



Responsible Investment: Proxy Voting

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AGENDA

- Importance of Proxy Voting
- 2021 Seasons and Global Trends
 - United States
 - Canada
 - Europe
 - Asia
 - Latin America
 - Global Trends on Environmental & Social Issues
- Q&A

Importance of Corporate Governance & Proxy Voting

Proxy Voting is a Valuable Asset

“The choice of a common stock is a single act; its ownership is a continuing process. Certainly, there is just as much reason to exercise care and judgment in being a shareholder as in becoming one.”

Benjamin Graham & David Dodd

Source: CFA Institute Publication

Why is Proxy Voting Important

Proxy Voting is a Valuable Asset

Importance of Proxy Voting:

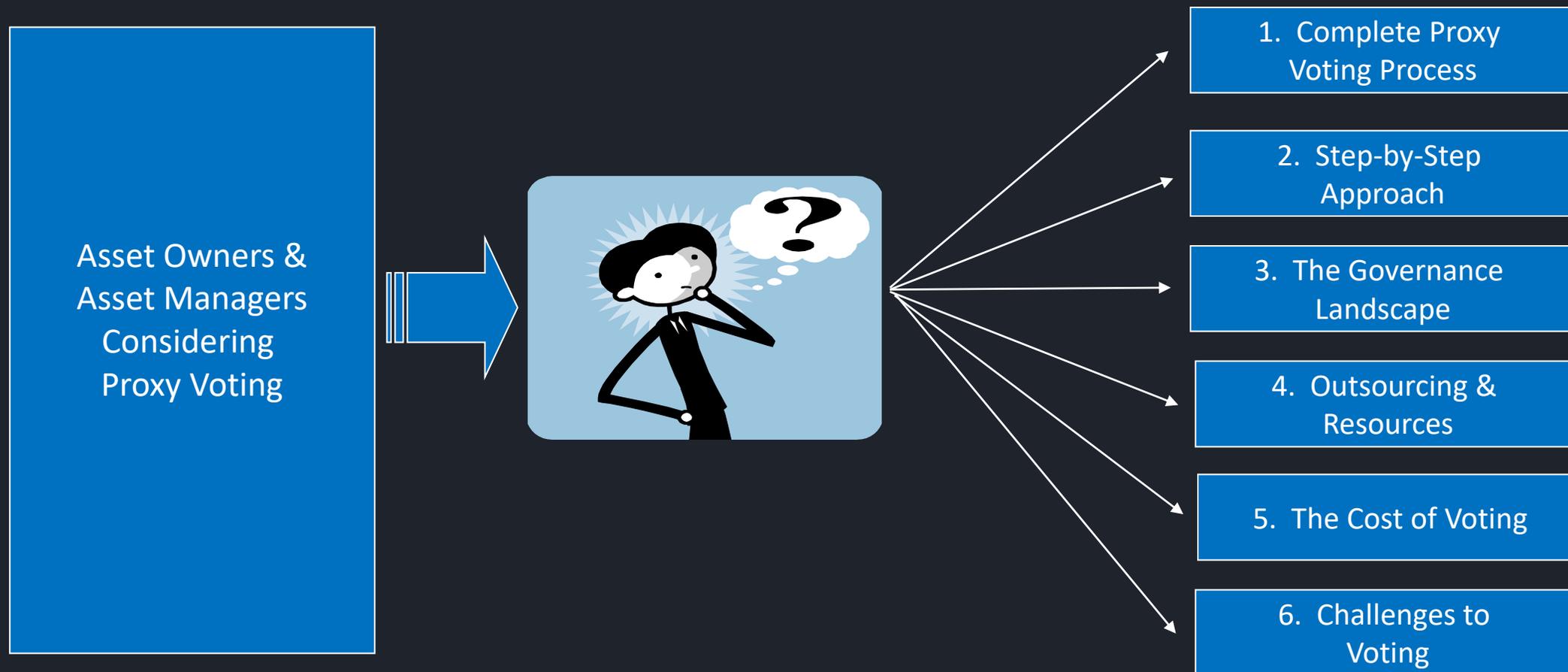
- Risk Management
- Unlock Shareholder Value
- Fiduciary Obligation in Some Markets (including Stewardship Codes)

Proxy Voting Principles:

- Enhance Value
 - Poor Governance = Potential Risk
- Protect Shareholder Rights
 - Maintain Checks and Balances
- Promote Accountability
 - Directors Represent Shareholders
- Promote Transparency

An Effective Voting Strategy Requires Preparation and a Thorough Understanding of the Process

Implementing an Effective Proxy Voting Strategy



Structural impediments to proxy voting still exist

Internal and External Impediments

Internal

- Lack of familiarity with laws, customs and listing standards of portfolio markets
- Language barrier (proxy material disclosure)
- Resource constraints (particularly due to tight voting turn around times in many markets)

External

- Substandard disclosure
- Vote Cutoffs
- Concentration of meetings
- Powers of Attorney (e.g. Brazil and Sweden)
- Share blocking (e.g. Norway, Argentina, Egypt)
- Share re-registration (e.g. Switzerland)
- Personal attendance at meetings (e.g. Taiwan, Thailand, Chile, Mexico)

These structural impediments have become less onerous: disclosure is improving, share blocking is falling away in many markets and there is gradual convergence of practices.

