involvement and climate inaction in the legislative process. **Chevron, ConocoPhillips, Devon Energy, ExxonMobil and Occidental Petroleum** all have received the proposal for a second or third time this year. In 2015, it earned 19.3 percent at Devon Energy but was withdrawn at Chevron, ConocoPhillips and ExxonMobil since it was vulnerable to exclusion on duplication grounds because the standard lobbying disclosure proposal was also on the slate at those companies. **Phillips 66** has received it for the first time, but the Needmor Fund withdrew after “constructive dialogue” and a promise from the company for expanded lobbying disclosure.

**Hybrid proposals:** At **Pinnacle West**, As You Sow has a resolution that also integrates concerns about renewable energy and corporate political activity. It is asking the company to report

disclosing monetary and in-kind expenditures on political activities... incurred in connection with: (a) influencing legislation, (b) participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for public office, and (c) attempting to influence the general public, or segments thereof, with respect to elections, legislative matters, or referenda. Shareholders request the report detail:

- contributions to or expenditures in support of or opposition to political candidates, political parties, political committees;
- dues, contributions or other payments made to tax-exempt “social welfare” organizations and “political committees” operating under sections 501(c)(4) and 527 of the Code, respectively, and to tax-exempt entities that write model legislation and operate under section 501(c)(3) of the Code; and
- the portion of dues or other payments made to a tax-exempt entity such as a trade association 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 report shall identify all recipients and amounts paid to each recipient from Company funds.

Lobbying			
Company	Proposal	Lead Filer	Status
AbbVie	Report on lobbying	Zevin Asset Mgt	May
Allergan	Report on lobbying	Trinity Health	April
Alphabet (formerly Google)	Report on lobbying	Walden Asset Mgt.	June
American Airlines Group	Report on lobbying	Philadelphia Firefighters	June
American Express	Report on lobbying	Missionary Oblates of Mary Immaculate	May
Anthem (formerly Wellpoint)	Report on lobbying	Missionary Oblates of Mary Immaculate	May
AT&T	Report on lobbying	Walden Asset Mgt.	withdrawn
Bank of America	Report on lobbying	Not available	May
Boeing	Report on lobbying	Philadelphia Firefighters	April
Caterpillar	Report on lobbying	Miami Firefighters	June
CenterPoint Energy	Report on lobbying	Zevin Asset Mgt	April
Charles Schwab	Report on lobbying	AFL-CIO	May
Chesapeake Energy	Report on lobbying	CT Retirement Plans	May
Chevron	Report on lobbying	Christopher Reynolds Foundation	May
Chevron	Review/report on climate change advocacy	Needmor Fund	withdrawn
Citigroup	Report on lobbying	Change to Win	April
Comcast	Report on lobbying	Friends Fiduciary	May
ConocoPhillips	Report on lobbying	Walden Asset Mgt.	May
ConocoPhillips	Review/report on climate change advocacy	Needmor Fund	withdrawn
CONSOL Energy	Report on lobbying	Nathan Cummings Fndn	May
Devon Energy	Report on lobbying	CT Retirement Plans	June
Devon Energy	Review/report on climate change advocacy	Unitarian Universalists	June
Dominion Resources	Report on lobbying	Bernice Schoenbaum	May
Duke Energy	Report on lobbying	Mercy Investment Services	May
E.I. Du Pont De Nemours	Report on lobbying	As You Sow	withdrawn
Emerson Electric	Report on lobbying	The Sustainability Group	39.80%
ExxonMobil	Report on lobbying	United Steel Workers	May
ExxonMobil	Review/report on climate change advocacy	Needmor Fund	withdrawn
Facebook	Report on lobbying	Philadelphia Firefighters	June
FirstEnergy	Report on lobbying	Nathan Cummings Fndn	May
General Electric	Report on lobbying	Philadelphia Firefighters	April
Honeywell International	Report on lobbying	Philadelphia Firefighters	April
International Business Machines	Report on lobbying	Walden Asset Mgt.	April
Monsanto	Report on lobbying	As You Sow	20.80%
Motorola Solutions	Report on lobbying	Mercy Investment Services	May
Navient	Report on lobbying	AFL-CIO	May
Navient	Report on lobbying	AFL-CIO	May
Nucor	Report on lobbying	Domini Social Investments	May
Occidental Petroleum	Report on indirect lobbying	Needmor Fund	May
Pfizer	Report on lobbying	Christopher Reynolds Foundation	no mtg?
Philip Morris International	Report on lobbying	Sinsinawa Dominicans	withdrawn
Phillips 66	Review/report on climate change advocacy	Needmor Fund	withdrawn
Pinnacle West Capital	Report on political spending and lobbying	As You Sow	May
Raytheon	Report on lobbying	Congregation of Srs. of St. Agnes	May
Spectra Energy	Report on lobbying	Unitarian Universalists	April
Tesoro	Report on lobbying	AFL-CIO	May
Time Warner Cable	Report on lobbying	Walden Asset Mgt.	July
Travelers	Report on lobbying	FAFN	May
Tyson Foods	Report on lobbying	Congregation of Srs. of St. Agnes	9.70%
United Parcel Service	Report on lobbying	Teamsters	May
United Parcel Service	Report on indirect lobbying	Zevin Asset Mgt	withdrawn
Verizon Communications	Report on lobbying	Boston CAM	May
Wal-Mart Stores	Report on lobbying	Zevin Asset Mgt	June
Walt Disney	Report on lobbying	Zevin Asset Mgt	March
Wells Fargo	Report on lobbying	Trillium Asset Mgt	April

Consumer advocates are concerned about the extent to which the company is trying to influence the Arizona public utility commission, which regulates the activities of Arizona Public Service Co. (APS), a Pinnacle West subsidiary. According to a local news outlet in Arizona, APS helped indirectly fund two winning commissioners in a 2014 election—men who now are involved in decisions about the financing and deployment of renewable energy in the state. One of the five commissioners not supported by the company, Bob Burns, [launched a probe](#) into the political and lobbying spending of APS in late January 2016. He told the company in a letter, “...there is a public perception that APS has used funds earmarked for its costs of service to support various political campaigns.” APS counters that the requested disclosure would “impinge” on its First Amendment free speech rights.

NYSCRF also is again asking **Aetna** to be more transparent about intermediaries that use its money on both elections and lobbying, requesting that the company

disclose annually all payments it made in the previous calendar year to tax-exempt organizations (other than charitable organizations not permitted to engage in lobbying as a substantial part of their activities) that were used, or that Aetna had reasonable grounds to believe were used, for a political purpose, including the recipient and amount of the payment.

A “political purpose” is (a) lobbying at the federal, state or local level; (b) participation or intervention in any political campaign on behalf of or in opposition to any candidate, or efforts to influence the general public, or any segment thereof, with respect to an election or referendum; (c) directing a communication to the public that refers to, reflects a view on and encourages the recipient to take action with respect to legislation or regulation; or (d) drafting and endorsing model legislation.

This is the fourth year for a proposal with this thrust, which has seen its support grow every year since it was introduced in 2012; it earned 29 percent in 2015, the highest level yet. It is another example of overlapping concerns about corporate involvement in the political arena and key public policy matters. Aetna inadvertently disclosed that in 2011 it had contributed \$3 million to the American Action Network, a 501(c)4 social welfare group that spent \$11.7 million on independent expenditures during that year—nearly all of it in efforts to defeat Democratic candidates. Aetna also acknowledged contributing \$4 million to the U.S. Chamber of Commerce that year, but said both groups only used its funds for “educational purposes,” not on lobbying or elections.

## The CPA Campaign and Indirect Spending

The [Center for Political Accountability](#) and its allies, a wide variety of institutional investors, are continuing the campaign they began more than a dozen years ago. The standard CPA proposal, which has not been changed for several years, asks each company to produce a report, with semiannual updates, that discloses:

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 37 companies, proposing it for the first time this year at 17 of them—**Allstate, Alphabet** (formerly Google), **American Airlines Group, CarMax, CenterPoint Energy, Cintas, Coca-Cola Enterprises, Corning, Covanta Holding, First Solar, J.M. Smucker, Johnson & Johnson, Lincoln National, Marathon Petroleum, Nordstrom, Range Resources** and **Southern**. (*Resubmissions at additional companies appear on the table.*)

**Votes:** So far there has been just one vote, 31.4 percent at **Emerson Electric**, about the same as the 30.4 percent it earned in 2015 but down from its high of 47.3 percent in 2014. The resolution notes the company fared poorly on the 2014 CPA-Zicklin index ranking companies on political spending disclosure.

**Withdrawals:** Proponents have withdrawn after reaching three agreements in which each of the companies will put in place more board oversight and more disclosure of election spending—at first-time recipients **Covanta Holding** and **Lincoln National**, and at **Union Pacific**.

Trillium Asset Management withdrew because of a technical issue with its filing at **Marathon Petroleum**; last year it also withdrew a lobbying resolution once the company pledged to significantly expand its disclosure. The current resolution about elections notes Marathon received a low score on the CPA-Zicklin Index and spent more than its peers on 2014 elections. More agreements and withdrawals are quite likely.

Elections			
Company	Proposal	Lead Filer	Status
Aetna	Report on indirect political spending	NYSCRF	May
Allstate	Review/report on political spending	Teamsters	May
Alphabet (formerly Google)	Review/report on political spending	Clean Yield Asset Mgt.	June
Amazon.com	Review/report on political spending	Investor Voice	June
American Airlines Group	Review/report on political spending	NYSCRF	June
AT&T	Report on indirect political spending	Domini Social Investments	April
CarMax	Review/report on political spending	Teamsters	June
CenterPoint Energy	Review/report on political spending	NYSCRF	April
Coca-Cola Enterprises	Review/report on political spending	NYSCRF	April
Corning	Review/report on political spending	Clean Yield Asset Mgt.	April
Covanta Holding	Review/report on political spending	Dignity Health	withdrawn
CVS Health	Review/report on political spending	IBEW	May
Danaher	Review/report on political spending	Mercy Investment Services	May
Emerson Electric	Review/report on political spending	Trillium Asset Mgt	31.40%
Express Scripts	Review/report on political spending	NYSCRF	May
First Solar	Review/report on political spending	Domini Social Investments	May
Fluor	Review/report on political spending	Philadelphia PERS	April
J.M. Smucker	Review/report on political spending	NYSCRF	Aug.
Johnson & Johnson	Review/report on political spending	NYSCRF	April
Lincoln National	Review/report on political spending	Clean Yield Asset Mgt.	withdrawn
Marathon Petroleum	Review/report on political spending	Trillium Asset Mgt	withdrawn
McKesson	Review/report on political spending	Philadelphia Firefighters	July
NextEra Energy	Review/report on political spending	NYSCRF	May
NIKE	Review/report on political spending	Investor Voice	Sept.
NiSource	Review/report on political spending	NYSCRF	May
Nordstrom	Review/report on political spending	Newground Social Investment	May
Range Resources	Review/report on political spending	Nathan Cummings Fndn	May
Raytheon	Review/report on political spending	NYSCRF	May
Southern	Review/report on political spending	Clean Yield Asset Mgt.	May
Spectra Energy	Review/report on political spending	Trillium Asset Mgt	April
Starwood Hotels & Resorts Worldwide	Review/report on political spending	Srs. of Mercy	May
Travelers	Review/report on political spending	NYSCRF	May
Union Pacific	Review/report on political spending	NYSCRF	withdrawn
Verizon Communications	Report on indirect political spending	Domini Social Investments	May
Waste Management	Review/report on political spending	NYSCRF	May
Western Union	Review/report on political spending	NYSCRF	May
Wyndham Worldwide	Review/report on political spending	Mercy Investment Services	May
Wynn Resorts	Review/report on political spending	NYSCRF	April

**Indirect political spending:** Domini Social Investments has filed at **AT&T** and **Verizon Communications**, asking each to report semi-annually on “Indirect monetary and non-monetary 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 25.6 percent in 2015 and 24.6 percent in 2014 at AT&T and 31.9 percent at Verizon in 2015.





## COMPANIES MAKING POLITICAL DISCLOSURE THE NORM

### BRUCE FREED

*President, Center for Political Accountability*

### MARIAN CURRINDER

*Associate Director, Center for Political Accountability*

Spending in the 2016 presidential and congressional races has so far been dominated by ‘dark money’ groups. While candidate campaigns and super PACs reported spending about \$114 million last year, 501(c)(4) ‘social welfare’ organizations, trade associations and other groups that do not have to disclose their donors, spent about \$213 million.

Congress blocked the Securities and Exchange Commission from implementing a corporate political disclosure rule this year and the Federal Election Commission remains deadlocked. With no legislative or regulatory remedies in sight, and with dark money spending on pace to set new records this year, voluntary disclosure efforts are essential.

The Center for Political Accountability’s shareholder partners – public pension funds, socially responsible investment firms, religious orders and individuals – will engage about 40 companies in the 2016 proxy season, asking them to disclose and have their boards oversee political spending with corporate treasury funds. Given the surge in dark money spending, our partners will push for greater disclosure of company payments to politically active trade associations and 501(c)(4) social welfare groups. About 13 of the companies engaged this season received disclosure resolutions last year.

This year’s campaign follows a very successful 2015 season. About 50 political disclosure resolutions were filed and a record 16 were withdrawn with agreements. Resolutions that went to vote received a record-high vote average of 35 percent in favor of political disclosure. Shareholders registered their support with 40 plus percent votes for CPA’s resolution at six companies: **Waste Management**, 47 percent, **Raytheon Co.**, 45.9 percent, **PPL Corp.**, 44.6 percent, **Nisource Inc.**, 44.5 percent, **Western Union**, 41.5 percent and **Cabot Oil and Gas**, 41.28 percent. Two companies were just shy of 40 percent: **NextEra Energy** at 39.6 percent and **Ryder System** at 39 percent.

The [CPA-Zicklin Index of Corporate Political Disclosure and Accountability](#) continues to be a strong tool that encourages companies to independently adopt disclosure and accountability policies. The 2015 Index, which for the first time included the entire S&P 500, found at least 58 companies that adopted full or partial disclosure without having received a shareholder resolution. The Center is also experiencing a noticeable uptick in contacts from companies seeking guidance on how to improve their disclosure policies and Index scores. Our shareholder partners are also successfully engaging companies on the topic of disclosure, achieving results without filing resolutions. These successes demonstrate that political disclosure and accountability has moved into the corporate mainstream.

Since it was first published in 2011, the [CPA-Zicklin Index](#) has documented sustained, concrete progress in the direction of greater disclosure and accountability. About 154 companies in the S&P 500 disclose full or partial information on their political spending. For 83 companies included in the Index since 2011, the overall average score improved to 71.3 percent in 2015 from 45.2 percent in 2011.

The good news is that more and more companies are proactively addressing the legal, reputational and business risks posed by political spending. Building on this momentum is critical as a growing proportion of campaign spending goes dark.

## Other Political Issues

**Government service:** The AFL-CIO has a new resolution this year that combines a corporate governance focus with concern about undue corporate influence on government. It is asking at least three large U.S. financial institutions—**Bank of America**, **Citigroup** and **Morgan Stanley**—to prohibit what it is calling “government service golden parachutes. 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 (a “Government Service Golden Parachute”).

For purposes of this resolution, “equity-based awards” include stock options, restricted stock and other stock awards granted under an equity incentive plan. “Government service” includes employment with any U.S. federal, state or local government, 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.

This policy shall be implemented so as not to violate existing contractual obligations or the terms of any compensation or benefit plan currently in existence on the date this proposal is adopted, and it shall apply only to equity awards or plan amendments that shareholders approve after the date of the 2016 annual meeting.

The union notes that companies may grant equity-based awards to employees when they are terminated, including to those who depart to work for the government, in effect giving senior executive a bonus for doing so. While stock options usually are forfeited if employees leave, companies can choose to accelerate the vesting process. The resolution observes, “While government service is commendable, we question the practice of providing accelerated vesting of equity-based awards to executives who voluntarily resign to enter government service.” It says compensation should align long-term corporate interests of the company, not “provide windfalls to executives that are unrelated to their performance.” Further, “we question how our Company would benefit from providing Government Service Golden Parachutes. Surely our Company does not expect to receive favorable treatment from its former executives?”

Corporate governance activists have long criticized accelerated vesting policies that are triggered by change of control, as when a company is taken over or merges with another firm, but the AFL-CIO formulation this year is the first recent effort in the proxy season that highlights executive pay windfalls tied to government service. (For many years, eccentric and prolific shareholder activist Evelyn Davis used to propose resolutions about prohibiting government service, however.)

The SEC rejected Bank of America and Morgan Stanley’s argument that it was vague and ordinary business.

**Values:** There is just one resolution this year from NorthStar Asset Management about company values and their consistency with political spending. At **CVS Health**, the group asks for a report that contains

a congruency analysis between corporate values as defined by CVS’s stated policies (including our Environmental Commitment Statement and our employment policy on Equal Opportunity) and Company and CVS EPAC political and electioneering contributions, including a list of any such contributions occurring during the prior year which raise an issue of misalignment with corporate values, and stating the justification for such exceptions.

Last year, the company challenged this proposal at the SEC, arguing that it had already been substantially implemented, but the SEC disagreed and it earned 6.4 percent. Deere requested reconsideration of this view by the SEC, which the commission denied, and investors gave it 6.4 percent support.

## Other Political Issues

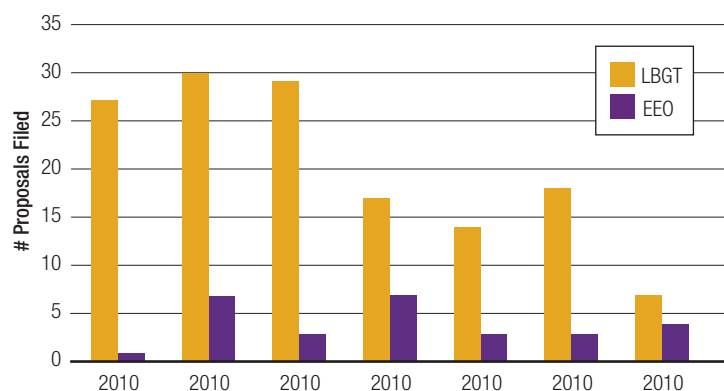
Company	Proposal	Lead Filer	Status
Bank of America	Prohibit government service golden parachutes	AFL-CIO	May
Citigroup	Prohibit government service golden parachutes	AFL-CIO	April
Johnson & Johnson	Adopt policy on values, political spending	NCPWR	omitted
Morgan Stanley	Prohibit government service golden parachutes	AFL-CIO	May
CVS Health	Report on political spending and values	NorthStar Asset Mgt	May

## DIVERSITY IN THE WORKPLACE

Recent historic societal changes in how lesbian, gay, bisexual and transgender (LGBT) people are treated have largely obviated the need for new shareholder proposals seeking formal policies on the subject. Corporate hold-outs tend to respond with alacrity when they are called out by activists. Votes have been high and strong support for LGBT rights in the corporate world arguably has helped to cement even broader acceptance in modern U.S. society and law—including the historic U.S. Supreme Court ruling, *Obergefell v. Hodges* in July 2015, in which the court took the final step of legitimizing same-sex marriage across the country. Key proponents of resolutions over the years have been the New York City and State pension funds, the Unitarian Universalists, Trillium Asset Management and many other social investment firms. Their campaign continues, but is now at a low level.

On a related issue, the Sustainable Governance section of this report describes the 23 proposals making the case for board diversity. Combined, the board and employee diversity proposals account for 9 percent of the total number of proposals filed at this point in the proxy season, similar to 2015.

### Workplace Diversity Proposal Trend



Resolutions from LGBT rights opponents pop up here and there, but they get scant support. *(A few articulating anti-gay sentiment this year are described in the Conservative section on p. 59.)*

A handful of resolutions also continue to be proposed asking for data on workforce breakdowns by race and gender, as noted below—but the notable feature of this area in proxy season 2016 is a fresh push for pay equality—most often as it relates to the persistent pay gap between women and men. *(These resolutions are covered under the “Decent Work” category, on p. 37.)*

Diversity in the Workplace			
Company	Proposal	Lead Filer	Status
Adobe Systems	Report on EEO and affirmative action	Trillium Asset Mgt	withdrawn
Aqua America	Adopt sexual orientation and gender identity anti-bias policy	NorthStar Asset Mgt	May
Citrix Systems	Report on EEO and affirmative action	Trillium Asset Mgt	May
F5 Networks	Adopt sexual orientation and gender identity anti-bias policy	Trillium Asset Mgt	withdrawn
First Republic Bank	Adopt sexual orientation and gender identity anti-bias policy	Trillium Asset Mgt	May
Home Depot	Report on EEO and affirmative action	Benedictine Srs., Boerne - TX	May
IDEX	Adopt gender identity anti-bias policy	NorthStar Asset Mgt	withdrawn
J.B. Hunt	Adopt sexual orientation and gender identity anti-bias policy	Trillium Asset Mgt	April
Micron Technology	Adopt sexual orientation and gender identity anti-bias policy	Pride Foundation	Sept.
Omnicom Group	Disclose EEO-1 data	NYC pension funds	May
Southwestern Energy	Adopt sexual orientation and gender identity anti-bias policy	Trillium Asset Mgt	May
Stryker	Adopt supply chain diversity policy	NorthStar Asset Mgt	withdrawn

**Sexual orientation and gender identity:** Investors have filed just seven proposals in 2016 asking companies for LGBT non-discrimination policies and five are still pending. This is down from 17 filings last year and 30 as recently as 2011. The resolution asks each firm to “amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation, gender identity or expression and to take concrete action to implement the policy.”

