2020 Corporate Governance Report

Segal Marco Advisors

Introduction

Segal Marco Advisors (Segal Marco) serves more than 600 clients with advisory assets exceeding $500 billion. In addition to financial consulting and discretionary services, Segal Marco provides proxy voting and corporate governance services. Segal Marco is a registered investment advisor and assumes fiduciary duty for proxy voting assets.

The *Corporate Governance Report* provides a summary of the market environment for corporate governance, the 2020 proxy votes on the most common issues, including proxy voting statistics and the 2021 proxy policy statement. There are four updates to the proxy policy statement that takes effect on March 1, 2021:

1. New policy to oppose director nominations where U.S. companies fail to provide data on the composition of their corporate boards. Investors are able to assess racial diversity only where companies disclose composition data.

2. Expand our opposition to CEOs serving as chair to non-independents serving as chairs. Expanding the policy would enable us to vote against in situations where immediate past CEOs serve as chair or possess other insider characteristics, such as business ties.

3. New policy language that provides for a vote against directors for failure of oversight. If a company has not substantively addressed the business impacts of climate change or other systemic issues, had repeated financial restatements or is embroiled in a scandal that exposes weak leadership, a vote may be cast against directors.

4. Expand on the criteria applied to consider say-on-pay votes (advisory votes on executive compensation). Companies often have overly limited disclosure on the use of adjusted GAAP metrics that drive incentive executive pay. Companies that customize a GAAP calculation for executive pay purposes should explain the need for the adjustment and show its impact on the payout.

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I. The Market Environment for Corporate Governance

Regulatory actions at the DOL and SEC make work for investors and their advocates

Proposed versions of four rules from the Department of Labor (DOL) and the Securities and Exchange Commission (SEC) looked to undermine the rights provided to investors to challenge and weigh in on the corporations in which they own shares. The final versions of these rules, while still troubling, resulted in more modest changes to the shareholder toolbox.

The SEC issued a final rule on proxy advisors in September and a final rule on shareholder advocacy in November 2020. The DOL released final rules on ESG (environmental, social, and governance) investing in November and proxy voting in December 2020. The four rules collectively weaken shareholder rights. Segal Marco was one of the many active voices on the rulemakings. We submitted comments on each of the four proposals.

Segal Marco will make modest adjustments as required by the rules but does not anticipate substantive changes to our operations around proxy voting, shareholder advocacy and ESG investing.

SEC rule on proxy advisors: "Exemptions from the Proxy Rules for Proxy Voting Advice"

17 CFR Part 240
[Release No. 34-89372; File No. S7-22-19]
RIN 3235-AM50

Fact Sheet:
www.sec.gov/news/press-release/2020-161

Release date: July 22, 2020

Full rule:
www.federalregister.gov/documents/2020/09/03/2020-16337/exemptions-from-the-proxy-rules-for-proxy-voting-advice

Segal Marco comment on proposed rule:
www.sec.gov/comments/s7-22-19/s72219-6741197-207700.pdf

SEC rule on proxy advisors: "Exemptions from the Proxy Rules for Proxy Voting Advice"

The SEC voted to adopt amendments related to proxy advisory services. Segal Marco Advisors is considered a proxy agent rather than a proxy advisor and is not subject to the new requirements.

With the amendments, the SEC now views proxy advice as a solicitation, which means the firms providing proxy advice must file their data with the SEC in a publicly available format and could be sued by issuer companies if any data is found to be false or misleading. The proxy advisory firms strongly object to this framework and the largest proxy advisor, ISS, has a pending lawsuit against the Commission.

ISS argued in its comment letter that proxy advice is not a solicitation because the firm is not seeking to obtain a particular vote outcome: "No reasonable user of the English language would confuse the concepts of 'solicitation' and 'advice.' Whereas a solicitor urges another person to action to achieve a certain outcome or result, an adviser provides advice or counsel merely to help inform another person's decision." The SEC did not find this argument compelling and noted in its final rule that it found a definition of solicit from 1934, the year of the Commission's founding, that meant "[t]o move to action."

The SEC is allowing proxy advisory firms to be exempt from the rules and legal liability attached to solicitations if they implement the following procedures as outlined below.

Disclose conflicts of interest

- Proxy advisory firms must disclose any relationship, interest or transaction that is material to assessing the proxies with objectivity.
- Proxy advisory firms must publish policies and procedures on identifying material conflicts of interest and steps taken to address them.

Enable counterspeech

- Proxy advisory firms must provide their research free of charge and in a timely manner to the companies that are the subject of the research.
- Proxy advisory firms must provide clients with a mechanism by which they will be made aware of companies' written feedback on the proxy advice.

> "'No reasonable user of the English language would confuse the concepts of "solicitation" and "advice."'
>
> —*Institutional Shareholder Services comment letter.*

SEC rule on shareholder advocacy: "Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8"

17 CFR Part 240
[Release No. 34-89964; File No. S7-23-19]
RIN 3235-AM49

Fact Sheet:
www.sec.gov/news/press-release/2020-220

Release date: September 23, 2020

Full rule:
www.federalregister.gov/documents/2020/11/04/2020-21580/procedural-requirements-and-resubmission-thresholds-under-exchange-act-rule-14a-8

Segal Marco comment on proposed rule:
www.sec.gov/comments/s7-23-19/s72319-6452781-198808.pdf

Segal Marco's perspective

Segal Marco's detailed perspective is available here. In summary, our view is that the SEC's actions are unnecessary, add significant costs to the process and are overly deferential to corporate issuers. The public posting of proxy advice would gut the ability of the firms to charge for their services, which will compel any proxy advisory firm to comply with the new procedures. One topic frequently discussed in the formation of the rule was that proxy advisors reports' are error-prone and in need of review by the covered company to respond to the errors. Segal Marco's view, along with several other commenters, is that the accuracy of proxy advice has not been called into question by investors and there is no evidence that supports a propensity for errors. The Commission alluded to the errors myth while bypassing its importance in the final rule: "Regardless of the incidence of errors in proxy voting advice, we believe it is appropriate to adopt reasonable measures designed to promote the reliability and completeness of information available to investors and those acting on their behalf at the time they make voting determinations."

Impact on Segal Marco's operations

Segal Marco was identified as a proxy advisory firm in the proposed rule but is not subject to the final rule. Our business model is different from proxy advisory firms in that we act as a voting agent and are consistent with our client's proxy voting policies when we cast votes on their behalf. Segal Marco subscribes to multiple proxy research providers to obtain independent data and research on the proxy statement, which we use to inform our independent decision-making. The final rule amendment narrowed the scope of the proposals to: "Modify the proposal to recognize the difference between proxy voting advice businesses and proxy voting agent businesses, the latter of which 'vote solely on behalf of clients, in accordance with such clients' preset voting guidelines, based upon third-party research' and should not be subject to regulation as a proxy voting advice business."

SEC rule on shareholder advocacy: "Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8"

The SEC adopted amendments to the shareholder proposal rule that increase the requirements for investors to file proposals at publicly traded firms. Technically, the rule's effective date is January 4, 2021, but the Commission provided a longer on-ramp for application of the rules. The amendments generally apply to any proposal submitted for an annual or special meeting to be held on or after January 1, 2022. Also, the final rules provide for a transition period with respect to the ownership thresholds that will allow shareholders meeting specified conditions to rely on the $2,000/one-year ownership threshold for proposals submitted for an annual or special meeting to be held prior to January 1, 2023.

Key points of the shareholder advocacy rule

Increases stock requirements for initial filing (Rule 14a-8(b)):

- Previously, a shareholder was required to hold continuously at least $2,000 or 1percent of a company's securities for at least one year
- Beginning with the filings submitted for 2022 meetings, a shareholder will be required to continuously hold stock that meets one of three options:
  - $2,000 of the company's securities for at least three years
  - $15,000 of the company's securities for at least two years
  - $25,000 of the company's securities for at least one year

Additional filing requirements and prohibitions (Rule 14a-8(b)):

- Investors cannot aggregate holdings for purposes of satisfying the amended ownership thresholds.
- Shareholders must provide their schedule while filing. Specifically, they must state their availability to meet with the company, either in person or via teleconference, no less than 10 calendar days nor more than 30 calendar days after submission of the shareholder proposal and provide contact information as well as specific business days and times that the shareholder is available to discuss the proposal with the company.

Investor representatives must document the client is on board with the engagement (Rule 14a-8(b)):

The Commission created more paperwork for investors and their representatives to move forward with filing proposals. Specifically, a shareholder that chooses to use a representative to submit a proposal must provide documentation that:

- Identifies the company to which the proposal is directed
- Identifies the annual or special meeting for which the proposal is submitted
- Identifies the shareholder submitting the proposal and the shareholder's designated representative
- Includes the shareholder's statement authorizing the designated representative to submit the proposal and otherwise act on the shareholder's behalf
- Identifies the specific topic of the proposal to be submitted
- Includes the shareholder's statement supporting the proposal
- Is signed and dated by the shareholder

Investor representatives prohibited from helping multiple investors at one company (Rule 14a-8(c)):

- The Commission is limiting collective action by expanding the one-proposal rule to "each person" rather than "each shareholder" who submits a proposal. Going forward, a shareholder-proponent cannot submit a proposal and serve as a representative on a different proposal on another shareholder's behalf at the same meeting. A representative cannot submit more than one proposal to be considered at the same meeting, even if additional proposals were submitted on behalf of different shareholders.
- However, a representative is permitted to represent multiple investor clients on the same proposal through co-filings at the same company.

Increased thresholds for investors to re-file a proposal (Rule 14a-8(i)(12)):

- Previously, a shareholder needed to receive a vote in support of 3 percent, 6 percent and 10 percent respectively in years one, two, three or more within the last five years to qualify for resubmitting a proposal.
- Beginning for meetings held on or after January 2, 2022, shareholders need to receive a vote in support of 5 percent, 15 percent and 25 percent to qualify for re-filing on a one, two and three or more year basis.

Impact on Segal Marco's operations

The changes in the SEC rule on shareholder advocacy will not create many obstacles to the work as it exists now. However, the additional requirements and increased thresholds create more operational work.

DOL ESG rule: “Financial Factors in Selecting Plan Investments”

29 CFR Parts 209 and 2550
RIN 1210-AB95

Press release:
www.dol.gov/newsroom/releases/ebsa/ebsa20201030

Release date: October 30, 2020

Full rule:
www.dol.gov/sites/dolgov/files/EBSA/temporary-postings/financial-factors-in-selecting-plan-investments-final-rule.pdf

Segal Marco comment on proposed rule:
beta.regulations.gov/comment/EBSA-2020-0004-0182

DOL ESG rule: “Financial Factors in Selecting Plan Investments”

I. Five key changes to investment duties

1. Investment decisions must be made on pecuniary factors.
2. Fiduciaries cannot subordinate the interests of participants to unrelated objectives. Fiduciaries are barred from sacrificing investment return or taking on additional investment risk to promote non-pecuniary goals.
3. Fiduciaries are required to consider reasonably available alternatives to meet their prudence and loyalty duties under ERISA.
4. In the rare circumstances where non-pecuniary factors may be used in decision-making because the pecuniary factors reveal “truly indistinguishable” investments, fiduciaries must document the following items. Therefore, the final rule preserves the “all things being equal test” but adds new documentation requirements, specifically:
   - Why pecuniary factors were not sufficient to select the investment or investment courses of action
   - How the investment compares to alternative investments
   - Composition of the portfolio with regard to diversification
   - Liquidity and current return of the portfolio relative to the anticipated cash flow requirements of the plan
   - Projected return of the portfolio relative to the funding objectives of the plan
   - How the chosen non-pecuniary factor or factors are consistent with the interests of participants and beneficiaries in their retirement income of financial benefits under the plan
5. In participant-directed plans, fiduciaries are not prohibited from considering or including any investment fund, product or model portfolio as an investment option merely because the fund, product or model portfolio promotes, seeks or supports one or more non-pecuniary goals. However, participants must be offered a broad range of investment alternatives to choose from and the fiduciary must otherwise satisfy the prudence and loyalty provisions in ERISA and the final rule, including the requirement to evaluate solely on pecuniary factors, any investment fund, product or model portfolio in the selection process. Further, **the final rule prohibits consideration of non-pecuniary factors for qualified default investment alternative (QDIA) selection.** Thus a fiduciary cannot add an investment fund, product or model portfolio if the investment objectives or goals or its principal investment strategies include, consider or indicate the use of one or more non-pecuniary factors for the QDIA.

II. Additional information

The final regulation, published on November 13, 2020 and effective as of January 12, 2021, prohibits fiduciaries from subordinating the interests of plan participants for public policy goals.

- "The fundamental principle is that an ERISA fiduciary's evaluation of plan investments must be focused solely on economic considerations that have a material effect on the risk and return of an investment based on appropriate investment horizons, consistent with the plan's funding policy and investment policy objectives. The corollary principle is that ERISA fiduciaries must never sacrifice investment returns, take on additional risk or pay higher fees to promote non-pecuniary benefits or goals."
- The DOL reported that the regulation was promulgated to address perceived confusion and uneven application of the prior guidance. The DOL suggests that fiduciaries are being misled by service providers that prioritize non-pecuniary benefits over pecuniary benefits. In response to comments that the DOL failed to cite a single instance where fiduciaries have been misled, it states:

> "The Department does not believe that there needs to be specific evidence of fiduciary misbehavior or demonstrated injury to plans and plan participants in order to issue a regulation addressing the application of ERISA's fiduciary duties to the issue of investing for non-pecuniary benefits."