ISS BENCHMARK POLICY & RESEARCH



4 TENETS OF ISS' GLOBAL VOTING PRINCIPLES

INVESTOR & MARKET VIEWS + ISS EXPERTISE

LEVERAGE A TRANSPARENT
POLICY FRAMEWORK
REPRESENTING THE BEST IN
CLASS THOUGHT LEADERSHIP
DRIVEN BY FEEDBACK FROM
INDUSTRY LEADERS.

ACCOUNTABILITY • STEWARDSHIP INDEPENDENCE • TRANSPARENCY

ISS has a unique annual policy review process for its ISS benchmark to create voting policies that reflect investor and market views, accepted good governance practices, and helps ensure the inclusion of regulatory changes and practical implementation matters.

Benchmark policy drives voting recommendations on management and shareholder proposals at for 45,000 shareholder meetings, at 32,000 public companies in 115 global markets.

Further serves as the basis for ISS' thematic and custom voting policies and recommendations to address investor specific governance philosophies.



THEMATIC PROXY VOTING POLICIES

PUBLIC FUND POLICY

Public pension fund managers & public plan sponsors and trustees. Long-term best interests of public plan participants & beneficiaries. Greater focus on board independence and executive compensation.

SRI POLICY

SRI investment firms, religious groups, charitable foundations & university endowments. Traditional SRI investor perspective on social, environmental, and economic issues. The “triple bottom line” value creation.

SUSTAINABILITY POLICY

Signatories to the UN Principles for Responsible Investment (UN PRI) or similarly aligned investment managers & asset owners. Supportive of greater ESG disclosure and policies and practices that are consistent with related globally accepted norms.

CLIMATE POLICY

Climate change-focused investors. To support greater disclosure with a company’s performance record on (GHG) emissions, its activities’ impact on climate and its climate strategy, and putting this into context with its sector and incident-based climate risk exposure.

FAITH BASED POLICY

Catholic faith-based socially responsible investors. Including individuals and organizations. Based on the ethical perspective & teachings of the Catholic Church (USCCB). Attention to economic, environmental, and social justice concerns.

TAFT-HARTLEY POLICY

Taft-Hartley pension funds & investment managers (ERISA). Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines. Greater focus on board independence & executive compensation.