Six companies are new recipients—**Aqua America**, **F5 Networks**, **First Republic Bank**, **J.B. Hunt**, **Micron Technology** and **Southwestern Energy**. The other 2016 recipient, **Idex**, had a similar proposal last year and changed its policy to include sexual orientation in its non-discrimination policy but not gender identity, which was the subject of this year’s proposal; the company then added this element (“gender identity and expression”) and NorthStar Asset Management has withdrawn. F5 Networks changed its policy to add comprehensive LGBT protections, prompting Trillium Asset Management to withdraw, as well. The other five remain pending but withdrawals are likely at many, if not all.

**EEO disclosure:** Three out of four requests for companies to provide more detailed information on their workforce breakdowns using the nine job categories defined by the U.S. Equal Employment Opportunity Commission remain pending.

Two are at longtime recipients **Home Depot** and **Omnicom Group**. At Home Depot the request also is for a report on affirmative action; 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 last earned 24.8 percent in 2014, a result consistent with other previous votes. This year’s version 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.

At Omnicom, the request is only to begin annual disclosure of its workforce breakdown; the resubmission earned 27.5 percent in 2015, and 26.4 percent in 2013. It was not filed in 2014 given a planned merger that ultimately did not occur.

Trillium withdrew its proposal to **Adobe** after the company agreed to release the requested data on its [website](#) and discuss its strategies for building a more diverse workforce, including more women and minorities. The resolution remains pending at

**Citrix Systems** and asks it to provide:

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



## WHEN WILL TECH SOLVE ITS GENDER DIVERSITY PROBLEM?

**MICHAEL PASSOFF**

*CEO, Proxy Impact*

The tech industry is under increasing fire for its lack of gender and racial diversity. Silicon Valley, in particular, has earned a poor reputation for its [bias, discrimination and harassment of women](#). A staggering 56 percent of women quit the tech field by mid-career—more than double the rate for men.

Investors have reacted in a variety of ways to the problem. The market for [gender lens investment portfolios](#) is surging. Advocacy to support women in the workplace is increasing, helped by groups such as the [Thirty Percent Coalition](#) and the [Women's Inclusion Project](#). This year will also see the launch of new shareholder campaigns targeting tech companies on three related issues, seeking gender equity on boards, in senior management and in compensation.

### More Women on the Board

Various studies show that companies with a higher number of women on their boards significantly outperform those with fewer or no women. More board diversity boosts creativity and innovation and a higher number of women enhances the quality of corporate governance and ethical behavior. Yet women hold less than 19 percent of U.S. corporate board seats. Large tech companies on the S&P 500 average 18 percent, ahead only of the basic materials sector (e.g. mining, metals, chemicals). When smaller tech companies are included, the percentage drops dramatically. Even among the top 10 tech companies (by revenue) four have only one female board member. The 10 tech giants range from **Panasonic** with 6 percent (one woman and sixteen men) to **Amazon.com's** 30 percent.

### More Women in Senior Management

McKinsey & Company states, “the business case for the advancement and promotion of women is compelling,” finding that companies with highly diverse executive teams boasted higher returns on equity (+10.7 percent), earnings performance (+91.4 percent) and stock price growth (+36 percent). Women make up 59 percent of the U.S. workforce, but only 29 percent of the workforce of major technology companies, and just [18 percent of leadership positions at those companies](#). Several companies, including **Alphabet** (Google), **Facebook**, **Microsoft**, **Amazon.com**, **Twitter**, and **Hewlett-Packard**, have acknowledged the problem and became more transparent about their workforce composition by publicly reporting EEO-1 data. **Intel** has set a public, time-bound goal for hiring women and underrepresented minorities and ties a portion of every employee's variable compensation to achieving this diversity goal.

### Equal Pay for Women

The U.S. Equal Pay Act was enacted over 50 years ago, yet as of 2013, women's compensation was only 78 percent of men's. Equal pay is more than a question of fairness, it would also help grow the economy, strengthen single parent families, cut the poverty rate for working women and make business more competitive. Tech recruiting firm Dice reports men earned nearly \$10,000 more than women on average in 2014. Glassdoor's 2014 Tech Salary Comparison reports women Senior Software Engineers at **Google** earned \$25,104 less than their male counterparts. There are few companies addressing this, although **GoDaddy** has publically committed to close its gender pay gap and **Salesforce.com** spent \$3 million in 2015 to eliminate the gap.

**Supply chain diversity:** NorthStar Asset Management proposed and then withdrew a new sort of proposal at **Stryker**, asking the company to “create a policy regarding our Company's commitment to diversity in our supply chain, and setting in place guidelines for suppliers with diverse ownership to compete for contracts at our Company.” The group withdrew after the company promised to publicize its new supplier diversity policy on its website. This proposal raises a nascent concern about the application of U.S. style equal employment policies and how they are applied at company operations around the globe, where women's equality and LGBT rights are not protected. More proposals on the subject could be in the offing going forward.

## DECENT WORK

Shareholder proponents in 2016 are reflecting growing concerns about economic inequality in the United States and the erosion of the middle class in a slew of new resolutions that address these issues, asking for information on the gender pay gap specifically and on minimum wage principles more generally. One has gone to a vote, 14 are now pending, three have been omitted and four have been withdrawn.

**Minimum wage principles:** A new resolution sponsored by three social investment firms—Domini Social Investments, Zevin Asset Management and Trillium Asset Management—is before traditionally low-wage restaurant and retail companies. It says, “shareholders urge the Board to adopt principles for minimum wage reform, to be published by October 2016,” noting that the resolution “does not encompass payments used for lobbying, or ask the company to take a position on any particular





## ECONOMIC INEQUALITY AS A BUSINESS RISK

### JONAS KRON

*Senior Vice President & Director of Shareholder Advocacy, Trillium Asset Management*

Until the early 1980s, an annual minimum-wage income—after adjusting for inflation—was above the poverty line for a family of two. But that is not even remotely true today. With the federal minimum wage at just \$7.25 per hour, working 40 hours per week, 52 weeks per year, yields an annual income of only \$15,080, well below the federal poverty line of \$20,090 for a family of three and \$24,250 for a family of four.

It is not just low paid workers that are struggling. A December [2015 Pew Report](#) found that the middle class is no longer the majority in America. This is concerning not only because the middle class has served as our economic backbone for generations but because this represents a shift of wealth and income away from this core of the American economy. The median income of middle class households was 4 percent less in 2014 than in 2000 and their median wealth (assets minus debts) fell by 28 percent from 2001 to 2013.

For investors, this increasing economic inequality represents a number of problems. On a purely social basis, research has shown that it leads to more health and social problems and weakens how well society functions. For example, the Bureau of Labor Statistics reports that the higher one's income, the more likely he or she is to receive sick leave from an employer. Specifically, sick leave benefits are provided to 87 percent of income-earning Americans in the top 10th percentile of income. In contrast, 20 percent of the bottom 10th percentile of income-earning Americans are provided the same benefits.

Low wages also present problems for individual firms because, as **Costco** CEO Jelinek wrote regarding the need to pay strong wages: "We know it's a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment and loyalty."

And for investors exposed to systemic risks and economy wide trends, poverty-level wages may raise risks related to weakening consumer spending and corporate social license. Studies by the [International Monetary Fund](#) and [Morgan Stanley](#) show economic inequality is hurting the potential for economic growth. But beyond avoiding risks, other studies suggest a minimum-wage increase could have a small stimulative effect on the economy. This is one reason why more than 600 leading economists, including seven Nobel Prize winners, argue the U.S. should raise the minimum wage and index it.

Since 2012 the 'Fight for 15' campaign has mobilized tens of thousands of restaurant workers in hundreds of cities across the country attracting widespread public, media and business attention for their call for raises to \$15/hour. The CEOs of **Morgan Stanley**, **McDonald's** and **Panera Bread** have all indicated support for minimum wages to be raised. Peter Georgescu, chairman emeritus of Young & Rubicam, wrote in the [The New York Times](#) that "[b]usiness has the most to gain from a healthy America, and the most to lose by social unrest."

New shareholder initiatives on minimum wage reform will help address income inequality as well as strengthen the bottom line.

piece of legislation." It is pending at **Best Buy**, **Chipotle Mexican Grill**, **CVS Health**, **Panera Bread**, **Staples** and **TJX**. CVS and TJX both are contending at the SEC that it can be omitted because it is too vague and relates to ordinary business and TJX also says it is moot; the SEC has yet to respond.

**Female wage gap:** At three technology companies—**Adobe Systems**, **Alphabet** (formerly Google, where Proxy Impact co-filed) and **Amazon.com**—Arjuna Capital has asked for a report by next fall "on the Company's policies and goals to reduce the gender pay gap," defining this as "the difference between male and female earnings expressed as a percentage of male earnings according to the Organization for Economic Cooperation and Development." Similarly, Pax World Funds proposed that **Apple** report "on the Company's policies and goals to reduce the gender pay gap," including "the percentage pay gap between male and female employees, policies to improve performance, and quantitative reduction targets" so that investors can "assess Apple's strategy and performance."

**SEC action and withdrawals**—Of the proposals to technology companies, only the one at Amazon.com is still pending. Arjuna also proposed that Apple report "on the Company's policies and goals to reduce the gender pay gap," but this resolution got to the company after the Pax proposal and was vulnerable to exclusion on the grounds that it addressed the same subject, which Apple pointed out at the SEC, so Arjuna withdrew. Apple challenged Pax, as well, contending the resolution was too vague; after the company agreed to address the issue and continue discussions on the subject, Pax withdrew. The proposal at Adobe arrived past the submission deadline and was omitted. Another challenge remains pending from Amazon.com, which is contending it can be excluded because it refers to undefined external guidelines; the SEC has yet to respond.

One more female pay disparity proposal is pending at **Citigroup**, in which Trillium wants a report by the fall "demonstrating the company does not have a gender pay gap." The company has challenged at the SEC, arguing it can be excluded because it



is too vague and concerns ordinary business. Trillium withdrew at **American Express**, where it submitted a resolution that said, “It is the sense of shareholders that gender pay inequality is a serious problem in the United States and in the financial services industry and that closing that gap is in the best interest of the company and the US economy.” The company pointed out that the resolution did not propose that it do anything and the proponent withdrew, but says dialogue on the issue with the company will continue.

Decent Work			
Company	Proposal	Lead Filer	Status
Adobe Systems	Report on female pay disparity	Arjuna Capital	omitted
Alphabet (formerly Google)	Report on female pay disparity	Arjuna Capital	June
Amazon.com	Report on female pay disparity	Arjuna Capital	June
American Express	Declare gender pay gap is a problem	Trillium Asset Mgt	withdrawn
Apple	Report on female pay disparity	Pax World Funds	withdrawn
Apple	Report on female pay disparity	Arjuna Capital	withdrawn
Apple	Adopt fair pay practices	Jing Zhao	omitted
Best Buy	Adopt minimum wage reform principles	Domini Social Investments	June
Chipotle Mexican Grill	Adopt minimum wage reform principles	Trillium Asset Mgt	May
Citigroup	Report on female pay disparity	Trillium Asset Mgt	April
CVS Health	Report on pay disparity	Zevin Asset Mgt	May
CVS Health	Adopt minimum wage reform principles	Zevin Asset Mgt	May
Goldman Sachs	Consult on executive pay equity	Jing Zhao	omitted
Marathon Petroleum	Report on accident prevention efforts	United Steel Workers	April
Men's Wearhouse	Report on income inequality	Domini Social Investments	July
Panera Bread	Adopt minimum wage reform principles	Trillium Asset Mgt	May
Pilgrim's Pride	Report on accident prevention efforts	Oxfam America	May
Sanderson Farms	Report on accident prevention efforts	Oxfam America	24.9%
Staples	Adopt minimum wage reform principles	Domini Social Investments	June
TJX	Report on pay disparity	Priests of the Sacred Heart	June
TJX	Adopt minimum wage reform principles	Trillium Asset Mgt	June
Tyson Foods	Report on accident prevention efforts	Oxfam America	4.70%
Wendy's	Join the Fair Food Program	Congregation of St. Joseph	withdrawn

**Income inequality:** Domini Social Investments is proposing that **Men's Wearhouse** report, “describing what additional steps the Men's Wearhouse and/or its leadership can take concerning economic inequality and a timeline for implementing those measures.” The resolution remains pending.

A far more detailed resolved clause is in a pending resolution at **CVS Health** and **TJX**. It asks each to review executive compensation and issue a report that includes:

- 1) A comparison of the total compensation package of senior executives and our employees' median wage (including benefits) in the United States in July 2006, July 2011 and July 2016;
- 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.

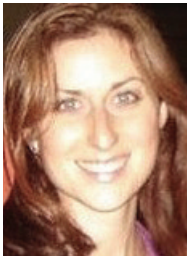
**SEC action**—Both CVS and TJX are contending at the SEC that the proposal is too vague, relates to ordinary business and is moot but the SEC has yet to respond. In 2015, TJX received the same proposal and made the same arguments, but the proponent (the Priests of the Sacred Heart) withdrew before any SEC action, noting it had been in discussions with the company. So far this year the SEC has yet to weigh in.

Two other fair pay resolutions have been omitted, both from Jing Zhao, who until now has concentrated his efforts on human rights concerns at company operations in China. This year, he had branched out. He asked **Goldman Sachs** to “reform the Compensation Committee to include outside experts from the general public” to consult on whether its pay practices are equitable. At **Apple**, he asked the company “to include outside independent experts from the general public to adopt new

compensation principles responsive to America's general economy, such as unemployment, working hour and wage inequality." Goldman successfully argued at the SEC that the proposal's implementation would be illegal, while Apple persuaded commission staff that it concerned ordinary business.

**Accident prevention:** Taking up concerns about worker safety at chicken processing plants, where it says employees also receive unsustainably low pay and insufficient benefits, Oxfam America has asked **Pilgrim's Pride, Sanderson Farms** and **Tyson Foods** to start reporting annually,

describing the company's present policies, practices, performance, and improvement targets related to [occupational health and safety]. Among other disclosures, the report should include employee injury causes and rates, incidents of non-compliance with safety and labor laws, remedial actions taken and measures contributing to long-term mitigation and improvements. The report should be publicly released at reasonable cost, omitting proprietary information and other information protected by privacy and other laws, and using a phased, tiered or other reasonable approach.



## THRIVING POULTRY INDUSTRY BUILT ON THE BACKS OF VULNERABLE WORKERS

### MICHELLE KATZ

*Policy and Campaign Advisor, Oxfam America's Private Sector Department*

### MARY BABIC

*Senior Communications Officer, US Regional Office of Oxfam America*

Chicken is the most popular meat in America, and consumption grows every year. The poultry industry sells 8.5 billion chickens annually, at a wholesale value of \$50 billion. Poultry is an industry on the rise: Profits are climbing, consumer demand is growing and executive compensation is increasing rapidly.

But one element remains trapped at the bottom: the workers on the processing line. Poultry workers earn low wages of diminishing value, suffer elevated rates of injury and illness, toil long hours in difficult conditions and have little voice, opportunity or dignity in the workplace. The industry taps into marginalized and vulnerable populations; of roughly 250,000 poultry workers, most are people of color, immigrants, and refugees or even prisoners.

While Americans annually consume up to 89 pounds of chicken per capita, the industry is squeezing profits and productivity out of these workers. Moreover, in the rush to produce more chicken, the industry has ratcheted up the heat on these workers: processing line speeds today are twice as fast as they were in 1979.

The top four chicken companies control roughly 60 percent of the domestic market: **Tyson Foods, Pilgrim's Pride, Sanderson Farms** and **Perdue**. In 2015, Oxfam America launched a campaign calling on these companies to improve the way the industry treats workers. Oxfam filed shareholder proposals with Tyson Foods, Pilgrim's and Sanderson Farms (Perdue is privately owned), advocating for greater transparency in companies' occupational safety and health operations. These moves would enable shareholders to better understand the potential regulatory, legal, reputational and financial risks of hazardous working conditions, and would enhance shareholder value by improving brand reputation.

Oxfam did extensive research and published a landmark report, [Lives on the Line](#), which identifies three main problems:

- Workers earn low wages (around \$11 per hour, under \$25,000 annually) with scant benefits. And the real value of wages has declined dramatically—almost 40 percent since the 1980s. Meanwhile, compensation for poultry executives is soaring year after year.
- Workers suffer extremely high rates of injury and illness, especially repetitive strain injuries. Government statistics put the rate of carpal tunnel syndrome among poultry workers at seven times the national average, occupational illness at five times.
- Many workers are afraid to speak up and advocate for better treatment. In the words of many, the industry takes advantage of workers who live and work in a climate of fear.

Oxfam is making specific requests to the industry, including:

- **Fair Compensation:** Pay workers a fair wage that enables them to support their families without relying on federal assistance or charity. Provide paid time off, especially earned sick time.
- **Healthy and Safe Workplace:** Provide a safe environment, which includes reasonable line speeds, adequate staffing to allow for bathroom breaks and proper medical care for injured workers.
- **Worker Voice and Empowerment:** Enable workers to have a voice in the workplace, ensure they understand their rights and provide an atmosphere of tolerance to act on those rights.

The proposal to Tyson Foods also asked that the report include “objective assessments of working conditions in its processing plants.” Oxfam’s proposals came after the release in October of its report on the industry, [Lives on the Line](#), which provided extensive documentation about alleged problems at each of the companies. It has already gone to votes twice, earning 4.7 percent at Tyson and 24.9 percent at Sanderson’s.

**Fair Food Program:** The Congregation of St. Joseph has withdrawn a request to **Wendy’s** that it “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 domestic produce.” The withdrawal came after a technical problem with the filing, rather than because of any agreement. Last year, however, Calvert Investments withdrew a resolution about sustainable agriculture and human rights in the company’s supply chain after discussions with the company. (The [Fair Food Program](#) is an effort championed by a group called the Alliance for Fair Food, which works to bolster farmworkers’ rights.)

A separate proposal on the same subject, from the United Steel Workers, is pending in a different industry altogether. The union wants **Marathon Petroleum** to report by 2017 “on all safety and environmental incidents as defined by OSHA and the Environmental Protection Administration as well as worker fatigue management policies for each refinery in the Company’s supply chain in the United States.” The company challenged the resolution at the SEC, arguing the proponent failed to provide sufficient proof of stock ownership. In response, the SEC noted the company did not follow SEC rules for informing the proponent of the problem, however, which allowed the union to provide the required information, and the resolution now may appear in the proxy statement.

## HUMAN RIGHTS

Ten of the 42 shareholder resolutions that address human rights this year are concerned with conditions for people living and working in contested areas of Israel and Palestinian territory. The other half raise issues more familiar to proxy season voters, taking up concerns about standards and reporting, with some place-specific mentions. New are a proposal on human trafficking at trucking firms, one on the human right to health at tobacco firm **Phillip Morris International**, another on Native American stereotyping in a **Netflix** movie and a proposed assault weapons ban at two retailers. (Seven additional human rights proposals that have yet to be made public.)

## Conflict Zone Operations

**New approach about Israeli settlements:** In a new development, a group called The Heartland Initiative from Atlanta, Ga. (not to be confused with the Heartland *Institute*) is proposing that **Intel** take action to ensure it is not violating trade prohibitions in territory claimed by Israeli settlers. The information asks that the company

form an ad hoc committee to reassess business policies and criteria, above and beyond legal compliance, for determining whether and when the company will initiate, conduct or terminate business involvements with Israel’s Settlements, including supply chain, sales and distribution, and other business relationships (direct, partnerships, and licenses) and to monitor and report to shareholders on progress on meeting these policies at least annually, at reasonable expense and excluding proprietary information.

Conflict Zones			
Company	Proposal	Lead Filer	Status
Boeing	Report on military sales to Israel	Richard Berg	April
Chevron	Report on operations in Burma	Ursuline Srs. of Tildonk	May
Cisco Systems	Disclose workforce breakdown in Israel-Palestine	Holy Land Principles	Nov.
Coca-Cola	Implement Holy Land Principles	Holy Land Principles	April
FedEx	Implement Holy Land Principles	Holy Land Principles	Sept.
General Electric	Implement Holy Land Principles	Holy Land Principles	April
General Motors	Implement Holy Land Principles	Holy Land Principles	June
Intel	Implement Holy Land Principles	Holy Land Principles	May
Intel	Review and report on ties to Israeli settlements	Heartland Initiative	May
McDonald’s	Implement Holy Land Principles	Holy Land Principles	May
PepsiCo	Implement Holy Land Principles	Holy Land Principles	May
United Parcel Service	Implement Holy Land Principles	Holy Land Principles	May

Intel is arguing that the proposal duplicates another one that it received first about the Holy Land Principles (*discussed below*), which it intends to include in its proxy statement. This challenge is very likely to succeed although the SEC has yet to issue a response.

In the Intel resolution, Heartland notes that Israel has “militarily occupied certain territories since 1967” yet “does not possess sovereign powers over such areas, and thus cannot establish national legal entities and operations in said occupied territories.” It points out that Israel provides “financial and tax incentives” to residents of the territories and businesses operating there, even though the settlements are termed “illegitimate” by the U.S. government. It goes on to argue that Israeli Arabs who make up 20 percent of the country’s population “may be denied equal access” to the benefits enjoyed by settlers. It then asserts that Intel may be violating its commitments to international human rights codes because of its “involvement” in the settlements, and reasons that the proposed committee should consider risks to the company’s reputation “and its commitments to employers, customers, and shareholders,” and how these groups may benefit from “appropriate policies to identify and remedy such risks.”

**Holy Land Principles:** Resolutions asking companies to implement the new [Holy Land Principles](#)<sup>3</sup> for fair employment received low levels of support when they first went to votes in 2015, although notably high abstention rates. The campaign is continuing this year, however, with eight proposals now pending. Seven reprise last year’s request that each company “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 equal opportunity in the workplace.