- Effective dates: The final rule generally is effective January 12, 2021. However, the provision on QDIAs does not become effective until April 30, 2022.
- Small plans are not excluded from the requirements of the final rule. The DOL's rationale is that 84 percent of DB plans and 87 percent of DC plans are small and the cost of implementation is not high — and less than what would have been required under the proposed rule. DOL notes that most plans with ESG investments, particularly defined benefit plans, are large and that few participants in small defined contribution plans have ESG funds in their portfolios.

The final rule focuses on pecuniary v. non-pecuniary factors and shifts away from ESG factors.

- The final rule does not regulate on the term "ESG." DOL determined it is too amorphous to be used in regulation. Instead, the regulation distinguishes factors as pecuniary or non-pecuniary.
- Pecuniary factor defined: A factor that "a fiduciary prudently determines is expected to have a material effect on the risk and/or return of an investment based on appropriate investment horizons consistent with the plan's investment objectives and the funding policy established pursuant to section 402(b)(1) of ERISA."
- DOL defers to fiduciaries to determine the appropriate time horizon cited in the definition of pecuniary.
- Unlike the proposed rule, the final rule does not further identify the factors that are pecuniary. Instead, it relies on the definition above and states that a factor would be treated as pecuniary "if it presents economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories."

- The DOL makes clear, though primarily in the preamble, that ESG factors can be pecuniary: "For example, a company's improper disposal of hazardous waste would likely implicate business risks and opportunities, litigation exposure and regulatory obligations. Dysfunctional corporate governance can likewise present pecuniary risk that a qualified investment professional would appropriately consider on a fact-specific basis."
- With respect to the final rule's consistency with the Trump Administration's stance on investing in China, the DOL "does not agree that there is any fundamental conflict between the positions other agencies have articulated on supply chain risk, and this final rule. Nothing in the final rule is intended to or does prevent a fiduciary from appropriately considering any material risk with respect to an investment." The final rule states: "the Department's position with respect to investments in China was informed by consideration of specific matters relating to investment risk, including inadequate investor disclosure and legal protections, that are consistent with 'pecuniary factors' as used in the final rule."
- The DOL states that job creation is not a pecuniary factor: investing in products that yield jobs may increase plan contributions, but is not linked to investment returns. "The purpose of plan investments under ERISA is to provide and protect retirement benefits — not to strengthen employers or unions or provide job security. Under ERISA, plans are to be operated solely in the interest of participants and beneficiaries as participants and beneficiaries, not in some other role or capacity, such as union members, employees, or members of some other interest group." **DOL does state that job creation could be considered as the non-pecuniary tiebreaker since that is in the interest of plan participants.**

The final rule prohibits selecting QDIAs that consider non-pecuniary factors.

- The final rule states "…in no circumstances may any investment fund, product or model portfolio be added...if its investment objectives or goals or its principal investment strategies include, consider, or indicate the use of one or more non-pecuniary factors."
- The final rule provides a longer time frame to comply with this provision as it, likely, will require the most significant changes. Its effective date is April 30, 2022.

Limits on the scope of the final rule.

- No changes to shareholder advocacy and stewardship practices.
- ESOPS, which invest significantly in employer stock of the plan sponsor, are outside the scope of the final rule and not affected by it.

Fiduciaries must consider reasonably available investment alternatives to meet their prudence and loyalty duties under ERISA.

- The final rule uses the phrase "reasonable available alternatives" to make clear that fiduciaries are not required to "scour the market or to consider every possible alternative, but also to allow for the possibility that the characteristics and purposes served by a given investment or investment course of action may be sufficiently rare that a fiduciary could prudently determine, and document, that there were no other reasonably available alternatives for the purpose of this comparison requirement."

Non-pecuniary factors can be used as a tiebreaker — but are not encouraged.

- With respect to the tiebreaker or "all things being equal" test, the final rule does not require fiduciaries to prove that two investment options are identical but allows a decision based on a non-pecuniary factor where, "after completing an appropriate evaluation," a decision could not be rendered based on pecuniary factors alone.
- However, the preamble to the final rule encourages fiduciaries to break ties without resorting to non-pecuniary factors — by using their best judgment on the basis of pecuniary factors alone.
- Non-pecuniary factors may be used in decision-making only when the pecuniary factors reveal "truly indistinguishable" investments. If fiduciaries rely on non-pecuniary factors in such situations, they must satisfy documentation requirements specified in the final rule (and described in Section I, above).

> **The DOL's definition of pecuniary is a factor that "a fiduciary prudently determines is expected to have a material effect on the risk and/or return of an investment based on appropriate investment horizons consistent with the plan's investment objectives and the funding policy established pursuant to section 402(b)(1) of ERISA."**

DOL proxy voting rule: "Fiduciary Duties Regarding Proxy Voting and Shareholder Rights"

29 CFR Parts 2509 and 2550
RIN 1210-AB91

Release date:
December 11, 2020

Press release:
www.dol.gov/newsroom/releases/ebsa/ebsa20201211-1

Full rule:
www.govinfo.gov/content/pkg/FR-2020-12-16/pdf/2020-27465.pdf

Segal Marco comment on the proposed rule:
beta.regulations.gov/comment/EBSA-2020-0008-0267

DOL proxy voting rule: "Fiduciary Duties Regarding Proxy Voting and Shareholder Rights"

I. Six key requirements for fiduciaries exercising proxy voting rights

1. Act solely in accordance with the economic interest of the plan and its participants and beneficiaries
2. Consider any costs involved
3. Not subordinate the interests of the participants and beneficiaries in their retirement income or financial benefits under the plan to any non-pecuniary objective or promote non-pecuniary benefits or goals unrelated to those financial interests of the plan's participants and beneficiaries or the purposes of the plan
4. Evaluate material facts that form the basis for any particular proxy vote or other exercise of shareholder rights
5. Maintain records on proxy voting activities and other exercises of shareholder rights
6. Exercise prudence and diligence in the selection and monitoring of persons, if any, selected to advise or otherwise assist with exercises of shareholder rights, such as providing research and analysis, recommendations regarding proxy votes, administrative services with voting proxies, and recordkeeping and reporting services

II. Changes required in response to the rule

Segal Marco's proxy voting service is aligned with the DOL's new final regulation, Fiduciary Duties Regarding Proxy Voting and Shareholder Rights (the "Final Rule") and Segal Marco does not anticipate changes to our policies and practices in response. The Final Rule emphasizes certain fiduciary obligations that are consistent with prior sub-regulatory guidance as outlined. Segal Marco regularly reports to clients on proxy voting activities and engagement activities that fall under the "other exercises of shareholder rights" noted in item 5. We provide clients with an annual summary of activities in the *Corporate Governance Report* as well as a report that details every vote cast with an explanatory rationale. Regarding item 6, Segal Marco undertakes due diligence in reviewing the service providers that assist us with research and ballot submissions. We also respond to client due diligence practices and do not expect that item 6 will yield any practical changes for our proxy voting service.

The focus on pecuniary factors in item 3 brings the Final Rule in line with the DOL Rule on Financial Factors in Selecting Plan Investments (aka the ESG Rule). It is important to note that the DOL did not identify any particular proxy vote matters as non-pecuniary and defers that determination to fiduciaries.

III. Background

The DOL stated that its reason for issuing regulatory guidance on proxy voting is the belief that some plan fiduciaries are confused by or misunderstand prior guidance as requiring that fiduciaries vote all proxies presented to them. The DOL cites no enforcement action or any other particular example of the confusion it presumes. Nonetheless, the Final Rule makes clear that plan fiduciaries do not have an obligation to vote all proxies. Segal Marco clients have at times declined to vote where additional costs are involved in relation to casting votes in some foreign markets or share-blocking markets. Similar to its position with respect to the ESG Rule, DOL notes that the Final Rule aims to ensure that in making proxy voting decisions, fiduciaries act for the exclusive purpose of financially benefitting plan participants and not subordinating the interests of the plan and its participants to goals and objectives unrelated to their financial interests.

The proposed version of the Final Rule would have required an economic analysis on each proxy vote prior to determining whether (1) there is a potential material impact and (2) therefore a vote should be cast. Approximately 300 market participants wrote unique comments and the DOL received approximately 6,700 form letters in response to the proposed rule. Segal Marco was among the many commenters that viewed the required economic analysis as driving up the costs for proxy voting to a threshold that would silence ERISA fiduciaries on proxy voting.

The DOL acknowledged the high cost burden in the proposed rule. In response, the Final Rule eliminated the economic analysis requirement and provided the principles-based approach to proxy voting determinations summarized above. The Final Rule also contains policy options for determining which proxies should be voted. One option allows plans to adopt a policy to vote only particular types of proposals that the fiduciary has determined are substantially related to the corporation's business activities or the value of the plan. A second option allows a plan to limit proxy voting to situations where a plan's holding in an issuer represents a significant holding. (Notably, in a change from the proposed rule, the Final Rule eliminated a policy option that would have allowed fiduciaries to vote in line with management's recommendation in certain circumstances.)

The policy options are problematic for a variety of reasons. On a practical level, creating a subset of issues to vote does not save resources. For example, Facebook's proxy ballot often contains several proxy voting items related to controversies the Company has faced as well as governance mechanisms proposed as solutions.

To give a specific example, the 2020 ballot for Facebook had 11 distinct items subject to proxy voting. A fiduciary may believe his investment is better protected if Facebook investigates and reports on the scope of risks posed by foreign government intervention and other human rights concerns, one of the proposals subject to a vote. However, the shareholder proposals won't see majority votes unless the Company recapitalizes its stock to eliminate the CEO's control over a majority of proxy votes. The decision to recapitalize the stock may never favor investors unless the board is comprised of independent directors. Therefore, a reasonable investor could decide to express their views solely by not voting in favor of the CEO serving as board chair or the investor may vote in favor of some of the related shareholder proposals. The bottom line is that a fiduciary often must consider the full context of a particular vote, and, as a result, refraining from voting on particular matters will not save research costs. In addition, the impact of collective voting and the interplay between proposals may increase or decrease the financial impact of any single matter on the Company and are factors outside of the control of any particular fiduciary.

The second safe harbor is problematic for the same reason. Collective voting and the interplay between various proposals affects whether a particular proxy vote will have a material financial impact on a plan. Additionally, the largest passive investors would have outsized influence if all fiduciaries choose not to vote where their holdings are small, in a manner described in the second safe harbor. As the National Coordinating Committee for Multiemployer Plans wrote in its comment letter:

> **"Although the proposed safe harbor suggests that such a policy should consider the plan's percentage ownership of the issuer, even the very largest multiemployer plans would rarely hold one percent or more of the outstanding shares of publicly held companies. In fact, the largest passive investment managers are most often the investors with stakes of five percent and above. Thus, for the vast majority of plans, the adoption of such a policy would require it to n*ever vote its proxies*."**

Segal Marco does not recommend or offer services to clients who have adopted proxy voting policies that incorporate either or both of the policy options described in the Final Rule.

IV. Regulatory impact

The Final Rule removes Interpretive Bulletin 2016-01 from the Code of Federal Register. By removing this guidance, the Final Rule eliminates the recognition of the impact of collective action without explicitly refuting or addressing it.

A year of virtual formats for annual shareholder meetings ensued in 2020. The use of a virtual format for shareholder meetings has risen in recent years but the pandemic required it. The number of virtual meetings in the U.S. grew from 286 in 2019 to 2,200 in 2020, according to EY Center for Board Matters. While the convenience of virtual meetings is a benefit for all, shareholders had some issues with 2020 meetings, particularly in the Q&A session. An in-person format allows all participants free and open access to query the board and management. The virtual format, however, enables companies to select particular questions or participants.

2020 Investor initiatives on ESG

One of the dominant headlines of 2020 is COVID-19 and how it affected shareholder advocacy priorities. Investors queried companies on health and safety in the midst of the pandemic. On climate, investors long focused on corporate disclosure and reduction of emissions made some inroads and are likely to see growing interest in this space under a Biden-Harris administration. Board diversity work remained at full steam and the cultural moment fueled by the Black Lives Matter movement has drawn more focus to the racial component of diversity. Governance concerns remain, particularly at dual class companies that are more immune to the types of shareholder advocacy that largely improved the governance benchmark of U.S. companies over the past few decades. Investors also asked for transparency on how executive compensation is calculated.

2020 Investor initiatives on ESG: COVID-19

The dominate headline of 2020 is COVID-19. Established in 2013, the HCMC is a cooperative effort among 32 institutional investors representing over $6 trillion in assets under management to further elevate human capital management ("HCM") as a critical component in company performance and the creation of long-term value. The group is co-chaired by the UAW Retiree Medical Benefits Trust and the California State Teacher's Retirement System. Segal Marco, as well as several of our clients, are HCMC members.

The SEC issued a statement on March 25, 2020 on corporate disclosures for the yearly proxy statement filing in light of COVID-19. The statement urged companies to assess the pandemic's impact on various segments of financial reporting, cautioned against executives trading corporate stock should they have material non-public information about future operations and if adjusting GAAP metrics for executive pay purposes to highlight why management finds the measure or metric useful.

The HCMC sent letters in April asking 35 companies to report at upcoming annual stockholder meetings on how the board is overseeing five areas in light of COVID-19. The companies are firms the Coalition considers to have elevated human capital management impacts such as Amazon, Disney, Walmart and Hilton. The five areas where the HCMC sought more detailed reporting are listed below.