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United States

Key Takeaways from 2021 Proxy Season - US

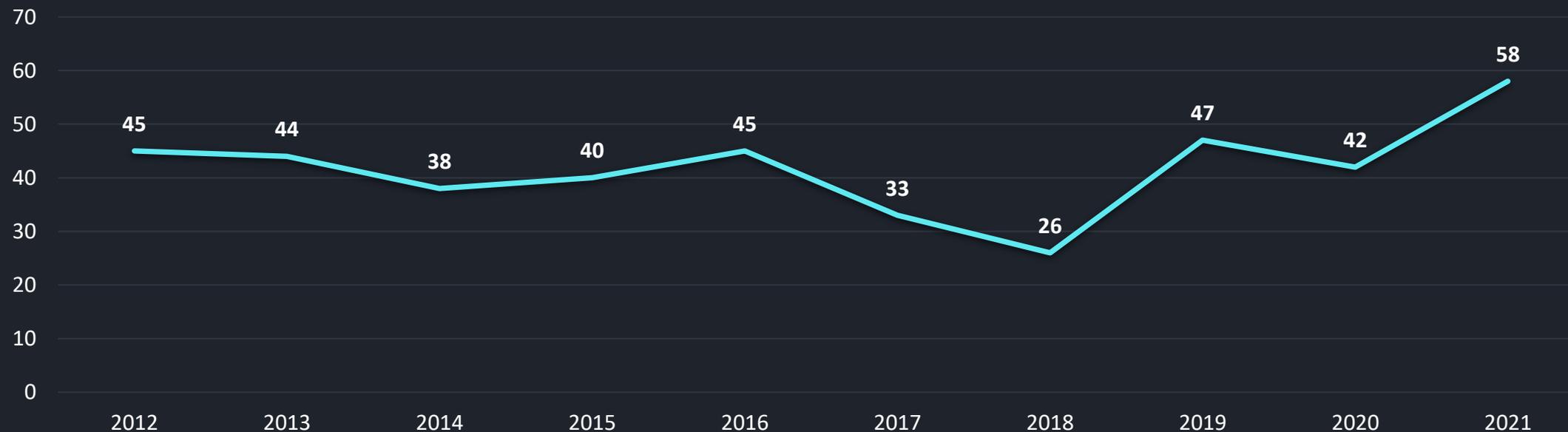
Impact of Pandemic Continues to Be Felt

- Climate concerns are increasingly expressed beyond the shareholder proposal context. Vote no campaigns allege insufficient board oversight. Climate concerns closely tied to financial underperformance/sustainability drive Engine No. 1's surprise victory in proxy fight at Exxon Mobil.
- Investor and regulatory pressure to increase board diversity is showing results. Gender diversity continues to improve, while racial/ethnic diversity registers strong gains. Boards with 2 or more diverse directors now outnumber those with none.
- Say-on-pay failure rate rises; ties record. Failures largely driven by inappropriate COVID-related adjustments, particularly to long-term incentives.
- M&A volumes rise, with more deals in pipeline. SPAC IPOs peak in Q1; merger meetings will continue into 2022. Can SPACs survive increased SEC scrutiny?
- Majority of US meetings continued to be held virtually. Generally smooth, but some shareholders complained their questions were not answered, or that an audio-only format does not replicate an in-person meeting experience.

Surge in Failed Director Elections

But most boards still reject directors' offers to resign

Majority Withhold/Against Director Votes
Elections held January-June of each year, Russell 3000



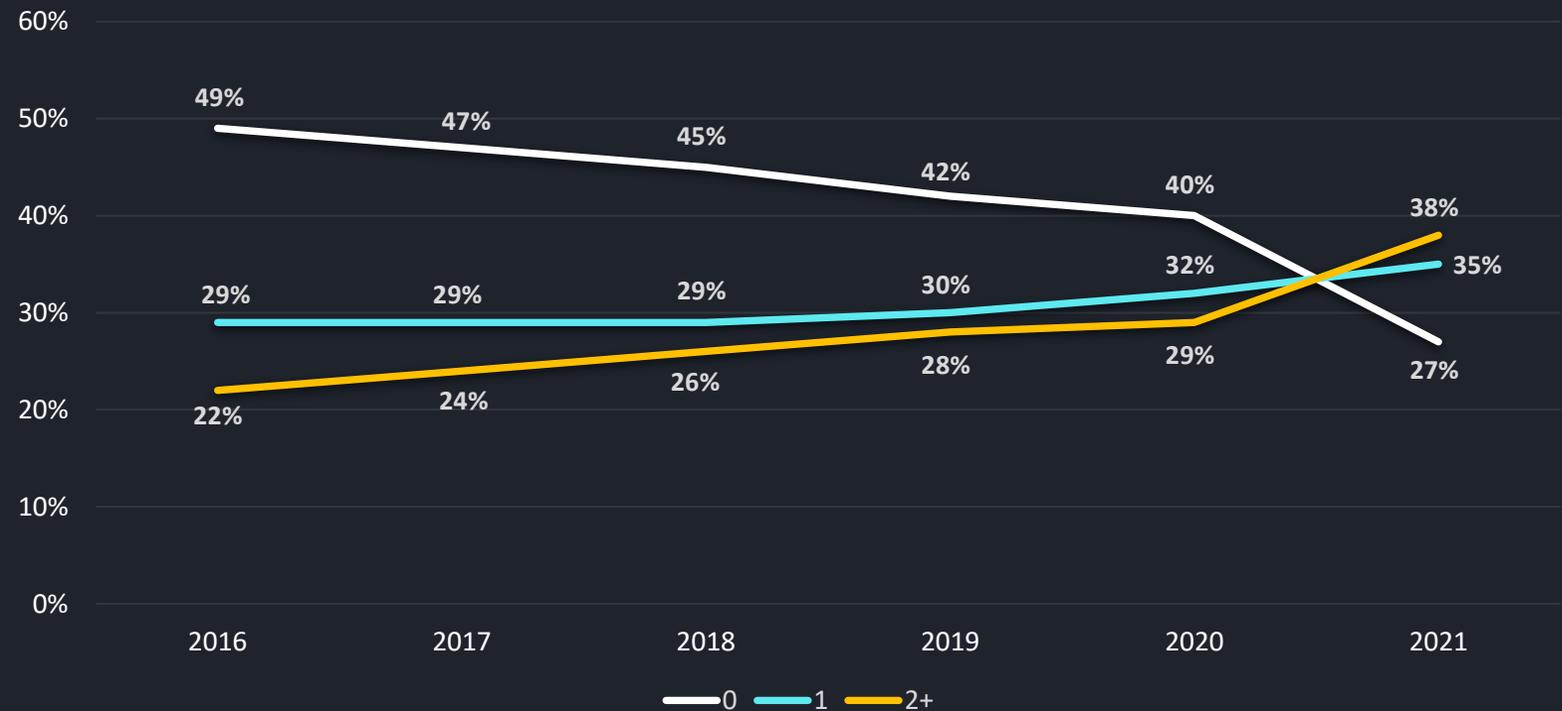
Source: ISS Governance Research & Voting

Russell 3000 Boards Making Progress on Ethnic Diversity

27% of R3K boards have no racially or ethnically diverse directors, down from 40% in 2020

- 6 years ago, nearly half of the Russell 3000 had no racially or ethnically diverse directors. This is now down to 27%.
- 38% of companies have 2+ racially or ethnically diverse directors, up 9% just since last year
- In a recent survey of nominating committee chairs, adding directors from underrepresented groups was their top recruiting priority.