The resolution is new to **Coca-Cola**, **FedEx**, **General Motors**, **McDonald’s**, **PepsiCo** and **United Parcel Service**. It is a resubmission at Intel (3.2 percent last year) and **General Electric** (3.1 percent last year); both must receive at least 6 percent to be eligible for further resubmission. In 2015 it did not earn enough for submission at Cisco Systems or Corning (2.8 percent at each).

The Holy Land Principles organization nonetheless also has filed a new resolution at **Cisco**, asking it to provide “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.”

**Military sales to Israel:** Individual proponent Richard Berg is asking **Boeing** to report on its “sales of weapons related products and services to Israel.” Berg says the company faces risks because of concern in higher education institutions about human rights violations in Israel, which could jeopardize its relationship with these schools. It expresses concern about the war in the Gaza strip and “overall moral and ethical questions raised by selling weapons that contribute directly to illegal occupation, apartheid, and human rights violations.” In the supporting statement, the proponent suggests the report should include:

1. Processes used to determine and promote sales to Israel
2. Procedures used to negotiate arms sales to Israel, government-to-government and direct commercial sales and the percentage of sales for each category
3. Disclosure of sales and other arrangements with local security forces
4. Categories of military equipment or components with as much statistical information as permissible such as contracts for servicing/maintaining equipment
5. Detailed risk analysis surrounding business relations with countries, like Israel, that have been accused of violating Geneva and Hague conventions and international human rights law.

The company unsuccessfully challenged the resolution at the SEC, arguing it could be excluded because it concerns ordinary business. (A 2015 proposal asking the company to end its military sales to Israel was omitted because the proponent filed it too late. The other relatively recent human rights proposal to Boeing that went to a vote asked for an expansion of its supplier human rights policy in 2011, earning 8 percent support.)

**Burma:** Another troubled part of the world that has prompted scrutiny from investors over the years, Burma, has inspired a new resolution this year. While most U.S. sanctions have been lifted, mandatory monitoring of corporate activity in the country is required and continued violence despite political progress makes involvement in the region touchy and potentially risky. The Ursuline Sisters of Tildonk request that **Chevron** provide a report “consistent with the full scope and contents outlined in the U.S. State Department’s [Reporting Requirements on Responsible Investment in Burma](#) on Chevron’s operations in Burma.” The company has challenged the proposal at the SEC, arguing it can be excluded because it will be moot when the company issues this newly required report. The SEC has yet to respond.

---

3. Si2 has provided research to the Holy Land Principles organization reporting on the operations and policies of some U.S. companies operating in Israel and the Occupied Territories, but it does not participate in the group’s campaign for adoption of the principles (or any other shareholder campaigns).

## Risk Assessment and Human Trafficking

**Implementing the Ruggie principles:** The campaign to get companies to conduct detailed evaluations of the risks they face from human rights in their operations continues. It invokes 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 this approach. But it is at fewer companies (down from 12 last year and 14 the year before). NYSCRF has proposed that **Ralph Lauren, Wendy’s** and **Yum! Brands** report 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.” (Earlier, a supplier labor standards proposal at Ralph Lauren earned a scant 1.3 percent support in 2014, while at Wendy’s Calvert Investments withdrew a 2014 proposal about human rights, greenhouse gas emissions and water in the company’s supply chain after an agreement. Yum has not had human rights-specific proposals recently, although a palm oil policy request that raised a mix of environmental and human rights concerns earned 37 percent in 2012.)

The Sisters of St. Francis of Philadelphia has filed the same resolution noted above at **Kroger**. Previous resolutions at Kroger have focused on problems in its domestic food supply chain and earned 30.8 percent in 2015 and 38.8 percent in 2014.

At **Nordstrom**, Trillium Asset Management wants greater scrutiny of its supply chain given problems with worker safety and rights, such as the tragic collapse of the Rana Plaza garment factory in Bangladesh in 2013. It points out that the company says nearly half of the sales volume for the Nordstrom Product Group in 2014 came from “factories that Nordstrom categorized as ‘At-Risk,’” which it says “is concerning as Nordstrom defines At-Risk as: ‘Factory was found to have complex, systemic challenges, as well as a lack of transparency’” regarding human rights. Therefore, it wants a report “on the specific actions it has taken (above and beyond existing reporting) to identify and curtail human rights risk in its supply chain.” The proposal is new to the company.

**Truckers as human trafficking lookouts:** In an effort to recruit truckers as allies in the fight against human trafficking, a resolution from Mercy Investments is pending at four firms—**Covenant Transportation Group, Old Dominion Freight Line, Swift Transportation** and **United Continental Holdings** and planned at **Las Vegas Sands**. It proposes that each “report on the implementation of a program to address human trafficking internally and in its supply chain.” The resolution notes that the U.S. State Department says transportation professionals are “particularly well-placed to identify trafficking victims” and

### Risks and Policies

Company	Proposal	Lead Filer	Status
Alliance One International	Participate in OECD human rights mediation	AFL-CIO	Aug.
Covenant Transportation Group	Report on human trafficking policies/practices	Mercy Investment Services	May
Kroger	Report on human rights risk assessment	Srs. of St. Francis of Phila.	June
Las Vegas Sands	Report on human trafficking policies/practices	Mercy Investment Services	June
Nordstrom	Report on human rights policy	Trillium Asset Mgt	May
Old Dominion Freight Line	Report on human trafficking policies/practices	Mercy Investment Services	May
PepsiCo	Participate in OECD human rights mediation	AFL-CIO	withdrawn
Philip Morris International	Adopt/expand human rights policy	Midwest Capuchins	May
Philip Morris International	Participate in OECD human rights mediation	AFL-CIO	May
Ralph Lauren	Report on human rights risk assessment	NYSCRF	Aug.
Reynolds American	Participate in OECD human rights mediation	AFL-CIO	May
Swift Transportation	Report on human trafficking policies/practices	Mercy Investment Services	May
United Continental Holdings	Report on human trafficking policies/practices	Mercy Investment Services	June
Universal	Participate in OECD human rights mediation	AFL-CIO	Aug.
Wendy’s	Report on human rights risk assessment	NYSCRF	June
Yum Brands	Report on human rights risk assessment	NYSCRF	May



that “the National Human Trafficking Resource Center (NHTRC) has over 20,000 victims identified and more than 1100 reports have been from callers who self-identified as truckers.” Further, other companies have joined the organization [Truckers Against Trafficking](#) to take action, it says. The supporting statement suggests the report include:

- A statement of company policy on human trafficking,
- An overview of employee and customer awareness, education and training on the issue of human trafficking,
- A plan for communicating information to customers,
- Methods of informing truckers of “key persons” at any destination who can address the issue, and
- Annually publish a progress report prepared.

Previously, Mercy withdrew a 2014 proposal at United Continental after the company adopted a policy on trafficking and posted it to the company website.



## PUTTING A DENT IN HUMAN TRAFFICKING BY EDUCATING KEY INDUSTRY SECTORS

**KENDIS PARIS**

*Executive Director, Truckers Against Trafficking*

**PAT ZEREGA**

*Senior Director of Shareholder Advocacy, Mercy Investment Services*

Human trafficking, or modern-day slavery, is one of the greatest human rights violations of our time. Worldwide, it enslaves more people – 21 million – than were sold during the almost 400 years of the Atlantic Slave Trade. By definition, it's the sale of human beings through force, fraud or coercion, for commercial sex or forced labor, wherein a third party makes a profit.

As a coalition of faith-based and values-driven institutional investors, members of [the Interfaith Center on Corporate Responsibility](#) (ICCR) are committed to rooting out human trafficking and slavery in the operations and supply chains of the companies they own. As made clear by the [United Nations Guiding Principles for Business and Human Rights](#), and via emerging legislation at the state and federal levels, corporations have a responsibility to respect human rights within their operations and spheres of impact.

From exposing slavery in the overseas apparel, tech, fishing, and agricultural industries to highlighting sex trafficking risks in the travel and tourism sector, for decades ICCR and its allies have been educating corporations about best practices to expose and prevent trafficking and slavery in global supply chains. Of special interest is the transportation sector, which is critically placed to see traffickers actively moving or selling their victims.

The American trucking industry, embedded in the supply chains of virtually every industry, is especially well-positioned to recognize and report human trafficking incidents, particularly incidents of sex trafficking. We believe the [Truckers Against Trafficking](#) (TAT) program has quickly become a successful, nationwide, replicable, anti-trafficking education model, providing free resources and training to help truckers identify and respond to potential incidents of trafficking that may otherwise go unreported.

Recognizing that truckers/travel plaza employees serve as crucial front-line responders, TAT's industry-specific training materials supply trafficking hotline education and outline information needed to help law enforcement combat these crimes. TAT also partners with law enforcement and motor vehicle agencies on a state-by-state basis to provide anti-trafficking training to anyone seeking a commercial driver's license.

Mercy Investment Services, which has engaged dozens of companies on human trafficking, continues to seek new avenues that can impact the lives of victims being trafficked. As such, Mercy Investment Services has partnered with Truckers Against Trafficking to advocate for trucking companies to train and educate their drivers – the eyes and ears of our nation's highways. These men and women, along with those in the airline and hospitality industries, continue to make a difference in raising awareness and stemming the tide of trafficking in our country.

TAT's latest step in driving this education is its Shipping Partners Program, which engages large, national shippers with extensive trucking networks, often numbering in the tens of thousands. Companies such as **Walmart**, **Johns Manville** and **Bridgestone** have joined the program. Through three simple but effective actions, TAT empowers shippers to make a huge dent in combating trafficking and saving lives: modify their request-for-bid proposals to encourage their carriers to get TAT trained and registered; invite TAT to present at their carrier bid meetings; and train their private fleet with TAT materials.

## Tobacco

The Midwest Capuchins has cast a new proposal to **Philip Morris International** in a human rights frame, asking it to “create and/or review, adapt, and monitor a companywide human rights policy, including the right to health, and work to ensure that its global and national lobbying and marketing practices are not undermining the efforts of sovereign countries to protect their

citizen's health." The resolution raises concerns about international trade treaties and company lobbying to protect tobacco marketing rights. *(Two other tobacco-related resolutions from the Capuchins, on additives, are discussed in the section on Toxics earlier in this report.)*

## Indigenous Peoples' Rights

Mercy Investments has a new proposal at **Netflix** that takes issue with a movie it recently released, "[The Ridiculous Six](#)," given its controversial portrayal of Native Americans. It asks for a report that describes

how company management identifies, analyzes, and oversees reputational risks related to offensive and inaccurate portrayals of Native Americans, American Indians, and other Indigenous Peoples, how it mitigates these risks and how the company incorporates these risk assessment results into company policies and decision-making.

## Prisons and Executions

Just one resolution this year is at a private prison company, **GEO Group**. The Jesuit Conference is requesting "an independent Human Rights report." The proponents withdrew a similar proposal in 2013, after having earned 29.1 percent in 2012. The current resolution notes that two detained immigrants died at one of the company's facilities.

In a different proposal that is unlikely to go to a vote, NYSCRF has asked **Pfizer** to report "describing the steps the Company has taken or will take to identify and remedy the flaws in the current distribution system for the Restricted Products in order to prevent their sale to prisons for the purpose of aiding executions." The company has challenged the resolution at the SEC, saying it can be excluded because it concerns ordinary business and is moot. Since Pfizer is in the process of reincorporating in Ireland, no vote is likely.

## Guns

Two proposals seek a ban on the sale of assault weapons. Trinity Church Wall Street, which previously unsuccessfully sought to ban such sales at Walmart Stores and unsuccessfully sued in an attempt to get it on the proxy ballot, is asking sporting goods firm **Cabela's** to take action. It says:

Consistent with the Company's commitment in its Business Code of Conduct & Ethics to "make business decisions not based only on financial risk and reward, but also on the impact to people, communities and the environment," and with Cabela's being a store for outdoor enthusiasts and their families, shareholders ask the Board of Directors to adopt and oversee the implementation of a policy to continue to sell handguns and rifles discharging up to eight shells without reloading, weapons connected to the sports of hunting and marksmanship, and not to sell (other than to police departments and other military and law enforcement agencies of government) firearms capable of discharging more than 8 shells without reloading, the weapons of choice for mass killings and illegal gun violence ("high-capacity weapons").

The company has challenged the proposal at the SEC, arguing it can be excluded because it concerns ordinary business and is too vague; the SEC has yet to respond.

Domini Social Investments is asking **Kroger** to take similar action, and "to adopt a policy to ban the sale of semi-automatic firearms and accessories at all company owned and operated stores." The proposal is a new one and targets the sale of assault weapons in Kroger's Fred Meyer stores in Alaska, Idaho, Oregon and Washington.

## Data Privacy

Arjuna Capital wanted to raise a concern about data privacy risks at **AT&T** but was turned back by a successful SEC challenge from the company, which persuaded commission staff that the proposal's implementation concerned ordinary business, among other reasons. The SEC agreed. Earlier, NYSCRF withdrew a similar resolution in 2014 after reaching an agreement with the company on more transparency. The resolved clause called for a report "clarifying the Company's policies regarding providing information to law enforcement and intelligence agencies, domestically and internationally, above and beyond what is legally required by court order or other legally mandated process, whether and how the policies have changed since 2013, and assessing risks to the Company's finances and operations arising from current and past policies and practices."

### Other Human Rights Issues

Company	Proposal	Lead Filer	Status
AT&T	Report on privacy risks and government data collection	Arjuna Capital	omitted
Cabela's	Ban assault weapons sales	Trinity Church Wall Street	June
GEO Group	Report on human rights training	Jesuit Conference	April
Kroger	Ban assault weapons sales	Domini Social Investments	June
Netflix	Report on indigenous peoples policy	Mercy Investment Services	June
Pfizer	Report on lethal injection drug policy	NYSCRF	no mtg?

## HEALTH

### Prescription Drugs and Natural Cures

**Safe disposal:** As You Sow has filed a new proposal at three leading drug companies—**AbbVie**, **Merck** and **Johnson & Johnson**—that aims to address the nationwide opioid addiction crisis and environmental concerns at the same time, which uses concepts from its work on materials recycling. The resolution asks for a report that would review

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 body of the resolution argues that improper disposal of prescription drugs and their accessories “contributes to water pollution, illicit drug use, drug addiction, and threats to sanitation workers.” When drugs end up in sewage they add contaminants to drinking water sources, it notes. Further, misused leftover pain medication contributes to addiction and accidental poisoning, and improperly discarded needles and syringes required for some drug administration can harm sanitation workers and wind up on beaches. Yet few communities have “free, convenient, on-going collection programs that could help alleviate these critical problems,” the resolution points out. Since the National Drug Control Strategy calls for “long-term, sustainable disposal programs in communities,” As You Sow believes that producer responsibility principles place an obligation on companies to finance take-back programs—an approach that is being used for the makers of paint, pesticides and electronics, already in place in Canada and Europe.



### CHALLENGING THE PHARMACEUTICAL INDUSTRY ON DRUG TAKE BACK

#### CONRAD MACKERRON

*Senior Vice President, As You Sow*

The shocking rise of addiction and deaths related to pain management medications and its link to unused and outdated medicines has led As You Sow to a [new program initiative](#) asking drug makers to take responsibility for safe collection and disposal of post-consumer drugs and accessories.

According to the Centers for Disease Control and Prevention, more than 47,000 Americans died from a drug overdose in 2014, including 16,000 related to both legal prescription drugs and illegal medications. [President Barack Obama has stated](#) that most young people who begin misusing prescription drugs get them from the family medicine cabinet. Medical accessories like syringes and needles also need safe disposal options. The President's drug control strategy calls for creating disposal programs in communities, but the pharmaceutical industry has not led efforts to develop them.

Only about 1 percent of the 67,000 U.S. pharmacies offer a drug take-back program. Many people hold onto unneeded drugs because they lack easily accessible collection and disposal options.

This is both a health and an environmental issue. Many drugs are flushed down the toilet, despite Environmental Protection Agency warnings against this. While sources are hard to determine, drugs are appearing in waterways. [An Associated Press investigation](#) found antibiotics, mood stabilizers and sex hormones in water supplies serving 41 million Americans.

As You Sow has filed shareholder resolutions with [AbbVie](#), [Johnson & Johnson](#) and [Merck & Co.](#) for 2016, asking the companies to develop policy options for working with industry peers to take primary responsibility for developing a national network of local take-back programs.

We believe companies that put medications on the market and profit from them should be primarily responsible for financing take-back systems. We are concerned that the pharmaceutical industry has opposed such responsibility. Belgium, Brazil, Canada, France, Mexico, Portugal and Spain are among countries where pharmaceutical-financed collection programs are in place. A French program gathered 30 million pounds of drugs in 2013.

The pharmaceutical industry sued Alameda County, California and King County, Washington, which passed ordinances requiring companies to pay for take back programs. The industry lost its bid to duck financial responsibility when the Supreme Court [let stand](#) a lower ruling that rejected the contention that making drug makers pay for take back was unconstitutional.

The Drug Enforcement Administration has partnered with state and local law enforcement agencies to hold periodic National Take-Back Days for medicines, and collected more than five million pounds of medications with just 10 events. But far more convenient and ongoing collection services are needed. In February 2016, **Walgreens** made a welcome [commitment](#) to place drug free take back kiosks in 500 of its pharmacies. While a decent start, this represents only about 1 percent of U.S. pharmacies, highlighting the need for drug makers to help pay for a major expansion of this program.

**Natural cures:** One more proposal from an individual investor on health suggested that **General Electric** should collect data from employees, with their permission, about “natural cures” so that they might be studied. But the proponent failed to provide sufficient proof of stock ownership and it was omitted.

## Childhood Obesity

ICCR members have been trying to address the child obesity epidemic in proposals to both fast food companies and media giants who air ads about fast food. Their resolutions this year are at media companies but only one may go to a vote.

Trinity Health has asked **Time Warner** to report on an assessment of “public health concerns regarding the use of licensed characters and their possible link to childhood obesity, diet-related diseases, and other impacts on children’s health,” and to make recommendations about how to address the issues. A nearly identical proposal at **Viacom** asks about “linkages of food/beverage advertising to childhood obesity” and the health concerns raised at Time Warner. But Viacom has successfully challenged the resolution at the SEC, persuading commission staff that this relates to ordinary business. A similar challenge from Time Warner is still awaiting a response but is likely to succeed, as well.

This leaves one more proposal from the Northwest Women Religious Investment Trust at **Alphabet** (formerly Google). It is slightly different and so far has not been challenged at the SEC. It requests a “risk evaluation” that

should assess whether the company’s expansion into children’s products and its practices therein are sufficient to prevent material impacts on the company’s finances and operations in light of public concerns about deceptive advertising to children, childhood obesity, and public and private initiatives to eliminate or restrict food marketing to youth.

Health			
Company	Proposal	Lead Filer	Status
AbbVie	Report on safe drug disposal policy	As You Sow	May
Alphabet (formerly Google)	Report on advertising and childhood obesity	NW Women Relig. Inv. Trust	June
General Electric	Collect employee health data on natural cures	Robert Fredrich	omitted
Johnson & Johnson	Report on safe drug disposal policy	As You Sow	April
Merck	Report on safe drug disposal policy	As You Sow	May
Time Warner	Report on advertising and childhood obesity	Trinity Health	June
Viacom	Report on advertising and childhood obesity	Mercy Investment Services	omitted

## ANIMAL WELFARE

Long-time animal rights proponent People for the Ethical Treatment of Animals (PETA) this year is focused on animal use in human entertainment and is joined by an individual shareholder. **SeaWorld Entertainment** has gone to the SEC to challenge a proposal that asks it to end its orca breeding program. The resolution says:

That in order to combat the precipitous decline in SeaWorld’s value and public image-as evidenced by a public relations disaster; a continuing drop in attendance, revenue, and net income; intense public opposition to orca captivity as reported in the media worldwide; multiple shareholder lawsuits filed against our Company; an October ruling by the California Coastal Commission that Sea World could build new tanks in San Diego only if it stopped its orca breeding program there; and the introduction of federal legislation to ban the breeding of orcas held for exhibition-shareholders urge the board to ban captive orca breeding at all Sea World parks.

The company contends this all relates to ordinary business, which is the same argument used by **Amazon.com** with respect to a resolution from Nikki Sweeden Bollaert, who says it should “report addressing animal cruelty in the supply chain, at reasonable expense and excluding proprietary information.” The SEC has yet to respond to either challenge; in 2015 it agreed that a similar resolution from Bollaert dealt with ordinary business; it focused on selling food products produced in what she said were cruel conditions was omitted on ordinary business grounds.

Animal Welfare			
Company	Proposal	Lead Filer	Status
Amazon.com	Report on animal welfare issues	Nikki Sweeden Bollaert	June
Groupon	End promotions of animals used in entertainment	PETA	June
SeaWorld Entertainment	End orca breeding program	PETA	June



## INVESTORS RECOGNIZE ANIMAL WELFARE RISKS

### MATTHEW PRESCOTT

Senior Food Policy Director, *The Humane Society of the United States*

How people eat and produce food is changing in major ways, causing leading asset managers, banks and investment firms to rethink risks and opportunities in the sustenance sector.

Last fall, **Blackrock, Fidelity, MFS Capital**, the UK's **Collier Capital** and **The Humane Society of the United States** [co-hosted an event](#) entitled, "The Humane Economy," in which representatives from financial firms with combined assets of \$17 trillion joined for a day to discuss the consequences of poor animal welfare in companies' supply chains.