1. **Enterprise risk management, business and supply chain continuity and pandemic planning,** including the company's conformity with CDC, WHO and other various federal and state guidelines. Investors would also appreciate information about the firm's enterprise risk management, which business units are continuing to function during this crisis and recovery and which business units continue to face challenges.
2. **Financial implications,** including any guidance or summary of COVID-19's impact on balance sheet resiliency, revenue, liquidity, capital allocation, executive compensation and near-term recovery.
3. **Workforce composition and adjustments** for full-time, part-time and contingent workforce members, including furloughs, layoffs and changes in work schedules and pay. In addition, addressing any expected changes to the workforce once stay-at-home orders are lifted.
4. **Employee benefits and protections,** including paid sick leave and any associated qualifying conditions for employees, as well as the company's policy on retaliation against whistleblowers or any worker exercising their federally protected rights.
5. **Workplace health and safety,** including measures taken to determine the physical and mental health of the workforce, safety equipment provisions and measures to enable social distancing.

The HCMC also was buoyed to see the SEC embrace HCM reporting in corporate disclosures more generally. On Aug. 26, 2020, the SEC modernized reporting requirements under Regulation S-K. HCMC investor members filed comments requesting the SEC add HCM reporting as part of the modernizing effort.

Previously, in June 2017, the HCMC submitted a petition to the SEC to require listed companies report on human capital management policies, practices and performance. The petition outlines nine areas for further reporting: (1) demographics; (2) workforce stability; (3) workforce composition; (4) workforce skills and capabilities; (5) workforce culture and empowerment; (6) workforce health and safety; (7) workforce productivity; (8) human rights commitments and implementation; and (9) workforce compensation and incentives.

While the SEC has not yet taken up the petition, the Commission included reporting on HCM in a less specific format as part of the Regulation S-K modernizing effort.

Regulation S-K now asks companies to report:

(ii) A description of the registrant's **human capital resources, including the number of persons employed** by the registrant, and any **human capital measures or objectives that the registrant focuses on in managing the business** (such as, depending on the nature of the registrant's business and workforce, measures or objectives that address the **development, attraction and retention of personnel).**

2020 Initiatives on ESG: sustainability and climate change

Systemic risks posed by environmental concerns include extreme weather, water scarcity, rising sea levels and climate migration, as well as the dislocation events from deforestation and pollution that bring animals and humans in closer proximity. Investors look to companies to help assess how the environment impacts their operations and vice versa. A long-time investor effort around sustainability has largely succeeded, with corporate sustainability reports becoming mainstream. Perhaps that explains why only one proposal went to a vote on this topic in 2020 at Enphase Energy and received 52 percent support. The Treasurer's Office for the State of Illinois filed a similar resolution at Charter Communications and secured a commitment by the Company that it would issue the report.

International financial reporting standard-bearer IFRS started a consultation in September 2020 to gauge interest in global sustainability reporting standards. If demand is strong, the group reported, it will assess whether and how it might contribute to developing standards. In the U.S., the Sustainability Accounting Standards Board (SASB) has developed a materiality map that identifies and compares disclosure across peer companies. SASB is an independent organization working with companies and investors to develop a standard for financially-material sustainability data. The Taskforce on Climate-related Financial Disclosures (TCFD), formed under the global Financial Stability Board and chaired by Michael R. Bloomberg, founder of Bloomberg L.P., is also trying to respond to the paucity of corporate data on climate impacts. TCFD develops recommendations for more effective climate-related disclosures to mitigate climate risk at a systemic level. The group works with companies to implement its disclosure recommendations.

TCFD's Disclosure Framework for ESG

Citation: Chart visualizing TCFD's recommended disclosure framework, available here: www.fsb-tcfd.org/about/#our-work

Investor engagement on climate change is growing and may see regulatory support under the Biden-Harris administration. Movement in that direction appears at play across the pond. The UK Chancellor Rishi Sunak announced that large companies and financial institutions will be mandated to provide climate disclosures by 2025, according to *The Guardian.* The government plans to make the UK a net-zero-carbon country by 2050.

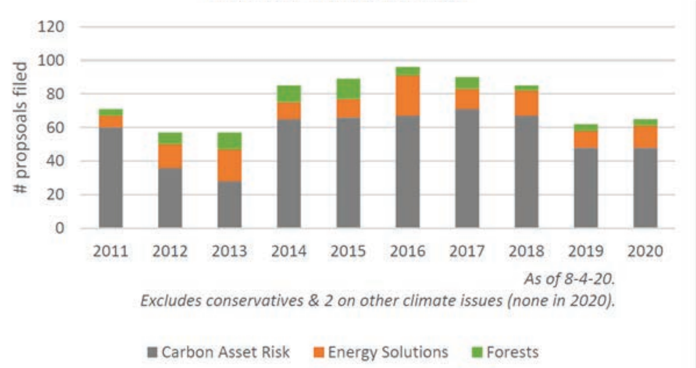
Calls for corporate reporting on emissions and reduction are becoming more organized within in the investor community. CERES — a sustainability nonprofit organization working with investors and companies on climate issues — is joined by Climate Action 100+ and Majority Action in supporting investors seeking to engage companies on climate. Climate Action 100+ is an investor initiative aimed at ensuring the world's largest corporate greenhouse gas emitters take necessary action on climate change. Majority Action is a nonprofit, nonpartisan organization working with shareholders to achieve a high corporate standard on governance, social responsibility and long-term value creation.

Meanwhile, investors are using additional channels to elevate the climate issue. The SEIU MasterTrust fund was among the filers that asked Apple to integrate sustainability metrics into the performance criteria driving executive pay. The proposal received 12 percent support at the 2020 annual meeting. Additionally, investor groups are applying pressure to the largest holders of corporate stock to support the climate transition. Majority Action audited proxy-voting records and found BlackRock, Vanguard and Fidelity did not support any of Climate Action 100+'s key 2020 shareholder resolutions. The Treasurer's Office for the State of Illinois filed a proposal at Vanguard asking it to review its voting record on climate change and publish a report on its findings.

Proxy research provider Si2 reported in its mid-year review that in total shareholders filed 95 environmentally focused proposals in 2020. Investors filed proposals along three dominant topics in 2020: (1) how companies plan to address carbon asset risks, (2) whether companies are increasing use of renewable energy and (3) whether companies are combating deforestation.

In 2018, the SEC became more aggressive in allowing companies to exclude proposals seeking GHG emissions. The year prior, 2017, 14 proposals went to a vote. The shift seems to have lessened interest in filing the proposals. In 2019, seven proposals went to a vote. In 2018, 13 proposals went to a vote. In 2020, only three proposals asking companies to report on GHG emissions went to a vote and received strong support: 27 percent at Bloomin' Brands, 45 percent at TransDigm Group and 74 percent at Dollar Tree, according to ISS.

Table 1: Si2's Record of Shareholder Proposals on Climate Change



Citation: "Proxy Season Mid-Year Review: Social, Environmental & Sustainable Governance Shareholder Proposals in 2020." *Sustainable Investments Institute.* (August 26, 2020.) Page 19.

Key company spotlight

Rio Tinto

A leading global mining company, Rio Tinto destroyed an Aboriginal site in Australia in May 2020. The Company had legal rights to mine the area but publicly expressed regret for drilling through two rock shelters in Juukan Gorge that contained evidence of human habitation from tens of millennia ago. The site is one of the earliest known sites occupied by Indigenous peoples. In September, the CEO parted ways under mutual agreement along with two other high-ranking executives from the iron-ore division and corporate relations.

The Company's initial response included a public apology and a reduction of a combined $7 million in bonuses for the three executives that eventually left the firm. Following those actions, some of the country's largest pension funds spoke publicly about the need for further action. AustralianSuper, HESTA and Unisuper — which oversee a combined $371 billion in assets — discussed the need for greater accountability. "Investors expect companies to think strategically about future opportunities and risks that may impact their business," HESTA CEO Debby Blakey told The Sydney Morning Herald. "Likewise, they should be thinking about how changing societal expectations may impact their decisions around heritage and community engagement," she said.

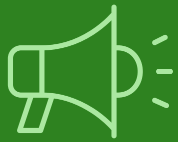
2020 Initiatives on ESG: board diversity

Board diversity continues to see gains year over year, particularly in terms of gender. A milestone in corporate board diversity occurred in 2019 when the last S&P 500 company board comprised solely of men appointed a female director. The shift towards diversity has come gradually and not without significant investor advocacy, through shareholder proposal filings and proxy voting policies. Many of the proposal filings ask companies to adopt the Rooney Rule on board diversity, which is a commitment to include women and racial minorities in every candidate pool for a board seat. The proxy voting policies vary by investor. Segal Marco withholds on the nominating committees of corporate boards that lack at least two women. This threshold is a stricter standard from 2018 when Segal Marco began voting against nominating committee members of the boards with no female representation. Investors are motivated in response to research that demonstrates diversity drives performance.

Research released in 2018 by McKinsey & Company, "Delivering through Diversity," found companies in the top quartile for gender diversity on their executive teams were 21 percent more likely to experience above-average profitability than companies in the fourth quartile. Credit Suisse came to similar conclusions in its study, "Women's Positive Impact on Corporate Performance." The financial services firm found "greater gender diversity in companies' management coincides with improved corporate financial performance and higher stock market valuations." Board services are creating a pathway for more female CEOs, according to research by Catherine H. Tinsley and Kate Purmal of the Georgetown University Women's Leadership Institute. The research findings as published in the *Harvard Business Review* reveal women are more likely to gain the top C-Suite spot through board experience than are their male counterparts. Fifty-nine percent of the sample of 100 female CEOs seemingly qualified for the job through board service compared with only 42 percent of 100 similarly positioned male CEOs.

Women comprise 22.6 percent of Russell 3000 board seats, an all-time record, according to the advocacy organization 2020 Women on Boards. The group reported the percentage is an increase from prior years; 20.4 in 2019, 17.7 in 2018 and 16 from 2017. More than one-third of Russell 3000 firms, however, still have fewer than two female directors. Progress is moving at a faster pace at larger companies and in particular sectors such as consumer products, media, finance, healthcare and retail, according to a report by Institutional Shareholder Services (ISS) *A Review of Global Trends: Gender Diversity on Boards*.

Until companies disclose the racial composition of their boards — either voluntarily or through a regulatory requirement — the data on the percentage of board seats occupied by racial minorities is difficult to find. Proxy advisor ISS collects data on racial composition on boards by relying on pictures and other less-ideal sources. Still, it seems as though racial representation is growing at a steady but marginal pace. Racial minorities have 12.5 percent of board seats at Russell 3000 firms, according to a Sept. 15, 2020 *New York Times* article that sourced data from the ESG division at ISS. The mark is a slight uptick from 10 percent in 2015. More troubling is that the same article finds Black directors comprise only 4 percent of the total, up from 3 percent in 2015.



Number of directors serving on board nominating committees that Segal Marco voted against in 2020 because the boards had no gender diversity: 727.

Investors seeking to encourage board diversity often work in coordination with the national organization, The Thirty Percent Coalition, and regional groups as well, including the Midwest Investors Diversity Initiative (MIDI) and the Northeast Investors Diversity Initiative (NIDI). Segal Marco and the Office of the Treasurer for The State of Illinois co-lead MIDI, which represents more than $820 billion in assets under management and advisement.

The additional members are: Ariel Investments, City of Chicago's Treasurer's Office; Illinois State Board of Investment; Minnesota State Board of Investment; Ohio Public Employees Retirement System; School Employees Retirement System of Ohio; SEIU Master Trust; Sundance Family Foundation; Seventh Generation Interfaith; Trinity Health; UAW Retiree Medical Benefits Trust; Wespath Benefits and Investments and the YWCA Metropolitan Chicago.

Table 2 shows Segal Marco clients' successful efforts on corporate board diversity in 2020, demonstrated by corporate adoption of the Rooney Rule as well as an increased number of diverse directors following the submission of a shareholder proposal.

Table 2: Corporate Engagements Gains on Board Diversity in 2020

Shareholder Proponent	Diverse Search Policy Adopted	Added Diverse Directors
Illinois State Treasurer's Office	AAR Corp	
	Marten Transport	Martin Transport (1)
The City of Philadelphia Public Employees Retirement System	Luminex	
	Neurocrine Biosciences	Neurocrine Biosciences (1)
	Puma Biotechnology	Puma Biotechnology (1)
	Seaworld Entertainment	Seaworld Entertainment (2)
SEIU MasterTrust	ANI Pharmaceuticals	
	Escalade	
Segal Marco Equity Group Trust	Heritage-Crystal Clean	
MIDI	Artisan Partners Asset Mgmt	Century Aluminum (1)
	Lancaster Colony Corp.	Lancaster Colony Cop. (2)
	SPS Commerce (enhanced existing policy)	Marten Transport (1)
Vermont Pension Investment Committee	Xerox Corporation	

Source: Segal Marco Advisors, 2020

Some states have tackled board diversity through legislative mandates. Public companies headquartered in California had until the end of 2019 to appoint a woman to their board or face a $100,000 fine. Sunshine State companies with five-member boards have until the end of 2021 to appoint two women, and those with six or more members must have three women. Illinois passed similar legislation without the penalty. Instead, public companies headquartered in the state must begin reporting by January 1, 2021, the following categories of information, which the University of Illinois will compile into an aggregate report:

- Data on specific qualifications, skills, and experience that the corporation considers for its board of directors, nominees for the board and executive officers
- The self-identified gender of each member of its board of directors
- Whether each member of its board self-identifies as a minority person and which race or ethnicity to which the member belongs
- The corporation's process for identifying and evaluating nominees for the board, including whether and how the corporation considers demographic diversity
- The corporation's process for identifying and appointing executive officers, including whether and how the corporation considers demographic diversity
- The corporation's policies and practices for promoting diversity, equity and inclusion among its board and executive officers

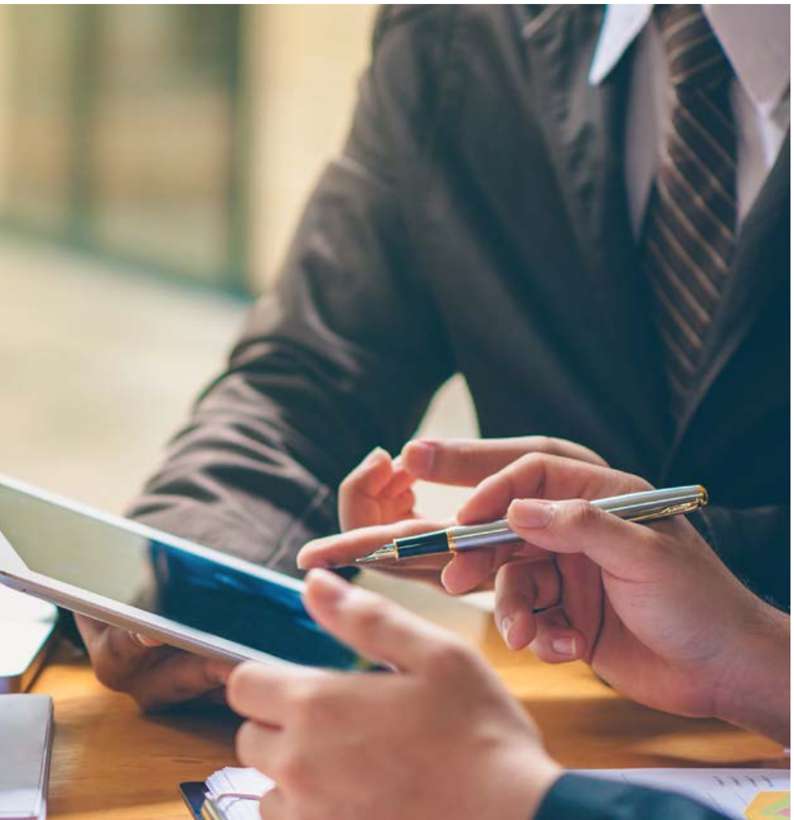
Massachusetts, Pennsylvania and Colorado passed non-binding resolutions urging companies to include women on their board. New Jersey and Michigan are among those states with draft legislation containing mandates similar to California.