Russell 3000 companies by # of racially or ethnically diverse directors (2016-2021)

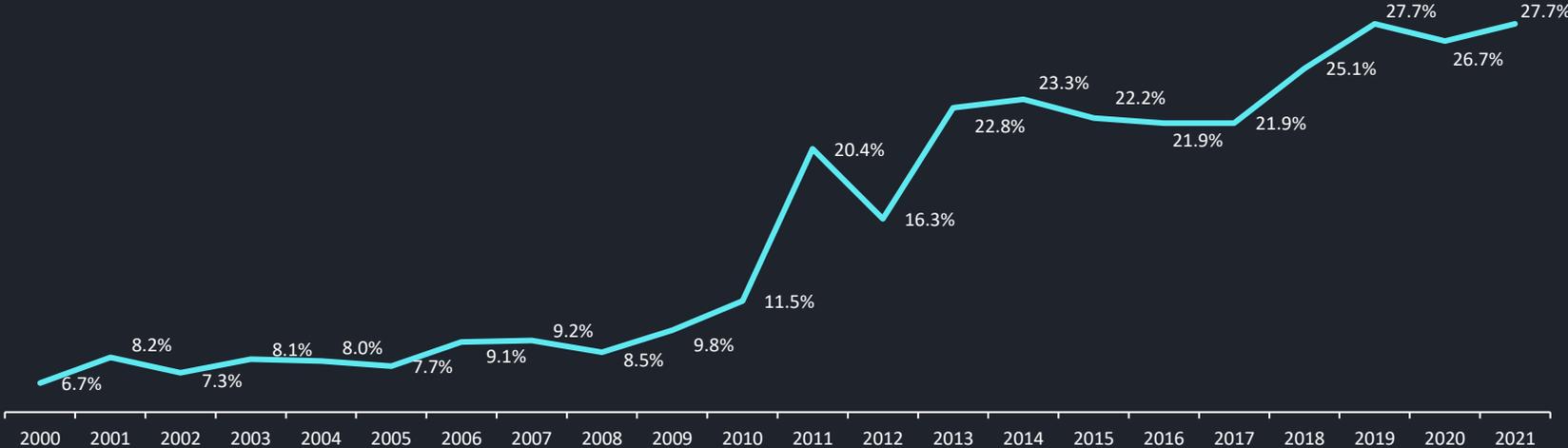


Source: ISS director and executive compensation database

High Levels of Support for US E&S-related Shareholder Proposals in 2021

Support Rates for E&S Proposals Rise Again
Median Support of Environmental & Social Shareholder Proposals by Year, Calculated as Votes FOR as a Percentage of Votes Cast FOR and AGAINST (as of June 30, 2021)

- Median shareholder support remains high
- 34 E&S proposals received majority support, up from 20 in 1H2020 and 12 in 2019.



