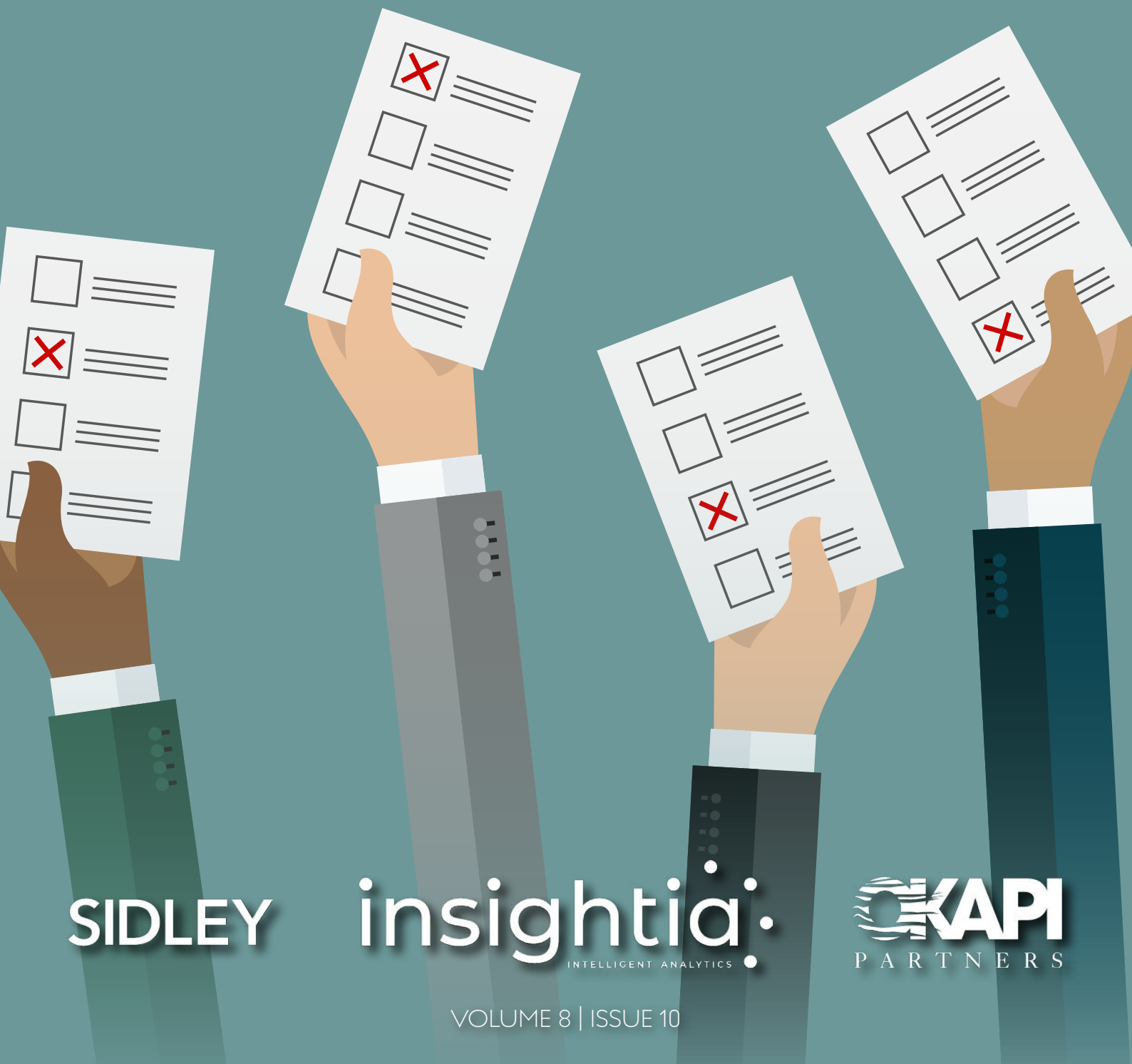


# THE PROXY VOTING ANNUAL REVIEW 2021



SIDLEY

insightia:  
INTELLIGENT ANALYTICS

**KAPI**  
PARTNERS

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# CONTENTS

THE PROXY VOTING ANNUAL REVIEW 2021

|    |                              |                                                              |
|----|------------------------------|--------------------------------------------------------------|
| 03 | FOREWORD                     | REBECCA SHERRATT, INSIGHTIA                                  |
| 05 | TOUGH LOVE                   | REBECCA SHERRATT, INSIGHTIA                                  |
| 07 | STRENGTHENING GOVERNANCE     | AMY BORRUS, COUNCIL OF INSTITUTIONAL INVESTORS (CII)         |
| 09 | STEPPING UP TO THE CHALLENGE | REBECCA SHERRATT, INSIGHTIA                                  |
| 11 | ESG AND THE INTERNET AGE     | PAT MCHUGH, OKAPI PARTNERS                                   |
| 14 | VOTING TRENDS: EUROPE        | INSIGHTIA DATA                                               |
| 15 | THE KEY PLAYERS              | INSIGHTIA EDITORIAL                                          |
| 17 | SAFETY FIRST                 | REBECCA SHERRATT, INSIGHTIA                                  |
| 19 | VOTING IN PROXY FIGHTS       | JOSH BLACK, INSIGHTIA                                        |
| 21 | IN HOT PURSUIT               | KAI LIEKEFETT & DEREK ZABA, SIDLEY AUSTIN                    |
| 23 | RENEWED SCRUTINY             | REBECCA SHERRATT, INSIGHTIA                                  |
| 25 | SOUND ADVOCATES              | TED ALLEN & RANDI MORRISON, SOCIETY FOR CORPORATE GOVERNANCE |
| 27 | PULLING TOGETHER             | JOE LYONS, INSIGHTIA                                         |
| 29 | DIVERSITY DOMINATES          | REBECCA SHERRATT, INSIGHTIA                                  |
| 31 | VOTING TRENDS: ASIA PACIFIC  | INSIGHTIA DATA                                               |

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**Insightia**

www.insightia.com  
info@insightia.com  
Twitter: @InsightiaLtd

4 Old Park Lane  
Mayfair, London, W1U 6PZ  
+44 (0) 20 7788 7772

1350 Avenue of the Americas  
New York, NY, 10019  
+1 646 475 2214



## FOREWORD

REBECCA SHERRATT  
CORPORATE GOVERNANCE EDITOR, INSIGHTIA

As institutional investors increasingly use proxy voting to demonstrate to issuers what is expected of them, corporations are waking up to the fact that there will be consequences to ignoring the wishes of their investors on a swathe of new and old topics.

The 2021 proxy season was revolutionary in many respects, as investors used their voting powers to communicate their expectations to issuers on a variety of concerns. Investors exhibited renewed interest in a myriad of ESG issues, including climate change, racial equality, and worker protections, as the pandemic emphasized the importance of robust risk oversight.

More environmental shareholder proposals won majority support than ever before, especially in the oil & gas industry. In the U.S., Europe, and Australia, shareholders made clear in their voting their expectation that issuers must establish robust decarbonization strategies or face divestment.

The Children's Investment Fund Foundation's (CIFF) "say on climate" campaign also made waves this proxy season, providing investors with a unique method by which to hold companies accountable for their net-zero transition strategies. Although the campaign received a mixed reception in the U.S., both European and Australian investors were quick to embrace the concept of annual advisory votes on corporate climate transition strategies.

Engine No. 1's proxy contest at Exxon Mobil, which resulted in the successful election of three dissident nominees to the oil major's board, highlighted how the ESG juggernaut is also crossing over into the world of activism.

Diversity concerns also shared the spotlight this proxy season. Largely in response to the 2020 Black Lives Matter protests, support for shareholder proposals seeking disclosure of corporate diversity data was near-unanimous and board diversity conversations evolved beyond issues of gender to racial and ethnic representation.

Racial equity audit shareholder proposals were another new development this proxy season. Although none of these resolutions won majority support, multiple companies committed to independent audits of their operations and more proposals of this kind are already being filed for the coming season.

Meanwhile, compensation was an especially hot topic this proxy season, as issuers grappled with the challenges posed by COVID-19. An increasing number of compensation structures faced significant investor opposition worldwide, in response to companies making controversial in-flight adjustments and failing to align executive payouts with broader stakeholder experiences.

All this makes it an exciting time to publish our 2021 *Proxy Voting Annual Review*. Making the most of the range of unique data Insightia provides to our clients, we can offer our readers unmatched data on global voting decisions, shareholder proposals, proxy contests, and corporate bylaws.

This report draws on more than 24.9 million votes imported into Insightia's voting database, *Proxy Insight Online*, for the 2021 proxy season, alongside our comprehensive voting records for more than 1,700 investors and 28,000 issuer profiles.

We are very grateful for the support and insights of our sponsors, Okapi Partners and Sidley Austin, and to the Council of Institutional Investors and Society for Corporate Governance for sharing with us their insights on the recent proxy season. We also wish to extend our thanks to the many interviewees that shared with us their perspectives on investor voting for this report.

This report, in itself, also showcases the evolution *Proxy Insight Online* has undergone in the past year. Since the merger of Activist Insight and Proxy Insight formed Insightia in October 2020, we have been proud to expand our editorial offerings, providing clients with a bigger and better *Proxy Monthly* magazine, new roundups and newsletters, as well a segment dedicated to proxy voting on *The Activist Insight Podcast*.

We hope our readers have enjoyed these new offerings and we look forward to expanding our horizons further in the coming year!

Finally, we wish all our readers a successful remainder of 2021 and a prosperous 2022. 🍀

## NOTE ON DATA:

Data included in this report are organized by proxy season, running from July 1 to June 30 and were retrieved on September 30, 2021.

Subsequent adjustments may create discrepancies with data displayed on *Proxy Insight Online*. The data include all investors that have disclosed their proxy voting, unless otherwise stated.

For the purposes of this report, categories may differ from those seen on *Proxy Insight Online*.

# TOUGH LOVE

LEADING FUND MANAGERS VOTED AGAINST MANAGEMENT MORE THAN EVER BEFORE, CALLING ON COMPANIES TO DEMONSTRATE PROGRESS ON A MYRIAD OF ESG CONCERNS, WRITES REBECCA SHERRATT.

The world’s largest index fund manager may be preparing to give up as much as 40% of its voting rights, thanks to a policy that asset owners should be able to vote on specific resolutions or according to custom policies. But BlackRock, along with Vanguard and State Street Global Advisors (SSGA), continued to be an influential bellwether in the proxy voting world this past year.

“ENVIRONMENTAL AND SOCIAL SHAREHOLDER PROPOSALS WON RECORD-BREAKING LEVELS OF SUPPORT DURING THE 2021 PROXY SEASON.”

Environmental and social shareholder proposals won record-breaking levels of support during the 2021 proxy season, thanks to leading fund managers acting on their long-standing commitments to mitigating climate change and advancing social equity.

BlackRock’s support for U.S. and Canadian environmental shareholder proposals more than tripled this proxy season to 50%, compared to 16.2% the previous proxy season. Support from Vanguard increased to 43.6%, while SSGA similarly voted for a majority of environmental proposals, according to Insightia data.

In his annual letter, BlackRock CEO Larry Fink said that COVID-19 has forced both issuers and investors to confront climate change more “forcefully,” which was reflected in BlackRock’s increased number of climate-related engagements. According to the investment giant’s proxy season review, BlackRock engaged with 2,330 companies on climate and natural capital, compared with 1,360 in the previous season.