For the 2021 proxy season, Segal Marco updated its proxy voting policy to allow for votes against directors where a U.S. company fails to provide data necessary to evaluate diversity. The Black Lives Matter movement and the disproportionate impact COVID-19 has had on the Black community has prioritized racial equity and inclusion efforts at companies. The investors working on diversity have largely included the racial aspect in their conversations but a lack of data on the racial composition of boards makes it more difficult for investors to proxy vote based on racial data. Companies that withhold demographic data create a barrier for investors to assess board diversity.

Segal Marco joined an initiative led by Illinois Treasurer Michael W. Frerichs in October 2020 that asked Russell 3000 firms to disclose their boards' racial, ethnic and gender data. The group represented 21 investor organizations with $3 trillion in assets.

The signatories included the Connecticut State Treasurer as well as treasurers and investment officials from Pennsylvania, Oregon, Vermont, New York City, Minnesota, Illinois, Chicago and Seattle, along with multiemployer plans and investment management and consulting firms.

Last but not least, the NASDAQ stock exchange announced new requirements on diverse corporate boards in December 2020. The move, which requires SEC approval, will require companies listed on the exchange to include women, racial minorities and LGBTQ individuals on their boards. Specifically, the requirement is for companies to have at least one woman on their boards as well as a director that identifies as a racial minority or a member of the LGBTQ community.



Key company spotlight

Starbucks

Coffee giant Starbucks announced in October 2020 that it will use diversity targets as a performance metric driving executive pay starting in 2021. The Company publicly set diversity goals of 30 percent Black, Indigenous and People of Color (BIPOC) at the corporate level by 2025. The goal at the retail level is 40 percent BIPOC in the same time frame. The Company also announced that Mellody Hobson, an African American woman, will become the next non-executive chair of the board in March 2021. While female representation on boards is growing, a female in the chair position is rare.

2020 Initiatives on ESG: opioid supply chain

A collection of investors formed Investors for Opioid Accountability (IOA), on July 1, 2017 out of heightened concern that the opioid crisis impacts the economy at a systemic level and poses risks to companies in the supply chain that impact long-term shareholder value. The IOA focused on three key parts of the opioid supply chain: manufacturers, distributors and retail pharmacies. The group has since transitioned to the Investors for Opioid and Pharmaceutical Accountability (IOPA) and expanded work beyond opioids. The IOPA has 61 members with more than $4.2 trillion in assets under management and advisement.

The scope of the coalition's work derived from a collective investor view that opioid supply chain companies showed gaps in governance and oversight that left them vulnerable as the opioid crisis grew. This "lens" focused on corporate governance, compliance and compensation incentive practices. The collective goal of the IOA's work was to utilize governance tools to create sustainable business models equipped to navigate the firms through the opioid crisis, as well as hold boards and executives accountable.

> **IOPA: 61 members with $4,2 trillion in assets under management and advisement**

IOA shareholder resolutions requested that opioid supply chain companies:

- Appoint an independent director to chair the board in lieu of the CEO
- Publicly report the board's assessment of business risks stemming from the opioid business and efforts undertaken to mitigate those risks
- Adopt clawback policies on executive pay in cases of misconduct
- Create appropriate incentives for executives by revisiting the exclusion of legal costs from profit metrics used in incentive plans
- Disclose corporate political spending and lobbying in a report on the firm's website

Many of the companies responded positively and took up IOA governance suggestions.

In the two years of activity, the IOA:

- Engaged with 20 companies
- Filed 52 shareholder resolutions and proposed four through dialogue
- Settled 26 of the 52 resolutions before going to vote and three after the vote
- Achieved a 52 percent settlement rate on shareholder proposals

An in-depth report on the work on the IOA is publicly available on the Interfaith Center on Corporate Responsibility website.

In 2020, the IOPA wrote letters to and held dialogues with retail pharmacies and distributors on frontline worker safety in light of COVID-19. The group also continued pursuing governance changes, specifically independent chairs, disclosure of the use of adjusted GAAP metrics, and deferring annual incentive plan payouts to create a mechanism that allows the board to reduce payments when there is later arriving information related to misconduct. The latter initiative is a response to companies that have clawback policies but are reluctant to use them in cases of misconduct. In a departure from typical shareholder engagement through proposals, the IOPA convened a working group of investors and companies to develop standards on the bonus deferral front.

Key company spotlight

Cardinal Health

The State Treasurers of Illinois, Connecticut and Rhode Island urged shareholders to vote against the say-on-pay vote at the 2020 Cardinal Health shareholder meeting. In the end, 39 percent of shareholders voted in opposition.

The company took a pre-tax charge of $5.63 billion ($5.14 billion after tax or $17.54 per share) during fiscal 2020 for opioid-related settlement charges. Shareholders have engaged with the company over multiple years on its historical process of excluding the impact of litigation settlement costs related to opioids from EPS and from the adjusted operating earnings that drive the annual incentive compensation payout. A 2018 shareholder proposal asking the company to refrain from excluding opioid-related litigation received the support of 17 percent of shareholders. A similar proposal in 2019 was withdrawn following the company's decision to increase transparency on the adjustments. Yet in the 2020 proxy statement, the company reported that the CEO would receive a $2.5 million bonus based on an upward adjustment for his individual performance and after factoring out the impact of opioid litigation on operating earnings.

2020 Investor initiatives on ESG: governance independent board leadership

An independent chair of the board is the gold standard of corporate governance. Thirty-four S&P 500 boards have an independent chair, according to a 2020 Spencer Stuart report, which is unchanged from 2019 and an increase from 31 percent in 2018. A larger portion — 55 percent — maintain split roles between the CEO and chair, up from 53 percent last year. Advocates of independent chairs view the role of the board as protecting investors and a CEO or former CEO serving as chairman as an impediment to impartial oversight. Many shareholders submit independent chair proposals as a first step to advocate for stronger governance when a company appears headed in the wrong direction on a particular issue.

IOPA investor members engaged Johnson & Johnson, Pfizer, Eli Lilly, Bristol Myers Squibb, AbbVIe, Amgen and Gilead Sciences on seeking an independent chair proposal in 2020. Several investors — including the Treasurers for the States of Illinois and Vermont — petitioned Facebook in 2020 asking the social network firm to adopt an independent chair model in light of ongoing controversies related to election interference and human rights concerns. The proposal received 19.5 percent, which a substantial result considering CEO, Chair and Founder Mark Zuckerberg controls 58 percent of the vote. The Vermont State Treasurer submitted independent chair proposals to Exxon (32.7 percent support) and AbbVie (27.7 percent support). The SEIU MasterTrust submitted an independent chair proposal to Chipotle Mexican Grill (44.4 percent support).

2020 Initiative on ESG: executive compensation

Excessive executive compensation is a perennial concern for shareholders because an overpaid CEO may be an indicator of a beholden board of directors. A top-heavy pay structure also risks dampening morale and career growth opportunities. At a systemic level, research by the French economist Thomas Piketty, among others, faults executive pay for rising income inequality in the United States. Investors expect executives to be well compensated for their leadership but the growth rates in CEO pay as compared to the average worker reveal a rising tide does not lift all boats. The AFL-CIO's Executive Pay Watch review reported that the average S&P 500 CEO's pay increased by $5.2 million in the past decade while the average U.S. rank-and-file worker's pay increased by $7,858 in the same period.

A legislative solution to runaway executive compensation came in the Dodd-Frank Act, which provides investors with an annual advisory vote on a CEO's compensation. While the vote is non-binding, a failed vote motivates companies to retool and often reduce the magnitude of the executive pay plan.

In 2020, shareholders rejected 2 percent of say-on-pay votes at U.S. firms, according to the data service Proxy Insight. The average investor support for these votes has ranged from a low of 90.5 percent in 2019 to a high of 91.8 percent in 2018. In total, 59 U.S. companies failed their say-on-pay vote in 2020.

Segal Marco convenes an investor group with the AFL-CIO Office of Investment named the Say-on-Pay Working Group to engage companies on executive compensation concerns. Table 3 provides the participant list.

Focus areas in executive compensation:

- **ESG metrics**
- **Prohibition of stock sales after a buyback announcement**
- **Increased transparency on adjusted GAAP metrics**

Table 3: Say-on-Pay Working Group Participants

AFL-CIO Equity Index Fund
As You Sow
CtW Investment Group
City of Philadelphia Public Employees Retirement System
Connecticut Retirement Plans and Trust Funds
Firefighters' Pension System of Kansas City, Missouri, Trust
Hitchcock Law Firm PLLC
IBEW Pension Benefit Trust
International Brotherhood of Teamsters General Fund
Laborers International Union Pension Fund
Segal Marco Group Trust
Service Employees International Union MasterTrust
Miami Firefighters' Relief and Pension Fund
Nathan Cummings Foundation
New York City Pension Funds
New York State Common Retirement Fund
Office of the State Treasurer of Illinois
Trillium Asset Management
Trowel Trades S&P 500 Index Fund
SHARE – Shareholder Association for Research & Education
UAW Retiree Medical Benefits Trust
Vermont Pension Investment Committee

Source: Segal Marco Advisors, 2020

In January 2020, the Say-on-Pay Working Group joined with additional institutional investors cumulatively representing $1.1. trillion in assets under management and advisement in writing to S&P 500 firms to request consideration of three trends in executive compensation. We asked the firms to consider implementing ESG pay metrics; to prohibit executive stock sales after a buyback announcement; and to provide more transparency on adjusted GAAP metrics.

ESG pay metrics

A survey by Mercer of 135 companies in the United States and Canada found 30 percent of respondents use ESG metrics in their incentive compensation plans and an additional 21percent are considering incorporating ESG metrics. Companies that are able to integrate ESG data into their calculations for determining incentive pay are better able to measure progress and set achievable yet robust ESG goals. The inclusion of ESG metrics into incentive pay is also one approach to implementing a commitment to stakeholders as outlined in the Business Roundtable's Statement on the Purpose of a Corporation.

Stock buybacks

The Say-on-Pay Working Group is concerned that executives may be selling shares to take advantage of temporary increases in stock prices that occur after a stock buyback. In a June 11, 2018 speech, former SEC Commissioner Rob Jackson said, "In half of the buybacks we studied, at least one executive sold shares in the month following the buyback announcement. In fact, twice as many companies have insiders selling in the eight days after a buyback announcement as sell on an ordinary day." We asked companies to consider prohibiting executive stock sales after buyback announcements to ensure that executives do not favor stock buybacks at the expense of long-term investment.

Adjusted GAAP metrics

The Say-on-Pay Working Group has been taking a closer look at the use of adjusted GAAP metrics, which drive the outcome for executive bonus pay. The use of adjusted GAAP metrics for incentive pay can tilt the scales unfairly to help executives achieve their performance benchmarks. The Council of Institutional Investors filed a petition with the SEC calling for transparency on the use of adjusted GAAP metrics for executive compensation. The petition seeks "…a requirement for clear explanations and GAAP reconciliations that would permit a shareholder to understand the company's approach and factor that into its say-on-pay vote and/or buy/sell decision." Corporate proxy statements offer plenty of room for improvement to provide clear disclosure of adjustments to performance metrics.

Participants in the working group filed a total of 11 proposals on adjusted GAAP, six of which were filed in coordination with IOPA. Out of 11 proposals filed, four were omitted, six were withdrawn and a single proposal came to a vote. Table 4 provides details.

The City of Philadelphia Public Employees Retirement System (Phila) filed eight proposals, the Vermont Pension Investment Committee (VPIC) the International Brotherhood of Electrical Workers (IBEW) each filed two, and the AFL-CIO filed one proposal.