One major topic on the docket was egg production. Over the last several decades, the vast majority of laying hens have been moved into cages so cramped the animals can't even spread their wings. Given less space than an iPad on which to live her entire life, each hen confined in these cages languishes for more than a year, unable to engage in her most basic natural behaviors.

Not surprisingly, the public is outraged. "Cruel and senseless" is what the *The New York Times* [called](#) the cages. In fact, the Food Marketing Institute now [reports](#) that animal welfare outranks, for grocery shoppers, *all other social issues* except employment practices.

Corporations are responding. **McDonald's, Costco, Target, Denny's** and [dozens](#) of other major food companies have recently announced plans to switch to 100 percent cage-free eggs. Many of these policies were announced last year, leading Fox News to [call](#) 2015, "The Year of the Cage-Free Hen."

This all presents major risks and opportunities to investors. Citigroup [reports](#) that "concerns over animal cruelty" can present "headline risks" to restaurant companies. The World Bank's International Finance Corp. [reported](#), "In the case of animal welfare, failure to keep pace with changing consumer expectations and market opportunities could put companies and their investors at a competitive disadvantage."

Some major holders are adjusting their proxy voting guidelines accordingly. "**Northern Trust** generally votes for proposals requesting increased disclosure or reporting regarding animal treatment," [directs](#) the billion-dollar firm, "especially in relation to food production."

Even proxy firms like ISS and Glass Lewis have weighed in. "Glass Lewis believes that it is prudent for management to assess its potential exposure to risks relating to animal welfare policies," the firm [notes](#). "Failure to take action on certain issues may carry the risk of...a decreased customer base and potentially costly litigation."

Indeed, as Americans become more clued in to how their food is produced—and voice their concerns about issues like animal mistreatment—how companies and their investors respond to that changing landscape may cause them to sink or soar in the years ahead.

Also pending is a proposal from PETA to **Groupon**, the online promotion service, which says, "given the cruel treatment of animals used by the entertainment industry, including in circuses, marine parks, and roadside zoos, and the public's growing opposition to animal exploitation, the board is encouraged to enact a policy prohibiting promotions involving animals used in entertainment."

## Sustainable Governance

Activist investors often turn their attention to the ways in which a company makes its social and environmental policy decisions, at the board level, as well as to how companies make themselves accountable to their investors when it comes to strategic sustainability issues. This section examines these issues, taking in turn board diversity, board oversight and sustainability reporting and other approaches. There are 29 resolutions about board actions, with nearly all of them (23) focused on board diversity; 19 are pending and four have been withdrawn. Additional resolutions ask for links between executive pay and sustainability (11) and sustainability reports (10), with another three concerned with proxy voting policies and sustainability promotion. (A few not yet public are not described.)

### BOARD DIVERSITY

The [30 Percent Coalition](#) is supporting a new raft of board diversity proposals. Members want boards to adopt policies to include more women and minority members or to report on their related policies, with a total of 23 proposals filed.



## Board Diversity

Company	Proposal	Lead Filer	Status
Apple	Adopt board diversity policy	Antonio Maldonado	5.1%
Cabot Oil & Gas	Report on board diversity	Philadelphia Firefighters	April
Clarcor	Report on board diversity	Needmor Fund	withdrawn
Cognizant Technology Solutions	Report on board diversity	Pax World Funds	June
Comcast	Report on board diversity	United Methodist Church Fndn	withdrawn
Continental Resources	Report on board diversity	Miller/Howard Investments	May
Costco Wholesale	Adopt board diversity policy	NorthStar Asset Mgt	withdrawn
Delphi Automotive	Report on board diversity	United Methodist Church Fndn	April
Diamond Offshore Drilling	Adopt board diversity policy	Philadelphia Firefighters	May
Discovery Communications	Report on board diversity	Calvert Investment Mgt	May
Ecolab	Adopt board diversity policy	NorthStar Asset Mgt	May
Exelon	Report on board diversity	North Carolina Ret. Systems	April
Ford Motor	Adopt board diversity policy	North Carolina Ret. Systems	May
Joy Global	Adopt board diversity policy	Amalgamated Bank	March
Mueller Industries	Report on board diversity	Miller/Howard Investments	withdrawn
Stifel Financial	Report on board diversity	Trillium Asset Mgt	June
Triangle Capital	Report on board diversity	Miller/Howard Investments	May
Union Pacific	Report on board diversity	Trillium Asset Mgt	May
Waste Connections	Report on board diversity	Miller/Howard Investments	May

**Adopt diversity policy:** Six resolutions ask for policies on diversity. Four of those ask companies to:

1. Take every reasonable step to ensure that women and minority candidates are in the pool from which Board nominees are chosen;
2. Publicly commit itself to a policy of board inclusiveness to ensure that:
  - Women and minority candidates are routinely sought as part of every Board search the company undertakes;
  - The Board strives to obtain diverse candidates by expanding director searches to include nominees from both corporate positions beyond the executive suite and non-traditional environments such government, academia, and non-profit organizations; and
  - Board composition is reviewed periodically to ensure that the Board reflects the knowledge, experience, skills, and diversity required for the Board to fulfill its duties.

To report to shareholders, at reasonable expense and omitting proprietary information, its efforts to encourage diversified representation on the Board.

All four are still pending, at **Diamond Offshore Drilling**, **Ecolab**, **Ford Motor** and **Joy Global**. The Diamond Offshore proposal earned 16.8 percent last year. Ford argues that the proposal can be excluded because it is both moot and relates to ordinary business, but the SEC has yet to respond.

A new resolution in a similar vein from individual investor Antonio Maldonado went to vote at **Apple** on Feb. 26, earning 5.1 percent. Using a new formulation, it says the company should “adopt an accelerated recruitment policy requiring Apple...to increase the diversity of senior management and its board of directors, two bodies that presently fails to adequately represent diversity (particularly Hispanic, African-American, and Native-American).” Apple unsuccessfully challenged the resolution at the SEC, arguing that it concerned ordinary business because it seeks to micromanage recruitment and because the company cannot legally implement it, since it would *require* an increase in diversity. The SEC disagreed. The Sustainability Group had withdrawn a similar resolution in 2014 after the company agreed to strengthen its language about seeking out diverse board members.

**Withdrawal**—NorthStar Asset Management has withdrawn a resolution to **Costco Wholesale** that called for a new policy committing the company 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 reports Costco will add language about including gender, racial and ethnic diversity in board candidate pools.



## PROMOTING BOARD DIVERSITY: A ROLE FOR INVESTORS

### TIMOTHY SMITH

*Director of ESG Shareowner Engagement, Walden Asset Management*

Women remain significantly underrepresented among corporate directors despite modest advances in recent years. Women held just 16 percent of S&P 1500 company board seats in 2014 and nearly one-in-five corporate boards have no female representation at all. Similarly, while people of color account for 38 percent of the U.S. population, they held just 10 percent of S&P 1500 directorships and over 40 percent of the companies had no minority representation ([ISS 2015 Board Study: United States](#)).

Yet studies show that diversity, inclusive of gender and race, is a critical attribute of a well-functioning board and a measure of sound corporate governance.

**Research confirms the business rationale for diversity on corporate boards:** An [August 2012 Credit-Suisse Research Report](#), *Gender Diversity and Corporate Performance*, correlates board diversity to better financial and stock market performance (higher return on equity, lower leverage, improved growth prospects and higher price/book ratios). It suggests several explanations for these better results including a stronger mix of leadership skills, improved understanding of consumer preferences (women control more than two-thirds of U.S. consumer spending), a larger candidate pool from which to pick top talent and more attention to risk. In [2014, Credit-Suisse updated](#) its research and observed similar results.

**Institutional investors are increasingly becoming strong advocates for progress:** An October [2014 PwC survey of investors](#) representing more than \$11 trillion in assets observed that “Nine out of 10 investors believe boards should be revisiting their director diversity policies, and 85 percent believe doing so will require addressing underlying impediments...” With a representative of CalSTRS (California State Teachers Retirement System), I co-chair the Investor Committee of the [Thirty Percent Coalition](#)—a network of corporate governance experts, corporations, senior business executives, state-wide elected officials, national women’s organizations and institutional investors—which aims to encourage gender diversity in boardrooms through outreach to companies and other initiatives.

**The global regulatory and legislative context puts additional pressure on voluntary initiatives in the U.S. to produce results:** Regulations and legislation with various quantitative mandates and timetables to increase gender diversity on boards in countries such as Belgium, France, Germany, Italy, Norway and Spain are rapidly changing the complexion of directors in those locations. [SEC Chairwoman Mary Jo White announced](#) recently that the SEC will review company disclosures on racial and gender composition of boards and make recommendations in 2016.

### UTILIZING SHAREHOLDER LEVERAGE TO ENCOURAGE BOARD DIVERSITY

Through dialogues, shareholder resolutions and proxy voting communications, investors ask portfolio companies to foster greater board diversity over time by:

- Strengthening Nominating and Corporate Governance policies and charters to explicitly embed a commitment to diversity inclusive of gender, race and ethnicity in Board searches;
- Committing to include women and minority candidates in the pool from which Board nominees are chosen;
- Providing an annual public assessment of challenges experienced and progress achieved.

Forces from a variety of venues are coalescing to bring greater attention to the relatively low level of gender and racial diversity in U.S. corporate boardrooms. Progress has been slow but momentum appears to be building.

**Reporting on diversity policy:** Proponents have filed more board diversity reporting proposals, asking 17 companies (see *table for a list*) to report (with slight variations):

on plans to increase diverse representation on the Board as well as an assessment of the effectiveness of these efforts. The report should include a description of how the Nominating and Corporate Governance Committee, consistent with its fiduciary duties, takes every reasonable step to:

1. include women and minority candidates in the pool from which Board nominees are chosen; and
2. expand director searches to include nominees from both non-executive corporate positions and experience in non-traditional environments such as government, academia, and non-profit organizations.

To date, just two have been withdrawn after agreements at **Clarcor** and **Mueller Industries**. The proponent also withdrew, without an agreement, at **Comcast**, since it could not provide sufficient proof of stock ownership. More withdrawals are certain, as two-thirds of these proposals usually are withdrawn when companies accede to the request. The resolution is a resubmission at two companies, but for the most part has been submitted to new targets. The proposal earned 23.9 percent at **LinkedIn** last year and 8.9 percent at **Skechers**.

**Exelon** is contending the resolution relates to ordinary business, but this argument is unlikely to pass muster as it has been rejected by the SEC in the past.

## BOARD OVERSIGHT

Resolutions about board oversight fall into two categories—those that suggest companies nominate particular types of experts to sit on the board, and those that suggest specific types of committees are needed to properly oversee complicated sustainability issues such as human rights and the environment. Three for 2016 ask for environmental expert nominees and two ask the board to establish committees.



### TRANSITIONING TO A CLIMATE-COMPETENT BOARD

#### RICHARD FERLAUTO

*Governing Board Member, 50/50 Climate Project*

Large institutional investors, concerned with their own portfolio risks, are increasingly calling for climate-competent boards and directors. Under pressure from long term shareholders due to proxy access rights and their increased activism emerging from COP21, companies need directors better equipped to meet the climate challenge. Strategies for identifying board candidates will be needed as nominating committees look at new areas of skills and experience to fill gaps and find new nontraditional candidates.

**Board Database:** A bench of board candidates—highly independent directors who understand the science of climate change—is now being developed to aid boards in this process. This director's bench of qualified climate-competent candidates will be searchable by skill set, experience and industry sector. While emphasizing candidates of diverse backgrounds, selection criteria should encompass industry know-how, understanding risk mitigation, scientific, technological or regulatory understanding and boardroom experience. An associated director-support network for continuing climate education would contribute to expanding competency.

**Climate Risk:** Disclosures on company risks and vulnerabilities to regulatory and market conditions are a predicate to transition, but not sufficient. Climate-competent directors should be able to interpret scenario analysis of reduced demand, efficiency and substitutes based on the constraints imposed by the COP21 agreement. Boards should assess information regarding carbon asset risk in their company business models and incorporate risk analysis into strategic planning. Audit, risk and compensation committee charters should require directors with climate competency skills.

**Evaluation and Education:** Director self-assessments and third-party board evaluations ought to review climate competency metrics. Enhancing board climate competency can be achieved through director education, committee restructuring, or board refreshment. Relevant board committees should require ongoing climate-risk education on the latest data and trends. Sustainability should avoid being siloed and climate-related decisions should not be relegated to a 'sustainability ghetto' either on the board or in the corporate structure.

**Compensation:** Climate-competent directors understand how incentives motivate executives. As financial metrics come under review, and operational metrics are adjusted, metrics that incentivize long-term sustainable growth will be needed. Operational metrics that reward increased production of carbon intensive products (including those on reserve replacement) may exacerbate the issue of stranded assets. Preferable metrics reward more sustainable products that reduce carbon risk. Compensation committees should design pay plans that include rigorous holding and retention requirements for performance-based stock awards. Long-term incentives should be decoupled from total shareholder return with a focus on no disproportionate upside due to the price of carbon. Effective board oversight includes carbon asset risk metrics associated with capital expenditures related to exploration and production and track greenhouse gas emissions, water use, oil reserves, energy efficiency and the like.

**Lobbying Disclosure:** Climate-competent boards enhance lobbying disclosure and philanthropic information so shareholders can evaluate business risks associated with efforts to influence the policy. Directors should be fully apprised of lobbying and nonprofit contribution policies. Governance committee charters should have contribution guidelines that align lobbying and philanthropic policies with publicly disclosed sustainability plans. Lobbying inconsistent with company-stated sustainability policies damages corporate branding, affects good will, and erodes trust in company disclosures.

## Environmental Experts

NYSCRF has returned yet again to **Chevron** with its proposal about nominating an environmental expert to the board. The proposal has gone to a vote every year since 2010, and last year received just under 20 percent support, slightly less than in the previous three years. 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.

The same resolution is pending for the second time at **ExxonMobil**, filed by the Midwest Capuchins; it earned 21 percent support last year.

Joy Loving is trying a similar approach at **Dominion Resources**, requesting the nomination of an independent director. Loving is part of the group of Sierra Club members that have filed numerous environmentally focused proposals at the company in the last several years. Last year, Dominion successfully challenged a similar proposal from Loving when the SEC agreed that proposal was too prescriptive and would violate state law. This year, the SEC rejected company arguments that it is too vague and cannot be implemented. 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.

## Sustainability Oversight

Just two resolutions filed so far address sustainability oversight by board committees. One is a resubmission from NorthStar Asset Management to **Western Union**, which asks it to formally establish a board committee "to review the implications of company policies, above and beyond matters of legal compliance, for the human rights of individuals in the US and worldwide, including assessing the impacts of company operations and supply chains on resources and public welfare in host communities." The resolution earned 12 percent last year.

The other is from Jing Zhao at **Twitter**, for the first time, asking it to

establish an International Policy Committee of the Board of Directors to oversee our Company's policies and practice that relate to international policy issues including human rights, corporate social responsibility, charitable giving, political activities and expenditures, and foreign governmental regulations that may affect our Company's operations, performance, and reputations worldwide.

The company has challenged the proposal at the SEC, arguing it can be excluded because the proponent did not prove stock ownership, is moot and concerns ordinary business, but the commission has yet to respond.

## Indemnification Report

Individual investor Michael Haverty proposed to **Chevron** that it report on "the cost and limits of indemnification of Chevron Directors and Officers" annually. In the supporting statement for this new resolution, Haverty said investors need an independent assessment of the company's insurers about potential liabilities the company faces on environmental and other issues to better evaluate potential company risks. The company challenged the proposal at the SEC, arguing it concerned ordinary business and Haverty withdrew before any SEC comment.

Board Oversight			
Company	Proposal	Lead Filer	Status
Chevron	Nominate environmental expert to board	NYSCRF	May
Chevron	Report on director indemnification costs	Michael Haverty	withdrawn
Dominion Resources	Nominate environmental expert to board	Joy Loving	May
ExxonMobil	Nominate environmental expert to board	Midwest Capuchins	May
Twitter	Establish board committee on sustainability	Jing Zhao	June
Western Union	Establish board committee on human rights	NorthStar Asset Mgt	May

## SUSTAINABILITY REPORTING AND IMPLEMENTATION

In a key change for 2016, there are fewer than half as many reporting proposals as in 2015: just 10 have been filed to date, compared with 28 last year. Sustainability reporting in corporate America has been increasingly common, leading proponents to file less generalized proposals; the number of reporting requests has fallen from 39 in 2010. In another change, last year saw substantially fewer agreements reached between proponents and companies; while in previous years two-thirds of the reporting proposals filed ended up withdrawn after agreements, in 2015 fewer than half prompted accords. This may have been because engagements outside the proxy season arena are producing results that satisfy proponents, leaving them to file resolutions only at companies where accords are more elusive.

Eleven resolutions seek executive pay links to sustainability metrics, the same as last year. This year a new pay link proposal at four companies suggests that diversity metrics should be used in bonus decisions, while three others suggest explicit links to climate change issues. *(Also see p. 22 in the section on climate change for two more.)*

Making explicit links between mutual funds' stated corporate policies and how this is translated into votes on ESG shareholder resolutions is again an issue at three firms, as it was in 2015.

There have been few votes on the subject. Still, 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 particular 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 the 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 being integrated into the financial services industry.

Sustainability Governance and Reporting			
Company	Proposal	Lead Filer	Status
Amazon.com	Publish sustainability report	Calvert Investment Mgt	June
BlackRock	Review and report on proxy voting	James McRitchie	withdrawn
Celgene	Link executive pay to sustainability metrics	As You Sow	June
Chevron	Link executive pay to sustainability metrics	Unitarian Universalists	May
Chipotle Mexican Grill	Publish sustainability report	Domini Social Investments	May
Clarcor	Publish sustainability report	Walden Asset Mgt.	March
ConocoPhillips	Link executive pay to sustainability metrics	Unitarian Universalists	May
Discovery Communications	Link executive pay to sustainability metrics	Clean Yield Asset Mgt.	May
Emerson Electric	Publish sustainability report	Mercy Investment Services	47.30%
Esco Technologies	Publish sustainability report	Walden Asset Mgt.	43.50%
Facebook	Publish sustainability report	NYSCRF	June
Franklin Resources	Review and report on proxy voting	Zevin Asset Mgt	February
IDEXX Laboratories	Link executive pay to sustainability metrics	NorthStar Asset Mgt	May
JPMorgan Chase	Link executive pay to sustainability metrics	Jing Zhao	May
Kinder Morgan	Publish sustainability report	NYSCRF	May
OGE Energy	Publish sustainability report	Calvert Investment Mgt	May
PNM Resources	Link executive pay to sustainability metrics	Walden Asset Mgt.	May
PNM Resources	Publish sustainability report	Walden Asset Mgt.	May
PPG Industries	Link executive pay to sustainability metrics	Trillium Asset Mgt	April
SPX	Publish sustainability report	Sonen Capital	May
T. Rowe Price Group	Review and report on proxy voting	Zevin Asset Mgt	April
TJX	Link executive pay to sustainability metrics	NorthStar Asset Mgt	June
Vertex Pharmaceuticals	Link executive pay to sustainability metrics	As You Sow	June
WhiteWave Foods	Link executive pay to sustainability metrics	NorthStar Asset Mgt	May



## Reporting

All of the reporting proposals ask companies to explain how they address matters that have been hard to quantify and have not been included on traditional balance sheets, with variations:

- A proposal asks for a report on “short- and long-term responses to ESG-related issues at **Chipotle Mexican Grill** (where it earned 30.9 percent in 2015 and 31.2 percent in 2014) and at **Facebook** (8.4 percent in 2015 and 5.8 percent in 2014). The latter must receive at least 10 percent support this year to survive for resubmission, a high bar at the closely held company where founder Mark Zuckerberg controls 60 percent of the voting power.
- A proposed report at **OGE Energy** and **PNM Resources** wants the companies to describe “present policies, performance, and improvement targets related to key environmental, social and governance (ESG) risks and opportunities.” (The resolution is new at OGE, where a resolution about GHG goals and regulatory risks last year from NYSCRF earned 24.2 percent. This is the first such proposal at PNM.)
- A long-running proposal at **Emerson Electric** went to a vote for the sixth consecutive year and received 47.3 percent, its highest level ever. The resolution notes the company’s sustainability reporting is relatively thin compared to some of its peers; this year the company also received a proposal that it set GHG goals, which earned 36.8 percent. Emerson Electric believes it already has demonstrated its commitment to sustainability through the information provided on the company website, but it does not include specific metrics or use a standardized reporting format. That information does not appear to have been updated for several years.

Three of the resolutions integrate calls for GHG reduction goals into broader suggestions about reporting on performance and goals, as noted above. Calvert Investments asks about these targets and wants information on **Amazon.com**’s “performance and goals.” (The resolution earned 26.2 percent in 2014 and a 2012 proposal about climate change management earned 21.1 percent.) Walden is sponsoring two. It is asking **Clarcor** and **Esco Technologies** to describe “present policies, performance, and improvement targets related to key environmental, social and governance (ESG) risks and opportunities.” A similar proposal last year at Clarcor received 45.2 percent. The Esco proposal was a resubmission and went to a vote on Feb. 2, earning its highest support so far—43.5 percent of the shares cast for and against, up from 28 percent in 2015 and 24.1 percent in 2014. The company tallies the vote as a percentage of shares outstanding, however, which in this case produces a result of 35.9 percent.

Two other proposals are more specific. NYSCRF wants **Kinder Morgan** to include in its discussion of “short- and long-term responses to ESG-related issues” discussion of “human rights and the rights of indigenous communities.” Sonen Capital has the most detailed of the resolutions this year, requesting that first-time recipient **SPX**, an engineering firm, address

sustainability risks and opportunities including quantitative goals for relevant issues, which might include: greenhouse gas emissions; energy and water use efficiency; renewable energy sourcing; waste and toxic materials minimization (including disclosure about chemicals of high concern in SPX’s supply chain); sourcing of sustainably produced raw materials; and worker health and safety.