## TRACKING PROGRESS

In the wake of the 2020 Black Lives Matter protests, BlackRock, Vanguard, and SSGA lent their support to shareholder requests for improved diversity, supporting

71.4%, 61.9%, and 47.6% of shareholder proposals seeking EEO-1 disclosure and board diversity reporting, respectively.

Historically, leading fund managers would potentially vote against shareholder proposals if companies were making “incremental progress” on an issue, Rob Zivnuska, partner at PJT Camberview, said in an interview for this report. This season, investors changed tack, voting in favor of proposals to “signal that investors want to see more progress.”

Diversity was also a major consideration for fund managers when evaluating director elections. SSGA made ambitious commitments toward advancing board diversity this proxy season, asking S&P 500 and FTSE 100 companies to disclose the racial diversity of their boards. BlackRock and Vanguard similarly announced their intention to take voting action against boards which “fall behind market norms and expectations.”

BlackRock’s proxy season review also revealed that a lack of board diversity was the second-most frequent reason the fund manager took voting action against directors, second only to a lack of board independence.

“We are seeing large investors like BlackRock and many others, clearly saying to portfolio companies that now is the time act boldly and comprehensively on justice, equity, diversity, and inclusion,” said Jonas Kron, chief advocacy officer at Trillium Asset Management, in an interview.

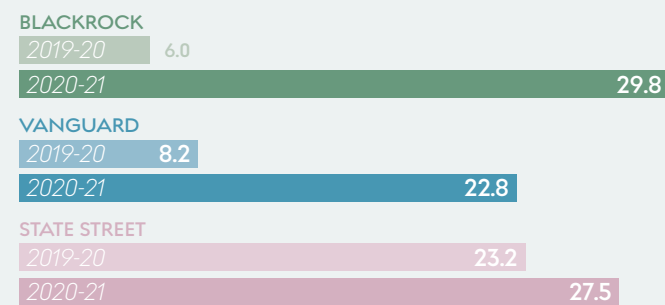
## INCENTIVIZING MANAGEMENT

Leading fund managers also took action by voting against compensation schemes that failed to align with broader stakeholder experiences during the pandemic. The increased opposition toward “say on pay” proposals on a global scale demonstrated how leading investors expected issuers to align their experiences with those of their shareholders, for better or for worse.

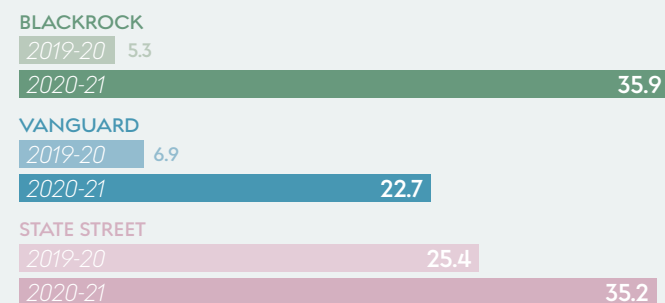
All three leading investors most frequently opposed proposals seeking to approve/amend incentive plans, reflecting how investors strongly discouraged companies from retroactively adjusting performance targets to grant awards that otherwise would have lapsed. [iQ](#)

## BIG THREE VOTING

### AVERAGE GLOBAL SUPPORT FOR ENVIRONMENTAL SHAREHOLDER PROPOSALS (%)



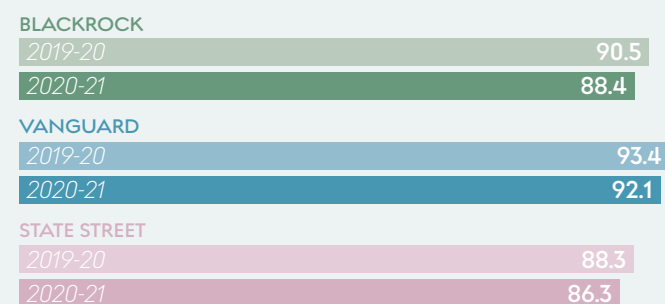
### AVERAGE GLOBAL SUPPORT FOR SOCIAL SHAREHOLDER PROPOSALS (%)



### AVERAGE GLOBAL SUPPORT FOR “SAY ON PAY” PROPOSALS (%)



### AVERAGE GLOBAL SUPPORT FOR DIRECTOR ELECTIONS (%)



SOURCE: INSIGHTIA

## BIG THREE ALIGNMENT

### ALIGNMENT FOR GLOBAL ENVIRONMENTAL SHAREHOLDER PROPOSALS (%)

|              | ISS MATCH |         | ISS AGAINST MATCH |         | GLASS LEWIS MATCH |         | GLASS LEWIS AGAINST MATCH |         |
|--------------|-----------|---------|-------------------|---------|-------------------|---------|---------------------------|---------|
|              | 2019-20   | 2020-21 | 2019-20           | 2020-21 | 2019-20           | 2020-21 | 2019-20                   | 2020-21 |
| BLACKROCK    | 70.7      | 81.0    | 98.5              | 89.4    | 83.2              | 72.0    | 98.9                      | 71.0    |
| VANGUARD     | 73.7      | 86.1    | 100               | 100     | 86.0              | 84.6    | 100                       | 91.2    |
| STATE STREET | 82.1      | 89.7    | 90.2              | 97.8    | 78.7              | 88.9    | 81.9                      | 89.6    |

### ALIGNMENT FOR GLOBAL SOCIAL SHAREHOLDER PROPOSALS (%)

|              | ISS MATCH |         | ISS AGAINST MATCH |         | GLASS LEWIS MATCH |         | GLASS LEWIS AGAINST MATCH |         |
|--------------|-----------|---------|-------------------|---------|-------------------|---------|---------------------------|---------|
|              | 2019-20   | 2020-21 | 2019-20           | 2020-21 | 2019-20           | 2020-21 | 2019-20                   | 2020-21 |
| BLACKROCK    | 32.5      | 64.0    | 100               | 100     | 48.1              | 78.9    | 100                       | 96.6    |
| VANGUARD     | 34.9      | 54.0    | 100               | 100     | 49.6              | 67.6    | 100                       | 98.3    |
| STATE STREET | 50.4      | 71.0    | 94.1              | 100     | 56.6              | 66.9    | 81.9                      | 81.4    |

### ALIGNMENT FOR GLOBAL “SAY ON PAY” PROPOSALS (%)

|              | ISS MATCH |         | ISS AGAINST MATCH |         | GLASS LEWIS MATCH |         | GLASS LEWIS AGAINST MATCH |         |
|--------------|-----------|---------|-------------------|---------|-------------------|---------|---------------------------|---------|
|              | 2019-20   | 2020-21 | 2019-20           | 2020-21 | 2019-20           | 2020-21 | 2019-20                   | 2020-21 |
| BLACKROCK    | 91.7      | 91.3    | 46.7              | 58.1    | 84.8              | 84.3    | 31.9                      | 44.8    |
| VANGUARD     | 92.4      | 92.9    | 43.5              | 53.8    | 85.7              | 86.6    | 28.8                      | 39.5    |
| STATE STREET | 91.7      | 90.8    | 53.8              | 60.6    | 81.1              | 79.7    | 30.3                      | 38.2    |

### ALIGNMENT FOR GLOBAL DIRECTOR PROPOSALS (%)

|              | ISS MATCH |         | ISS AGAINST MATCH |         | GLASS LEWIS MATCH |         | GLASS LEWIS AGAINST MATCH |         |
|--------------|-----------|---------|-------------------|---------|-------------------|---------|---------------------------|---------|
|              | 2019-20   | 2020-21 | 2019-20           | 2020-21 | 2019-20           | 2020-21 | 2019-20                   | 2020-21 |
| BLACKROCK    | 90.0      | 87.5    | 43.0              | 36.0    | 86.9              | 85.8    | 27.0                      | 31.0    |
| VANGUARD     | 93.1      | 92.3    | 54.0              | 53.1    | 88.1              | 87.7    | 20.7                      | 21.7    |
| STATE STREET | 90.1      | 89.4    | 69.0              | 69.2    | 85.2              | 84.3    | 28.8                      | 30.7    |

SOURCE: INSIGHTIA



# STRENGTHENING GOVERNANCE

AN INTERVIEW WITH AMY BORRUS, EXECUTIVE DIRECTOR, COUNCIL OF INSTITUTIONAL INVESTORS (CII).

## YOU RECENTLY COMPLETED YOUR FIRST YEAR AS EXECUTIVE DIRECTOR OF CII. WHAT DO YOU HOPE TO ACHIEVE OVER YOUR TENURE?

We are always going to be attuned to the issues of the day but we are very fortunate that the Securities and Exchange Commission's (SEC) current agenda overlaps a great deal with CII's priorities and we will be working to push those through.

In addition to monitoring the work of regulators, another topic we hope to explore in more depth is disclosure requirements for private companies. Our members are increasingly investing in private companies but one concern we have is that companies of this kind are often considered to be "behind a wall." Because of this, our members would appreciate more basic disclosures about the governance of privately-owned companies.

## CII HAS SUPPORTED LAWSUITS TO OVERTURN SEC POLICIES ON PROXY VOTING ADVISERS AND SHAREHOLDER PROPOSAL THRESHOLDS. IS THIS A NEW, MORE ASSERTIVE APPROACH FROM CII OR RECOGNITION OF THE IMPORTANCE OF THESE ISSUES?

We have filed amicus briefs on other issues in the past. In this case, we felt the rule amendments, concerning

both proxy advisers and shareholder proposals, were so egregious in terms of the challenges they present to institutional investors that we needed to support actions to overturn those rules.

Many of our members rely on proxy advisers to help make their proxy voting more manageable and to provide key research to aid decision-making. Rulemaking that would impose a more cumbersome process on proxy advisers could make it more difficult and costly for investors to carry out their responsibilities and shorten the already narrow window for assessing voting items and casting proxy votes, so this is a very fundamental issue for our members.

## THE SEC RECENTLY PUBLISHED NEW PROPOSALS FOR "SAY ON PAY" DISCLOSURES. ARE CII MEMBERS SUPPORTIVE OF THIS PROPOSED POLICY?

Many public pension fund members already publicly disclose their compensation votes. Based on this, a new mandate stipulating that institutional investors disclose how they cast "say on pay" votes won't have a significant impact on many investors. The new reporting requirements could prove cumbersome for smaller funds that may have a more difficult time tracking their votes or shares.

The new ruling also places a spotlight on share lending, which is a sensitive topic. Many institutional investors lend out shares in their portfolios to generate additional revenues. But when shares are lent out there's always the risk that they won't be recalled in time for asset owners to cast their votes.

## WHAT IS CII'S STANCE ON THE "SAY ON CLIMATE" CAMPAIGN AND DO YOU THINK THE INITIATIVE WILL GAIN TRACTION IN THE COMING YEAR?

There is certainly an investor split on this issue. Many U.S. institutional investors have expressed skepticism about "say on climate" proposals due to the difficulty of assessing a company's climate transition plan. There is also the risk that a "say on climate" proposal winning anything less than majority support could give boards cover to make only marginal progress.