Table 4: Shareholder Advocacy on Adjusted Compensation Metrics

Company	IOPA	Ticker	Proponent	Status
Amgen	X	AMGN	Phila	Omitted — micromanagement
Bristol-Myers Squibb	X	BMY	Phila	Omitted — micromanagement
Xerox Corporation		XRX	Phila/IBEW PBF	Omitted—substantially implemented
Johnson & Johnson	X	JNJ	VPIC	Omitted — micromanagement
AmerisourceBergen	X	ABC	Phila	Withdrawn — disclosure on opioid costs provided in 2020 proxy
Zimmer Biomet		PFE	IBEW PBF	Withdrawn — implemented disclosure
Mallinckrodt	X	MNK	Phila	Withdrawn — implemented disclosure
McKesson	X	MCK	Phila	Withdrawn — implemented disclosure
McDonald's Corp		MCD	Phila	Withdrawn — implemented disclosure
Eli Lilly	X	LLY	Phila	Withdrawn — disclosure in the event of adjustment
Abbott Laboratories		ABT	VPIC	Voted — 30.8%
Boeing		BA	AFL-CIO	Voted — 25%

II: 2020 Proxy Voting Summary and Statistics

Proposals land on company ballots through one of two avenues: either management puts forward a proposal to comply with legal requirements or to gauge shareholder sentiment or investors that meet a certain threshold submit a proposal to the company. The most commonly voted proposals in both categories — shareholder proposals and management proposals — are described below. A full report on Segal Marco's voting is at the end of this section.

In total, Segal Marco voted on behalf of clients on 107,377 proposals at 10,870 corporate annual meetings in 2020. Segal Marco cast votes pursuant to and in accordance with the Proxy Policy Statement.

There are four updates to the Proxy Policy Statement that take effect on March 1, 2021:

1. New policy to oppose director nominations where U.S. companies fail to provide data on the composition on their corporate boards. Investors are able to assess racial diversity only where companies disclose composition data.
2. Expand our opposition to CEOs serving as chair to non-independents serving as chairs. Expanding the policy would enable us to vote against in situations where immediate past CEOs serve as chair or possess other insider characteristics such as business ties.
3. If a company has not substantively addressed the business impacts of climate change or other systemic issues, had repeated financial restatements or is embroiled in a scandal that exposes weak leadership, a vote may be cast against directors.
4. Expand on the criteria applied to consider say-on-pay votes (advisory votes on executive compensation). Companies often have overly limited disclosure on the use of adjusted GAAP metrics that drive incentive executive pay. Companies that customize a GAAP calculation for executive pay purposes should explain the need for the adjustment and show its impact on the payout.

Table 5: Most Commonly Voted Proposals at U.S. Companies in 2020

		2020	
Proposal Type	**Proposal Name**	**Total No. Proposals**	**% Supported**
Management Proposals	Adjourn Meeting	208	45%
	Advisory Vote on Executive Compensation	2,860	55%
	Advisory Vote on Golden Parachutes	69	10%
	Advisory Vote on Say-on-Pay Frequency	274	99%
	Amend Articles/Bylaws/ Charter - Non-Routine	148	79%
	Board Declassification	79	100%
	Cash Bonus and Stock Plans	1,149	14%
	Common Stock Increases	129	43%
	Contested Election of Directors	97	9%
	Election of Directors	25,057	47%
	Eliminate/Reduce Supermajority Votes	76	100%
	Merger & Acquisitions	173	98%
	Ratification of Auditors	3,260	75%
	Reverse Stock Split	109	98%
Shareholder Proposals	Act by Written Consent	61	100%
	Board Diversity	12	92%
	Call Special Meetings	44	98%
	Climate Change, GHG Emissions, Etc.	20	100%
	Constested Election of Directors	102	60%
	Eliminate/Reduce Supermajority Votes	14	100%
	Environmental & Social	6	100%
	Gender Pay Gap	13	100%
	Human Rights	11	100%
	Independent Board Chair	46	100%
	Link Executive Pay	10	100%
	Majority Vote for Election of Directors	20	100%
	Political Contributions and Lobbying Disclosure	58	100%
	Proxy Access	12	100%

2019		2018	
Total No. Proposals	% Supported	Total No. Proposals	% Supported
241	63%	238	78%
2,754	53%	2,485	52%
118	30%	120	38%
452	100%	256	100%
85	85%	113	66%
49	100%	62	98%
1,080	14%	957	17%
122	55%	128	47%
39	85%	65	82%
24,547	71%	21,954	71%
87	99%	70	100%
223	99%	241	98%
3,271	73%	2,987	72%
79	99%	37	89%
37	100%	40	100%
14	64%	6	83%
27	100%	67	100%
18	94%	38	100%
92	75%	47	60%
26	100%	13	100%
26	81%	12	67%
15	100%	6	100%
13	100%	0	0%
60	100%	50	100%
17	88%	11	91%
28	100%	6	100%
61	98%	60	100%
24	100%	11	100%

Shareholder proposals

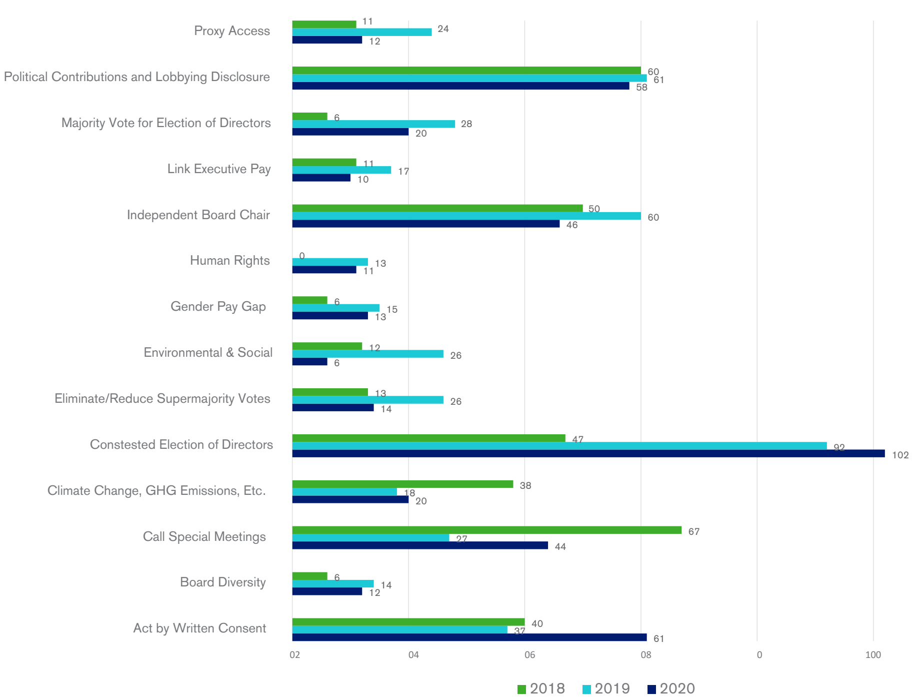
Segal Marco voted a total of 1,791 shareholder proposals in 2020 at 965 corporate meetings. Shareholders that meet certain ownership eligibility requirements may file proposals. The topics of shareholder proposals tackle a variety of areas: compensation, corporate governance, director elections as well as their term limits and composition, general economic issues, health and environment, human rights and other routine and non-routine items. For U.S. corporate meetings, Segal Marco voted on 615 shareholder proposals at 429 meetings. The most commonly voted proposals for U.S. meetings are detailed below and cover 70 percent of all shareholder proposals voted. Table 6 shows the year over year comparison of the most commonly voted shareholder proposals at U.S. company meetings.

Act by written consent

The proponents of the resolution, which first began appearing with regularity in the 2010 season, state that to act by written consent gives shareholders the opportunity to raise important matters outside the normal annual meeting cycle. An action by written consent gives shareholders the right to approve certain corporate matters without having to call a meeting of shareholders or to give notice to all shareholders about the matters being approved. In some instances, an action by written consent could be more efficient and cost-effective than holding a special meeting.

In 2020, Segal Marco voted in support of all 61 proposals to provide the right to act by written consent (100 percent).

Table 6: Number of Shareholder Proposals at U.S. Companies Voted by Segal Marco



Of the 107,377 proposals Segal Marco voted on in 2020, 1,791 (1.6 percent) were shareholder proposals.

Note to table: The number of total proposals excludes votes cast as "do not vote" for ballots that were unsupported in proxy contest.

Board diversity

Investors continue to view board composition as a critical issue, filing on a range of proposals that prompt companies to evaluate their current policies and board structure and new nominee candidates. Board diversity proposals ask companies to report on the board's diversity and qualifications, report on plans to increase board diversity or adopt a policy on board diversity where nominee pools for new director searches include minority candidates in terms of race and gender.

In 2020, Segal Marco voted in favor of 11 out of 12 proposals on board diversity (92 percent). Note the unsupported proposal sought a report on the ideological perspectives of board directors.

Call special meetings

Shareholders with the right to call a special meeting have an additional tool for weighing in on critical issues. The corporate laws of some states (although not Delaware where most companies are incorporated) provide that holders of 10 percent of the shares outstanding of a company may call a special meeting of shareholders, absent a contrary provision in the company's charter of bylaws. Most companies' charter or bylaws only grant the board of directors the ability to call a special meeting of shareholders — typically to consider a merger or acquisition. Australia, Canada and the United Kingdom have corporate laws that allow shareholders to call special meetings. In the United States, a few such proposals were filed in the past, sporadically. But starting in 2007, proposals were filed by a coalition of individual shareholders which asked companies to amend their bylaws to establish a process by which the holders of 10 percent to 25 percent of outstanding shares may call a special meeting.

In 2020, Segal Marco voted for in favor of 43 out of 44 proposals to provide the right to call a special meeting or to amend the right to call a special meeting (98 percent). Note the unsupported proposal appeared on a dissident ballot in a proxy contest where Segal Marco supported the management ballot.

Climate change, greenhouse gas emissions, recycling and sustainability

Environmentally focused investors have long filed proposals to request companies provide disclosure and act on climate change, greenhouse gas emission and sustainability efforts. In recent years, these efforts received growing support among the mainstream proxy voting community. Segal Marco supports proposals on environmental topics that seek clarity from companies on how they approach environmental concerns, what actions they are undertaking and how they are reporting their efforts. Shareholder proposals that ask for more aggressive action by companies are evaluated on a case-by-case basis.

In 2020, Segal Marco voted in favor of all 20 proposals on climate change, greenhouse gas emissions, recycling and sustainability (100 percent).

Contested election of directors

In a contested election of directors, shareholders make a twofold decision between voting on the company proxy card, which includes only the company's director nominees or the shareholder's proxy card, which includes the activist's nominees and/or the company's nominees recommended by the activist. Activists typically seek a number of board seats as a mean to implement their strategic vision for the company. Segal Marco evaluates the slates on the individual qualification of the candidates, the quality and feasibility of the plan that the dissident has put forth to add long-term corporate value, management's performance record, the background of the proxy contest and the equity ownership positions of the activist.

In 2020, Segal Marco voted in favor of 61 out of 102 shareholder proposals to elect directors in contested elections (60 percent).

Eliminate/reduce supermajority votes

The bylaws at some companies provide that on certain issues — such as amending bylaws — a simple majority vote of the shareholders will not suffice and a supermajority (e.g., 66.6 percent or 75 percent) is required. Shareholders can address the supermajority issue head-on by filing proposals asking companies voluntarily to eliminate supermajority vote provisions. Segal Marco's position is that a majority vote by shareholders should be sufficient for all matters.

In 2020, Segal Marco voted for all 14 proposals to reduce a supermajority-voting requirement (100 percent).

Environmental & social

Environmental and social shareholder proposals are a comprehensive list of various proposals that span from investors requesting companies to adopt policies regarding prison labor to reports on company risks, media content management, sexual harassment and impacts of company-specific events.

In 2020, Segal Marco voted in favor of all six proposals related to environmental & social issues (100 percent).

Gender pay gap

In 2016, shareholders began filing proposals on pay equity, asking companies about the risks of the pay disparities between genders. A number of these proposals have evolved to include pay disparities by gender, race and ethnicity, to provide data on the global median gender pay gap and the risks companies face with emerging public policies addressing the gender pay gap.

In 2020, Segal Marco voted for all 13 proposals on gender pay gap (100 percent).

Human rights

Human rights proposals investors request companies to report on how they are assessing human rights risks and currently implementing policies. These proposals vary from addressing disclosure about immigrants and the penal system to seeking accountability on how companies assess human-rights related risks within their supply chain and operations.

In 2020, Segal Marco voted for all 11 proposals related to human rights risk assessment (100 percent).

Independent board chair

The chairman of the board supervises and monitors the executives that manage the company on behalf of shareholders. When a chairman is the chief executive officer or has close ties to the CEO or the other principal executive officers, a potential conflict of interest is inherent. The combined role CEO/chairman role is still prevailing among U.S. publicly traded firms where the separation of those roles is standard in other markets, most notably in the United Kingdom where it is a requirement.

In 2020, Segal Marco voted for all 46 proposals for an independent board chair (100 percent).

Link executive pay

Linking executive pay to social criteria proposals call on companies to assess supplementing or reforming compensation policies and report on risks of specific performance measures for compensation relating to drug pricing or cybersecurity.

In 2020, Segal Marco voted in favor of all 10 proposals to link executive pay to social criteria (100 percent).

The Center for Political Accountability reports that three-fifths of America's leading companies have adopted political disclosure.

Majority vote for election of directors

Countless companies in the U.S. continue to maintain the plurality vote standard in uncontested director elections which allows director nominees to be elected through receiving a minimum of one vote cast "For" even when a nominee fails to receive support from the majority of votes cast. Although some companies have introduced a "director resignation policy" where a director is required to submit their resignation to the board if they fail to receive support by the majority of votes cast, the board has the authority to accept or reject the resignation. Segal Marco supports resolutions asking companies to adopt a majority-voting model for the election of their board members.