## ESG Pay Links

Eleven resolutions ask companies to link executive pay to sustainability metrics, generally in bonuses. All are pending.

**Climate change:** New this year is a fairly detailed resolution from the Unitarian Universalists at oil majors **Chevron** and **ConocoPhillips**, seeking to take falling oil prices into account, while keeping in mind low prices may be the new normal should policymakers set restrictions on fossil fuel combustion to curb rising global temperatures. It says the firms should change senior executives’ annual cash incentive programs as follows:

An award under the VCIP (a “Bonus”) that is based on a metric derived from any measure of Chevron’s reserves (a “Reserve Metric”) shall not be paid in full for a period of five years (“Deferral Period”); and

The Human Resources and Compensation Committee (the “Committee”) shall develop a methodology for (a) determining what proportion of a Bonus should be paid immediately, taking into account the proportion of the Bonus based on the Reserve Metric; (b) adjusting the remainder of the Bonus over the Deferral Period to reflect performance on the Reserve Metric(s) during the Deferral Period, including whether Chevron wrote down the value of reserves underlying the Reserve Metric(s); and (c) paying out the remainder of the Bonus during and at the end of the Deferral Period.

The Unitarians note that bonuses to named executive officers “have been based in part upon reserve replacement ratio,” which “may encourage the acquisition of reserves that are so costly to produce that projects may be cancelled and the value of assets written down if oil prices stay depressed.” It continues, “We believe that lower demand caused by measures to limit climate change may lead to lower oil prices over the medium and longer term,” noting a current report from industry analyst firm Wood MacKenzie that estimated up to \$1.5 trillion of oil and gas reserves are “uneconomic at \$50 per barrel,” while the price per barrel of oil in third quarter 2015 fell to just under \$33. This prompted companies to cut their 2015 capital expenditures, it points out. The church concludes that a portion of executive bonuses that is based on the reserve metric should be held back and adjusted for “reserve performance” in a manner the company can determine, to better match company performance to a changing market.



## INTEGRATING SUSTAINABILITY METRICS INTO EXECUTIVE COMPENSATION CRITERIA

**SHELLEY ALPERN**

*Director of Social Research and Advocacy, Clean Yield Asset Management*

Shareholder proposals seeking to integrate sustainability metrics into executive pay criteria are not new. Shareholders have filed proposals with variations on this theme at least 20 times in the last 15 years, according to data compiled by the Interfaith Center on Corporate Responsibility. Except on one occasion, support has never breached 10 percent.

This year, some of the SRI industry's leading activist firms are seeking to breathe new life into the idea that compensation should be used to hold senior executives accountable for integrating sustainability objectives into corporate strategy. Ten resolutions have been filed by Clean Yield Asset Management, As You Sow Foundation, Arjuna Capital, Trillium Asset Management and Walden Asset Management. Companies receiving the proposal in 2016 are [Celgene](#), [Walgreens Boots Alliance](#), [Vertex Pharmaceuticals](#), [Discovery Communications](#), [Chipotle](#), [Lowe's](#), [PPG](#) and [PNM Resources](#). A variation on this theme was filed at [Devon Energy](#), calling on the company to *de-link* compensation to an unsustainable metric (increasing oil and gas reserves).

The new wave of proposals emphasizes the growing number of academic studies pointing to two salient conclusions. First is the tendency of companies with strong sustainability programs to perform better financially. Second, these companies are more likely to tie executive pay to sustainability performance.

It's difficult to track precisely how many companies have established this linkage, but [Ceres](#) and other monitors of sustainable governance practices have found a steady uptick in recent years. According to a [2014 report](#) by Glass Lewis, recent studies put the uptake among large publicly traded companies between 24 and 54 percent. The authors attribute the wide range to differing survey methodologies and definitions of sustainability.

These companies span industry sectors and include heavyweights such as [Alcoa](#), [Intel](#), [BASF](#), [Unilever](#) and [Baxter](#). [Alcoa ties 20 percent](#) of executive compensation to performance on safety, environmental stewardship, greenhouse gas reductions and energy efficiency. [Pepsi links](#) compensation to the achievement of 'a diverse and talented workforce.' [Intel links](#) sustainability performance to bonuses for 'corporate responsibility and environmental sustainability.'

A 2010 [report](#) by Accenture and the United Nations Global Compact – the largest CEO study to date – found great enthusiasm for the idea; 93 percent regarded sustainability as key to corporate success, and 86 percent believed that it should be integrated into compensation discussions.

The average corporate CEO made over [\\$16 million](#) per year in 2014. It's time their salaries are made contingent in part upon the environmental and social performance of their companies' operations.

In 2015, the Unitarians withdrew a similar proposal at Chevron after an SEC challenge and discussions with the company. ConocoPhillips challenged the resolution at the SEC this year on a procedural point but then withdrew its challenge, and says the proposal will appear in its proxy statement. A proposal in 2011 to Chevron, from the Laborers' International Union, also asked for a link between ESG factors and executive pay and earned 5.6 percent support.

At **PNM Resources**, a utility, Walden Asset Management says that when it is determining senior executive pay, the board should consider GHG reductions that:

incorporate measures of sustainability metrics, including reductions of annual greenhouse gas emissions, as one of the performance measures for senior executives under the company's annual and/or long-term incentive plans. Sustainability is defined as how environmental, social and financial considerations are integrated into corporate strategy over the long term.

**Diversity:** NorthStar Asset Management is taking up the issue of senior executive diversity in its resolution, asking [IDEXX Laboratories](#), [TJX](#) and [WhiteWave Foods](#) to "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."

**Ethics:** Jing Zhao is asking [JPMorgan Chase](#) to "adopt a balanced executive compensation philosophy with social factors to improve the Firm's ethical conduct and public reputation," but the company has challenged it at the SEC, saying it is too vague and concerns ordinary business. There is no response yet from the commission.

**General sustainability metrics:** Four other proposals simply ask companies to consider setting up a link between sustainability and pay, with a proposal pending at [Celgene](#), [Discovery Communications](#), [PPG Industries](#) and [Vertex Pharmaceuticals](#). It is a new resolution for each and asks for a report

assessing the feasibility of integrating sustainability metrics into the performance measures of senior executives under [the company's] compensation incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term.

## Proxy Voting

**Proxy voting:** Proponents in past years have not been successful in overcoming mutual fund company challenges on multiple grounds about the admissibility of resolutions on their proxy voting policies and practices. In the face of these challenges, proponents withdrew three proposals in 2015 and one in 2014. This year, corporate governance activist James McRitchie ventured into the social policy space and asked **BlackRock** to “issue a climate change report,” which

should assess any apparent incongruities between the proxy voting practices of BLK and its subsidiaries within the last year, and BLK’s public statements and policy positions regarding climate change. This assessment should list all instances of votes cast that might be construed as inconsistent with its public statements or policy positions on climate change, and should explain why such votes were or were not incongruent with such statements or positions. The report should also discuss measures BLK can adopt to ensure shareowners of congruency between its climate policies, public statements and proxy voting.

McRitchie withdrew after the company provided some information about its proxy voting policies but says he will introduce another similar resolution for the 2017 proxy season.

Zevin Asset Management got this resolution on the ballot at **Franklin Resources**, where it earned 4.5 percent, and has proposed the same thing to **T. Rowe Price Group**, where it remains pending. The proposal is a reformulation of a resolution that Franklin successfully knocked out in 2015 on ordinary business grounds, but this year’s greater emphasis on climate change got it past a new challenge.

## Other Governance

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

This year’s 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. These proposals have received very high votes and are viewed by some as validating existing pay levels and structures, while others believe that the actual asset owners values are not reflected in the voting by pension and mutual fund managers that rubber-stamp excessive CEO pay packages.

CEO pay has become an increasingly charged public issue which will become only more heated now that the SEC has finalized rules that will require companies to disclose the ratio of CEO compensation to the median compensation of its employees, as required by the Dodd-Frank financial reform law.

A new issue this year is stock buybacks. Stock repurchases have reached historic levels in the United States and engendered debate over whether they provide short-term benefit to shareholders or have negative long-term impact on shareholder value. A key question is whether executive pay packages are incentivizing stock value manipulation or building company value for the long haul.



### THE NYC PENSION FUNDS’ BOARDROOM ACCOUNTABILITY PROJECT

#### MICHAEL GARLAND

*Executive Director for Corporate Governance, New York City Office of the Comptroller*

Building on the market-changing rollout of the [Boardroom Accountability Project](#) in the 2015 proxy season, the New York City Pension Funds filed proxy access proposals at 72 companies for 2016. The proposals request a bylaw permitting shareowners that have collectively held three percent of the company for at least three years to nominate up to 25 percent of the board using the company’s proxy materials.

The 2016 focus list includes companies that awarded excessive CEO pay or have too little gender or racial diversity on their board. They also include carbon-intensive energy companies, which face accelerating risks related to climate change, as well as many of the NYC Pension Funds’ largest holdings.

The Project is an ambitious effort to increase board independence, accountability, and diversity by enacting proxy access across the U.S. market. In its first year, the NYC Pension Funds submitted proxy access proposals to 75 companies and collaborated closely with leading global pension funds to build support and extend the Project’s reach.

*Continued next page*

## THE NYC PENSION FUNDS' BOARDROOM ACCOUNTABILITY PROJECT

*Continued*

The 66 proposals that went to a vote received very strong support, averaging 56 percent of votes cast, enabling investors to finally break through the decade-long corporate opposition to proxy access. As of early February 2016, more than 140 companies have enacted proxy access for 3 percent shareowners, up from only six companies in November 2014. They include major oil companies such as **Chevron** and **Conoco Phillips**, and major electric utilities such as **Duke Energy** and the AES.

For 2016, the NYC Funds remain focused on expanding proxy access to more energy companies, including **ExxonMobil**, where the proposal received 49 percent in 2015. A recent study by Oxford University researchers found that, among the 10 largest investor-owned oil companies in the world, ExxonMobil had the least diverse board and was therefore most susceptible to group think. Pushing the ExxonMobil vote over the majority threshold is one of our 2016 priorities.

The focus list also includes additional coal-intensive utilities, including **NRG**. Under the leadership of its now former CEO, David Crane, NRG was pursuing an aggressive strategy to invest in renewable energy as part of a long-term transition strategy. Late last year NRG's board ousted Mr. Crane, reportedly because his investments in renewables weren't paying off quickly enough.

Unlike in 2015, when fewer than one in 10 proposals was settled prior to the vote, many of the 2016 proposals have already been settled. With meaningful proxy access, investors will be better positioned to engage our portfolio companies in quiet diplomacy around the diversity and competencies of their boards. And when necessary, it provides a tool to hold accountable those boards that remain overly focused on short-term profits at the expense of long-term value creation. (see Boardroom Accountability table in Appendix for list of companies, criteria and results.)



## EXECUTIVE COMPENSATION VOTE OUTLOOK FOR 2016

**KEVIN LIU**

*Director of Executive Compensation Research, Glass Lewis*

Going into the 2016 proxy season, the executive compensation landscape remains fairly stable. Individual upsets aside, average support rates remain very high and relatively consistent—the 2015 season's average say-on-pay support rate of 90.6 percent represents a high watermark in the vote's five-year history, but is consistent with support levels in past years.

While structural improvements remain an important topic, there is undoubtedly an increasing emphasis being placed on providing sufficient information to shareholders regarding compensation decisions. This effort is driving an increase in both the quality of disclosure provided in public filings, and the frequency of engagement between companies and their shareholder bases. More and more, shareholders are focusing on the metrics being utilized in the companies' incentive programs, and seeking to understand how such indicators are aligned with overall strategies. Companies that provide clear disclosure and active engagement will help these investors better understand how their compensation strategies align with their interests.

While say-on-pay support rates are broadly stable, we remain mindful that since the link between pay and performance can vary based on company performance, compensation program design and compensation committee decisions, investors may see a large gap one year that did not exist or was less severe in prior years. As a result, broad shareholder support for a program in one year may not be an assurance of support the following year. Furthermore, a lack of responsiveness to shareholder concerns, as expressed through either low say-on-pay support or as learned in engagement meetings, may only increase opposition. Some companies may ultimately get a pass one year but receive extra scrutiny the following year if performance suffers but compensation does not fall proportionately.

This point may prove to be particularly relevant this year for companies with significant exposure to depressed commodity prices, such as those in the oil and gas industry. While certain oil and gas companies did adjust their compensation practices last year, a number of companies held steady with their existing compensation practices despite plummeting fuel prices. It will be interesting to see how these companies choose to address these issues this upcoming season, if they choose to at all.

Shareholders may also expect to see companies wrestling with how to address the substantial currency fluctuations in 2015 that may have had a downward effect on their disclosed financial results for the year in review. For companies that choose to eliminate the negative effect of these foreign exchange movements, shareholders may look for assurances that such adjustments would also be made in years where the companies are benefiting from the effect of currency movements.

In short, although support levels are holding steady year-over-year, this season, as with all prior years, shareholders should remain mindful of the varying factors that may influence the compensation decisions being made.





## SEC APPROVES CEO-EMPLOYEE PAY RATIO DISCLOSURE

**ROSANNA LANDIS WEAVER**

*Program Manager, Executive Compensation Initiative, As You Sow*

On August 5, 2015, SEC commissioners finally approved implementation of the long-awaited [pay ratio rule](#), required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Now, beginning in 2018 shareholders will see the ratio between the pay of CEO and median employee. As Larry Mishel of Economic Policy Institute [noted](#), “The delay shows the power of corporate lobbyists, but the finalizing of the rule is a win for the American people.”

Corporations and their lobbyists fought this disclosure with every tool in their arsenal, and Republicans in the House have already promised legislation to overturn it. The opposition was not inspired by the fact that the disclosure will offer insight into how much executives are paid; shareholders already have that data. The resistance to the pay ratio rule was about disclosing median employee pay and the comparison. As the issues around income equality gain greater political traction, expect this disclosure to prompt both new resolutions and changes in proxy voting guidelines.

As SEC commissioner Luis Aguilar said in his [statement](#), “The hope, quite simply, is that this information will better equip shareholders to promote accountability for the executive compensation practices of the companies that they own.”

That emphasis on accountability is a major focus again this year in As You Sow’s report [The 100 Most Overpaid CEOs: Are Money Managers Asleep at the Wheel](#) which analyzes overpaid CEOs and compiles vote results. Section 951 of Dodd-Frank, adopted in 2011 allows shareholders to vote on pay and requires certain mutual funds to disclose how they voted. Progress in adopting appropriately rigorous analysis and voting practices on these issues has been uneven.

**Other updates on components of Dodd-Frank:** In April 2015, the SEC issued proposed rules under Section 953a of Dodd-Frank, which will require clear and comparable disclosure on the interplay of pay and performance. As currently proposed the rule requires presentation of actual pay to executives compared to the total shareholder return (TSR) of both the company and its peers for the prior five years.

In July 2015, the SEC issued proposed rules on executive pay that will encourage listed companies to ‘claw back’ compensation by requiring them to recover executive incentive compensation if they restate their financial accounts.

It is not known when these rules will be finalized and effective. The shape of a final rule remains unclear and no action is likely this year.



## EXECUTIVE COMPENSATION AND STOCK BUYBACKS: PAYING CEOs TO UNDERINVEST FOR THE FUTURE

**BRANDON REES**

*Deputy Director, Office of Investment, AFL-CIO*

This year the [AFL-CIO Equity Index Fund](#) is shining the spotlight on companies whose CEOs stand to collect a bundle in executive compensation as a result of excessively large stock buyback programs. The AFL-CIO Equity Index Fund has filed shareholder proposals urging companies to exclude the impact of stock buybacks from financial metrics when determining their executive pay performance targets.

In a stock buyback, a company buys its own shares to reduce the number of shares outstanding. Big stock repurchases may prop up companies’ stock prices in the short term. But over the long term, they can starve companies of needed investment in capital equipment, research and development. These types of capital investments are vital for job creation as well as providing sustainable economic growth.

The AFL-CIO Equity Index Fund’s efforts come at a time when stock buybacks have risen to record levels in the United States. S&P 500 Index companies spent \$559 billion on repurchasing their shares and \$376 billion on dividends for the 12 months that ended September 30, 2015. These companies returned more capital to their shareholders than they earned in profits, leaving no retained earnings for investment.

Investors are sounding the alarm about stock buybacks and their impact on companies’ ability to allocate capital for organic growth. Large stock buybacks send “a discouraging message about a company’s ability to use its resources wisely and develop a coherent plan to create value over the long term,” wrote Laurence Fink, Chairman and CEO of **BlackRock**, in an April 14, 2015 letter to S&P 500 Index companies.

In other words, today’s stock buybacks are the business equivalent of eating your seed corn. Yet many companies actually provide financial incentives for their executives to increase share repurchases. For example, earnings per share (‘EPS’) is a commonly used financial metric for executive pay. There are two ways to boost EPS: 1) grow earnings (the numerator), or 2) reduce shares outstanding (the denominator).

*Continued next page*



**EXECUTIVE COMPENSATION AND STOCK BUYBACKS: PAYING CEOs TO UNDERINVEST FOR THE FUTURE***Continued*

Senior executives are supposed to be responsible for improving their companies' earnings, while boards of directors are responsible for determining when stock buybacks are appropriate. For this reason, senior executives should not receive larger pay packages simply by reducing the number of shares outstanding. Executive pay should be aligned with operational results, not financial engineering.

To address this flawed system, the AFL-CIO Equity Index Fund's shareholder proposals ask boards of directors to adopt a policy that financial metrics like EPS should be adjusted to exclude the impact of share repurchases when determining performance goals for senior executive compensation. The time has come to restore some common sense to the issue of executive pay and stock buybacks.

## Conservative Groups

Politically conservative groups substantially expanded their slate of proposals filings in 2015, but continued to have some difficulty getting on the proxy ballot. This year so far, there seem to be fewer resolutions—10—than the 28 that ultimately came to light in 2015, but more are likely to emerge as the season progresses.

As in the past, the National Center for Public Policy Research (NCPPr), a conservative Washington think tank, is the main actor. It appears to have submitted fewer resolutions in 2016, but the final tally remains unclear as of this writing, as it has not published anything on its plans. The Center so far has weighed in on the issue of diversity at Apple, though, in a [blog post](#) questioning the need for expanded recruitment for racial minorities called for in a pending resolution.

Two individual proponents also have articulated opposition to gay rights, abortion rights and environmental protection, but neither will go to a vote.

**Human rights:** NCPPr has borrowed language from liberal human rights activists and is asking **Apple, Eli Lilly and General Electric** to "review the Company's guidelines for selecting countries/regions for its operations and issue a report" identifying "criteria for investing in, operating in and withdrawing from high risk regions." At Apple, it highlights Apple's presence in Saudi Arabia, Qatar, the United Arab Emirate and China—which it says demonstrate "a gap between...lofty rhetoric" and performance. (The proposal earned 1.8 percent, not enough for resubmission.) At Eli Lilly, it mentions the company's ties to Iran and former ties to Iraq and Sudan and its support for a "religious freedom" law in Indiana about gay rights, and says these are inconsistent. At GE, it notes the company's business in Arab countries, where human rights protections are minimal, and in China and India, which have increasing GHG emissions. It reasons the companies' corporate values are inconsistent with doing business in these locations.

The SEC rejected company challenges from all three that asserted the resolution was too vague. GE also argued it concerned ordinary business challenge and was moot, but the commission staff disagreed on both points.

The Center also filed a similar proposal at **Starbucks**, asking "that management 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." The company challenged the proposal at the SEC, arguing that it concerns ordinary business and is moot, but the SEC disagreed.

**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. This year it asked **Deere** for annual reports that would provide

a congruency analysis between corporate values as defined by Deere's stated policies (including Deere's "Our Guiding Principles" and "U.S. Political Contributions and Advocacy") and Company and John Deere Political Action Committee (JDPAC) political and electioneering contributions and policy activities, including a list of any such contributions or actions occurring during the prior year which raise an issue of misalignment with corporate values, and stating the justification for such exceptions.

The proposal took issue with company PAC support for politicians that favored the Affordable Care Act, its membership in the U.S. Climate Action Partnership supporting cap-and-trade legislation, and with its departure from the American Legislative Exchange Council. Deere unsuccessfully challenged the resolution at the SEC, which did not agree the proposal concerned ordinary business. In 2015, a proposal on free speech rights from the same proponent was omitted on ordinary business grounds.

Similarly, at **Johnson & Johnson**, it wanted the report to address congruency "between corporate values (such as those defined in the "Political Contributions" section of the Company's website) and the Company's political, lobbying and policy activities—including those actions taken by affiliated organizations." The proposal took issue with the company's past support for the Affordable Care Act, which it called "the antithesis of 'free market economic principles.'" But the company successfully challenged the resolution at the SEC, arguing that it was similar to a previous resolution that failed to earn enough support for resubmission. Investors gave the resolution 3.1 percent support. The SEC agreed.

**Indirect lobbying benefits**—NCPPR this year is using another new approach as well, which so far has been challenged successfully by **Pfizer**. It asked the company to “initiate a review of the organizations in which Pfizer is a member or otherwise supports that may engage in lobbying activities. We request that the Board authorize a summary report of this review...” The proposal inveighed against “anti-capitalist activists” and expressed support for Pfizer’s membership in the American Legislative Exchange Council. The company successfully challenged it at the SEC, however, which agreed that it was similar to a previous resolution that did not earn enough support for resubmission.