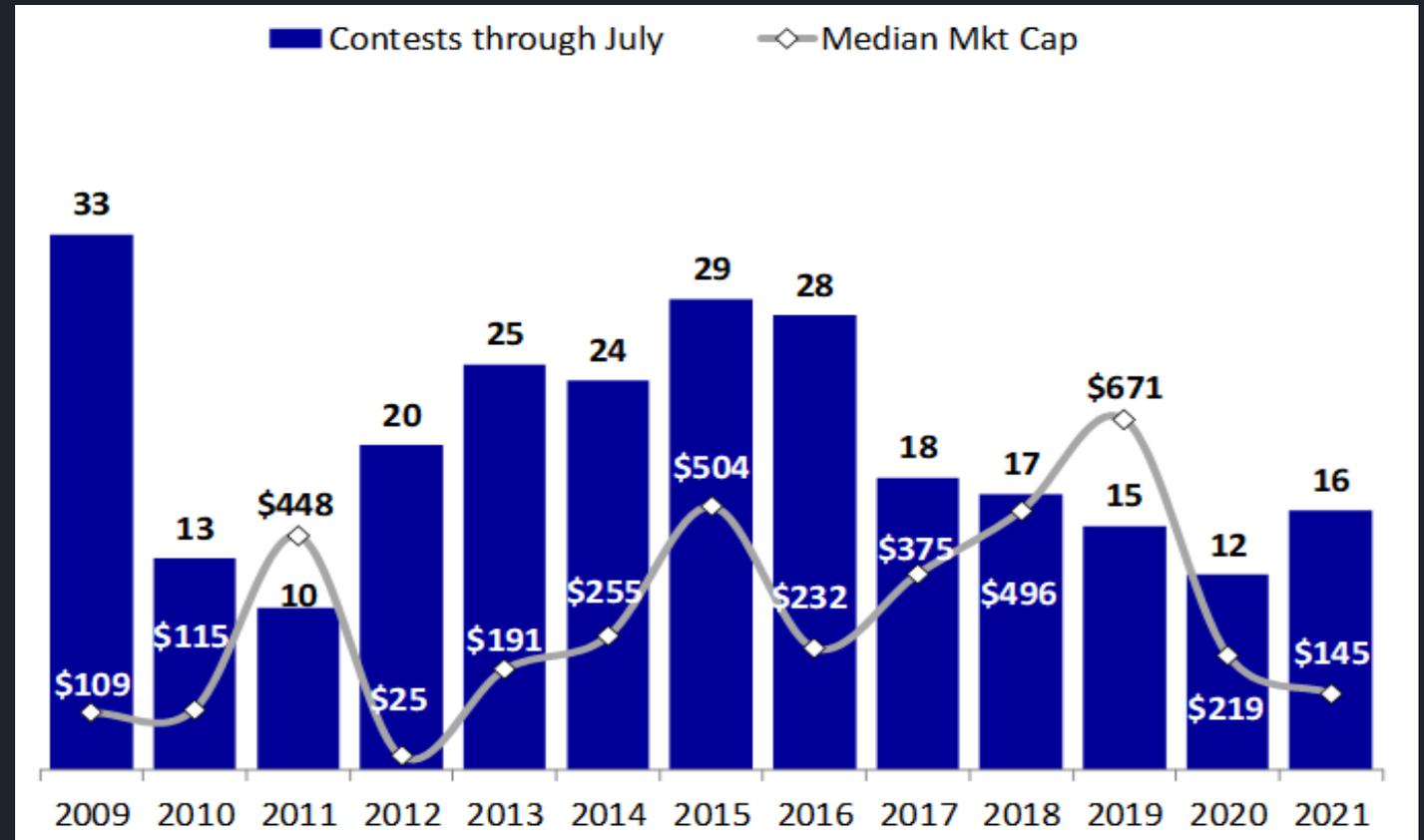
Source: ISS Governance Research & Voting



Proxy Fights: Two Stories – ExxonMobil and Everything Else

Number of contested meetings rebounds to pre-COVID levels; smaller targets; lower win rate

- **Number of Fights Back to Pre-COVID Norm**
 - Through end of July, 16 contested elections reached votes
- **Smaller Targets**
 - Median market cap thus far is \$145M
 - Lowest since 2012
- **Lower Activist Win Rate in Over a Decade**
 - 3 wins out of 16 fights so far
 - However, one of those was Exxon, which was the main story of this season



Source: ISS Special Situations Research



Canada

Key Takeaways from 2021 Proxy Season - Canada

Impact of Pandemic Continues to Be Felt

- **Compensation:** More say-on-pay votes but a drop in average shareholder support levels and a record number of failed say-on-pay resolutions
 - Executive compensation under greater scrutiny this year as many companies tweaked their standard pay practices due to pandemic impact
 - Median CEO pay decreased slightly, by c 2% across S&P/TSX Composite companies
 - Increased usage of E&S metrics in incentive programs
 - Average SoP support levels dropped to 91.7% in 2021, from 93.3% in 2020
 - Six companies failed to get majority SoP support
- **Climate:** Canada has its first say-on-climate vote and shareholders approve 2 shareholder proposals requesting future say-on-climate votes
 - Canadian National Railway gives first say-on-climate management proposal, and receives 92 percent support
 - Canadian Pacific Railway receives a shareholder proposal requesting the company give a future say-on-climate vote, which was supported by management, and receives 85 percent support
 - Climate shareholder proposal at Royal Bank of Canada receives over 30 percent support
- **Regulatory:** Climate change and diversity continue to be focus areas of regulators

Key Takeaways from 2021 Proxy Season - Canada

Impact of Pandemic Continues to Be Felt

- **Shareholder Proposals:** A marked increase in settled/withdrawn shareholder proposals lead to the lowest number of shareholder proposals voted on in recent years
 - A total of 52 shareholder proposals were withdrawn by proponents in 2021, approximately two-thirds of all shareholder proposals submitted;
 - A majority (60 percent) of the withdrawn shareholder proposals in 2021 were E&S related.
- **M&A:** Transaction volumes are nearly back to pre-pandemic levels
 - The first seven months of 2021 saw an increase in overall deal count on a year over year basis, which appears to be a consequence of COVID-19 impacting both the timing and viability of transactions being contemplated during 2020. Overall levels of M&A activity remained closer to recent historical averages observed in the Canadian market, underpinning some degree of a post-COVID return to normalcy on the M&A front.