In 2020, Segal Marco voted for all 20 proposals asking for majority vote for election of directors (100 percent).

Political contributions and lobbying disclosure

A wide coalition of institutional investors have been filing proposals seeking disclosure on corporate political spending for more than a decade. Shareholders argue boards of directors should oversee the corporate political spending to ensure it supports corporate goals and priorities. Advocates of the disclosure argue companies will better weigh the benefits and risks of political spending when the reporting is public.

In 2020, Segal Marco voted in favor of all 58 proposals on political contributions and lobbying disclosure (100 percent).

Proxy access

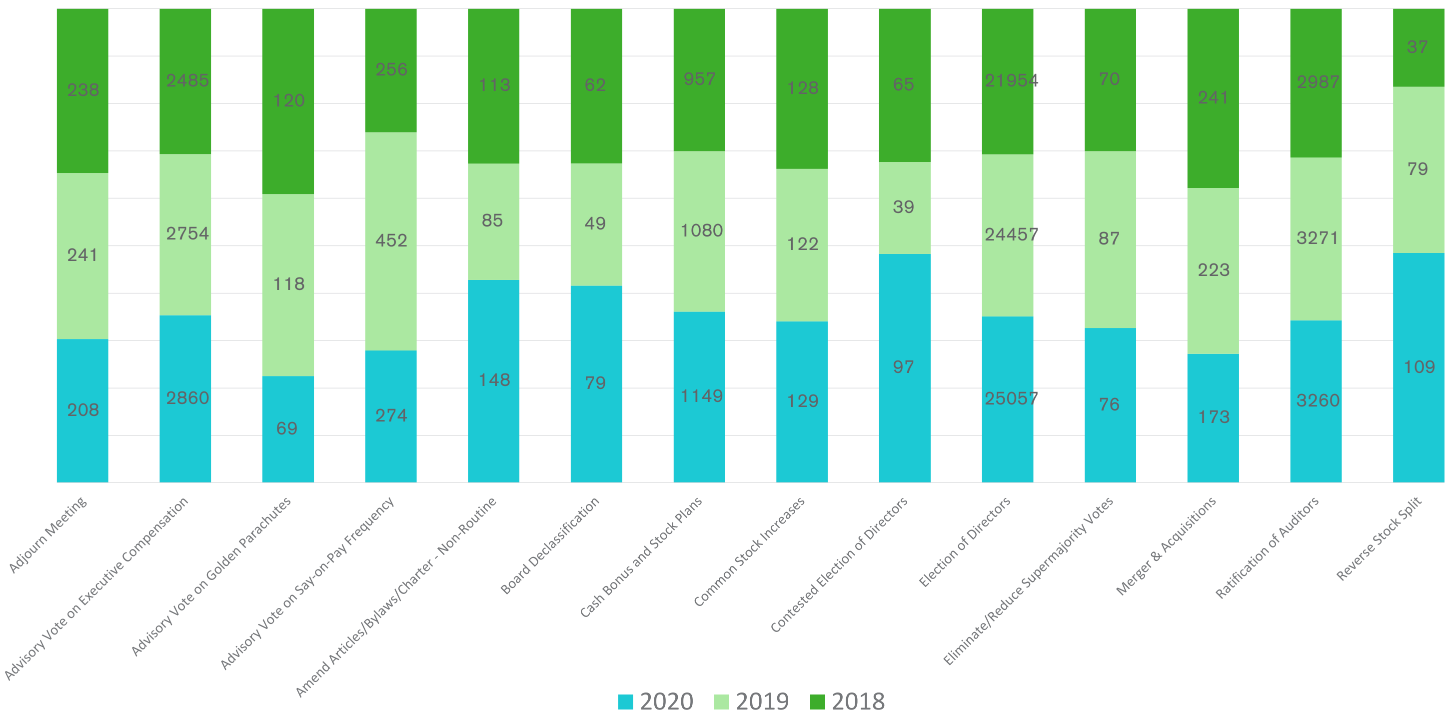
Proxy access proposals ask companies to provide shareholders access to the proxy materials to nominate their own candidates for the election of directors. The SEC approved a proxy access rule in 2010 that was later invalidated by a federal appellate court on the grounds the Commission had acted arbitrarily and capriciously in not weighing the costs and benefits of the rule. It is worth noting the Commission took a few years shy of a decade to craft the rule and that a CFA Institute study found proxy access has the potential to raise overall U.S. market capitalization by up to $140.3 billion if adopted marketwide.

In 2020, Segal Marco supported all 14 proposals on proxy access (100 percent).

Management proposals

The clear majority of proposals at corporate annual meetings are put on the ballot by management. In 2020, 98 percent of all proposals fell under the management category. In total, Segal Marco voted on 105,335 management proposals at 10,870 corporate annual meetings this year. The topics of management proposals include corporate governance provisions and capitalization. Several proposals deal with corporate transactions, auditors and executive compensation. For U.S. corporate meetings, Segal Marco voted on 36,418 management proposals at 4,562 meetings. The most commonly voted management proposals at U.S. meetings are detailed in the chart below and cover 93 percent of management proposals voted. Table 7 shows the most commonly voted management proposals at U.S. companies.

Table 7: Number of Management Proposals at U.S. Companies Voted by Segal Marco



Note to table: The number of total proposals excludes votes cast as "do not vote" for ballots that were unsupported in proxy contest.

Election of directors

Shareholders vote annually on the election of directors to publicly traded firms. Companies with a declassified board structure put all director nominees up to a vote each year, while firms with a classified structure typically put forward three nominees each election. Except for rare occasions, the elections for board seats go uncontested. Where 10 seats on the board are available, the company will propose 10 nominees. Segal Marco evaluates nominees for boards of directors on a case-by-case basis considering the key factors listed below. These factors relate to incumbent nominees (new directors are not held accountable for actions of the board prior to their tenure).

- **Diversity:** Segal Marco reviews the gender composition of the board and withholds on the nominating committees of boards that lack at least two women. A similar review is not possible for the racial composition of directors given the lack of available data.
- **Financial performance:** Segal Marco evaluates how the company performed compared to a broad market index and/or its peer group over an extended time. Segal Marco may withhold from directors when a company has underperformed for a sustained period.
- **Independence:** When a board has less than two-thirds independent directors, Segal Marco votes in favor of outsiders and against/withhold on insiders. An insider is a director who also serves as an executive officer, has familial or business ties to an executive officer, is recently a former executive officer or poses other potential conflicts of interest to independent thought.
- **Egregious actions adverse to shareholder interests:** Segal Marco may vote against or withhold votes from directors when the board has taken an action that threatens shareholders' interests. Such actions include repricing underwater stock options or ignoring a majority vote on a shareholder proposal.
- **Attendance:** Segal Marco may withhold from directors that attend fewer than 75 percent of board and committee meetings without providing a valid explanation for the absence.

Of the 25,057 proposals that Segal Marco voted in 2020 to elect directors of U.S. companies, 11,737 proposals (47 percent) were supported. Segal Marco voted against 727 directors serving on nominating committees at companies that lacked gender diversity in 2020.

Contested election of directors

In a contested election of directors, shareholders make a twofold decision between voting on the company proxy card, which includes only the company's director nominees, or on the shareholder's proxy card, which includes the activist's nominees and/or the company's nominees recommended by the activist. Activists typically seek a number of board seats as a mean to implement their strategic vision for the company. Segal Marco evaluates the slates on the individual qualification of the candidates, the quality and feasibility of the plan that the dissident has put forth to add long-term corporate value, management's performance record, the background of the proxy contest and the equity ownership positions of the activist.

In 2020, Segal Marco voted on 97 management proposals to elect directors in contested elections and supported nine proposals (9 percent).

Ratification of auditors

In 2001 the SEC began requiring companies to disclose how much they paid their accountants for both audit and non-audit work in the prior year. The disclosures revealed that many companies were paying their auditors three times more for "other" work than for their audit work. The 2002 Sarbanes-Oxley Act (SOX) limited the auditor conflict issue, although auditors are still permitted to perform tax and other non-audit related services for companies they audit. The vote to ratify auditors is a routine vote in favor unless auditors receive substantial enough sums for non-audit services that it poses a potential conflict of interest for an independent audit.

In 2020, Segal Marco cast votes to ratify the auditor of U.S. companies on 3,260 proposals and voted in favor of 2,453 proposals (75 percent).

Compensation

Cash bonus and stock plans

Companies implement and amend cash bonus and stock plans to award their key executives, outside directors and rank-and-file employees. Segal Marco votes on these plans on a case-by-case basis and supports plans that include specific and challenging performance standards without excessive rewards. Stock plans can take many forms. The most common are: stock option plans, which give the holder the right to exercise the option to buy stock at a set price in the future; restricted stock plans, which grant stock to a person at no cost, but the person has no right to the stock until certain conditions are met (sometimes the mere passage of time) and employee stock ownership plans, which allow stock to be purchased by all full-time and some part-time employees through payroll deductions and are subject to federal guidelines.

Segal Marco weighs the following factors when voting on compensation plans:

- **Performance standards:** Compensation plans should reward specified performance or serve as an incentive for future performance.
- **Dilution:** The dilution to current shareholder equity should not exceed 5 percent.
- **Change-in-control provisions:** Options and restricted stock awards should not automatically accelerate in a change-in-control scenario.
- **Underwater options:** Options that drop below their exercise price should not be repriced.
- **Participation and distribution:** Plans made available to rank-and-file employees help drive company performance. The number of shares per individual should have a reasonable limit.

In 2020, Segal Marco voted on 1,149 compensation plans and supported 164 (14 percent).

Segal Marco supported 55 percent of say-on-pay votes in 2020.

Advisory vote on executive compensation

Since 2011, the Dodd-Frank legislation granted shareholders with an advisory vote on executive compensation. Shareholders weigh in on whether they support the structure and amounts of the compensation plans companies provide to the top executives. Segal Marco weighs the following factors when voting on compensation plans:

- **Alignment:** Company performance and compensation amounts should compare favorably relative to its peer group.
- **Stock awards:** Performance-based stock awards drive superior performance as compared to time-vested awards that are paid out regardless of performance.
- **Dilution:** The dilution to current shareholder equity should not exceed 5 percent.
- **Severance payments:** A company should not provide severance payout that qualifies as a golden parachute under the IRC Code. A company also should not gross-up excise taxes owed by the executives in receipt of golden parachute payments.
- **CEO pay ratio:** Ratios will be monitored in comparison to peer groups and on year over year basis.

In 2020, Segal Marco voted on 2,860 U.S. advisory votes on compensation and supported 1,586 (55 percent).

Advisory vote on say-on-pay frequency

Dodd-Frank also enables shareholders to decide if they want to vote on a company's executive compensation annually, every two years or every three years. The vote on how frequently shareholders will vote on the say-on-pay vote occurs every six years. Since the first round of say-on-pay votes was in 2011, in 2017, most U.S. companies put forward the frequency vote for the second time. Segal Marco supports an annual say-on-pay vote in all cases because it provides shareholders with the opportunity to inform boards of their views on a more routine basis.

In 2020, Segal Marco voted in favor of an annual frequency on the say-on-pay vote at 271 out of 274 proposals (99 percent).

Adjourn meeting

Proposals that request to adjourn the meeting ask shareholders to permit suspension of a meeting, indefinitely or resumed at a future date. There are instances where companies request to adjourn a meeting to extend the voting period to solicit more votes for a merger or acquisition. The vote to adjourn meeting is a routine vote in favor unless there are other matters on the ballot that are not supported.

In 2020, Segal Marco voted on 208 proposals for the adjournment of a meeting and supported 93 (45 percent).

Mergers and acquisitions

For mergers and acquisitions at U.S. public companies, the target firm's stockholders typically have a vote on the merger or acquisition transaction. Segal Marco assesses the fairness of the cost and the strategies for these transactions when making a vote determination.

In 2020, Segal Marco voted on 173 proposals for mergers and acquisitions and supported 169 (98 percent).

Advisory vote on golden parachutes

With the advisory vote on executive compensation, companies are also required to give shareholders an advisory vote on golden parachutes which asks stockholders to approve merger-related severance payments that become payable to executives at the time of a change in control. Shareholders will vote on the advisory vote on golden parachutes at the time of merger, acquisition, consolidation, proposed sale or disposition of assets. Segal Marco assesses the total payment is over 2.99 times salary and bonus, whether excise taxes are grossed-up, if there is a double trigger for cash payments and whether the accelerated vesting of stock awards is excessive.

In 2020, Segal Marco voted on 69 advisory proposals on golden parachutes and supported seven (10 percent).

Amend articles/bylaws/charter — non-routine

Articles of association, corporate bylaws and company charters are company documents that provide a framework for a company's existence and outlines the legal parameters the company must follow which vary from company to company. Commonly, a company's board of directors approves the articles, bylaws and charters and require a majority of shareholders to vote in favor. The amendments can request approval for items relating to changing the state of incorporation, number of authorized shares of stock or include matters such as budgets and declaring dividend distributions. Segal Marco will vote in favor of amendments that improve shareholder rights and reflects corporate governance best practices.

In 2020, Segal Marco voted on 148 proposals to amend articles/bylaws/charters and supported 117 (79 percent).

Board declassification

Following the passage of Sarbanes-Oxley along with shareholder pressure, companies have moved towards declassifying their boards. Declassification of the board elects all members of the board of the directors annually instead of staggered terms. Staggered terms are when a portion of the board is put up for election each year for different periods. The annual election of the entire board creates stronger accountability that is valuable to stockholders. Segal Marco will support proposals that declassify the board.