Many U.S. investors prefer to hold directors accountable with their voting if they don't think a company is making good directional progress on mitigating climate risk. The Children's Investment Fund Foundation (CIFF) recently announced it will stop pressing U.S. companies to give shareholders advisory climate votes, in part due to the investor sentiment here. Still, I think the campaign will continue to gain ground in both Europe and Australia.

## WE ARE ALL WAITING WITH BATED BREATH FOR THE SEC TO ANNOUNCE ITS NEW ESG-RELATED POLICIES. WHAT CHANGES WOULD CII LIKE TO SEE IMPLEMENTED BY THE U.S. REGULATOR?

We generally support improved transparency across a range of areas, including climate change, board diversity, key workforce metrics, and political spending, to name but a few. CII generally agrees with chair Gensler that investors want and need consistent, comparable information to make informed voting decisions.

Sustainability reports are nice to have but it's just not possible to read these reports and accurately compare progress across companies or sectors. Our members' views on what constitutes as decision-useful disclosure varies widely. For example, some institutional investors want the SEC to require companies to publicly report on their Scope 1, 2, and 3 emissions, while some would be happy with just Scope 1 and 2 emissions disclosure.

## WHAT KEY ISSUES WILL CII MEMBERS BE FOCUSING ON IN THE COMING PROXY SEASON?

I think that climate change will continue to dominate investor discussions with companies. Investors will be looking to see if companies are producing credible

transition plans with milestones that can be tracked along the way.

Our members will also be engaging with issuers on diversity. Some companies are still learning how to effectively ensure that there is diverse representation on their boards. This discussion has also evolved beyond board diversity to making sure workplaces are inclusive and that talent is developed so people of all backgrounds feel that they have a path for advancement.

Dual-class share structures (DCSS) have also been a long-time focus for CII. Concentrating voting rights in a few hands can entrench management and make executives less accountable to shareholders, which is why we have been pressing companies to adopt time-based sunset provisions to convert to one-share-one-vote structures within seven years of their initial public offerings (IPO).

We recently submitted a draft discussion bill to the U.S. House Financial Services Committee that would prohibit the listing of any company with two of more classes of stock with unequal voting rights, absent a sunset provision to revert to one-share-one-vote within seven years.

A growing proportion of companies that make their debut on U.S. exchanges with DCSS are incorporating reasonable time-based sunset provisions to convert to a single class structure after a certain number of years. In fact, in the first half of 2021, nearly half of the newly-listed companies with multi-class capital structures did incorporate sunset provisions. We think it is a great step forward that sunset provisions are gaining acceptance.

THANK YOU, AMY. 



CII FILED AN AMICUS BRIEF ON SEPTEMBER 24, SUPPORTING A LAWSUIT CHALLENGING LAST YEAR'S AMENDMENTS BY THE SEC TO SHAREHOLDER PROPOSAL RULES.

# STEPPING UP TO THE CHALLENGE

IN A RECORD-BREAKING YEAR FOR ENVIRONMENTAL ENGAGEMENTS, IT BECAME EVIDENT THAT LAGGARDS WILL FACE THE WRATH OF THEIR INVESTORS, WRITES REBECCA SHERRATT.

Not only did environmental shareholder proposals experience a surge in support in the 2021 proxy season, but the “say on climate” campaign and Engine No. 1’s proxy contest at Exxon Mobil marked a change in perspective for investors this year.

Average support for the 108 environmental shareholder proposals subject to a vote globally almost doubled this proxy season to 27.2%, compared with 16.6% and 18.7% in the previous two proxy seasons, according to Insightia data.

### FUEL TO THE FIRE

Across the globe, shareholders directed their attention to the oil and gas industry. In the U.S. and Europe, Follow This led the charge, with three of its proposals seeking emissions reduction targets at Chevron, Phillips 66, and ConocoPhillips winning majority support.

In Australia, these efforts were supported by the Australasian Centre for Corporate Responsibility (ACCR) and Market Forces, which pressed Santos and Woodside Petroleum to provide shareholders with advisory climate transition plan votes at their 2022 annual meetings.

Shareholder proposals weren’t the only strategy investors adopted to press oil and gas companies to accelerate their engagement with climate concerns. Hedge fund Engine No. 1 won three of four board seats at Exxon after a campaign based on the oil major’s failure to establish robust climate transition targets and fund low-carbon sources of energy, emphasized that the company’s heavy investment in fossil fuels left it at risk of being outpaced by peers.

Institutional investors certainly seemed to agree with the activist’s assertions, with more than 130 investors issuing a letter to the Exxon board in February, arguing that the oil company’s direction remained “incompatible with the reality of climate change.” Vanguard, State Street Global Advisors (SSGA), and BlackRock also lent their support, Vanguard and SSGA voting in favor of two dissident nominees, while BlackRock supported three.

### HAVING YOUR “SAY”

Another new development in the 2021 proxy season saw shareholder requests for the disclosure of corporate climate

transition plans, a concept first established by the Children’s Investment Fund Foundation (CIFF).

Eight shareholder proposals seeking disclosure of climate transition plans and the adoption of an advisory climate vote were subject to a vote in the 2021 proxy season, winning 44.7% support on average. Globally, 15 companies voluntarily provided shareholders with advisory climate votes.

“Where shareholders deem it appropriate, an advisory vote can be powerful because provides a transparent mechanism for shareholders to communicate where plans and performance are insufficient,” Michael Hugman, director of climate finance at CIFF, told Insightia.

“Say on climate” proposals are continuing to gain widespread adoption in both the U.K. and Australia but failed to win the favor of U.S. investors, which expressed concerns regarding the potential risk of greenwashing and reducing director accountability. In response to these concerns, CIFF told Insightia in August that it will no longer seek annual advisory votes from U.S. issuers. The campaign will instead focus on “disclosure of emissions and a climate action plan to manage those emissions down,” Hugman said.

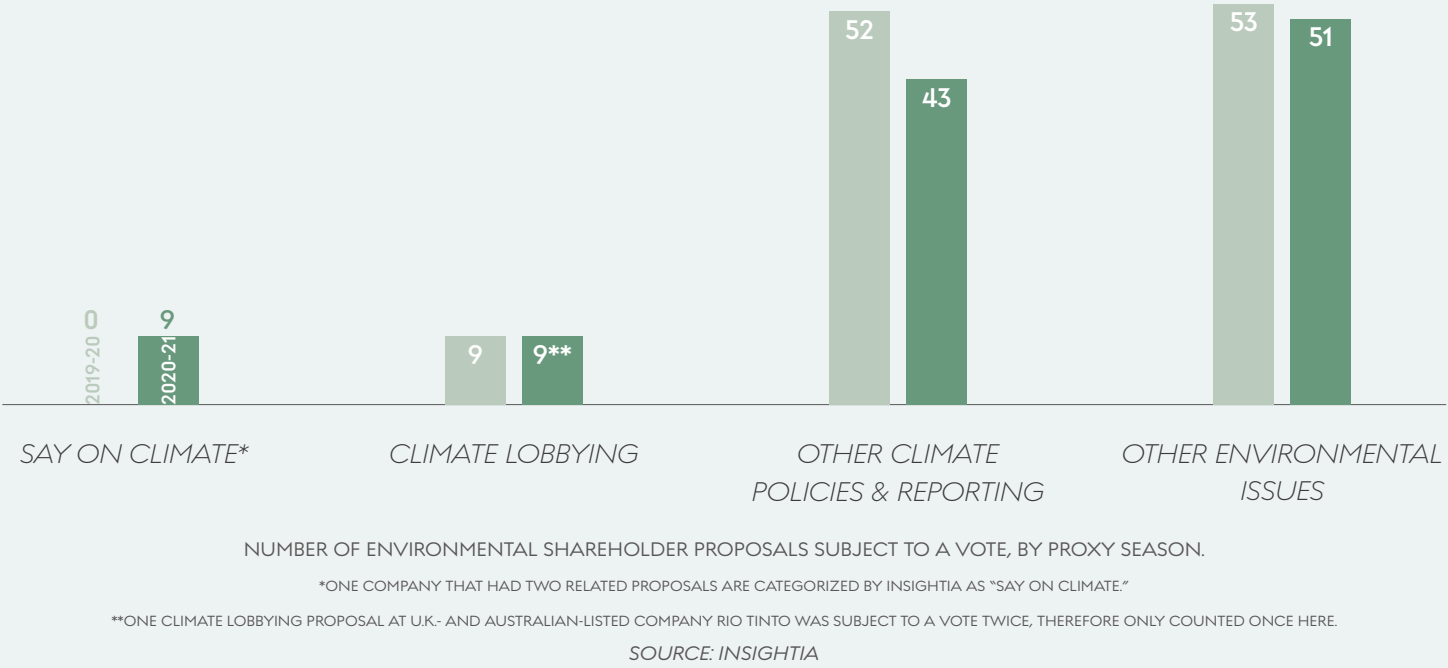
### INTEGRITY MATTERS

Climate lobbying resolutions also gained prominence this proxy season and proved very successful among investors. Nine proposals seeking reporting on the alignment between lobbying payments and corporate climate commitments were subject to a vote in the 2021 proxy season, winning 56.9% support on average.

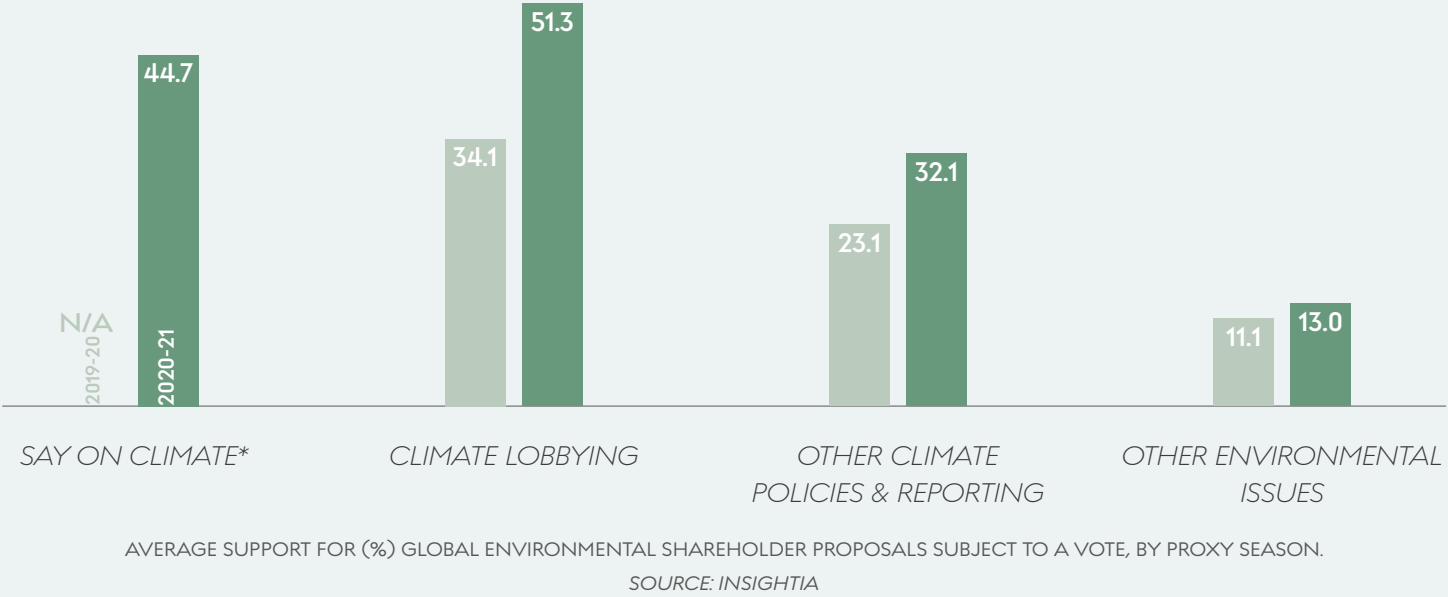
“Alignment of climate lobbying to the goals of the Paris Agreement is critical for mitigating climate risk,” Jeffery Perkins, executive director at Friends Fiduciary and the proponent of Norfolk Southern’s climate lobbying resolution, told Insightia in an interview. “This is an issue of company integrity.”