**Charitable giving:** At **Boeing**, David Ridenour, president of NCPPR, is taking issue with its charitable contributions, asking for a semiannual report “disclosing: the Company’s standards for choosing which organizations receive the Company’s assets in the form of charitable contributions, the rationale, if any, for such contributions, the intended purpose of each of the charitable contributions and, if appropriate, the benefits to others of the Company’s charitable works.” In the supporting statement, Ridenour explicated his concern: “While the Company’s work with the Tennessee Valley Corridor’s innovative NEW- STEM would likely be applauded by many and seem non-controversial, anti-war activist groups such as Code Pink might disagree. Likewise, contributions to the Clinton Foundation may be seen as controversial, since the United States is deeply divided politically.” The company successfully challenged the proposal at the SEC, arguing it was moot given Boeing’s existing charitable giving reporting. The SEC agreed.

**Gay rights:** Two other proposals challenged at the SEC express opposition to LGBT rights. At **AT&T**, Marie Jeanne Ferrari said, “In the interest of protecting people who are not yet infected, especially our young people, I move that ATT set up a program to educate their employees about the lethal lifestyle in which, according to CDC data, the disease known as HIV/AIDS is flourishing.” The SEC agreed it related to ordinary business. The proponent also had submitted a resolution with a similar anti-gay rights tenor in 2015 that was omitted on technical grounds.

Longtime gay rights opponent and **PG&E** stockholder Peter B. Kaiser has asked the company to adopt a policy that “There shall be no discrimination against or for persons based on race, religion, donations, gender, or sexual orientation in hiring vendor contracts or customer relations, except where required by law.” The resolution is a resubmission from 2012, when it received 2 percent support, not enough for resubmission until now. The proponent takes issue with the company’s LGBT anti-discrimination policy and its contributions to support gay rights groups.

Conservatives			
Company	Proposal	Lead Filer	Status
Apple	Report on country selection/assessment	NCPPR	1.8%
AT&T	Educate employees about HIV/AIDS causes	Marie Jeanne Ferrari	omitted
Boeing	Report on charitable contributions	David Ridenour	omitted
Deere	Report on political spending and values	NCPPR	3.1%
Eli Lilly	Report on country selection/assessment	NCPPR	May
General Electric	Report on country selection/assessment	NCPPR	April
Pfizer	Review indirect lobbying benefits	NCPPR	omitted
PG&E	Report on ending LGBT non-discrimination	Peter B. Kaiser	May
Starbucks	Report on human rights policy	NCPPR	March

## ALIGNING INVESTMENT AND MISSION

Foundations, educational institutions, pension funds, NGOs, and faith-based institutions all 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 environmental, social and governance issues. Consequently, it is a logical entry point for aligning investment and mission. Most institutions, however, delegate voting to their financial managers, who generally vote with management against ESG resolutions. 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.



## PROXY VOTING, CORPORATE ENGAGEMENT, AND FIDUCIARY DUTY

### KEITH JOHNSON

*Chair, Institutional Investor Services Group, Reinhart Boerner Van Deuren s.c.*

### STEPHEN VIEDERMAN

*Chair, Finance Committee, Christopher Reynolds Foundation*

Proxy voting and portfolio company engagement are integral to managing foundation, endowment and other institutional investor fiduciary responsibilities. Non-profits have a fiduciary duty to invest consistent with their mission. But in many instances, shares are voted in ways that undermine program and mission goals, while fostering unsustainable company practices.

#### Proxy Voting Is A Basic Part Of Fiduciary Duty:

**State Laws:** The National Conference of Commissioners on Uniform State Laws explained in their prefatory note to the Uniform Prudent Management of Institutional Funds Act (UPMIFA):

[S]tandards for managing and investing institutional funds are and should be the same regardless of whether a charitable organization is organized as a trust, a nonprofit corporation, or some other entity. The modern paradigm of prudence applies to all fiduciaries who are subject to some version of the prudent man rule...

**Department of Labor:** Accordingly, standards for various institutional investors provide guidance to foundations and endowments on managing their proxy voting rights and corporate engagement activities. In 1988, the Federal Department of Labor established the legal standard for voting proxies:

[T]he fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock. For example, it is the Department's position that the decision as to how proxies should be voted . . . are fiduciary acts of plan asset management.

**Proper Guidelines:** The SEC also has confirmed that investment advisers act as fiduciaries when voting proxies on behalf of clients. If authorized to vote client shares, advisers must have written policies "reasonably designed to ensure that the investment adviser votes proxies in the best interest of its clients." The SEC also warns that proxy voting decisions cannot be mindlessly delegated. It requires ongoing monitoring of policies and their implementation.

#### Changing Expectations Of Engagement:

Fiduciary responsibilities are moving beyond merely voting proxies. They evolve in response to changes in the markets, society and peer practices, as exemplified by the global growth of investor stewardship codes and engagement with portfolio companies.

**International Corporate Governance Network (ICGN):** The IGCN, whose members represent investors with more than \$26 trillion in assets, defines engagement as "purposeful dialogue with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients...Institutional investors should engage intelligently and proactively with investee companies as appropriate on risks to long-term performance in order to advance beneficiary or client interests." ICGN principles also encourage investor collaboration when individual investor action is impractical.

As implementation of fiduciary principles evolves, investors who fail to reevaluate old policies and practices may find they have fallen out of compliance with fiduciary obligations. Examples of currently fit for purpose fiduciary policies and practices can be found at <http://www.intentionalendowments.org/resources>.

## 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 four decades, active investors have effectively used proposals and dialogues with corporate management to influence corporate practices.

Well-established shareholder networks exist that coordinate shareholder advocacy efforts and introduce new advocates to the process.

## Screened Investments 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.



## HIGHER ED RAMPING UP SUSTAINABLE INVESTMENT EFFORTS

### GEORGES DYER

*Principal, Intentional Endowments Network*

Interest in sustainable investing is continuing to grow at college and university endowments. The Intentional Endowments Network (IEN), which grew out of an initial forum in April 2014 in Cambridge, Massachusetts, has now hosted five such forums bringing hundreds of endowments together to learn about various sustainable investment strategies. The hosts of these conversations include Hampshire College, Arizona State University, Mount Holyoke College and Portland State University.

Student pressure to divest from fossil fuels has sparked the conversation on many campuses, and endowments are responding in a variety of ways, with several taking strategic steps to address sustainability risks in their portfolios and to better align investments with institutional mission, values, and sustainability goals.

The University of California has joined several sustainable investing initiatives, including [Principles for Responsible Investment](#), [CDP](#), [Investor Network on Climate Risk](#) and the Montreal Pledge, and has developed its own sustainable investing framework. The framework includes plans to develop guidelines to ensure that engagement with portfolio companies via dialogue, shareholder resolutions and proxy voting is aligned with sustainability beliefs. This year UC co-filed a shareholder resolution with **ExxonMobil** calling for disclosure on the resilience of its business model in light of the Paris Agreement on climate change reached in December. It has also sold its coal and tar sands holdings and committed to divestment from the private prison industry.

In addition to a commitment to divestment, San Francisco State University has pledged to analyze the carbon footprint of its endowment annually to get a better understanding of carbon risk in its portfolio and to create socially responsible portfolio options for donors.

Yale University's endowment sent a letter to its investment managers in 2014 indicating that it sees climate change as an important investment risk that it expects all managers to consider when making investment decisions. This year the student-led Dwight Hall SRI Fund at Yale co-filed a shareholder resolution calling for ExxonMobil to disclose its lobbying expenditures. The chair of Yale's Advisory Committee on Investor Responsibility has said that he will encourage the Committee to support the resolution.

Higher education has been, and needs to continue to be, at the forefront of serving the public good and ensuring a thriving civil society, including identifying and addressing sustainability challenges. Increasingly, higher education fiduciaries are recognizing that aligning investment policies and practices with this mission is necessary and that, done right, can benefit the portfolio in the short and long-term.

The Intentional Endowments Network is a venue for peer learning and collaboration to help make ESG investing the norm in higher education. Working *with* and *through* the leading organizations and initiatives, the network brings senior administrators, trustees and other key stakeholders into conversation to learn from experts and peers, build relationships and support action. A Steering Committee of endowment representatives and experts in the field serves as the core of the network and provides strategic guidance for the initiative. Several working groups meet regularly to explore key topics and development resources and projects to help endowments make progress on sustainable investing.

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](http://www.proxypreview.org).

Access research about shareholder proposal issues, organizations, networks and investor campaigns on [www.proxypreview.org](http://www.proxypreview.org).

Read more about the contributing authors at [www.proxypreview.org](http://www.proxypreview.org).

## Contributors

**Shelley Alpern** – Director of Social Research and Advocacy, Clean Yield Asset Management

**Mary Babic** – Senior Communications Officer, US Regional Office of Oxfam America

**Shanna Cleveland** – Senior Manager, Carbon Asset Risk Initiative, Ceres

**Marian Currinder** – Associate Director, Center for Political Accountability

**Stu Dalheim** – Vice President, Shareholder Advocacy, Calvert Investments

**Patrick Doherty** – Director of Corporate Governance, Office of the New York State Comptroller

**Georges Dyer** – Principal, Intentional Endowments Network

**Danielle Fugere** – President and Chief Counsel, As You Sow

**Richard Ferlauto** – Governing Board Member, 50/50 Climate Project

**Bruce Freed** – President, Center for Political Accountability

**Michael Garland** – Executive Director for Corporate Governance, New York City Office of the Comptroller

**Keith Johnson** – Chair, Institutional Investor Services Group, Reinhart Boerner Van Deuren s.c.

**Michelle Katz** – Policy and Campaign Advisor, Oxfam America's Private Sector Department

**John Keenan** – Corporate Governance Analyst, AFSCME Capital Strategies

**Jonas Kron** – Senior Vice President & Director of Shareholder Advocacy, Trillium Asset Management

**Kevin Liu** – Director of Executive Compensation Research, Glass Lewis

**Conrad MacKerron** – Senior Program Director, As You Sow

**Kathy Mulvey** – Climate Accountability Campaign Manager, Union of Concerned Scientists

**Kendis Paris** – Executive Director, Truckers Against Trafficking

**Michael Passoff** – CEO, Proxy Impact

**Matthew Prescott** – Senior Food Policy Director, The Humane Society of the United States

**Brandon Rees** – Deputy Director, Office of Investment, AFL-CIO

**Timothy Smith** – Director of ESG Shareowner Engagement, Walden Asset Management

**Luan Steinhilber** – Director of Operations and Shareholder Advocacy, Miller/Howard Investments

**Stephen Viederman** – Chair, Finance Committee, Christopher Reynolds Foundation

**Meg Voorhes** – Director of Research, US SIF

**Rosanna Landis Weaver** – Program Manager, Executive Compensation initiative, As You Sow

**Heidi Welsh** – Executive Director, Sustainable Investments Institute (Si2)

**Austin Wilson** – Program Manager, Environmental Health initiative, As You Sow

**Lisa Woll** – CEO, US SIF

**Pat Zerega** – Senior Director of Shareholder Advocacy, Mercy Investment Services

**Josh Zimmer** – CEO, Interfaith Center on Corporate Responsibility

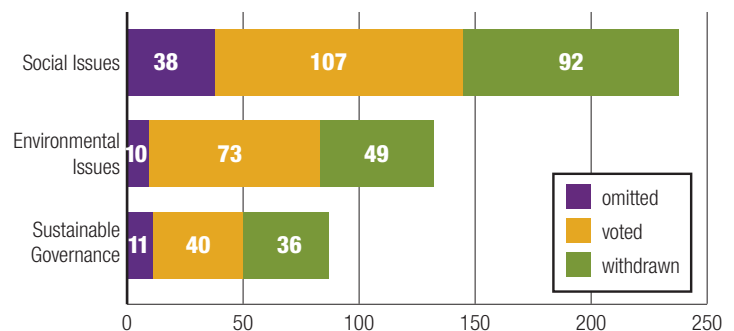


## 2015 Proxy Season Results

Reformers seeking to change how U.S. corporations do business filed more shareholder resolutions than ever before in 2015—a total of 462—with mixed results. Average overall support dropped for the first time in several years, and just one vote surpassed 50 percent (down from seven in 2014). The proportion of resolutions withdrawn (mostly following company decisions to act) stayed about the same, while the proportion of resolutions that failed to meet SEC standards for inclusion in proxy statements edged up, after having fallen for several years. The overall average was 20.0 percent, down from 22.2 percent in 2014.

Proponents retained their keen focus on energy and politics, as they have for several years, and the highest scoring category by far was political activity, which included among others about two dozen votes on resolutions from the Center for Political Accountability that asked for board oversight and disclosure of election spending; these earned on average 34.1 percent, an all-time high. The total number of resolutions related to corporate money in politics fell after increasing for three years, however; lobbying disclosure proposals again made up a plurality of the proposals. On the climate front, the average support for a mix of resolutions fell by more than a percentage point, with average support for greenhouse gas (GHG) emissions target setting dropping to 19.4 percent, down from a recent high of 27 percent in 2012. But climate change risk report requests were a little more popular—earning just under 24 percent on average, up two points from 2014.

### Status of 2015 Proposals By Topic



Proponents measure success in different ways. All would like long-term corporate change, but high vote tallies and negotiated withdrawals are counted by many as critical interim achievements that build momentum both inside companies and also in the policy arena more generally. Two new initiatives seek to more closely track what comes out of proponent-company agreements and whether companies follow through. The Ceres coalition has begun to more carefully document agreements reached by its Investor Network on Climate Change and the Croatan Institute in 2014 began the [Impact of Equity Engagement Project](#). In the early years of shareholder activism, proponents often counted dialogue with companies as a success since their aim was to get executives to consider social justice and environmental impacts for the first time. Now, proponents tend to ask for—and sometimes get—much more specific corporate commitments. Following up to see if companies fulfill these pledges by disclosing more and actually reducing the negative impacts identified in the shareholder proposal has become part of the shareholder engagement process.

### 2015 Resolutions With More than 40 Percent Support

Company	Proposal	Proponent	Vote (%)
Nabors Industries	Publish sustainability report	Appleseed Fund	51.5*
Waste Management	Review/report on political spending	NYSCRF	46.7*
Commercial Metals	Publish sustainability report	Walden Asset Mgt.	46.5
Raytheon	Review/report on political spending	NYSCRF	45.9*
Clarcor	Publish sustainability report	Walden Asset Mgt.	45.2*
PPL	Review/report on political spending	NYC pension funds	44.6*
NiSource	Review/report on political spending	NYSCRF	44.5*
McKesson	Review/report on political spending	Miami Firefighters	43.7*
Raytheon	Report on lobbying	Sisters of St. Agnes	42.6*
Western Union	Review/report on political spending	NYSCRF	41.5*
Cabot Oil & Gas	Review/report on political spending	NYC pension funds	41.3*
CenterPoint Energy	Report on lobbying	Zevin Asset Management	41.27
Ameren	Report on lobbying	United Church Funds	41.0*
Genworth Holdings	Publish sustainability report	Friends Fiduciary	40.0

\* Resubmission from previous year(s)

Last year there were fewer climate change withdrawals—32 in 2015 instead of 44 the year before, and far fewer sustainability reporting withdrawals—16 instead of 34. It may be that investor-company engagements outside the proxy season are producing results that satisfy proponents, leaving a higher number of proposals at companies where accords are less likely.

The biggest splash in proxy season 2015 related to corporate governance, with a new twist. New York City Comptroller Scott Stringer unveiled his Boardroom Accountability Project seeking “proxy access”—the ability to nominate directors without waging an expensive dissident campaign. Yet Stringer’s office used sustainability criteria to pick the 75 companies it chose, going after those with high carbon footprints, no board diversity and previous failed say-on-pay votes. These and other proxy access proposals seeking to make boards more responsive to investors pushed the overall shareholder proposal count to more than 1,000 on all social, environmental and corporate governance matters. The issue continues to be front and center in 2016.

**Fewer high votes:** Even though the proxy access campaign ratcheted up wins, there was just one majority vote on a social policy matter in 2015, as noted above. This was a 51.5 percent score for a sustainability reporting resolution at **Nabors Industries**. That company provides little sustainability information, does not respond to the CDP climate change survey and has seen its investors repeatedly vote against its executive compensation approach—all while net income has sunk dramatically. Thirteen other proposals earned between 40 percent and 49 percent—all but three resubmissions from earlier years. This number is down from 20 that earned this much in 2014. Four of the top scorers were sustainability report requests, while the rest dealt with corporate political activity. (See table above for a full list.)

## 2015 Highlights and Synopsis

### ENVIRONMENTAL ISSUES

**Climate change:** Support for climate change proposals remained fairly high, but 2015 showed that investors carefully examined the issues and voted with a fair degree of discrimination. The 84 resolutions on climate change kept up the drumbeat for companies to address carbon accounting and climate risk, but results for the 30 *carbon accounting* requests differed. Average support specifically for 14 votes on greenhouse gas emission goal setting proposals slipped to below 20 percent for the first time since 2011. Six votes on other proposals specifically asking about more carbon intensive methane emissions averaged 29 percent, however. Deals seemed more elusive overall, with half as many withdrawals on emissions target setting as in 2014—nine, down from 20.

There were 33 proposals taking up different aspect of *climate risk*, with 18 votes and 13 withdrawals, asking how companies will adapt to a carbon-constrained world and coming changes in the physical and regulatory environment. Five of these asked about the wisdom of high capital expenditures for fossil fuel exploration and development if governments set needed new limits on emissions—a central question considered in the December climate treaty talks in Paris. The average vote for climate risk assessments was about 23 percent, but shareholders did not think much of a new resolution asking **Chevron** to increase its dividend instead of developing carbon reserves, giving it just over 3 percent. **Bank of America** also seems to have convinced more of its shareholders that it is adequately considering climate risk in its finance portfolio, since the vote on this subject dropped from 24 percent to 9 percent. Four votes on hydraulic fracturing risks were still high, though—nearly 30 percent, with four new companies getting the resolution and two of these committing to new disclosures.

While proponents may have been disappointed with some of the results from carbon accounting and risk resolutions, they could celebrate significant victories on *deforestation*. Major corporate commitments have occurred to make the supply of palm oil and other commodities more sustainable, with one example being **Archer-Daniels-Midland**’s specific new goals to cut deforestation impacts and report annually on its progress. More than 20 companies have made similar pledges, including huge private concerns Cargill and (internationally) Singapore-based Wilmar International—affecting 90 percent of the palm oil supply chain. ADM’s deal also addresses soy products and inquiries about the impact other agricultural commodities have on deforestation are continuing to be a concern going forward.

*Energy management* again proved to be a productive area for shareholder engagement, with seven of the 11 filings withdrawn after agreements on disclosure—often about what companies already are doing. The California State Teachers’ Retirement System (CalSTRS) continued to be a key player in the effort to disclose more on this subject, withdrawing all four of its proposals. New were requests to have companies set targets for more use of renewable energy, and both **Home Depot** and **3M** agreed to set quantitative goals for renewables. Further, a home grown push at Wisconsin utility **MGE Energy** produced a similar accord. As discussed in the main body of this report, the focus on energy users is continuing full throttle in 2016.

Also new in 2015 were proposals that sought more reporting about the hazards of transporting unstable oil by rail, but they fell to the ordinary business exclusion and did not go to votes. The issue has not re-emerged in the same form in 2016 on proxy ballots.

**Environmental management:** Sixteen resolutions outside the climate umbrella asked about packaging and recycling, with four resubmissions earning about 30 percent and most of the others, about toxic materials and water use, getting withdrawn. There were two new proposals about reporting on Green Tobacco Sickness in domestic tobacco fields, but they earned no more than 5 percent support.

**Industrial agriculture:** Proponents filed 22 proposals about animal welfare and food safety; support levels were low for the most part but there were some withdrawals. Regarding *animal welfare*, a proposal that **Domino's Pizza** offer vegan menu options earned only 0.3 percent, one of the lowest votes ever. Another unpopular idea was to stop providing leather seats at **Tesla Motors** (0.9 percent). On the other hand, following California's new cage-free egg law that went into effect in January, investors gave 30.6 percent to a **Kraft Foods Group** request for an assessment of continuing to use eggs from caged hens.

On food safety, there were 11 resolutions and five votes. Proponents asked for and in some cases got company action to address the urgent new problem of neonicotinoid pesticides that scientists agree are decimating crop pollinators; this is again a concern in 2016. The vote on neonics was 7.6 percent at PepsiCo, but General Mills agreed to work with As You Sow after it withdrew the resolution and pledged to eliminate neonics in its supply chain and work with a White House taskforce on the issue. Lowe's also agreed to a product phase-out. There were lower votes on other pesticide proposals and on two genetically modified food labeling resolutions. In another significant development, McDonald's agreed to end the routine sub-therapeutic use of antibiotics in its chicken supply chain given growing concerns about antibiotic resistant drugs, prompting a withdrawal—but investors have gone back to ask about making the policy applicable to other types of meat in 2016.

## SOCIAL ISSUES

**Animal testing:** The tally of proposals about animal testing dried up in 2015, with the sole vote a resubmission at **Boston Scientific** of 3.7 percent—not enough to come back this year for a third resubmission.

**Corporate political activity:** One of the enduring themes of proxy season remains corporate political involvement, and it remained the case that more concerned lobbying than elections—but the total number of political proposals fell for the first time since 2012—attrition that continues in 2016. The average for election proposals rose higher than ever—34.1 percent for 24 of the standard oversight and disclosure proposal from the Center for Political Accountability. Tallies remained unchanged but relatively strong for similar action on lobbying—25.2 percent for the 35 votes. The focus on “dark money”—undisclosed funds spent in elections and lobbying by groups anonymously funded by companies—remained constant. In all, there were 67 proposals on lobbying, 46 on elections and six about related matters.