In 2020, Segal Marco vote on 79 proposals to declassify the board of directors and supported all 79 proposals (100 percent).

Common stock increases

Increases in common stock authorizations can negatively affect shareholder value because once shareholders approve the increases, the board of directors can issue the additional shares at its discretion without seeking shareholder approval. This could include issuance of shares for financial recapitalization plans, acquisitions or to thwart acquisitions. Share issuances also dilute current shareholders' equity.

Segal Marco analyzes whether a request for an increase in common stock seeks an excessive amount. Segal Marco also studies whether there is a specific purpose for increasing the stock authorization — such as an acquisition or a stock split.

In 2020, Segal Marco voted on increases in common stock authorization on 129 proposals and supported 55 (43 percent).

Eliminate/reduce supermajority votes

The bylaws at some companies provide that on certain issues — such as amending bylaws — a simple majority vote of the shareholders will not suffice and a supermajority (e.g., 66.6 percent or 75 percent) is required. Shareholders can address the supermajority issue head on by filing proposals asking companies voluntarily to eliminate supermajority vote provisions. Segal Marco's position is that a majority vote by shareholders should be sufficient for all matters.

In 2020, Segal Marco voted on 76 management proposals to reduce a supermajority-voting requirement and supported all 76 proposals (100 percent).

Reverse stock split

Proposals that implement reverse stock splits ask shareholders to approve a stock consolidation at a ratio of 1-for-5, 1-for-10, or 1-for-20. In some cases, companies that request the stock consolidation to conduct a merger transaction or to avoid delisting are supported. Votes for reverse stock splits are routine votes in favor unless the number of authorized shares is not proportionately reduced.

In 2020, Segal Marco voted on 109 management proposals to reverse stock split and supported 107 (98 percent).

Conclusion

The 2020 proxy season was unlike any other in light of COVID-19. U.S. shareholder meetings were held virtually, which limited shareholders' ability to engage directly with the board. Early in the season there was concern companies would see an unprecedented number of proxy contests given falling stock valuations and shareholders would in turn see an unprecedented number of protectionist poison pills to warn off activists. In the end, Segal Marco saw only two additional poison pill votes and the same number of proxy contests as compared to 2019.

III. Proxy Policy Statement

The proxy policy statement has been amended this year to include four policy changes with new text identified in red font below in the policy text.

1. New policy to oppose director nominations where companies fail to provide data on the composition on their corporate boards. Investors are able to assess racial diversity only where companies disclose composition data.
2. Expand our opposition to CEOs serving as chair to non-independents serving as chairs. Expanding the policy would enable us to vote against in situations where immediate past CEOs serve as chair or possess other insider characteristics, such as business ties.
3. New policy language that provides for a vote against directors for failure of oversight. If a company has not substantively addressed the business impacts of climate change or other systemic issues, had repeated financial restatements or is embroiled in a scandal that exposes weak leadership, a vote may be cast against directors.
4. Expand on the criteria applied to consider say-on-pay votes (advisory votes on executive compensation). Companies often have overly limited disclosure on the use of adjusted GAAP metrics that drive incentive executive pay. Companies that customize a GAAP calculation for executive pay purposes should explain the need for the adjustment and show its impact on the payout.

2021 Proxy policy statement

Our policy is designed to reflect the fiduciary duty to vote proxies in favor of shareholder interests. In determining our vote, we will not subordinate the economic interest of the plan participants to any other entity or interested party.

Per the terms of ERISA, we will "cast the (client's) proxies in a timely manner solely in the interests of the participants and beneficiaries of (client's) Plan for the exclusive purpose for providing benefits to participants and their beneficiaries and defraying the reasonable expenses of administering the Plan with care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity familiar with such matters would use in the conduct of an enterprise of like character and with like aims in accordance with the documents and instruments governing the Plan in accord with the provisions of ERISA."

Numerous studies and surveys of leading institutional investors demonstrate the value of good corporate governance. (See appendix for research sources.)

Each proxy will be reviewed on a case-by-case basis with final decisions based on the merits of each case. In reviewing the proxy issues, we will use the following issue guidelines for each of the categories of issues listed below. If any conflicts of interest should arise, Segal Marco will resolve them pursuant to the steps prescribed in the administrative procedures section below.

Issue guidelines

Election of directors

The members of the boards of directors are elected by shareholders to represent the shareholders' interests. This representation is most likely to occur if two-thirds of the members are independent outsiders as opposed to insider directors (such as long-tenured directors of 10 years or more, senior management employees, former employees, relatives of management or contractors with the company). If two-thirds of the board is not represented by independent outsiders, a vote will usually be cast to withhold authority on the inside directors.

Other factors that will be considered when reviewing candidates will be the diversity of board nominees in terms of race, gender, experience and expertise; the number of corporate boards on which they already serve (CEOs should serve on on no more than one other board; while non-CEO directors with fulltime jobs should serve on no more than three other boards and no individual should serve on more than five other boards), whether they have pledged a substantial amount of company stock, their performance on committees and other boards, the company's short-term and long-term financial performance under the incumbent candidates, the company's responsiveness to shareholder concerns (particularly the responsiveness to shareholder proposals that were approved by a majority of shareholders in the past 12 months) and other important corporate constituents, the overall conduct of the company (e.g., excessive executive compensation, adopting anti-takeover provisions without shareholder approval) and not attending at least 75 percent of board and committee meetings unless there is a valid excuse. Votes may be cast against nominating committee members where U.S. companies fail to provide the data necessary to determine the composition of the board and whether it is sufficiently diverse.

Recently, more emphasis has been placed on the independence of key board committees — audit, compensation and nominating committees. It is in the best interests of shareholders for only independent directors to serve on these committees. Votes will be withheld from any insider nominee who serves on these committees. Votes will also may be cast against board chairs concurrently serving as CEOs or are otherwise non-independent. An independent chairman helps avoid any conflicts of interest in the board's role of overseeing management.

Directors will not be supported where the board has failed in its oversight responsibilities (such as where there is significant corporate misbehavior, repeated financial restatements or inadequate responses to systemic risks including climate change that may have a material impact on performance).

In contested elections of directors, the competing slates will be evaluated upon the personal qualifications of the candidates, the quality of the strategic plan they advance to enhance long-term corporate value, management's historical track record, the background to the proxy contest and the equity ownership positions of individual directors.

Ratification of auditors

The ratification of auditors used to be universally considered a routine proposal, but a disturbing series of audit scandals at publicly-traded companies and SEC-mandated disclosures that revealed auditors were being paid much more for "other" work at companies in addition to their audit work have demonstrated that the ratification of auditors needs to be scrutinized as much as the election of directors.

Although the Sarbanes-Oxley Act of 2002 attempted to address the issue of auditor conflicts of interest, it still allows auditors to do substantial "other" work (primarily in the area of taxes) for companies that they audit. Therefore, Segal Marco will weigh the amount of the non-audit work and if it is so substantial as to give rise to a conflict of interest, it will vote against the ratification of auditors. Concern will be raised if the non-audit work is more than 20 percent of the total fees paid to the auditors. Other factors to weigh will be if the auditors provide tax avoidance strategies, the reasons for any change in prior auditors by the company and if the same firm has audited the company for more than seven years.

Routine proposals

Routine proposals are most commonly defined as those that do not change the structure, bylaws, or operation of the company to the detriment of the shareholders. Traditionally, these issues include:

- Indemnification provisions for directors
- Liability limitations of directors
- Stock splits/reverse stock splits
- Name changes

Given the routine nature of these proposals, proxies will usually be voted with management. However, each will be examined carefully. For example, limitations on directors' liability will be analyzed to ensure that the provisions conform to the law and do not affect their liability for such actions as the receipts of improper personal benefits or the breach of their duty of loyalty. The analysis of a proposal to limit directors' liability would also take into consideration whether any litigation is pending against current board members.

Non-routine proposals

Issues in this category are more likely to affect the structure and operation of the company and therefore will have a greater impact on the value of a shareholder's investment. We will review each issue in this category on case-by-case basis.

As previously stated, voting decisions will be made based on the financial interest of the plan beneficiaries. Non-routine matters include:

Mergers/acquisitions and restructuring (See also reincorporating/inversions)

Our analysis will focus on the strategic justifications for the transaction and the fairness of any costs incurred.

Advisory votes on compensation policies and practices

To evaluate compensation policies and practices, the threshold query is: "Does a company's compensation reflects its performance?" This will be determined by how a company has performed for shareholders compared to its peer group as well as by how a company has compensated its executives compared to its peer group. Whether restricted stock awards are time vesting or performance vesting will also be taken into consideration. Additional queries will be made to determine the level of dilution in stock compensation plans, and to ascertain if golden parachutes have been awarded to executives and, if they have, whether they pay tax gross-ups. The ratio of pay to the CEO as compared to the average worker will also be taken into consideration as well as whether companies adjust GAAP metrics and the robustness of the explanatory disclosure. The threshold query will carry the most weight, but the additional queries can be persuasive in the event the answer to the threshold query is not clear-cut. There will also be an option as to whether the company should have these advisory votes on compensation on an annual basis or every two or three years. An annual basis is in the best interests of shareholders.

Advisory votes on severance packages in connection with mergers/acquisitions

The factors to weigh are whether the total payment is in excess of 2.99 times salary and bonus, whether excise taxes are grossed-up, if there is a double trigger for cash payments and whether the accelerated vesting of stock awards is excessive.

Fair-price provisions

These are attempts to guard against two-tiered tender offers, in which some shareholders receive less value for their stock than other shareholders from a bidder who seeks to take a controlling interest in the company. There can be an impact on the long-term value of holdings in the event shareholders do not tender. Such provisions must be analyzed on a case-by-case basis.

Reincorporating/inversions

A company usually changes the state or country of its incorporation to take advantage of tax and corporate laws in the new state or country. These advantages should be clear and convincing and should be supported by specific, legitimate business justifications that will enhance the company's long-term value to shareholders and will be weighed along with any loss in shareholder rights and protections (e.g., dilution of management accountability and liability, anti-takeover devices), reputational risk, damage to governmental relationships, adverse impact on the company's employees and erosion of the local/state/Federal tax base.

Changes in capitalization

Our inquiry will study whether the change is necessary and beneficial in long run to shareholders. Creation of blank check preferred stock, which gives the board broad powers to establish voting, dividend and other rights without shareholder review, will be opposed.

Increase in preferred and common stock

Such increases can cause significant dilution to current shareholder equity and can be used to deter acquisitions that would be beneficial to shareholders. We will determine if any such increases have a specific, justified purpose and if the amounts of the increase are excessive.

Stock/executive compensation plans

The purpose of such plans should be to reward employees or directors for superior performance in carrying out their responsibilities and to encourage the same performance in the future. Consequently, the plan should specify that awards are based on the executive's/director's and the company's performance. In the case of directors, their attendance at meetings should also be a requirement. In evaluating such plans, we will also consider whether the amount of the shares cause significant dilution (5 percent or more) to current shareholder equity, how broad-based and concentrated the grant rates are, if there are holding periods, if the shares are sold at less than fair market value, if the plan contains change-in-control provisions that deter acquisitions, if the plan has a reload feature, and if the plan allow the repricing of "underwater" options.

Employee stock purchase plans

These are broad-based plans, federally regulated plans which allow almost all full-time and some part-time workers to purchase limited amounts of company stock at a slight discount. Usually the amount of dilution is extremely small. They will normally be supported because they do give workers an equity interest in the company and better align their interests with shareholders.

Creation of tracking stock

Tracking stock is designed to reflect the performance of a particular business segment. The problem with tracking stocks is they can create substantial conflicts of interest between shareholders, board members and management. Such proposals must be carefully scrutinized and they should be supported only if a company makes a compelling justification for them.

Approving other business

Some companies seek shareholder approval of management being given broad authority to take action at a meeting without shareholder consent. Such proposals are not in the best interests of shareholders and will be opposed.

Corporate governance proposals

We will generally vote against any management proposal that is designed to limit shareholder democracy and has the effect of restricting the ability of shareholders to realize the value of their investment. Proposals in this category would include:

Golden parachutes

These are special severance agreements that take effect after an executive is terminated following a merger or takeover. In evaluating such proposals, we will consider the salaries, bonuses, stock option plans and other forms of compensation already available to these executives to determine if the additional compensation in the golden parachutes is excessive. Shareholder proposals requesting that they be approved by shareholders will be supported.

Greenmail payments

Greenmail is when a company agrees to buy back a corporate raider's shares at a premium in exchange for an agreement by the raider to cease takeover activity. Such payments can have a negative impact on shareholder value. Given that impact, we will want there to be a shareholder vote to approve such payments and we will insist that there be solid economic justification before ever granting such approval.

Supermajority voting

Some companies want a supermajority (e.g., 66 percent) vote for certain issues. We believe a simple majority is generally in the best interest of shareholders and we will normally vote that way unless there is strong evidence to the contrary.

Dual class voting

Some companies create two classes of stock with different voting rights and dividend preferences. We will examine the purpose that is being used to justify the two classes as well as to whom the preferred class of stock is being offered. Proposals that are designed to entrench company management or a small group of shareholders at the expense of the majority of shareholders will not be supported. Proposals that seek to enhance the voting rights of long-term shareholders will be given careful consideration.

Fair price proposals

These require a bidder in a takeover situation to pay a defined "fair price" for stock. Our analysis will focus on how fairly "fair price" is defined and what other anti-takeover measures are already in place at the company that might discourage potential bids that would be beneficial in the long term to shareholders.

Classified boards

These are boards where the members are elected for staggered terms. The most common method is to elect one-third of the board each year for three-year terms. We believe the accountability afforded by the annual election of the entire board is very beneficial to stockholders and it would take an extraordinary set of circumstances to develop for us to support classified boards.