Next year, climate-related policy updates from the Securities and Exchange Commission (SEC) will play a significant part in shaping the future of environmental engagements. 

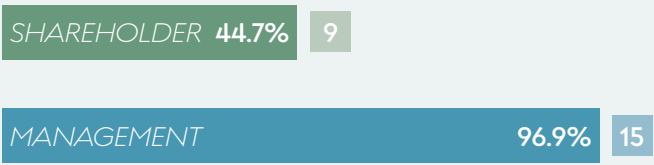
## GLOBAL ENVIRONMENTAL SHAREHOLDER PROPOSALS



## GLOBAL ENVIRONMENTAL SHAREHOLDER PROPOSAL SUPPORT (%)



## SUPPORT FOR SAY ON CLIMATE PROPOSALS (%)



## BIGGEST SUPPORT INCREASES

|                                    | FOR (%) |         | CHANGE (pp) |
|------------------------------------|---------|---------|-------------|
|                                    | 2019-20 | 2020-21 |             |
| TEACHER RETIREMENT SYSTEM OF TEXAS | 29.7    | 62.7    | +33.0       |
| CAPITAL GROUP                      | 3.3     | 36.1    | +32.8       |
| NORGES BANK INVESTMENT MGMT.       | 21.6    | 51.0    | +29.4       |
| LEGAL & GENERAL INVESTMENT MGMT.   | 43.2    | 71.9    | +28.7       |
| NEW YORK CITY PENSION FUNDS        | 36.4    | 64.2    | +27.8       |

INVESTORS EXHIBITING THE BIGGEST INCREASE IN SUPPORT FOR ENVIRONMENTAL SHAREHOLDER PROPOSALS IN 2020-21.

SOURCE: INSIGHTIA



## ESG AND THE INTERNET AGE

NEW ISSUES ARE COMING TO THE FORE BUT SHAREHOLDER COMMUNICATION REMAINS THE BEST WAY TO AVOID UNPLEASANT SURPRISES, ACCORDING TO PAT MCHUGH, FOUNDER AND SENIOR MANAGING DIRECTOR OF OKAPI PARTNERS.

### HOW MUCH OF A WATERSHED WAS THE 2021 PROXY SEASON FOR ESG ISSUES?

This proxy season was extremely busy and in many ways it's not over yet. We saw interest in E&S issues really come to the fore with sustainability and diversity, equity, and inclusion (DEI) being the major priorities. The interest in these issues from investors is widespread – in all industries and market capitalizations. We've seen a major increase in our corporate clients reaching out to us to facilitate E&S-focused meetings with investors.

"Say on pay" was also a key issue with some large-cap companies failing to garner majority support for proposals. Pandemic-related adjustments in executive compensation programs, especially long-term incentive (equity) compensation, drove increased concerns from investors. Companies need a strategy to communicate with their shareholders about these issues before next year's proxy season and to begin executing on that strategy now.

### HOW SHOULD COMPANIES APPROACH THE "SAY ON CLIMATE" CAMPAIGN IN 2022?

The Children's Investment Fund Foundation (CIFF) has revised its "say on climate" strategy for U.S.-listed companies and no longer intends to seek annual advisory votes. Many U.S. fund managers were concerned that the campaign would reduce director accountability for climate oversight and heighten the risk of greenwashing. Accordingly, we urge clients to consider a nuanced approach. Companies need to recognize that more investors have a greater focus on environmental matters than ever before but there is not yet an agreed process to measure progress. With that evolution in mind, we urge clients to engage with their investors before deciding on a plan of action on this issue.

### WHAT STEPS CAN COMPANIES TAKE TO DEMONSTRATE THEY ARE PROACTIVELY MAINTAINING OVERSIGHT OF BOARD AND WORKPLACE DIVERSITY?

First off, some boards of directors may be tempted to dismiss an activist investor's focus on diversity as a cynical

ploy to exploit the current zeitgeist. But the fact remains that many investors – not just activists – view diversity in the boardroom and among the workforce as critical factors in a company's performance – and a failure to address such issues as a significant risk to value.

Companies need to lay out the facts for their investors and have a clear plan to address any deficiencies. Regular engagement with shareholders on this issue is critical. If your management and board have maintained an open channel of communication with shareholders, it's less likely that an activist will uncover some heretofore undiscovered area of disagreement that can become the focus of a successful campaign.

### HOW HAS THE RISE OF RETAIL SHAREHOLDER ACTIVITY AFFECTED VOTING AND PROXY SOLICITATION?

Retail investors have a significant impact on the outcome of election campaigns and sometimes more than any individual investor appreciates. As a proxy solicitor we know this well because of our work on behalf of companies, investment management firms, and mutual funds. The challenge with retail investors is overcoming their apathy, especially when the mail has been disrupted by the pandemic and people are giving up their landlines and not answering calls from unknown numbers on their cell phones.

So, it's a huge challenge to get individual investors to vote using traditional methodology, but if you have a tailored and smart strategy, you can get things done. We are helping companies use social media, including Reddit and Twitter, to reach their retail shareholders while staying on brand and within compliance. We're also using our comprehensive StockWatch abilities to understand the changing shareholder base to ensure we're reaching out the right targets.

THANK YOU, PAT. 

# Unrivaled Insight



**OKAPI PARTNERS** provides proxy solicitation, information agent, stock surveillance and corporate governance advisory services with **UNRIVALED INSIGHT** into how investors respond and make voting decisions. We design and execute thoughtful, results-oriented strategies that ensure our clients succeed in any scenario requiring an **INVESTOR RESPONSE**. We offer clients superior intellectual capital, extensive industry relationships and unmatched execution capabilities.



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1212 Avenue of the Americas, 24<sup>th</sup> Floor  
New York, NY 10036  
+1.212.297.0720

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# VOTING TRENDS

Social shareholder proposals among European issuers have fluctuated in number in recent proxy seasons.

## ALL SOCIAL PROPOSALS

SOURCE: INSIGHTIA

After support for directors at European-listed issuers remained stagnant for three years, the 2021 proxy season demonstrated that investors are placing a renewed emphasis on the importance of board diversity and are willing to vote against laggards. 

SOURCE: INSIGHTTIA

# THE KEY PLAYERS

A SELECT FEW FUND MANAGERS AND SHAREHOLDER ADVOCACY ORGANIZATIONS HELPED TO CHANGE THE TERMS OF ENGAGEMENT THIS PROXY SEASON. HERE ARE OUR TOP TRENDSETTERS FOR THE YEAR JUST PASSED.

## THE CHILDREN'S INVESTMENT FUND (TCI) AND THE CHILDREN'S INVESTMENT FUND FOUNDATION (CIFF)

FOUNDED: 2003 (TCI), 2002 (CIFF) | AUM: \$40B | PROXY INSIGHT ONLINE NEWS STORIES: 122

Despite some changes in approach, the “say on climate” campaign launched by TCI and CIFF revolutionized the way in which issuers and investors addressed climate risk this proxy season.

The initiative, which seeks to provide investors with an annual advisory vote on a company's climate transition plan, began at Spanish airline Aena's 2020 annual meeting. Since then, eight shareholder proposals seeking advisory climate votes have been subject to a vote in the 2021 proxy season and 15 companies voluntarily provided shareholders with

annual votes on decarbonization strategies. However, U.S. investors have been apathetic about the prospect of annual votes on progress, instead demanding greater disclosure.

“Companies should not be rewarded for modest improvements, or even for being best in class, if they are still not Paris-aligned,” Michael Hugman, director of climate finance at CIFF told in an interview for this report. “Where investors vote against a plan or performance, they should also vote against specific directors, and an annual meeting vote can help coordinate that further accountability action.”

“WHERE INVESTORS VOTE AGAINST A PLAN OR PERFORMANCE, THEY SHOULD ALSO VOTE AGAINST SPECIFIC DIRECTORS, AND AN ANNUAL MEETING VOTE CAN HELP COORDINATE THAT FURTHER ACCOUNTABILITY ACTION.”

## STATE STREET GLOBAL ADVISORS (SSGA)

FOUNDED: 1978 | AUM: \$3.9T | PROXY INSIGHT ONLINE NEWS STORIES: 77

SSGA served as one of the key figureheads driving the demand for improved diversity disclosure this proxy season. In February, members of the Corporate Call to Action: Coalition for Equity & Opportunity (CEO), an investor initiative founded by the Connecticut Office of the Treasurer and the Ford Foundation, announced a commitment to publicly disclose their EEO-1 surveys, a concept first proposed by SSGA itself.

“The biggest challenge when engaging with companies on racial and ethnic diversity is data, understanding the racial

makeup of board or wider workforce in order to be able to have that conversation,” said Robert Walker, global co-head of asset stewardship at SSGA, in an interview in *Proxy Monthly's* June edition.

This year, SSGA asked S&P 500 and FTSE 100 companies to disclose the racial diversity of their boards. In 2022, the fund manager will go a step further, taking voting action against S&P 500 companies and FTSE 100 companies that don't have at least one director from an underrepresented community.

## SOC INVESTMENT GROUP AND SERVICE EMPLOYEES INTERNATIONAL UNION (SEIU)

FOUNDED: 2006 & 1921 | AUM: \$250M & \$1T | PROXY INSIGHT ONLINE NEWS STORIES: 157 & 24

U.S. fund manager SOC Investment Group, formerly known as Change to Win Investment Group (CtW), and SEIU filed the first racial equity audit shareholder proposals this proxy season. These proposals were unique in asking leading U.S. banks and fund managers to analyze their policies relating to racial and ethnically diverse stakeholders and think more broadly about their business practices.

“What brought about our idea to file racial equity audits was corporations issuing supporting statements in response to the Black Lives Matter (BLM) protests,” Edgar Hernández, assistant director, SEIU, said in an interview for this report. “We wanted a method to hold these companies

accountable because companies can say they support the BLM movement but, on the other hand, could support organizations that discourage engagement with these issues.”

The eight proposals subject to a vote seeking racial equity audits averaged 33.1% support from investors in the 2021 proxy season, despite multiple attempts from proponents, including Citigroup and JP Morgan, to exclude the resolutions. Expect to hear more about racial equality audits in 2022, including in the food and technology sectors.