Europe

Executive remuneration - Europe

Continued implementation of SRD II, disclosure practices and impact of pandemic on executive pay

- Remuneration report votes - first-time votes on remuneration reports were introduced in 2021 in Austria, Denmark, Finland and Sweden.
- Remuneration policy votes – in many European countries, most companies had submitted SRD II compliant remuneration policies in 2020 (or earlier)
 - However, 2021 was the first submission year for most companies in Germany, Norway and Portugal
- The disclosure of pay still varies across Europe, and disclosure of performance targets and final performance achievement levels remains poor in some countries - Belgium, Italy, Denmark, Finland, Poland.
- Some companies implemented temporary salary cuts for boards and executive management and subsequently decreased or omitted variable remuneration.
- Voting dissent on remuneration reports increased in all markets where remuneration reports were submitted for the second time or more. Likely explanations include increasing investor expectations of better transparency, and company changes to short-term and long-term pay structures in light of the pandemic without sufficient rationales provided for shareholders.

Say-on-Climate in Europe

Increased focus from management as well as shareholders in addressing climate related concerns

- Following 2020 when a few European companies were targeted by shareholder proposals asking for "say-on-climate" votes, more companies either already put forward such proposals in 2021 or committed to for future years.
- Nineteen European companies in UK, France, Spain and Switzerland - put forward management-sponsored say-on-climate resolutions for shareholder approval – and all were approved.
- Management say-on-climate proposals were particularly prevalent among carbon-intensive industries and can be attributed to the growing shareholder pressure on climate topics, which are expected to keep gaining momentum.



Japan

Key Trends from 2021 Proxy Season - Japan

Continued improvement on board independence and gender diversity; more action on climate

- **Board independence improves:** All-insider boards were once the norm in Japan, but as of June 2021, practically all Japanese boards have at least one outside director, 93.2 percent of boards have at least two outsiders, and 73.3 percent of boards have at least one-third of board members as outsiders.
- **The number of female board directors is increasing, although from a low base:** 53.1 percent of Japanese boards now have at least one female director, as of June 2021, up from 43.8 percent in 2020, and 25.8 percent in 2016.
- **Climate change proposals continue to be on ballot:** Last year, Mizuho Financial Group received the first climate-related shareholder resolution voted on at a Japanese company. This year, Mitsubishi UFJ Financial Group, Sumitomo Corp., Toyo Seikan Group Holding, and Kansai Electric Power received similar proposals.
- **Poison pills intended for specific buyers:** In a new development, some companies introduced pills intended for specific buyers. They are Fuji Kosan, Nippo Ltd., and Tokyo Soir Co. Meanwhile, the number of companies with pills which were introduced as precautionary measures when no actual takeover threat was imminent continues to decline.
- **Tokyo Stock Exchange Reorganization:** New listing section “Prime Market,” to be launched in April 2022, requires the percentage of tradable shares to exceed 35 percent of issued shares, as part of listing rules. Cross-holding shares will not be considered as tradable shares, so the new rules would prompt companies to reduce cross-holding share practices, which has long been considered as a fundamental corporate governance problem in Japan.



Asia ex-Japan

Asia ex-Japan

Proxy season trends and notable issues

Korea

- New independent director tenure limit drive board refreshment
- More companies establishing key committees

But ...

- Number of founding family members on boards remains high

India

- Director Remuneration
 - No major pay cuts for executive directors despite weak financial performance
 - Remuneration for non-executive promoter is steadily increasing
- Increase in integrated reporting

Asia ex-Japan (Cont'd)

Regulatory and Market Developments

Korea

- Board gender diversity regulation
 - Large companies (asset greater than 2 trillion Won) must have at least 1 female director by August 2022

Singapore

- Two-tiered voting for long tenured independent directors
- ESG Platform in Singapore
 - Support SGX listed companies for ESG reporting
- Climate Impact X
 - Carbon exchange and marketplace

India

- RBI Guidelines on auditor appointment
 - Rotation every three years
 - Joint auditors
- Separation of roles of Chairperson and CEO
 - Effective from April 1, 2022

Asia ex-Japan (Cont'd)

Regulatory and Market Developments

China

- Improved environmental and social disclosure
 - Revised annual and semi-annual filings report format (effective as of June 28, 2021)

Hong Kong

- Possible Changes on CG Code and Listing Rules – 2021 Consultation paper
 - Heightened restrictions on INED compensation and tenure
 - Improved gender diversity policy
 - Better disclosure on director attendance at general meetings
 - Improved timing of publication of ESG Reports