The season showed that proponents are going through their portfolio holdings and continuing to approach new firms that have yet to take action—with 25 new lobbying targets. On the other hand, nearly all of the companies with election spending proposals had received these requests before; about half these votes this year went up from previous levels and half fell.

Aside from the mass campaigns with the CPA template and lobbying proposal, a handful of resolutions focused particularly on indirect spending for both lobbying and elections through groups such as trade associations. There also was a hybrid proposal on both lobbying and elections and a few about climate change advocacy. There were just four other votes on related political involvement, reiterating in a few cases the call for congruency in corporate values and spending and one call for a spending ban at **Chevron**, but support as in the past was low—8 percent or less.

**Diversity in the workplace:** After considering a request to explicitly protect the rights of LGBT employees since 2001, **ExxonMobil** finally decided to acquiesce, because of “recent changes in federal law.” In all, proponents withdrew 17 of 18 proposals asking for these protections. The sole vote was 33.7 percent at **National Fuel Gas**. Three additional resolutions that asked for disclosure of the race and gender breakdown of employees earned above 20 percent, as well.

**Health:** The United Auto Workers Retirees' Medical Benefits Trust queried specialty drug makers about their pricing practices, resulting in three votes, with the highest scoring 23.5 percent at **Gilead Sciences**, which makes new, highly effective and expensive hepatitis C drugs. The only other vote was a resubmission on tobacco risk health communications at **Altria**, but it earned 4.7 percent, not enough for resubmission. Others about depicting tobacco use in films were omitted on ordinary business grounds.

**Human rights and decent work:** In all, there were 43 with a human rights angle and another 27 on decent work—with a total of 22 votes, 30 withdrawals and 14 omitted after SEC challenges.

The biggest set of resolutions again asked for human rights risk assessments, with a wide range of support—at most about 31 percent at **Kroger**. But several companies reported they are starting to incorporate these types of assessments into their policies, prompting withdrawals at five firms. Investors gave only about 3 percent support to a new set of fair employment

principles for the Middle East, the Holy Land Principles, similar to other low scores for proposals about operations in conflict zones. New resolutions about labor trafficking in the U.S. tobacco supply chain also did not get much support—at most 5 percent at **Altria**. Investors seemed to view proponents' worries about the problems with electronic privacy and net neutrality with more favor, granting them support in the 20 percent range at **American Express** and **Verizon**, with notable agreements on privacy protection at both **Amazon.com** and **Priceline.com**. None of the 15 resolutions that asked for more disclosure about pay equity went to a vote given SEC ordinary business challenges. Investors are trying again on the equitable pay front in 2016, however, with a raft of proposals.

## SUSTAINABLE GOVERNANCE

The campaign continued to put more women and minorities on boards of directors, have boards pay closer attention to a range of environmental and social issues, and report more on how they are ensuring their operations are sustainable. The biggest change was the withering of withdrawal agreements on the reporting proposals.

**Board diversity:** None of the 26 companies that got board *diversity* requests had received a resolution on this subject before, except for **Urban Outfitters**, where it was withdrawn after the company expanded its board to include another woman to join the CEO's wife who had been added previously. There were just four votes on the primary board diversity reporting request, earning at most just under 24 percent at LinkedIn.

**Board oversight:** These proposals ran the gamut from human rights to the environment, guns and tobacco, with request for an environmental board expert getting the highest support—about 20 percent at both **Chevron** and **ExxonMobil**. Very specific board oversight requests fared poorly, though, with two omitted since the SEC agreed they were moot and five other votes reaching at most 5 percent support. The SEC dismissed as ordinary business a new formulation aimed at tobacco and gun sales, which in the resolved clause spoke only to “endangering public safety” and offending “family and community values.” One of these was intended to address high capacity ammunition sales at **WalMart Stores** and since last year had gone to the courts but ultimately was turned back. In 2016, a new assault weapons ban proposal has been filed, but it also faces a challenge at the SEC on ordinary business grounds.

**Reporting:** The big news on sustainability was a real change in negotiation and a renewed focus on climate change and the environment. For years, proponents have withdrawn two-thirds of sustainability reporting proposals after companies agreed in at least some fashion to tell their investors and the public more about their approach to and performance on sustainability. But in 2015, aspirational statements were not enough—perhaps because of activists' growing worries about the climate crisis. Twice as many of the proposals were resubmissions as in the past, and only two votes were below 20 percent; almost all saw votes increase. The sole majority vote for environmental and social issues came at **Nabors Industries**—51.5 percent—where investors long have been unhappy with governance and performance that resulted in the company being ejected from the S&P 500.

**Pay links:** The 2015 proxy season saw the largest number of proposals to date—11, with five votes—about linking pay to sustainability metrics, underscoring the idea that you pay for what you want. One new angle came up from the Unitarian Universalists, who said **ConocoPhillips** should not tie senior executive bonuses to fossil fuel reserves that cannot be burned. It earned only 5.8 percent, but a few more of this ilk are in the offing for 2016.

## EQUITABLE FINANCE

Fair taxes, ethics and oversight in the finance sector and student debt performance metrics were raised in three proposals, but none went to votes in 2015.

## CONSERVATIVES

Conservative activists substantially expanded their challenges to what they perceive to be overly liberal corporate behavior in the political arena, with at least 16 resolutions on free speech rights, but saw just one vote—an unusually high score of nearly 21 percent at **Caterpillar**. They were largely stymied by the SEC's view that this is an ordinary business affair. Proponents also raised familiar complaints about charitable giving that may support abortion rights and LGBT equality, and tried to push back on renewable energy adoption at **Apple** and **Google**—with the latter effort being singularly unsuccessful. Individuals and the Washington-based [National Center for Public Policy Research](#) filed the proposals.

## Board Room Accountability Project Results

The following table shows the reasons the New York City Comptroller's office filed proposals at companies in its campaign for proxy access in its Board Room Accountability Project, which seeks the right to enable large investor groups to nominate directors on company proxy statements. Companies were chosen if they have low levels of board diversity, high carbon footprints and low investor support for executive compensation. More about the campaign is on the comptroller's website. The results shown below are as of Feb. 16, 2016, when out of 72 proposals filed for the 2016 proxy season, 13 had been withdrawn following agreements to formally enact proxy access and 59 proposals were pending. The Comptroller's office expects to withdraw at least another 10 proposals. The campaign has prompted additional companies not in its sights to adopt proxy access, as well.

Company	Diversity	Fossil Fuels	Pay	Other*	2015 Result	2016 Proposal?	Proxy Access Bylaw Enacted or Pending
3M						Withdrawn	
AbbVie	✓					Filed	
Abercrombie & Fitch				✓	Withdrawn#		✓
AES		✓			66.4	Withdrawn#	✓
Alexion Pharmaceuticals	✓				67.1	Filed	✓
Alliance Data Systems	✓				49.2	Filed	✓
Alpha Natural Resources		✓			55.7		
Ameren		✓				Withdrawn#	✓
American Airlines Group	✓					Filed	
American Electric Power		✓			67.2		✓
American Tower			✓			Filed	
Amgen						Filed	
Anadarko Petroleum		✓			59.4		✓
Apache		✓			92.7		✓
Apartment Inv. and Mgt			✓		57.7	Filed	✓
Arch Coal		✓			36.3		✓
AvalonBay Communities	✓				65.0		✓
Avon Products			✓		75.7	Filed	
Bed Bath & Beyond			✓			Filed	
Big Lots				✓	Withdrawn#		✓
Boeing						Withdrawn#	✓
Cabot Oil & Gas	✓	✓			45.3	Filed	✓
Caterpillar			✓			Withdrawn#	✓
Cerner	✓					Filed	
CF Industries Holdings	✓				57.4		✓
Cheniere Energy			✓		63.1		✓
Chevron		✓			55.3		✓
Chipotle Mexican Grill			✓		49.9	Filed	
Cimarex Energy	✓	✓			56.2		✓
Cloud Peak Energy	✓	✓			71.1		✓
CMS Energy		✓				Filed	✓
Colgate-Palmolive						Filed	✓
ConocoPhillips		✓			54.3		✓
CONSOL Energy		✓			47.0	Filed	✓
Devon Energy		✓			58.2	Filed	✓
Dominion Resources		✓				Withdrawn#	✓
DTE Energy		✓	✓		61.7		✓
Duke Energy		✓			62.7	Filed	✓
eBay	✓				59.4	Filed	
Electronic Arts			✓		55.0	Filed	
EOG Resources		✓			50.7		✓
EQT		✓			66.3		✓
Equity Residential			✓		56.1		✓
Exelon			✓		43.6	Filed	
Expeditors Intl of Washington			✓		35		✓
Express Scripts	✓					Filed	
ExxonMobil		✓			49.4	Filed	
Fidelity National Financial	✓				60.9	Filed	✓
FirstEnergy		✓			71.4	Filed	
FleetCor Technologies	✓		✓		46.9	Filed	
Freeport-McMoRan		✓	✓		64.9	Filed	✓
Hasbro			✓		68.6		✓

Continued on next page



Company	Diversity	Fossil Fuels	Pay	Other *	2015 Result	2016 Proposal?	Proxy Access Bylaw Enacted or Pending
HCP			✓		55.5	Filed	✓
Hess		✓			51.1		✓
Home Depot						Filed	
Honeywell International			✓			Withdrawn#	✓
Intel						Filed	✓
Intercontinental Exchange	✓					Filed	✓
Johnson & Johnson						Filed	✓
Level 3 Communications	✓				43.6		✓
Macerich			✓			Filed	
Marathon Oil		✓			62.7		✓
Monster Beverage	✓				41.9	Filed	
Murphy Oil		✓			53.0	Filed	✓
Mylan			✓	✓			
Nabors Industries	✓		✓	✓	67.0	Filed	
Netflix				✓	71.0	Filed	
New York Community Bancorp			✓		44.4	Filed	✓
NiSource		✓				Filed	✓
Noble Energy		✓			42.4	Filed	✓
NRG Energy		✓				Filed	
NVR	✓				41.5	Filed	✓
O'Reilly Automotive	✓					Filed	
Occidental Petroleum		✓			62.0		✓
PACCAR	✓				42.0	Filed	
Peabody Energy		✓			48.7	Withdrawn#	✓
PepsiCo						Filed	✓
Pfizer						Withdrawn#	✓
Pioneer Natural Resources		✓			49.4		✓
PPL		✓			61.4	Withdrawn#	✓
Praxair			✓			Filed	✓
Precision Castparts	✓				58.7	Filed	
Priceline Group	✓				53.7		✓
Range Resources		✓			60.9		✓
Regeneron Pharmaceuticals	✓		✓		28		
Republic Services			✓		89.9		✓
Roper Technologies	✓				67.6	Withdrawn#	✓
Salesforce.com			✓			Filed	
SBA Communications	✓				46.3	Filed	✓
SL Green Realty			✓			Filed	
Southern Company		✓			46.2	Filed	
Southwestern Energy		✓			56.4		✓
Splunk			✓		Withdrawn#		✓
Staples			✓		Withdrawn#		✓
TRW Automotive Holdings			✓				
U.S. Bancorp		✓				Filed	✓
Union Pacific	✓					Withdrawn	
United Therapeutics			✓		Withdrawn#		✓
Universal Health Services	✓					Filed	
Unum Group			✓			Filed	
Urban Outfitters	✓			✓	40.6	Filed	
VCA	✓		✓		45.9		✓
VEREIT			✓		Withdrawn#		✓
Vertex Pharmaceuticals			✓		58.4	Filed	
Visteon	✓				75.7	Filed	
WEC Energy Group		✓				Filed	
Wells Fargo						Withdrawn#	✓
Westmoreland Coal		✓			35.8		✓
Whiting Petroleum	✓	✓	✓		Withdrawn#		✓
Xcel Energy		✓				Filed	
Zoetis	✓					Filed	
<b>Totals</b>	<b>33</b>	<b>41</b>	<b>35</b>	<b>6</b>	<b>66 votes, 56.1 % average</b>	<b>59 pending 72 filed</b>	<b>70</b>

\* Received proxy access or other governance proposals from NYC Funds in 2014

# Agreement to enact proxy access

The New York City Comptroller's office notes that 20 additional companies that did not receive proposals from it have enacted proxy access since the start of the campaign: Brocade Communications Systems, Celanese, Cognizant Technology Solutions, Corrections of America, Crown Holdings, CVS HEALTH, Dana Holding, Dover, Fluor, Huntington Ingalls Industries, International Paper, JPMorgan Chase, McGraw Hill Financial, MGC Diagnostics, MGM Resorts International, Monsanto, Newell Rubbermaid, Science Applications International, Sonoco Products and Time Warner

# 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:

Environment.....	p. 12
Social .....	p. 28
Sustainable Governance.....	p. 48

Company	Climate & Energy	Other Environment	Corporate Political Activity	Human Rights Decent Work & Diversity	Other Social	Sustainable Governance	Grand Total
AbbVie			✓		✓		2
Adobe Systems				✓✓			2
AES	✓						1
Aetna			✓				1
Akamai Technologies	✓						1
Allergan			✓				1
Allele	✓						1
Alliance One International				✓			1
Allstate			✓				1
Alphabet (formerly Google)			✓✓	✓	✓		4
Altria		✓					1
Amazon.com		✓	✓	✓	✓	✓	5
Ameren	✓						1
American Airlines Group			✓✓				2
American Electric Power	✓						1
American Express			✓	✓			2
Amgen	✓						1
Anadarko Petroleum	✓						1
Antero Resources	✓						1
Anthem			✓				1
Apple	✓			✓✓✓	✓	✓	6
Aqua America				✓			1
AT&T	✓		✓✓	✓	✓		5
Avista	✓						1
Ball Corporation		✓					1
Bank of America			✓✓				2
Best Buy	✓			✓			2
BlackRock						✓	1
Boeing			✓	✓	✓		3
Cabela's				✓			1
Cabot Oil & Gas						✓	1
CarMax			✓				1
Carrizo Oil & Gas	✓						1
Caterpillar			✓				1
CBS	✓						1
Celgene						✓	1
CenterPoint Energy			✓✓				2
Charles Schwab			✓				1
Chesapeake Energy	✓		✓				2
Chevron	✓✓✓✓✓		✓✓	✓		✓✓✓	11
Chipotle Mexican Grill		✓		✓		✓	3
Church & Dwight	✓						1
Cimarex Energy	✓						1
Cisco Systems				✓			1
Citigroup			✓✓	✓			3

Continued on next page

Company	Climate & Energy	Other Environment	Corporate Political Activity	Human Rights, Decent Work & Diversity	Other Social	Sustainable Governance	Grand Total
Citrix Systems				✓			1
Clarcor						✓✓	2
Coca-Cola	✓			✓			2
Coca-Cola Enterprises			✓				1
Cognizant Technology Solutions						✓	1
Comcast			✓			✓	2
ConocoPhillips	✓		✓✓			✓	4
CONSOL Energy			✓				1
Continental Resources	✓✓					✓	3
Corning			✓				1
Costco Wholesale						✓	1
Covanta Holding			✓				1
Covenant Transportation Group				✓			1
CVS Health	✓		✓✓	✓✓			5
Danaher			✓				1
Dean Foods		✓					1
Deere	✓				✓		2
Delphi Automotive						✓	1
Devon Energy	✓✓		✓✓				4
Diamond Offshore Drilling						✓	1
Dillard's	✓						1
Discovery Communications						✓✓	2
Dollar General	✓						1
Dominion Resources	✓✓✓		✓			✓	5
Domino's Pizza	✓						1
Dr Pepper Snapple Group		✓					1
DTE Energy	✓						1
Duke Energy	✓✓		✓				3
Dunkin' Brands Group		✓					1
Du Pont	✓		✓				2
Ecolab						✓	1
Eli Lilly					✓		1
Emerson Electric	✓		✓✓			✓	4
Energen	✓						1
Entergy	✓						1
EOG Resources	✓						1
Esco Technologies						✓	1
Exelon						✓	1
Express Scripts			✓				1
ExxonMobil	✓✓✓✓		✓✓			✓	8
F5 Networks				✓			1
Facebook			✓			✓	2
FedEx				✓			1
First Republic Bank				✓			1
First Solar			✓				1
FirstEnergy	✓		✓				2
Flowers Foods		✓✓					2
Fluor	✓		✓				2
Ford Motor						✓	1
Franklin Resources						✓	1
Freeport-McMoRan	✓						1
Fresh Del Monte Produce		✓					1
General Dynamics	✓						1
General Electric		✓	✓	✓	✓✓		5
General Motors				✓			1
GEO Group				✓			1
Goldman Sachs				✓			1

Continued on next page

Company	Climate & Energy	Other Environment	Corporate Political Activity	Human Rights, Decent Work & Diversity	Other Social	Sustainable Governance	Grand Total
Great Plains Energy	✓						1
Groupon					✓		1
Gulfport Energy	✓						1
HD Supply Holdings	✓						1
Hershey		✓					1
Hess	✓						1
Hologic	✓						1
Home Depot				✓			1
Honeywell International			✓				1
Hormel Foods		✓					1
Hubbell	✓						1
IDEX				✓			1
IDEXX Laboratories						✓	1
Intel				✓✓			2
International Business Machines	✓		✓				2
J.B. Hunt				✓			1
J.M. Smucker			✓				1
Johnson & Johnson			✓✓		✓		3
Joy Global						✓	1
JPMorgan Chase						✓	1
Kellogg		✓					1
Kinder Morgan	✓✓					✓	3
Kroger	✓	✓		✓✓			4
Las Vegas Sands				✓			1
Lincoln National			✓				1
Marathon Oil	✓						1
Marathon Petroleum	✓		✓	✓			3
Mastercard	✓						1
McDonald's	✓	✓		✓			3
McKesson			✓				1
Men's Wearhouse				✓			1
Merck					✓		1
Micron Technology				✓			1
Mondelez International		✓✓					2
Monsanto		✓✓	✓				3
Morgan Stanley			✓				1
Motorola Solutions			✓				1
Mueller Industries						✓	1
National Fuel Gas	✓						1
Navient			✓✓				2
Netflix				✓			1
Newfield Exploration	✓						1
NextEra Energy			✓				1
NIKE			✓				1
NiSource			✓				1
Noble Energy	✓						1
Nordstrom	✓		✓	✓			3
Northwestern	✓						1
Nucor	✓		✓				2
Occidental Petroleum	✓✓		✓				3
OGE Energy	✓					✓	2
Old Dominion Freight Line				✓			1
Omnicom Group				✓			1
Panera Bread				✓			1
PepsiCo	✓	✓✓		✓✓			5
Pfizer			✓	✓	✓		3
PG&E	✓				✓		2

Continued on next page

Company	Climate & Energy	Other Environment	Corporate Political Activity	Human Rights Decent Work & Diversity	Other Social	Sustainable Governance	Grand Total
Philip Morris International			✓	✓✓			3
Phillips 66	✓		✓				2
Pilgrim's Pride				✓			1
Pinnacle West Capital			✓				1
Pioneer Natural Resources	✓						1
PNM Resources	✓					✓✓	3
Portland General Electric	✓						1
PPG Industries						✓	1
PPL Corporation	✓						1
Ralph Lauren				✓			1
Range Resources			✓				1
Raytheon			✓✓				2
Reynolds American		✓		✓			2
Sanderson Farms		✓		✓			2
SCANA	✓						1
SeaWorld Entertainment					✓		1
Southern	✓✓		✓				3
Southwestern Energy				✓			1
Spectra Energy			✓✓				2
SPX						✓	1
Staples				✓			1
Starbucks					✓		1
Starwood Hotels & Resorts Worldwide			✓				1
Stifel Financial						✓	1
Stryker				✓			1
Swift Transportation				✓			1
T. Rowe Price Group						✓	1
Tesoro			✓				1
Time Warner					✓		1
Time Warner Cable			✓				1
TJX	✓			✓✓		✓	4
Travelers			✓✓				2
Triangle Capital						✓	1
Twitter						✓	1
Tyson Foods		✓✓	✓	✓			4
Union Pacific			✓			✓	2
United Continental Holdings				✓			1
United Parcel Service			✓✓	✓			3
Unitil	✓						1
Universal				✓			1
Verizon Communications	✓	✓	✓✓				4
Vertex Pharmaceuticals						✓	1
Viacom					✓		1
Wal-Mart Stores	✓		✓				2
Walt Disney			✓				1
Waste Connections						✓	1
Waste Management			✓				1
Wells Fargo			✓				1
Wendy's		✓		✓✓			3
Westar Energy	✓						1
Western Union			✓			✓	2
WhiteWave Foods	✓					✓	2
Whole Foods Market	✓	✓					2
WPX Energy	✓						1
Wyndham Worldwide			✓				1
Wynn Resorts			✓				1
Yum Brands		✓		✓			2
<b>Grand Total</b>	<b>94</b>	<b>30</b>	<b>98</b>	<b>69</b>	<b>19</b>	<b>49</b>	<b>359</b>



# ABOUT PROXY PREVIEW

*PROXY PREVIEW 2016 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](http://www.asyousow.org)



The **Sustainable Investments Institute (Si2)**, a nonprofit research organization based in Washington, D.C., conducts impartial research and publishes reports on organized efforts to influence corporate behavior on social and environmental issues. Si2 closely follows shareholder resolutions proposed by investor advocates, but does not make voting recommendations. Instead, it provides the tools and in-depth reports that enable investors to make their own informed, independent decisions on the contentious public policy issues raised during proxy season. Si2 also conducts research into emerging sustainability issues to better help investors and the general public understand the implications they hold for companies and their key stakeholders. Recent reports covered political spending, hydraulic fracturing, integrated reporting, nanotechnologies and sustainable governance issues. Si2 is supported by leading institutional investors, including public and private pension funds, college and university endowments, foundations and fund managers. [www.siinstitute.org](http://www.siinstitute.org)

## PROXY IMPACT

**Proxy Impact** is a progressive proxy voting and shareholder engagement service for foundations, NGOs, and other mission-based or socially responsible investors. We provide affordable proxy voting that follows environment, social, and governance (ESG) guidelines; and vote confirmation that meets SEC and N-PX standards. Proxy Impact also offers a full range of shareholder engagement services on social and environmental issues including filing resolutions and corporate dialogues. Our unique consulting service will identify the links and advocacy opportunities between a client's stockholdings and their organization's mission, programs and/or grantees. This allows clients to leverage their shares to support their values and core programs, and provides strategic options for how to address key issues through their investments or grant making. [www.proxyimpact.com](http://www.proxyimpact.com)

## SPONSORS

**Arjuna Capital** empowers our clients to sustainably align their investments for profitability and impact. Arjuna is a one-stop shop for creating a high-impact investment portfolio across markets and asset classes— from public to private, domestic to foreign, equity to debt. Our philosophy is rooted in the concept of sustainability: that economic vitality, environmental responsibility and social equity are mutually supportive measures of a society's health. With decades of experience considering the financial impact of environmental, social and governance (ESG) risk and opportunity factors, our team is uniquely situated to mine insights from this approach to investment analysis. We strive to offer the most diverse, sustainable, profitable and high-impact investments available, build and preserve our clients' wealth, and influence sustainable change through enlightened engagement in the capital markets. [www.arjuna-capital.com](http://www.arjuna-capital.com)



**Broadridge Financial Solutions, Inc.** (NYSE:BR) is the leading provider of investor communications and technology-driven solutions for broker-dealers, banks, mutual funds and corporate issuers globally. Broadridge's investor communications help clients reduce their capital investments in operations infrastructure, allowing them to increase their focus on core business activities. With over 50 years of experience, Broadridge's infrastructure underpins proxy voting services for over 90% of public companies and mutual funds in North America, and processes more than \$5 trillion in fixed income and equity trades per day. Broadridge is the leader in corporate governance activities, processing approximately 85% of the outstanding shares in the United States and approximately 72% of the shares voted outside the U.S. Broadridge enables over 2 billion multi-channel communications to investors annually. [www.broadridge.com](http://www.broadridge.com)



**Calvert Investments** is the global leader in Responsible Investing. Our mission is to deliver long-term performance to our clients and enable them to achieve positive impact. Serving financial advisors and their clients as well as a wide array of institutional investors, Calvert's investment strategies feature integrated environmental, social, and governance (ESG) research and corporate engagement. Founded in 1976 and headquartered in Bethesda, Maryland, Calvert Investments had more than \$11 billion in assets under management as of January 30, 2016. Learn more at [www.calvert.com](http://www.calvert.com).