## ENGINE NO. 1

FOUNDED: 2020 | AUM: \$240M | PROXY INSIGHT ONLINE NEWS STORIES: 48

Activist hedge fund Engine No. 1 made headlines with its first campaign, a proxy contest against U.S. oil supermajor Exxon Mobil mere weeks after the fund's inception. Engine No. 1's campaign, which attacked Exxon's “shortsighted view” of the Paris Agreement and commitment to “aggressive oil and gas capital expenditure plans,” pioneered a new model for activists and their supporters, including the California State Teachers' Retirement System (CalSTRS), which described its supporting role as “activist stewardship.”

Not only was Engine No. 1 successful in electing three of its four nominees, its next venture put engagement and voting center-stage with the launch of its Transform 500 ETF, which will aim to “generate long-term value while bringing action to the most critical ESG issues facing companies.” The ticker: VOTE.

## FOLLOW THIS

FOUNDED: 2005 | PROXY INSIGHT ONLINE NEWS STORIES: 42

Follow This served as a key driving force behind many environmental engagements with European oil majors in recent years, but the 2021 proxy season was the first time the responsible investment firm's proposals made it onto the proxy ballots of U.S. oil giants.

Follow This' resolutions, seeking Scope 1, 2, and 3 emissions reduction targets, were a resounding success in the U.S., winning majority support at Chevron's, Phillips 66's, and ConocoPhillips' annual meetings.

“The resolutions put forward by Follow This send a clear message that shareholders need to see more determined action beyond eye-catching net-zero ambition targets,” said Natasha Landell-Mills, head of stewardship at Sarasin & Partners, in an interview.

It was also a successful proxy season for Follow This in Europe. The advocacy organization's refilled emissions reduction proposals at Royal Dutch Shell and BP more than doubled in support compared to previous years, highlighting that oil and gas companies will have little choice but to engage with investor demands. [iQ](#).

# SAFETY FIRST

INVESTORS DEMONSTRATED A RENEWED FOCUS ON WORKPLACE SAFETY AND HUMAN RIGHTS ABUSES THIS PROXY SEASON, AS COVID-19 HIGHLIGHTED THE IMPORTANCE OF ROBUST SAFETY MEASURES, WRITES REBECCA SHERRATT.

The dangers posed by the pandemic led to a renewed investor focus on worker protections among food and retail firms in the 2021 proxy season. As a result, the 10 shareholder proposals seeking human rights due diligence reporting at U.S.-listed companies won an average of 34.1% support this proxy season, compared to 17 proposals winning 29.1% support the previous season, according to Insightia data.

“INVESTORS REALIZE THAT ENSURING THAT LABORERS ENJOY ROBUST HUMAN RIGHTS PROTECTIONS MITIGATES THE RISK OF FINANCIAL SHOCKS THAT ACCOMPANY COVID-19.”

“The pandemic is shining a bright light on the financial havoc wreaked on supply chains and companies’ own operations when management fails to ensure strong human rights protections,” said Diana Kearney, senior legal and shareholder advocacy advisor at Oxfam America, in an interview for this report. “Investors realize that ensuring that laborers enjoy robust human rights protections mitigates the risk of financial shocks that accompany COVID-19.”

Investors were proactive in communicating with portfolio companies on their heightened expectations surrounding human rights reporting. More than 200 investors, backed by the Investor Alliance for Human Rights, published an open letter to 106 companies in May, calling for increased disclosure of human rights policies, amid concerns that “companies have not assessed associated risks or determined how best to mitigate them.”

The food sector was subject to multiple shareholder proposals seeking human rights due diligence reporting, in response to pandemic-related risks. A resolution filed by the Franciscan Sisters of Allegany that asked Wendy’s to improve its COVID-19 worker protections, was approved by an overwhelming 95.3% of votes. Unusually, the U.S. fast food chain opted to endorse the resolution, after the Securities

and Exchange Commission (SEC) denied the restaurant’s no-action request.

Various controversies also brought worker protections to the forefront of investors’ minds. Tyson Foods came under fire for its “inadequate” employee protections, which resulted in 10,000 reported positive cases of COVID-19 at the S&P 500 food processing company’s factories and 35 worker deaths.

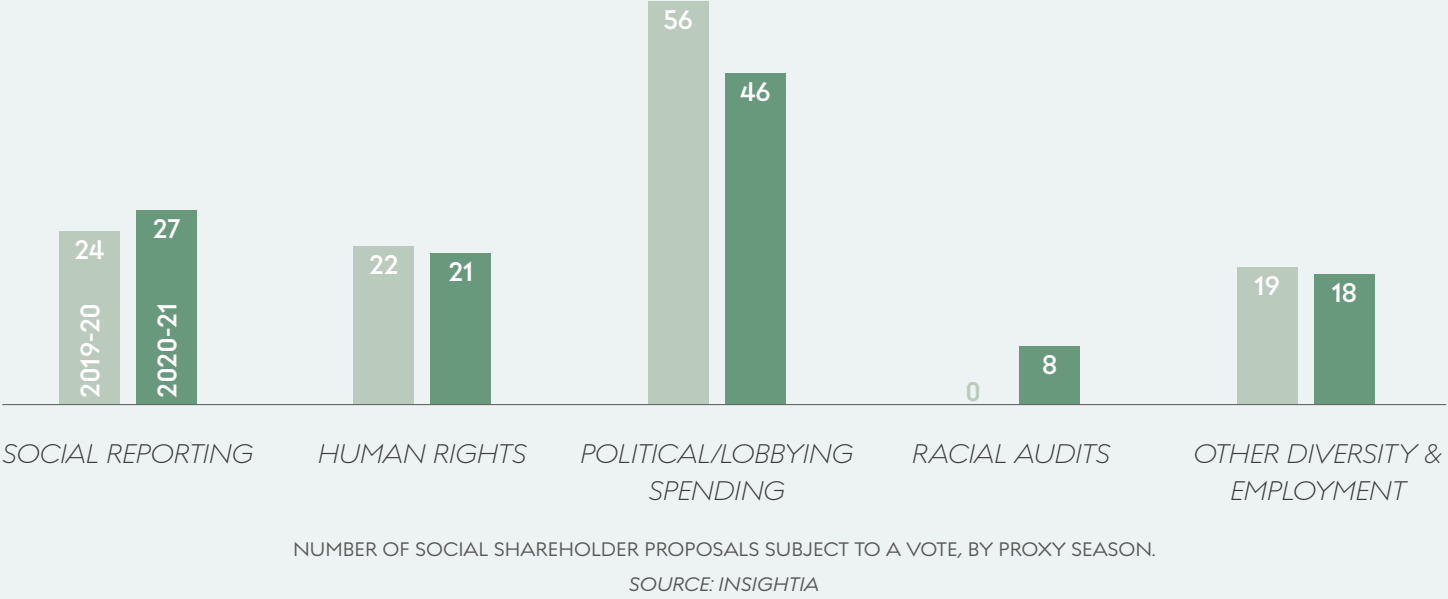
A proposal filed by the American Baptist Home Mission Society at closely controlled Tyson, seeking human rights due diligence reporting, won more than 80% support from outside shareholders at the company’s February 11 annual meeting. Aviva Investors went one step further, voting against the re-election of five of Tyson’s directors, due to “poor handling of board responsibilities.”

Human rights proposals won the favor of multiple investors, with Calvert Research and Management, Allianz Global Investors, and Schroders among the investors to support every human rights shareholder proposal subject to a vote this proxy season.

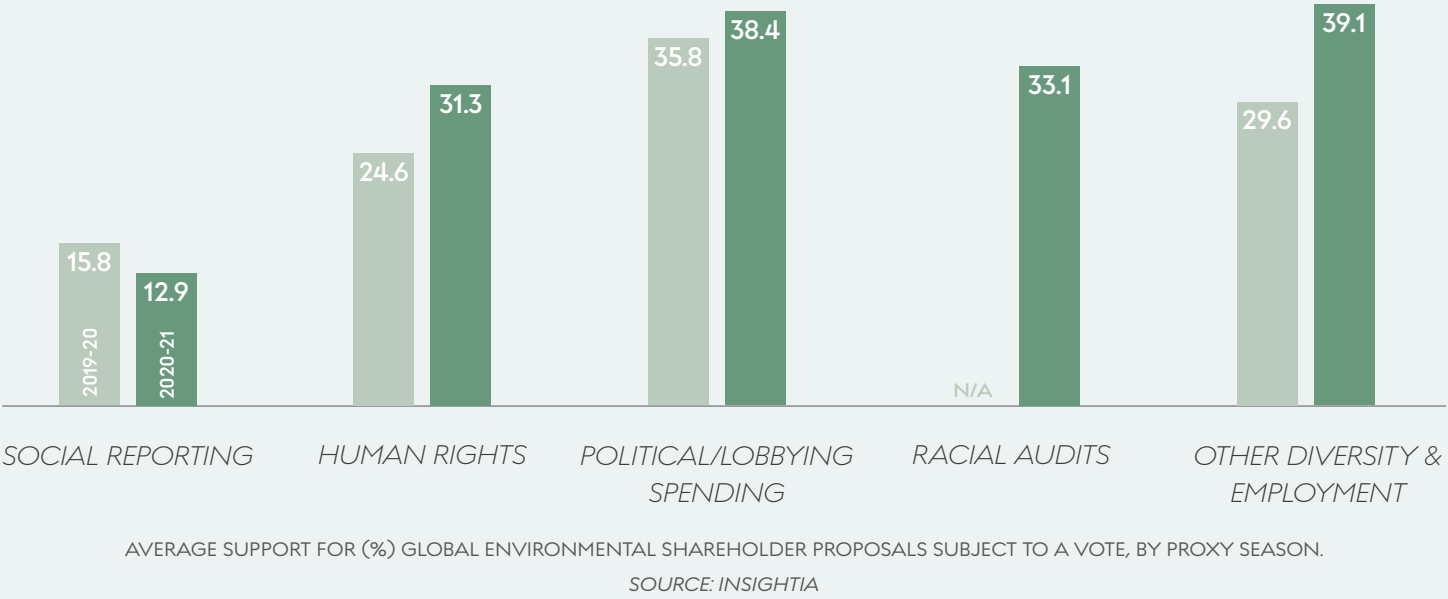
BlackRock’s and Vanguard’s support for human rights proposals was less impressive, each supporting three of the 10 resolutions subject to a vote. However, BlackRock noted in its 2021 proxy season review that the pandemic “shed light into the work companies still have ahead to improve human rights-related risks,” and advised that issuers would be wise to “strengthen their policies and procedures,” in line with the Sustainability Accounting Standards Board’s (SASB) materiality framework.