Shareholders' right to call special meetings and act by written consent

These are important rights for shareholders and any attempts to limit or eliminate them should be resisted. Proposals to restore them should be supported.

Shareholder proposals

Proposals submitted by shareholders for vote usually include issues of corporate governance and other non-routine matters. We will review each issue on a case-by-case basis in order to determine the position that best represents the financial interest of the plan beneficiaries. Shareholders' matters include:

Poison pill plans

These plans are designed to discourage takeovers of a company, which can deny shareholders the opportunity to benefit from a change in ownership of the company. Shareholders have responded with proposals to vote on the plans or to redeem them. In reviewing such plans, we check whether the poison pill plans were initially approved by shareholders and what anti-takeover devices are already in place at the company.

Independence of boards and auditors

The wave of corporate/audit scandals at the start of the 21st century provided compelling evidence that it is in the best interests of shareholders to support proposal seeking increased independence of boards (e.g., requiring supermajority of independents on boards, completely independent nominating, compensation and audit committees, stricter definitions of "independence," disclosures of conflicts of interest) and auditors (e.g., eliminate or limit "other" services auditors perform, rotation of audit firms). A related issue is the independence of analysts at investment banking firms. Proposals seeking to separate the investment banking business from the sell-side analyst research and IPO allocation process should be supported.

Cumulative voting

This allows each shareholder to vote equal to the number of shares held multiplied by the number of directors to be elected to the board. Shareholders can then target all their votes for one of a few candidates or allocate them equally among all candidates. It is one of the few ways shareholders can attempt to elect board members. In studying cumulative voting proposals, we will review the company's election procedures and what access shareholders have to the nominating and voting process.

Confidential voting

Most voting of proxies in corporate America is not confidential. This opens the process to charges that management pressures shareholders or their investment managers to vote in accordance with management's recommendations. We believe the concept of confidential voting is so fundamental to the democratic process and is so much in the best interest of shareholders that we would oppose it only in the most extraordinary circumstances.

Shareholder access to the proxy for director nominations

Proposals to provide shareholders access to the company proxy statement to advance non-management board candidates will generally be supported if they are reasonably designed to enhance the ability of substantial shareholders to nominate directors and are not being used to promote hostile takeovers.

Separate chairperson and chief executive officer

The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of management. If the Chair of the Board is also the Chief Executive Officer of the company, the quality of oversight obviously is hindered. Therefore, proposals seeking to require that an independent director serve as Chair of the Board will be supported. An alternative to this proposal would be the establishment of a lead independent director, who would preside at meetings of the board's independent directors and coordinate the activities of the independent directors.

Term limit for directors

Proposals seeking to limit the term for directors will normally not be supported because they can deny shareholders the service of well-qualified directors who have effectively represented shareholder interests.

Broader participation on boards

A more diverse board of qualified directors is in the best interests of shareholders. Therefore, the proposal requesting companies to make efforts to seek more qualified women and minority group members will be supported.

Greater transparency and oversight

Shareholders benefit from full disclosure of board practices and procedures, company operating practices and policies, business strategy and the way companies calculate executive compensation. Proposals seeking greater disclosure on these matters will generally be supported.

Executive/director compensation

Proposals seeking to tie executive and director compensation to specific performance standards, to impose reasonable limits on it or to require greater disclosure of it are in the best interests of shareholders. The expense of options should be included in financial statements (as required in Canada). Financial performance is the traditional measurement for executive compensation — the more specific the better. Where executive pay is based on metrics that are improved through share repurchases, the impact of repurchases should be neutralized to avoid artificially inflating executive pay. Other performance measures can be a useful supplement to the traditional financial performance measurement and are worthy of consideration. Examples are regulatory compliance, international labor standards, high performance workplace standards and measures of employee satisfaction.

High performance workplaces

We will support proposals encouraging the high-performance workplace practices identified in the DOL's report that contribute to a company's productivity and long-term financial performance.

Codes of conduct

Proposals seeking reports on and/or implementation of such commonly accepted principles of conducts as the Ceres Principles (environment), MacBride Principles (Northern Ireland), Code of Conduct for South Africa, United Nations' International Labor Organization's Fundamental Conventions, fair lending practices and the U.S. Equal Employment Opportunity Commission are in the best interests of shareholders because they provide useful information and promote compliance with the principles.

Pension choice

There has been a recent trend by companies to convert traditional defined benefit pension plans into cash-balance plans. This has proved controversial because cash-balance plans often hurt older workers and may be motivated by a company's desire to inflate its book profits by boosting surpluses in its pension trust funds. Proposals giving employees a choice between maintaining their defined benefits or converting to a cash-balance plan will generally be supported.

Say-on-pay

Shareholders in the United Kingdom, Australia, Norway, the Netherlands and Sweden have had an advisory vote on companies' compensation reports for several years. Say-on-pay proposals will be supported because they give shareholders meaningful input on a company's approach to executive compensation without entangling them with the micromanagement of specific plans.

Majority vote standard for director elections

For years, most boards of directors were elected by a plurality vote standard — nominees who get the most votes win. In a non-contested election (which most are) the only vote options are “for” and “withhold authority.” That means a nominee could have only one share cast “for” him/her and still be elected, regardless of how many shareholders withheld their votes for that nominee. Therefore, proposals requesting that nominees in non-contested elections receive a majority of the votes cast will be supported.

Administrative procedures

The procedures for receipt and voting of proxies by Segal Marco are as follows:

1. The client notifies the custodian bank to forward all proxies to us.
2. We track the portfolio to ensure current listing of all securities held.
3. We track the shareholders’ meeting dates to ensure that all proxies are voted on time.
4. We notify the bank of any missing or improper proxies to secure all proxies due the Fund.
5. We provide a report annually on shares voted and positions taken. Clients are welcome to contact Segal Marco at any time to find out how we have voted on a particular issue.
6. The SEC has expressed concern that proxy-voting agents may have material conflicts that can affect how they vote proxies. The SEC notes that advisers may render services to a publicly traded company or they may have business or personal relationships with participants in proxy contests, corporate directors or candidates for directorships. If conflicts arise, any Segal Marco employee will immediately recuse himself/herself from the analysis/voting of the pertinent issue.
7. For SEC record keeping purposes, we will retain copies of (i) our proxy voting policies and procedures; (ii) proxy statements received as preserved through access to the SEC’s EDGAR system; (iii) records of the votes we cast as preserved on Segal Marco’s proxy voting platform; (iv) records of client requests for proxy voting information; (v) documents we prepared material to making a decision on how to vote as preserved on Segal Marco’s proxy voting platform.

Appendix to 2021 Proxy Policy Statement

Select studies, surveys and papers demonstrating the value of governance.

Citation	Findings
David Katz and Carmen X. W. Lu, "ESG in the Mainstream: Sell-Side Analysts Addressing ESG Concerns," Harvard Law School Forum on Corporate Governance, May 29, 2020. corpgov.law.harvard.edu/2020/05/29/esg-in-the-mainstream-sell-side-analysts-addressing-esg-concerns/	Looking ahead, companies will face growing scrutiny from investors and other stakeholders on their ESG performance, including their performance relative to industry peers, and should stay abreast of how their ESG data is being collected and evaluated by third parties.
Miriam Breitenstein, Duc Khuong Nguyen and Thomas Walther, "Environmental Hazards and Risk Management in the Financial Sector: A Systematic Literature Review," University of St. Gallen, School of Finance Research Paper No. 2019/10, May 2020. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3428953&dgcid=ejournal_htmlemail_risk:management:ejournal_abstractlink	We find that financial institutions can reduce their risk exposure by highly committing to environmental responsibility and performance. Moreover, the increase in willingness to assess climate-related financial risk incentivizes corporate managers to adopt more proactive environmental policies and practices.
Ashish Lodh, "ESG and the Cost of Capital," MSCI, Feb. 2020. https://www.msci.com/www/blog-posts/esg-and-the-cost-of-capital/01726513589?utm_source=onemsci&utm_medium=email&utm_campaign=msci-weekly-2020-02-27	Companies with high ESG scores, on average, experienced lower costs of capital compared to companies with poor ESG scores in both developed and emerging markets during a four-year study period. The cost of equity and debt followed the same relationship. In developed markets, companies with lower ESG scores, upon improving their MSCI ESG Rating, experienced reduced costs of capital.
Caroline Flammer, Nichael W. Toffel, and Kala Viswanathan, "Shareholder Activism and Firms' Voluntary Disclosure of Climate Change Risks," October 2019. papers.ssrn.com/sol3/papers.cfm?abstract_id=3468896&dgcid=ejournal_htmlemail_harvard:business:school:technology:operations:management:unit:working:paper:series_abstractlink	Found that companies that voluntarily disclose climate change risks following environmental shareholder activism achieve a higher valuation post disclosure, suggesting that investors value transparency with respect to climate change risks.
Karl V. Lins, Henri Servaes and Ane Tamayo, "Social Capital, Trust, and Corporate Performance: How CSR Helped Companies During the Financial Crisis (and Why it Can Keep Helping Them)," *Journal of Applied Corporate Finance* 31(2), May 2019. papers.ssrn.com/sol3/papers.cfm?abstract_id=3604416	CSR investments can help companies when they perhaps need it most — that is, during sharp downturns when overall trust in companies and markets declines. Companies with high — CSR rankings experienced stock returns that were five to seven percentage points higher than their low — CSR counterparts during the 2008–2009 financial crisis. High — CSR companies during the crisis also reported better operating performance, higher growth, higher employee productivity, and greater access to debt markets — while continuing to generate higher shareholder returns as late as the end of 2013.
Jonathan M. Karpoff, John R. Lott and Eric W. Wehrly, "The Reputational Penalties for Environmental Violations: Empirical Evidence," Journal of Law and Economics, Vol. 68, October 2005. papers.ssrn.com/sol3/papers.cfm?abstract_id=747824	Firms violating environmental laws suffer statistically significant losses in the market value of firm equity. The losses, however, are of similar magnitudes to the legal penalties imposed; and in the cross-section, the market value loss is related to the size of the legal penalty.
"Carbon Beta and Equity Performance: An Empirical Analysis," Innovest Strategic Value Advisors, October 2007. kellogg.northwestern.edu/faculty/mazzeo/htm/sp_files/021209/(4)%20innovest/innovest%20publications/carbon_20final.pdf	Companies' responses to both the risks and opportunities driven by climate change are becoming increasingly critical to their competitiveness and financial performance. Investors require in-depth, company-specific research which addresses each of the critical dimensions of climate risk, not simply companies' gross carbon footprint, such as: • Companies' overall carbon footprint or potential risk exposure, adjusted to reflect differing regulatory circumstances in different countries and regions • Their ability to manage and reduce that risk exposure • Their ability to recognize and seize climate-driven opportunities on the upside • Their rate of improvement or regression

Citation	Findings
Guido Giese, Linda-Eling Lee, Dimitris Melas, Zoltán Nagy, and Laura Nishikawa, “Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance,” MSCI, July 2019. www.msci.com/documents/10199/03d6faef-2394-44e9-a119-4ca130909226	That companies’ ESG information was transmitted to their valuation and performance, both through their systematic risk profile (lower costs of capital and higher valuations) and their idiosyncratic risk profile (higher profitability and lower exposures to tail risk). The research suggests that changes in a company’s ESG characteristics may be a useful financial indicator. ESG ratings may also be suitable for integration into policy benchmarks and financial analyses.
John Bae, Wonik Choi and Jongha Lim, “Corporate Social Responsibility: An Umbrella or a Puddle on a Rainy Day? Evidence Surrounding Corporate Financial Misconduct,” European Financial Management, Sept 2019. papers.ssrn.com/sol3/papers.cfm?abstract_id=3443824&dgcid=ejournal_htmlemail_corporate:governance:social:responsibility:social:impact:ejournal_abstractlink	Firms with good CSR performance suffer smaller market penalties upon the revelation of financial wrongdoing, supporting the buffer effect, as opposed to the backfire effect, of a good social image.
Ferri, Fabrizio, and David Oesch. “Management Influence on Investors: Evidence from Shareholder Votes on the Frequency of Say on Pay.” *SSRN*, 25 Mar. 2013, revised Feb. 2016, website.	“[c]ompared to firms adopting an annual frequency, firms following management’s recommendation to adopt a triennial frequency are significantly less likely to change their compensation practices in response to an adverse say on pay vote, consistent with the notion that a less frequent vote results in lower management accountability.”
Hunt, Vivian, et al. “Why Diversity Matters.” McKinsey & Company, 14 Feb. 2020, www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters#	Companies in the top quartile for gender or racial and ethnic diversity tend to report financial returns above their national industry medians.
Misercola, Mark. “Higher Returns with Women in Decision-Making Positions.” Credit Suisse, 10 Mar. 2016, www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/higher-returns-with-women-in-decision-making-positions-201610.html	Companies with more female executives in decision-making positions continue to generate stronger market returns and superior profits, and contrary to conventional wisdom, women in leadership roles do not actively exclude other women from promotions to top management.
Appel, Ian R, et al. 2015, Passive Investors, Not Passive Owners, rodneywhitecenter.wharton.upenn.edu/wp-content/uploads/2014/04/12-15.keim_.pdf	***Passive Investors, Not Passive Owners,*** that found passively managed mutual funds exert influence on firms’ governance. The research also found the significant governance changes associated with the funds such as more independent directors, removal of takeover defenses and more equal voting rights improve firms’ long-term performance.
Gompers, P., et al. “Corporate Governance and Equity Prices.” *The Quarterly Journal of Economics*, vol. 118, no. 1, 2003, pp. 107–156., doi:10.1162/00335530360535162.	Firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth and lower capital expenditures.

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