Latin America

Key Takeaways from 2021 Proxy Season - Latin America

Board representation, diversity and disclosure were among key areas of focus

- **Virtual Shareholder Meetings** have become the rule in most Latin American countries covered by ISS. The exceptions were Mexico, with most AGMs carried out in person; and Chile, with hybrid meetings surpassing the virtual-only ones. Bylaw amendments proposed by companies in Argentina, Brazil, and Peru to incorporate virtual meetings indicate that remote access to shareholder meetings will become a long-lasting trend in the region.
- **Disclosure Improves in Colombia**, where, during the 2021 proxy season, 56.3 percent of the companies with full board elections disclosed the nominees prior to the shareholder meeting. This development reinforces the improved disclosure in the market since it became a member of the Organization for Economic Cooperation and Development (OECD), in April 2020.
- **Lack of Board Gender Diversity** continues in the region with women representing between 19.2 percent (Colombia) and 8.8 percent (Peru) of corporate directors in the Latin America markets covered by ISS. Moreover, 113 of the 327 companies (34.6 percent) covered in the region, who held board elections between Jan.- April 2021 (proxy season months), remain with all-male boards. Effective as of Feb. 1, 2022, ISS will start to recommend voting against all-male boards in the region, following the policy change previously announced.

Key Takeaways from 2021 Proxy Season - Latin America

Board representation, diversity and disclosure were among key areas of focus

- **Board Representation** continued to be a hot topic for minority shareholders in Brazil during the 2021 proxy season. At least eight full board elections were carried out under the cumulative vote process, with a greater number of nominees than board seats. In the companies covered by ISS, minority shareholders succeeded in electing a total of 43 directors via the multiple avenues for minority shareholder representation provided by the Brazilian Corporate Law.
- **Minority Shareholders Seeking Installation of Fiscal Councils in Brazil**, where, out of the 154 fiscal councils installed in companies covered by ISS in 2021, 41 of them appeared to have resulted from requests made by minority shareholders through the remote voting card system, as allowed under current regulations. Minority shareholders elected 123 fiscal council representatives in 2021, and 96 of the installed fiscal councils (or 62.3 percent) had at least one minority shareholders' representative elected.
- **Executive Compensation** remains a hot topic in Brazil where one in five companies analyzed proposed material increases in global compensation caps in 2021, almost half of them in the absence of a compelling rationale. All proposals were approved by shareholders, given the prevalence of controlled companies in the country, though a small minority (12.3 percent) received support of less than 70 percent.



Climate and Other Global Environmental and Social Issue Proposal Trends

Environmental & Social (E&S) Issue Proposals Rise Around the Globe

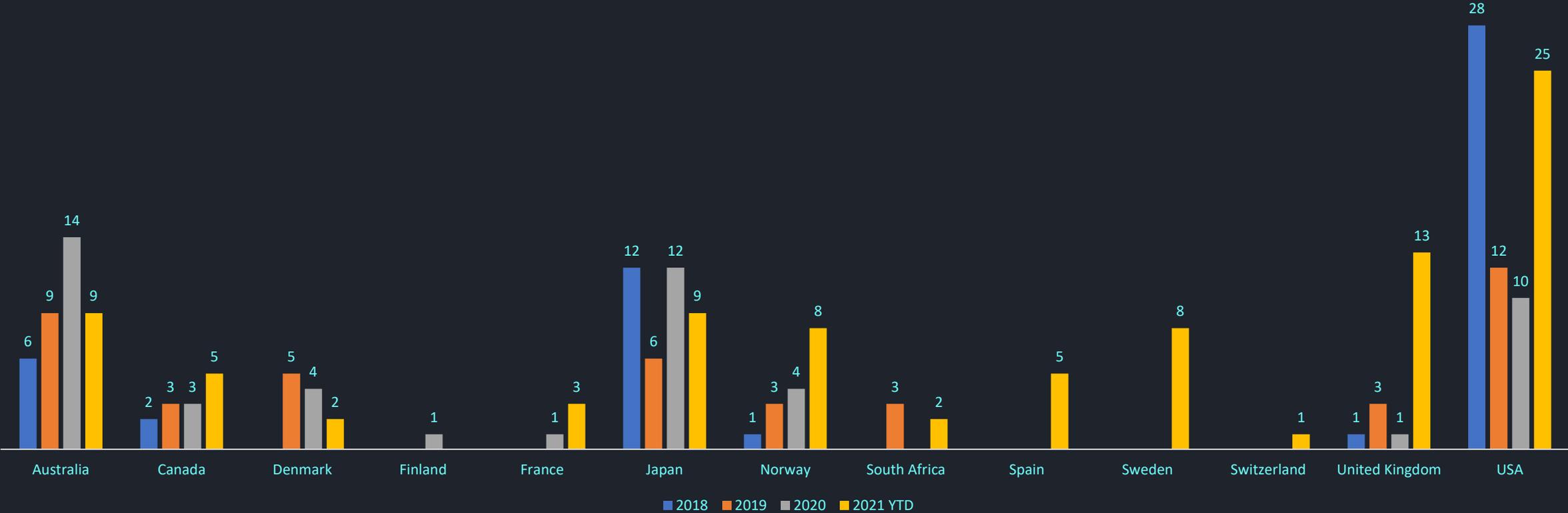
Growth driven by investor expectations and regulatory requirements around ESG disclosures