As the pandemic continues to remain in the forefront of investors’ minds, shareholders are likely to remain actively engaged on issues of human rights abuses. “We anticipate that as more and more investors appreciate the direct relationship between respecting human rights and a company’s bottom line, this will become a focal point of more investor-company dialogues and shareholder resolutions,” Oxfam’s Kearney said. [iQ](#)

## GLOBAL SOCIAL SHAREHOLDER PROPOSALS



## SUPPORT FOR GLOBAL SOCIAL SHAREHOLDER PROPOSALS (%)



## SEC NO-ACTION REQUESTS

|                                                | SEC<br>ACCEPTED | WITHDRAWN | SEC<br>REJECTED | RECONSIDERATION<br>DENIED |
|------------------------------------------------|-----------------|-----------|-----------------|---------------------------|
| CREATE SOCIAL REPORT                           | 12              | 3         | 9               | -                         |
| APPROVE/AMEND DIVERSITY/EEO POLICY             | 10              | 4         | 3               | 1                         |
| CREATE POLITICAL/LOBBYING CONTRIBUTIONS REPORT | 3               | 6         | 3               | -                         |
| CREATE HUMAN RIGHTS REPORT                     | 4               | 1         | 3               | 1                         |
| CREATE BOARD DIVERSITY REPORT                  | 2               | 4         | -               | -                         |

OUTCOMES OF THE MOST FREQUENT SOCIAL SEC NO-ACTION REQUESTS IN 2020-21.  
SOURCE: INSIGHTIA

## BIGGEST SUPPORT INCREASES

|                     | FOR (%) |         | CHANGE (pp) |
|---------------------|---------|---------|-------------|
|                     | 2019-20 | 2020-21 |             |
| AMERICAN CENTURY    | 18.8    | 67.2    | +48.4       |
| LORD ABBETT & CO.   | 17.2    | 52.6    | +35.4       |
| CAPITAL GROUP       | 3.5     | 37.1    | +33.5       |
| BLACKROCK           | 5.4     | 35.9    | +30.6       |
| GE ASSET MANAGEMENT | 12.8    | 43.2    | +30.4       |

INVESTORS EXHIBITING THE BIGGEST INCREASE IN SUPPORT FOR SOCIAL SHAREHOLDER PROPOSALS IN 2020-21.  
\*LIMITED TO INVESTORS WITH \$100B+ AUM WHO VOTED AT LEAST 25 MEETINGS EACH PROXY SEASON.  
SOURCE: INSIGHTIA

# VOTING IN PROXY FIGHTS

ALTHOUGH MOMENTUM SWUNG BACK BEHIND MANAGEMENT AS ACTIVISTS FILTERED IN THE 2021 PROXY SEASON, SOME NOTABLE EXCEPTIONS SUGGEST BOARDS CANNOT BE COMPLACENT, WRITES JOSH BLACK.

The 2021 proxy season marked a disappointing year for activist investors, with management winning four-fifths of U.S. proxy contests tracked by Insightia that went all the way to a vote. Although Engine No. 1’s surprise victory over Exxon Mobil put boards on notice, especially to the new threat of ESG-flavored proxy fights, institutional investors were sparing in their support for dissident slates.

In contrast to the outcome of that contest, in which the four biggest and six of the top 10 institutional shareholders voted on the dissident card, Insightia data suggest that the 23 asset managers with at least \$100 billion under management which voted in at least 10 proxy fights only voted on the dissident card a quarter of the time, on average. Only one voted on the dissident card in more than one-third of contests.

Indeed, the California State Teachers’ Retirement System (CalSTRS), which described its vocal backing of Engine No. 1’s campaign from the outset as “activist stewardship,” only supported dissidents in four out of nine contests during the 2021 proxy season.

The contrast to 2020, when activist victories were surprisingly common despite investors acknowledging that boards and management teams were fighting the first wave of COVID-19, is stark. Although settlements continued to be

plentiful, the likes of Carl Icahn and Ancora Advisors were dealt unfamiliar blows. After the completion of the 2021 season, Starboard Value lost its first proxy fight since 2012, in a second consecutive campaign at Box.

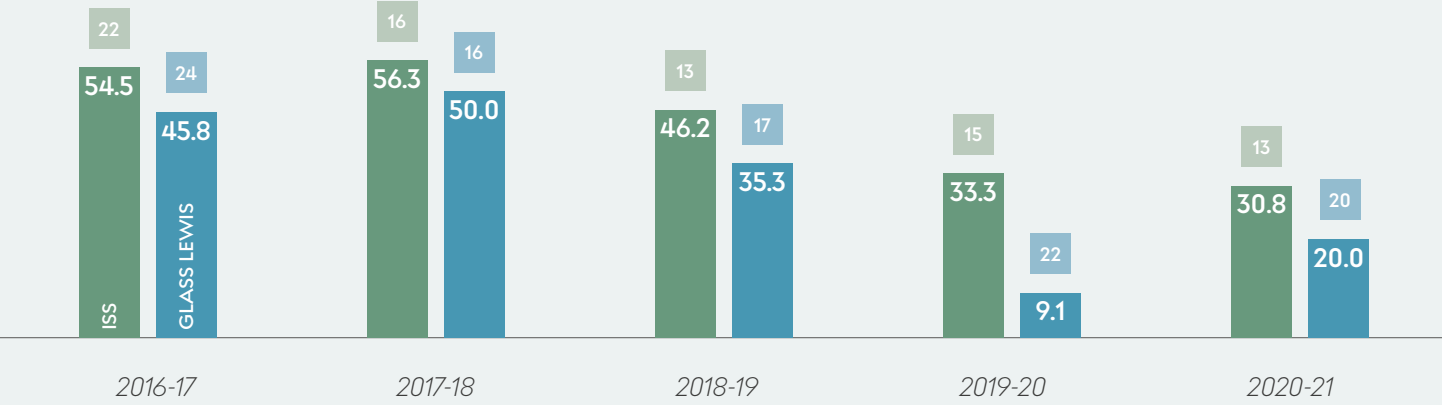
On the other hand, a hostile takeover attempt at CoreLogic by Senator Investment Group and Cannae Holdings in November 2020 saw the dissidents establish a beachhead of three board seats. The campaign ended with the company taken private by a private equity firm after a bidding war. Other M&A-driven proxy fights, such as Standard General at Tegna, were less successful.

The relatively small number of proxy fights and idiosyncrasies of each one ensures that trends are sometimes short-lived. But the tough reception for activists in part reflects declining support for dissidents from proxy voting advisers. According to Insightia’s synthetic recommendation calculator, Institutional Shareholder Services (ISS) recommended for the dissidents in just nine contests over the 2020 and 2021 proxy seasons – an average of 32% of contests across the two years. That was down from an average of 52% in the three prior seasons. Glass Lewis, which was tougher than ISS in 2020 and on par for 2021, has also leaned more toward management since before the pandemic. [iQ](#)



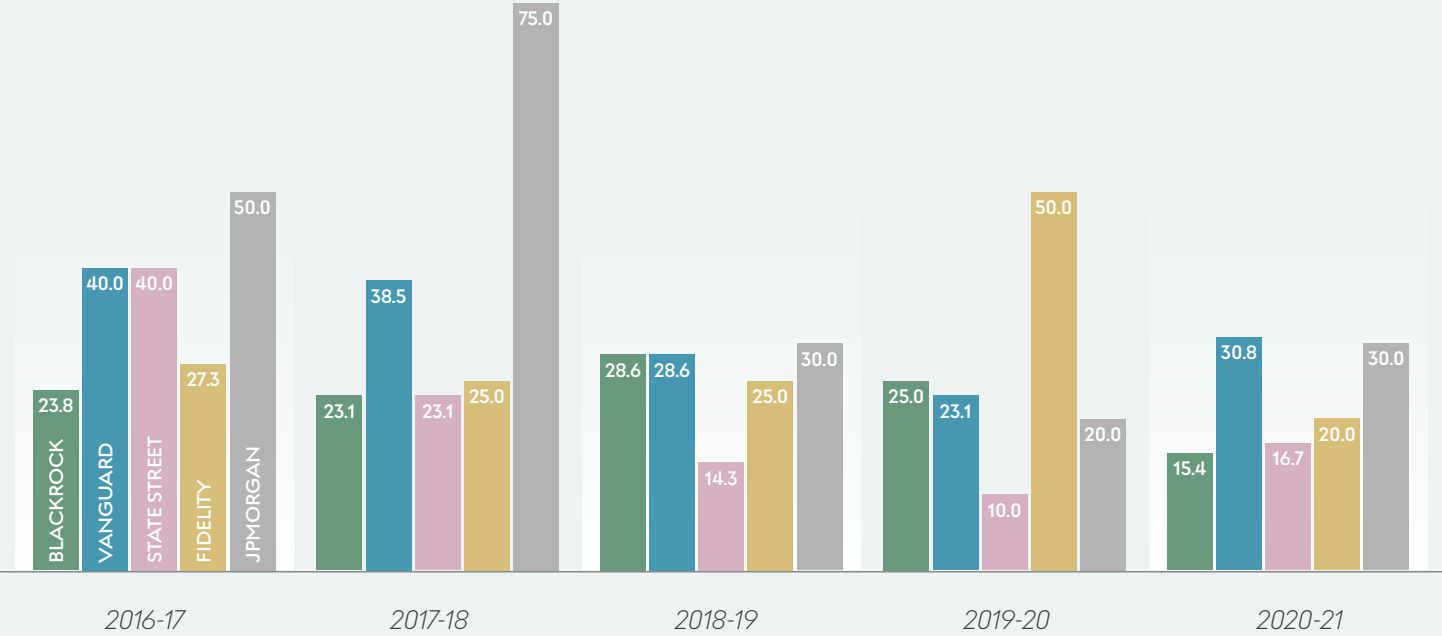
STARBOARD VALUE LOST ITS FIRST PROXY FIGHT SINCE 2012 THIS PROXY SEASON, IN ITS SECOND CONSECUTIVE CAMPAIGN AT BOX.

## PROXY ADVISER SUPPORT FOR DISSIDENTS (%)



ISS AND GLASS LEWIS % SUPPORT FOR AT LEAST ONE DISSIDENT NOMINEE AT U.S.-BASED PROXY CONTESTS WHERE RECOMMENDATIONS ARE AVAILABLE, BY PROXY SEASON. (NUMBER OF PROXY CONTESTS WHERE RECOMMENDED IN SQUARE)  
SOURCE: INSIGHTIA

## BIG FIVE SUPPORT FOR DISSIDENTS (%)



SUPPORT FROM BLACKROCK, VANGUARD, STATE STREET, FIDELITY, AND JPMORGAN FOR AT LEAST ONE DISSIDENT NOMINEE AT U.S.-BASED PROXY CONTESTS, BY PROXY SEASON.  
SOURCE: INSIGHTIA

## PROXY CONTEST OUTCOMES

|                                 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---------------------------------|---------|---------|---------|---------|---------|
| MANAGEMENT VICTORY              | 11      | 8       | 10      | 13      | 12      |
| DISSIDENT WON AT LEAST ONE SEAT | 8       | 9       | 3       | 7       | 3       |
| LATE SETTLEMENT                 | 4       | 1       | 4       | 3       | 5       |
| DISSIDENT WITHDREW              | 1       | -       | 1       | 2       | 2       |

OUTCOMES OF U.S.-BASED PROXY CONTESTS, BY PROXY SEASON.  
SOURCE: INSIGHTIA

NOTE: PROXY INSIGHT ONLINE AND ACTIVIST INSIGHT ONLINE DATA MAY DIFFER DUE TO COLLECTION METHODOLOGY.



## IN HOT PURSUIT

ACTIVIST INVESTING REMAINS A POTENT FORCE AND WILL ADAPT TO RECENT TRENDS AMONG OTHER INSTITUTIONAL INVESTORS, WARN THE CO-HEADS OF SIDLEY AUSTIN'S SHAREHOLDER ACTIVISM PRACTICE, KAI LIEKEFETT AND DEREK ZABA.



### CLEARLY EXXON MOBIL WAS A BIG STEP FORWARD WITH RESPECT TO USING ESG THEMES IN ACTIVIST CAMPAIGNS. WHAT DO YOU THINK WILL BE THE IMPACT MORE BROADLY?