Congratulations  
proxypreview®

For being the leading free  
resource on social and  
environmental shareholder  
resolutions.



**Broadridge®** [broadridge.com](http://broadridge.com)

© 2016 Broadridge Financial Solutions, Inc., Broadridge and the Broadridge logo are registered trademarks of Broadridge Financial Solutions, Inc.



Calvert  
Investments  
salutes  
[proxypreview]®

Ten-plus years  
of impact!



an Ameritas company

Calvert Investment Management, Inc.  
4550 Montgomery Avenue  
Bethesda, MD 20814

**ClearBridge Investments** is a leading global equity manager with \$107.5 billion in assets under management. We have been committed to delivering long-term results through active management for more than 50 years and continue to offer investment solutions that emphasize differentiated stock selection. ClearBridge has offered Environmental, Social & Governance (ESG) equity strategies for over 25 years. We believe true active management is the best way to express the highest conviction ideas of our portfolio managers, and provide investors the best opportunities to earn superior investment results over the long term. The firm offers equity strategies focused on three primary client objectives in our areas of proven expertise: high active share, income solutions and low volatility. [www.clearbridge.com](http://www.clearbridge.com)

**ClearBridge**  
Investments

**First Affirmative** is an independent Registered Investment Advisor serving individual and institutional investors nationwide. We manage investment portfolios that align personal values or institutional mission with investment strategies tailored to the needs and goals of each client. We help investors make money and make a difference by combining innovative financial management with investment strategies that consider the environmental, social, and governance aspects of investments. We vote client proxies in accordance with detailed voting guidelines and actively engage selected portfolio companies with the goal of creating a truly sustainable future. First Affirmative produces The SRI Conference – on Sustainable, Responsible, Impact Investing. This industry-leading event is a gathering place for investors, investment professionals, research, and nonprofit organizations working together to direct the flow of investment capital in transformative ways. [www.firstaffirmative.com](http://www.firstaffirmative.com)



**First Affirmative**  
Financial Network, LLC

**Global Proxy Watch** is the premier source of inside information about key governance developments worldwide. It's an indispensable resource for leading shareowner activists and experts in more than a dozen countries. Now in its 20th year, GPW keeps subscribers abreast of shareowner activism across borders, the powerful industry of governance advisors, and initiatives by companies, governments and stock exchanges to reform, turbo-charge or block corporate governance. GPW is the place the market turns to for information on who is moving to new posts and for job openings in the governance field. Subscribers include leading pension funds and other activist institutional investors, custodian banks, stock exchanges, corporations, professional trade bodies, management consulting companies, trade unions, investor relations firms, accounting firms, academic institutions, law firms and international governmental organizations. [proxywatch.com](http://proxywatch.com)



**GLOBALPROXYWATCH™**



ClearBridge is a well-established global equity manager focusing on proprietary research and fundamental investing. Our long-tenured portfolio managers build high-quality equity portfolios for clients who seek income solutions, high active share or low volatility.

**New York | Baltimore | San Francisco | Wilmington**

**ClearBridge**  
Investments

[ClearBridge.com](http://ClearBridge.com)



**First Affirmative**  
Financial Network, LLC

**Sustainable Investment Solutions**

First Affirmative supports a nationwide network of investment professionals who specialize in Sustainable, Responsible, Impact Investing. We help clients make money and make a difference.

[www.firstaffirmative.com](http://www.firstaffirmative.com) • 800.422.7284



**#AllinForImpact**

[www.SRIconference.com](http://www.SRIconference.com)  
Produced by First Affirmative since 1990



First Affirmative Financial Network, LLC  
5475 Mark Dabbling Boulevard, Suite 108, Colorado Springs, CO 80918  
Independent Registered Investment Advisor (SEC File #801-56587).

**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](http://www.greenamerica.org)



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](http://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, and 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, water management, sustainability reporting, and board gender diversity. We are a signatory to the UN Principles for Responsible Investment, and a member of Ceres and of the Investor Environmental Health Network, among other organizations. [www.mhinvest.com](http://www.mhinvest.com)



## ☒ GLOBALPROXYWATCH™

☒ The weekly newsletter of international corporate governance.

☒ Read by experts in dozens of countries.

To sign up for a subscription, visit:  
[www.globalproxywatch.com](http://www.globalproxywatch.com)

A HEALTHY PLANET.  
 A WORLD WITHOUT INJUSTICE.  
 A FUTURE FILLED WITH POSSIBILITY.  
**WE WANT IT ALL.**



**JOIN GREEN AMERICA AND GET IT ALL.**

For just \$20, your membership gets you all the resources you need to make the world better.

To become a member, call (800) 584-7336  
 or go to [GreenAmerica.org/go/join](http://GreenAmerica.org/go/join)



**The Murningham 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 capital markets to fix the abuses of capital markets**. The aim is bold but clear: **advance racial and economic justice via a range of transparent and accountable investment strategies that are rooted in civic moral values**. At a time when public mistrust of capitalism is at an all-time high, we work to cultivate an ethic of civic obligation — and introduce the interrelated concepts of “**civic fiduciary**” and “**civic financial literacy**” — that, in the process, restores voice and agency to concerned citizens while assisting in the transition to a prosperous, sustainable, and just world. [murninghampost.com](http://murninghampost.com)



**Parnassus Investments** is an independent, employee-owned investment management company based in San Francisco, California. We seek to invest in good businesses that have increasingly relevant products or services, sustainable competitive advantages, quality management teams and ethical business practices. We believe the most attractive opportunities for investments arise when companies with good business fundamentals become temporarily undervalued. Our goal is to provide value to our shareholders by generating attractive risk-adjusted returns over the long-term. Our firm was founded in 1984, and currently manages four fundamental, U.S., core equity strategies across multiple market capitalizations, one Asia Pacific equity strategy and one U.S., fixed income strategy. The strategies are available as no-load mutual funds and separate accounts. Assets under management total \$15.6 billion (as of December 31, 2015). [www.parnassus.com](http://www.parnassus.com)

**PARNASSUS  
INVESTMENTS®**

**SRI Wealth Management Group** is a premiere financial consultancy, providing customized investment solutions that help clients achieve both their financial and value-based objectives. With approximately \$1.7 billion in assets under management, we work with institutional and individual investors to implement client-specific Environmental, Social and Governance (ESG) preferences throughout their asset allocation. Additionally, we leverage our relationships with shareholder advocacy organizations to provide clientele with unique shareholder engagement opportunities. We are a team of professionals who have made a conscious choice to dedicate our careers to servicing organizations and individuals committed to social change and the betterment of the community.



## MONEY POWER IN THE PUBLIC INTEREST

**Educate | Empower  
Engage**

Together, we can advance racial and economic justice and sustainable prosperity for all of us – and, in the process, reboot democracy and American public life.

**#CivicFinancialLiteracy  
#CivicFiduciary**

**MurninghamPost.com  
@MurnPost | @MarcyMurningham**



**responsible -  
investor.com**  
ESG and sustainable finance

**insightful  
relevant  
essential**

**Focusing on business critical news and data, Responsible Investor is the only dedicated news and events service reporting on responsible investment, ESG and sustainable finance for institutional investors globally.**

**“Responsible Investor is required reading.”**

Anne Simpson, Senior Portfolio Manager,  
Director, Global Governance, CalPERS

### **Free Trial Subscription**

To experience the quality and breadth of our content before you commit to subscribing you can set up a 28-day free trial with absolutely no strings attached at:

**[www.responsible-investor.com/freetrial](http://www.responsible-investor.com/freetrial)**



**Responsible Investor** – Launched June 2007, Responsible Investor (RI) is the only dedicated news service reporting on responsible investment, ESG (environmental, social and governance) and sustainable finance issues for institutional investors globally, read by: pension funds, public and government funds, central banks, endowments, foundations, faith groups, family offices, corporations, investment consultants, asset managers, research and data providers, insurance companies, banks, associations, governments, regulators, NGOs, and other industry practitioners. RI also produces the industry-leading regional conferences: ESG Asia, ESG Europe and ESG USA. [www.responsible-investor.com](http://www.responsible-investor.com)



**The Rose Foundation for Communities and the Environment** is a grantmaking public charity dedicated to the concept that environmental stewardship, community regeneration, consumer protection, robust civic participation, and a healthy economy are all inextricably linked. The Foundation supports grassroots initiatives to build the power of informed community involvement and to inspire community action to protect the environment, consumers, and public health. [rosefdn.org](http://rosefdn.org)



**The Singing Field Foundation** is a small family foundation, which began active grantmaking in 2004. The foundation's current grants budget is around \$200,000. Grants are initiated by the foundation's directors and typically provide general support for environmental, animal welfare, health-related organizations, and other charities of interest to family members. The foundation's interest in mission-related investing and "active ownership" of the companies in which the foundation is invested reflects our desire to maximize our impact as a small foundation, by deploying "the other 95 percent" of our assets, and our personal values, which dictate that the foundation's investments should be aligned with the foundation's mission. The Singing Field Foundation's support for As You Sow flows directly from this interest and complements the foundation's other grantmaking.



**SocialFunds.com** features daily original journalism on news of interest to sustainable investors, as well as over 10,000 pages of information on sustainable mutual funds, community investment, corporate social responsibility, and shareowner action.

To learn more, go to [www.socialfunds.com](http://www.socialfunds.com)



**“Climate change is the defining investment issue of our time.”**

MATTHEW W. PATSKY, CFA  
CEO, Trillium Asset Management

**We are the oldest investment advisor exclusively focused on sustainable and responsible investing.**

Boston | San Francisco | Portland OR | Durham NC

[www.trilliuminvest.com](http://www.trilliuminvest.com)



**SocialFunds.com** has been a leading source of news and information for sustainable investors and advocates for sustainability and corporate social responsibility since 2000. Its daily news stories provide political and regulatory context for investors who want their portfolios to reflect the sustainability imperatives of a global economy facing a convergence of multiple crises. Its website provides a mutual fund finder for investors wishing to learn more about sustainable funds, and an events calendar keeps its readers up to date on conferences focusing on sustainability issues. [www.socialfunds.com](http://www.socialfunds.com)



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](http://www.trilliuminvest.com)



**Veris Wealth Partners** is dedicated to providing high net worth families, their foundations, and endowments sustainable investment and wealth management solutions. We focus on Socially Responsible & Sustainable Investing (SRI) approaches and values-based philanthropic consultation. We believe that "Sustainability Matters" and those companies and families implementing green and responsible practices will be leaders of the future. [www.veriswp.com](http://www.veriswp.com)



**Vigeo Eiris** helps leaders make a difference. Vigeo Eiris brings together the historic experience of Vigeo & EIRIS in global engagement, portfolio screening and monitoring breaches of international principles to create a major new ratings agency with more than 120 analysts devoted to analysing ESG factors at over 4,000 enterprises. The new agency also offers carbon foot-printing and second opinions for green bond issuers. [www.vigeo.com](http://www.vigeo.com)



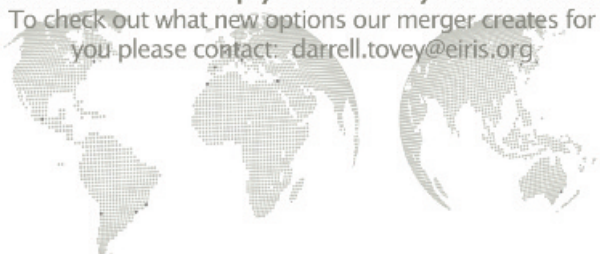
#### Helping leaders make a difference

Vigeo Eiris brings together the historic experience of Vigeo & EIRIS in global engagement, portfolio screening and monitoring breaches of international principles to create a major new ratings agency with 120 analysts devoted to analysing ESG factors at over 4,000 enterprises.

The new agency also offers carbon footprinting and second opinions for green bond issuers.

#### How does this help you achieve your mission?

To check out what new options our merger creates for you please contact: [darrell.tovey@eiris.org](mailto:darrell.tovey@eiris.org)



As the oldest institutional investment manager in the sustainable and responsible investment (SRI) industry, since 1975 **Walden Asset Management** has engaged portfolio companies urging them to strengthen their corporate responsibility and accountability. As long term investors, we believe that effective shareholder engagement can lead to improved corporate policies, more sustainable business practices, and greater transparency and accountability. [www.waldenassetmgmt.com](http://www.waldenassetmgmt.com)

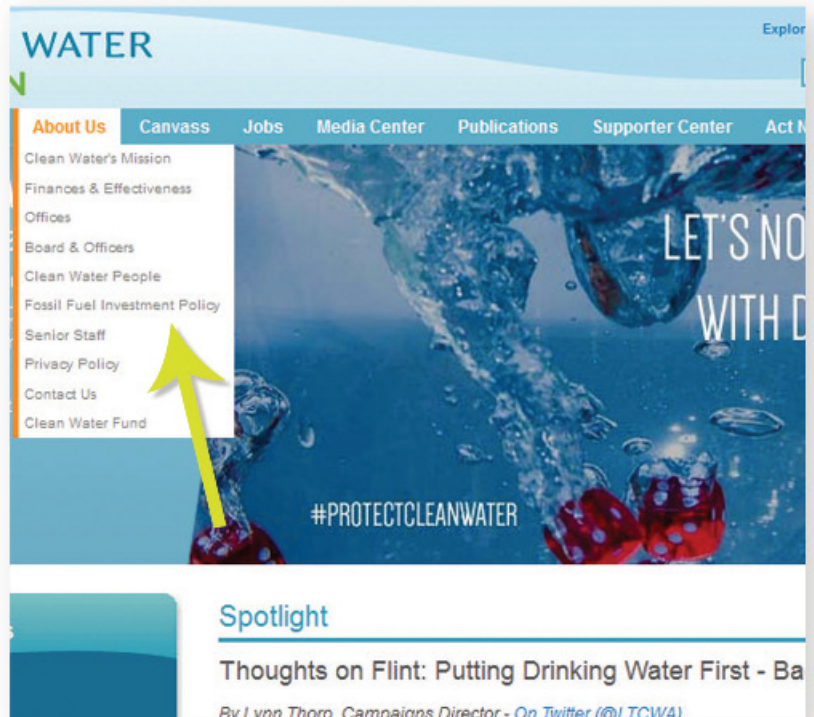


**Walden Asset Management**  
Advancing sustainable business practices since 1975



**“People want to know that the causes they support will be smart and effective. In the wake of the Paris climate accord, we want to know even more.”**

Due diligence means understanding how the organizations you're funding will use your gifts and grants. But it also means understanding something about how all of their financial resources are managed. You have to look beyond the numbers. Fossil fuel divestment and re-investment policies are a good place to start.







## Peter DeSimone Student Scholarship Program

The Peter DeSimone Student Scholarship Program is offered by the US SIF Foundation in collaboration with its Diversity and Inclusion Initiative. Up to ten undergraduate or graduate students who are committed to or interested in a career in sustainable, responsible and impact investment (SRI) can receive scholarships to cover the registration costs for the US SIF Annual Conference, Investing for the Next Generation, including Member Day (May 23-25, 2016). We encourage applications from the broadest possible candidate pool. These scholarships are made possible through the support of Campbell Soup Company and the Calvert Foundation.

The scholarship program is named for Peter DeSimone, 1971-2014. Peter worked at the Investor Responsibility Research Center (IRRC) in the mid-1990s, initially focusing on South Africa's post-apartheid transition. He was a US SIF staff member for several years, inaugurating the position of Policy Director, and helped launch our first conference. He also helped found the Sustainable Investments Institute (SI2), which provides impartial research to institutional investors.

### The main objectives of the scholarship program are:

1. To encourage students to enter the field of sustainable, responsible and impact investment upon graduation; and
2. To provide an opportunity for students to learn directly from leaders and experts in the field of SRI, enhance their knowledge, network, and make professional contacts with US SIF member firms and organizations as well as other institutions attending our conference.

### How to apply:

To apply, please complete the US SIF Foundation Peter DeSimone Scholarship Program Application by Friday, March 11. Applicants will be informed of the results by March 25. If you have any questions, please contact Megan Smith, Manager of Communications and Events of US SIF at [msmith@ussif.org](mailto:msmith@ussif.org).

For more information please visit [ussif.org/conference](http://ussif.org/conference).



# PROXY VOTING GUIDELINES 2016

## READY TO VOTE YOUR PROXIES? READ THIS FIRST.

As You Sow's annual *Proxy Voting Guidelines* are for socially responsible investors who are ready to align their proxy voting with their values.

Download it now at  
[asyousow.org/proxy-voting-guidelines](http://asyousow.org/proxy-voting-guidelines)



AS YOU SOW

The proxy voting recommendations have been developed by As You Sow in association with Proxy Impact.





## *Unparalleled, Impartial Proxy Research*

**Briefing Papers**—Preparing for proxy season can be daunting. Si2 helps by producing in-depth **comprehensive backgrounders**, so you can understand old and emerging issues, know their key implications and risks, and adopt and update voting guidelines. These reports also can facilitate corporate engagement.

**Engagement Monitor**—This detailed and **searchable online tool** provides timely updates on shareholder proposals filed at U.S. companies. Si2 provides the earliest, most accurate advance notice of filings on social and environmental policy resolutions.

**Action Reports**—When sustainability-related resolutions go to votes, you'll have key **company- and resolution-specific research** at your fingertips to make decisions, especially in complicated case-by-case matters.

**Expert Advice**—With **decades of experience**, our analysts are among the best in the industry, and you have direct access to them throughout the year.

**Join leading institutions with \$1 trillion in assets under management**, including the biggest pension funds and higher education endowments, and sign up for Si2's proxy research. For a free trial and additional information, contact Heidi Welsh, [heidi@siinstitute.org](mailto:heidi@siinstitute.org), 1+301-432-4721. Visit [www.siinstitute.org](http://www.siinstitute.org). Follow [@Si2News](https://twitter.com/Si2News) on Twitter.

A photograph of a diverse group of five business professionals (three men and two women) smiling. The text 'Your PROXY and the PEOPLE' is overlaid on the image in a large, white, sans-serif font.

Your PROXY  
and the PEOPLE

**Diversity & Equality  
on the board and beyond**

**PROXY**  **IMPACT**

The power to change business as usual

Your proxy votes should reflect your values.

Proxy Impact provides environmental, social and sustainable governance (ESG) guidelines, electronic voting, and shareholder engagement.

Learn more: 510-215-2222 [www.proxyimpact.com](http://www.proxyimpact.com)





**As You Sow®**

1611 Telegraph Ave., Ste. 1450 · Oakland, CA 94612 · 510.735.8158 · [www.asyousow.org](http://www.asyousow.org)

Download the full report at [www.proxypreview.org](http://www.proxypreview.org)

© 2016 As You Sow

Proxy Preview and As You Sow are trademarks of As You Sow Foundation