Global E&S Shareholder & Management Proposals On Ballot (Data as of 8/30/21)				
	2018	2019	2020	2021 YTD
Australia	10	17	20	6
Canada	11	20	24	17
Denmark	6	14	13	16
Finland	0	0	1	0
France	0	0	1	3
Japan	49	44	49	48
Norway	2	4	5	9
South Africa	0	4	2	2
Spain	0	0	3	5
Sweden	3	1	2	10
Switzerland	0	0	0	1
United Kingdom	1	4	3	13
USA	178	192	195	181
TOTAL	260	300	318	311

Climate Related Proposals on Ballots Appear in More Markets

In 2021, 88 proposals got on ballot in 12 markets versus 50 proposals on ballot in 8 markets in 2020

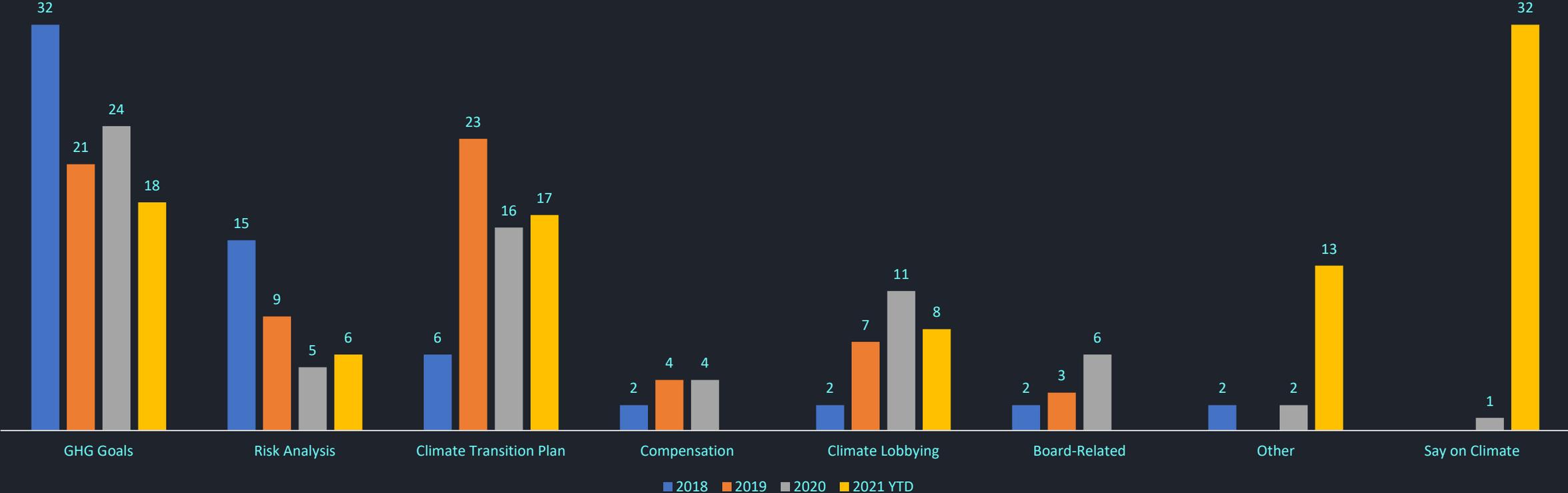
Number of Climate-Related Shareholder & Management Proposals On Ballot
(Data as of 8/30/21)



Say on Climate Proposals Rise

Proposals asking for GHG goals and climate transition plans continues; risk analysis proposals trending down

Climate-Related Shareholder & Management Proposals On Ballot - All Markets
(Data as of 8/30/21)



Expectations for 2022

- Globally
 - Focus on and support of climate related proposals are expected to grow
 - Investors are increasingly expecting companies to disclose climate transition plans aligned with Paris Agreement goal of keeping global warming below 1.5 degree Celsius and achieving net zero emissions
- U.S.
 - Racial equity audit proposals are expected to continue
 - Increasing sentiment among some investors that audits will help uncover whether companies' policies and practices are adversely impacting workers and communities of color
 - Societal issues are likely to continue to spill over into corporate governance issues
 - Increasing pressure on companies regarding treatment of their employees and a shift in attitude around the focus on creating long-term value, not just for shareholders, but for all stakeholders



Q&A