**Kai Liekefett:** Economic activists have long integrated critiques of governance and compensation into their campaigns, but have not, until recently, been particularly successful in gaining traction with critiques of environmental and social (E&S) issues. However, as E&S issues have become more important to institutional investors over the past few years, it has become increasingly attractive for activists to try to use these topics to appeal to voters.

As the most logical E&S issue to integrate into an activist campaign, there is no question that the "climate change" critique will recur over the next couple of years. The real question is how successful economic activists will be in expanding into other E&S issues such as the recent racial push for racial equity audits. They will certainly try.

### BEYOND EXXON, WHAT WERE THE HIGHLIGHTS OF THE 2021 PROXY SEASON FROM AN ACTIVISM PERSPECTIVE AND WHAT CAN WE EXPECT GOING FORWARD?

**Derek Zaba:** There were some interesting developments relating to the intersection between activism and M&A. While there were continued campaigns by activists against announced M&A transactions and a steady stream of hostile M&A, there were fewer campaigns publicly calling for sales of companies. It appears to us that activists are more reluctant to make this a core tenet of their campaigns in an attempt to appeal to the big index funds. In addition, there is more convergence between private equity and shareholder activism, with activists seeking to acquire and operate companies and private equity firms taking what they view as "constructivist" positions.

And, of course, I'm required to mention the extremely elevated SPAC IPO activity over the past 18 months. I'm sure we'll be speaking about SPACtivism on a regular basis over the next several years.

### IS THE TIDE TURNING AGAINST ACTIVISTS? ARE THERE ANY IMPLICATIONS FOR THE FUTURE?

**DZ:** Although the number of proxy contests where shareholders did not vote for any dissident directors was certainly interesting, there's always a risk in overgeneralizing proxy contest voting results. There are hundreds of activism campaigns each year and only a couple dozen remain unresolved at the time of the shareholder meeting. Some activists had tremendous success securing settlements that were strongly in their favor, so it certainly doesn't mean that there is a massive wave of anti-activist sentiment by proxy advisers and investors. For whatever reason, companies were relatively better this year assessing when it made sense to settle with an activist and when it made sense to let the shareholders decide the outcome.

### WHAT RED FLAGS WILL ACTIVISTS BE WATCHING FOR IN SHAREHOLDER VOTE RESULTS?

**KL:** Unsurprisingly, low levels of support in director elections and in "say on pay" votes will continue to feature prominently in activism campaigns. These have both been tools for activists for the last decade. In line with broader ESG themes, E&S proposals are now obtaining material, and in some cases majority, support. Activists may argue that these vote results, or any perception by investors that the company has not adequately responded to them, are an indication that the company is not taking seriously the views of its investors on E&S matters.

### DO YOU EXPECT ACTIVISTS TO UTILIZE MORE GREATLY RULE 14A-8 PRECATORY PROPOSALS IN THE FUTURE?

**KL:** Yes. We have seen these used occasionally in the past. Rule 14a-8 proposals will never be one of the main tools used by professional economic activists, namely because of inability to nominate directors, the minimum holding period requirements, and limitations on the presentation in the proxy materials. But with more activists conducting multi-year campaigns or returning to a target from a prior campaign, there are more situations where economic activists may decide to deploy a Rule 14a-8 proposal, in particular because of the low cost and effort required to use this mechanism.

THANK YOU, KAI AND DEREK. 

# LEADING THE DEFENSE OF THE WORLD'S PUBLIC COMPANIES



Ranked No. 1 in the shareholder activism defense league tables of *Bloomberg*, *FactSet*, *Refinitiv* (formerly *Thomson Reuters*), and *Activist Insight* for 2020 and H1 2021

Selected as "Defense Adviser of the Year (Large Cap)" by *The Deal* for our shareholder activism work in 2020

*Chambers USA* ranks both co-chairs of Sidley's Shareholder Activism practice as leading lawyers for "Corporate/M&A: Takeover Defense"

Proxy fights and activist situations are bet-the-company situations, and there is no time for "training on the job." Over the past five years, Kai Liekefett and Derek Zaba, the co-chairs of this team, have represented companies in hundreds of activist campaigns, including more than 85 proxy contests.

### TALENT. TEAMWORK. RESULTS.

**Kai Haakon E. Liekefett**  
New York  
kliekefett@sidley.com

**Derek Zaba**  
Palo Alto/New York  
dzaba@sidley.com

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# RENEWED SCRUTINY

MORE LOBBYING DISCLOSURE PROPOSALS WON MAJORITY SUPPORT THIS SEASON, AS EVENTS IN THE U.S. HIGHLIGHTED THE IMPORTANCE OF ROBUST RISK OVERSIGHT, WRITES REBECCA SHERRATT.

The January 6 storming of the U.S. Capitol highlighted to investors the risks inherent in corporate political spending. As a consequence, shareholder engagements concerning lobbying payments and corporate political spending, particularly at U.S. issuers, won the favor of an increased number of shareholders in the 2021 proxy season.

Forty-nine shareholder proposals seeking lobbying disclosure won an average of 38.4% support this season, with proposals at 10 companies including Netflix, Chemed, and Exxon Mobil, winning majority support. Similar proposals received an average of 33.7% and 35.8% support in the previous two seasons, respectively, with nine resolutions winning majority support across both years combined, Insightia data show.

On June 16, a group of investors, coordinated by Majority Action and the Service Employees’ International Union (SEIU), brought these concerns directly to company CEOs, writing to 82 U.S.-listed companies and asking them to cease political contributions to candidates or campaign committees that seek to restrict and “undermine voting rights.”

“The message of the 2021 proxy season was that investors strongly support corporate political disclosure and see political spending as a serious risk that they want companies to manage,” Bruce Freed, president of the Center for Political Accountability (CPA), said in an interview for this report. For the first time, investors are also seeking enhanced disclosure of “conflicted company spending on issues like climate change,” Freed added.

Issuers were quick to take note of the shifting mood and many subsequently reached agreements to disclose their

corporate spending with resolution proponents. The New York State Common Retirement Fund was especially successful getting Molson Coors, CMS Energy, and FirstEnergy to disclose their political spending and Sanderson Farms to disclose its lobbying payments and policies.

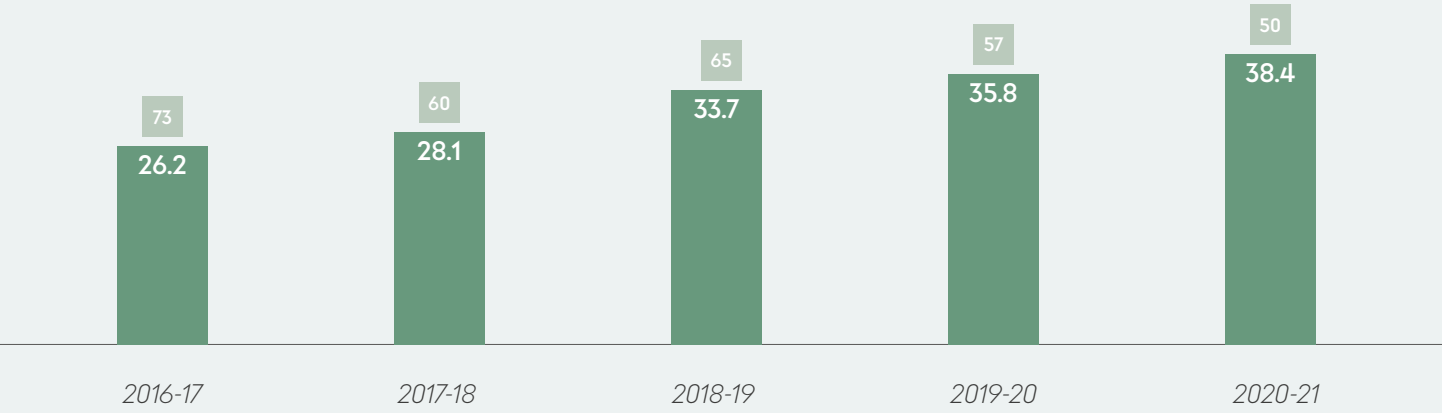
It is clear shareholders intend to continue in their renewed efforts for enhanced corporate lobbying disclosure, with multiple proposals of this kind already being filed for the coming season by As You Sow, Newground Social Investment, and James McRitchie at companies such as FedEx and Costco.

Companies that have resumed donations to political parties, despite making commitments to pause such payments, will also face renewed scrutiny. Walmart is among the list of companies that will face proposals seeking enhanced lobbying disclosure in the coming proxy season, after resuming its political donations to members of Congress that voted to object to the certification of Electoral College votes. Pfizer, Home Depot, and Boeing also resumed donations in recent months, despite proposals seeking lobbying disclosure winning upwards of 37% support at their respective 2021 annual meetings.

“This issue is not going to go away and has only gained more importance in response to both the Capitol storming and COVID-19,” said Edgar Hernández, assistant director at SEIU, in an interview. “Shareholders need to engage with companies and encourage them to think what exactly it is they are trying to accomplish through these payments because they may not help drive the creation of shareholder value.” [ia](#)



## SUPPORT FOR GLOBAL LOBBYING/POLITICAL CONTRIBUTIONS RESOLUTIONS (%)



AVERAGE SUPPORT FOR (%) GLOBAL LOBBYING/POLITICAL CONTRIBUTION RESOLUTIONS, BY PROXY SEASON. (NUMBER OF RESOLUTIONS IN SQUARE)  
SOURCE: INSIGHTIA

## BIGGEST SUPPORT INCREASES

|                               | AUM (\$B) | MEETINGS VOTED |         | FOR (%) |         | CHANGE (pp) |
|-------------------------------|-----------|----------------|---------|---------|---------|-------------|
|                               |           | 2019-20        | 2020-21 | 2019-20 | 2020-21 |             |
| AMERICAN CENTURY              | 209       | 53             | 45      | 3.6     | 72.9    | +69.3       |
| VOYA INVESTMENT MANAGEMENT    | 213       | 54             | 46      | 3.5     | 63.3    | +59.8       |
| RUSSELL INVESTMENT MANAGEMENT | 293       | 53             | 45      | 1.8     | 54.2    | +52.4       |
| BLACKROCK                     | 9,496     | 54             | 46      | 0       | 36.7    | +36.7       |
| CAPITAL GROUP                 | 2,600     | 39             | 33      | 2.4     | 38.9    | +36.5       |
| VANGUARD GROUP                | 8,000     | 54             | 46      | 0       | 22.4    | +22.4       |
| INVESCO CAPITAL MANAGEMENT    | 334       | 54             | 45      | 63.2    | 85.4    | +22.2       |

INVESTORS EXHIBITING THE BIGGEST INCREASE IN SUPPORT FOR GLOBAL LOBBYING/POLITICAL CONTRIBUTIONS PROPOSALS IN 2020-21.  
NOTE: LIMITED TO INVESTORS WITH \$100B+ AUM WHO VOTED AT LEAST 25 MEETINGS EACH PROXY SEASON.  
SOURCE: INSIGHTIA



# SOUND ADVOCATES

AN INTERVIEW WITH TED ALLEN, VICE PRESIDENT: POLICY & ADVOCACY AND RANDI MORRISON, SENIOR VICE PRESIDENT: COMMUNICATIONS, MEMBER ENGAGEMENT, AND GENERAL COUNSEL, SOCIETY FOR CORPORATE GOVERNANCE.



## HOW DOES THE SOCIETY BELIEVE COVID-19 IMPACTED THE 2021 PROXY SEASON?

**Randi Morrison:** Due to COVID-19 lockdowns and other social distancing requirements, virtually all companies in 2020 held their annual meetings in a virtual-only format. Compared with 2020, both companies and virtual meeting vendors were better prepared in 2021. Meeting attendance varied significantly based on factors such as company size and industry and whether shareholder proposals were on the ballot. Post-pandemic, we would not be surprised if we see more issuers utilizing the virtual shareholder meeting format going forward.

COVID-19 also posed unique compensation-related challenges, including incentive pay adjustments for directors, executives, and the broader workforce. Society members typically have lead responsibility for proxy statement disclosure, which, for the many companies that made pay adjustments, made for a more challenging disclosure environment. Some members also encountered unique challenges calculating their SEC-required CEO-median employee pay ratios and developing associated disclosures amid widespread corporate employment and

pay changes, including furloughs, reduced hours, layoffs, and temporary pay/benefits reductions.

## MULTIPLE KINDS OF SHAREHOLDER PROPOSALS GAINED TRACTION THIS PROXY SEASON. ARE THERE ANY SPECIFIC TRENDS THAT THE SOCIETY THINKS WERE ESPECIALLY UNIQUE?

**Ted Allen:** While the number of environmental and social (E&S) proposals and the average support for those proposals increased during the 2021 proxy season, withdrawal rates did as well. Among other things, we believe this highlights companies' willingness to engage with shareholders on these issues.

Climate-related proposals were by far the most common E&S proposals, representing approximately three-quarters of environmental proposals filed during the 2021 season. Among the more novel resolutions were "say on climate" proposals. Interestingly, as Insightia recently reported, The Children's Investment Fund Foundation (CIFF) no longer plans to seek annual shareholder advisory votes on U.S. companies' climate transition plans, although it will continue to do so for European and Australian companies.

## THIS PAST YEAR, INVESTORS HAVE BEEN ACTIVELY ENGAGING WITH PORTFOLIO COMPANIES TO BOOST RACIAL, ETHNIC, AND GENDER REPRESENTATION ON CORPORATE BOARDS. HOW HAVE SOCIETY MEMBERS HELPED SUPPORT MANAGEMENT TO ACHIEVE THESE EXPECTATIONS?

**RM:** Board diversity has been a priority issue of the Society for several years. The Society has hosted webinars, chapter programs, and conference sessions on how to increase board diversity. In practice, there has been a significant uptick in board ethnic and racial diversity, which the Society very much supports. In an August 2020 survey of Society members, 75% of respondents reported that, if warranted based on their current composition, their board had reviewed/updated their board composition, recruiting, and succession practices to include a focused effort to build a pipeline of diverse candidates; the balance said they planned to do so.

## DID THE SOCIETY EXPRESS A VIEW IN RESPONSE TO THE SEC'S REQUEST FOR INPUT ON CLIMATE RISK DISCLOSURE?

**TA:** The Society and our members are closely following SEC rulemaking developments. Consistent with our practice of weighing in on regulatory rulemaking proposals that are relevant to our membership, in June 2021, the Society, with support from our Securities Law Committee and Sustainability Practices Committee, submitted a response to the SEC's request for input on climate change disclosure. Among other things, we urged the SEC to refrain from imposing costly and overly prescriptive mandates that would require the disclosure of non-material information. We have also asked the SEC to provide a longer transition period for smaller issuers and newly public companies so they would have time to prepare for any new mandates.

## ARE THERE ANY OTHER KEY ISSUES THAT THE SOCIETY AND/OR SOCIETY MEMBERS WILL BE FOCUSING ON IN THE COMING PROXY SEASON?

**RM:** Many companies plan to continue their extensive off-season engagement with institutional investors so that directors and management can better understand investors' evolving views on climate risk, diversity, human capital, and other issues. Many of our members have informed us that more institutions appear to be voting later and casting votes against management's recommendations after what our members perceive as effective engagement. This development has been particularly concerning to our members who typically have lead responsibility for institutional investor outreach on governance issues and were caught off-guard by some of the unexpected votes.

## HAVE SOCIETY MEMBERS NOTICED A CHANGE IN APPROACH TOWARD NO-ACTION REQUESTS FOLLOWING THE NEW SEC ADMINISTRATION?

**TA:** Beginning with the 2019-2020 proxy season, the SEC changed its approach to no-action requests. Rather than responding in writing to each no-action request, as had been the historical practice, the SEC staff indicated that, going forward, they may respond orally rather than in writing and that it intended to issue response letters where it believed doing so would provide value. Since the launch of the new process, the staff have issued relatively few written response letters and the percentage of written responses has been trending down.

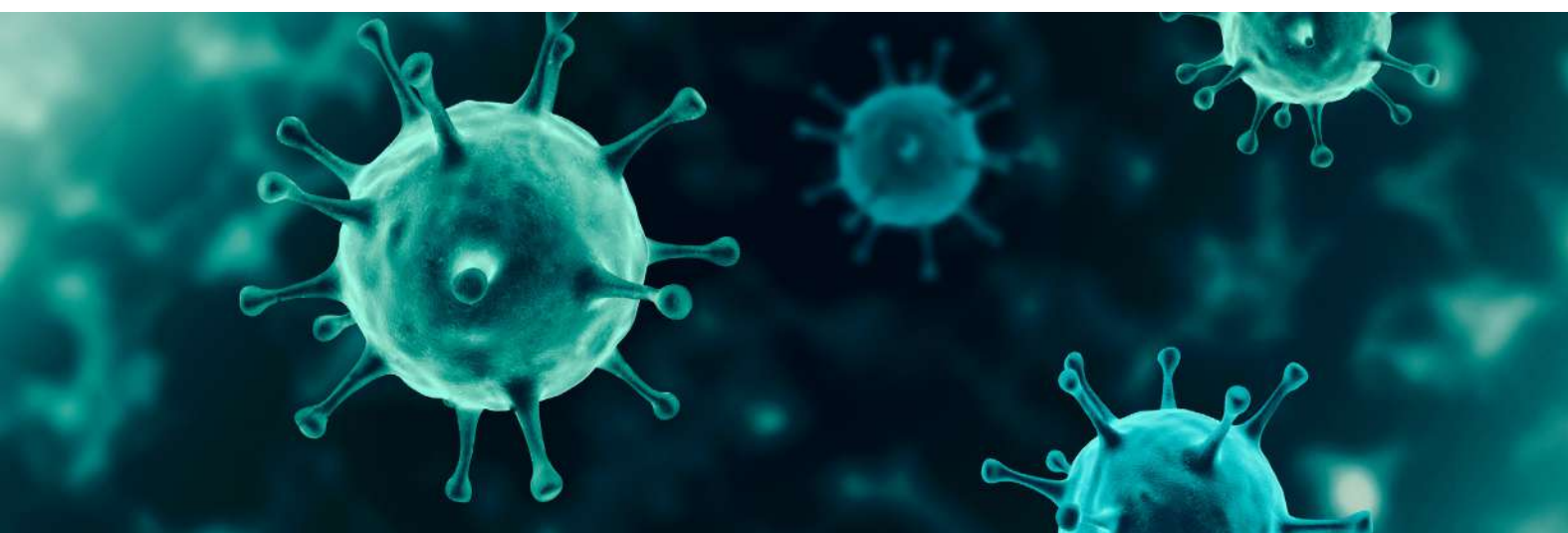
This shift away from written response letters means it is not always easy for companies to understand the bases for staff's no-action determinations and to analyze proposals for purposes of inclusion or exclusion in their proxy materials and determining whether to use the board's time to include a board analysis.

In light of the significant costs Society members incur in addressing shareholder proposals, the Society has encouraged the SEC to review its new no-action response process with a view toward providing both companies and proponents more information and greater certainty that can inform their decision-making on shareholder proposals.

THANK YOU, TED AND RANDI. 🙏

## ABOUT THE SOCIETY FOR CORPORATE GOVERNANCE:

*Founded in 1946, the Society for Corporate Governance is a professional membership association of approximately 3,400 corporate and assistant secretaries, in-house counsel, outside counsel, and other governance professionals who serve approximately 1,600 entities, including 1,000 public companies of almost every size and industry. Members are responsible for supporting their board of directors and executive management in matters such as board practices, compliance, regulation and legal matters, shareholder relations, subsidiary management, and sustainability. Headquartered in New York City, the Society features 21 local and regional chapters.*



COVID-19 RAISED UNIQUE COMPENSATION-RELATED CHALLENGES, WITH INVESTORS EXPECTING EXECUTIVE PAY TO BE ALIGNED WITH BROADER STAKEHOLDER EXPERIENCES.

# PULLING TOGETHER

COMPENSATION STRUCTURES WERE SUBJECT TO HEIGHTENED INVESTOR SCRUTINY THIS PROXY SEASON, AS COMPANIES WEATHERED THE VARIED IMPLICATIONS OF THE PANDEMIC, WRITES JOE LYONS.

The 2021 proxy season bore witness to an increasing number of “say on pay” revolts, as COVID-19 impacted corporate performance and shareholder returns. Investors were quick to take voting action against compensation structures that failed to align executive pay with broader stakeholder experiences and corporate performance.

In the U.S., 2.2% of remuneration proposals received less than 50% support this proxy season, compared to 2.1% the previous season, while in the Asia-Pacific the number of failed proposals increased to 2.1%, compared to 1.5%. In Europe, the number of failed remuneration proposals remained steady. Of all “say on pay” resolutions, 11.3% experienced a revolt, receiving less than 80% support, compared to 9% the previous season, Insightia data show.

“IT IS HIGHLY LIKELY THAT A SUSTAINED LEVEL OF SCRUTINY ON EXECUTIVE PAY WILL CONTINUE.”

“The reasons for failures were diverse but some common themes emerged with shareholders strongly opposing disconnects between pay and performance, adjustments to long-term incentive plans, and overall pay magnitude,” Brian Valerio, vice president at Alliance Advisors, said in an interview for this report.

In instances where stock values declined, workers were furloughed, or companies sought financial support from governments, executives were expected to make financial sacrifices to reflect the broader stakeholder experience.

Skyworks Solutions’ and LCI Industries’ “say on pay” proposals received just 22% and 23% support, respectively, at their 2021 annual meetings, due to significant increases to CEO and executive payouts, despite declines in profitability.

BMO Global Asset Management, Norges Bank, and Calvert Research and Management were among the investors to oppose both compensation structures, Calvert highlighting

in its voting rationale that it does not view incentive program modifications as “appropriate reactions to the pandemic when such modifications increase payouts significantly.”

Investors also made clear in their voting rationale that in-flight adjustments to compensation structures, in order to grant awards that would have otherwise lapsed, would be subject to opposition.

In its semi-annual report, Vanguard highlighted that retroactive adjustment of performance targets “may signal a compensation plan with improper structure” and “remain[s] steadfast in our view that compensation committees should not retroactively adjust performance targets, despite the challenging environment. The experiences of executives should be aligned with those of shareholders in both good and challenging times.”

### A UNIVERSAL CONCERN

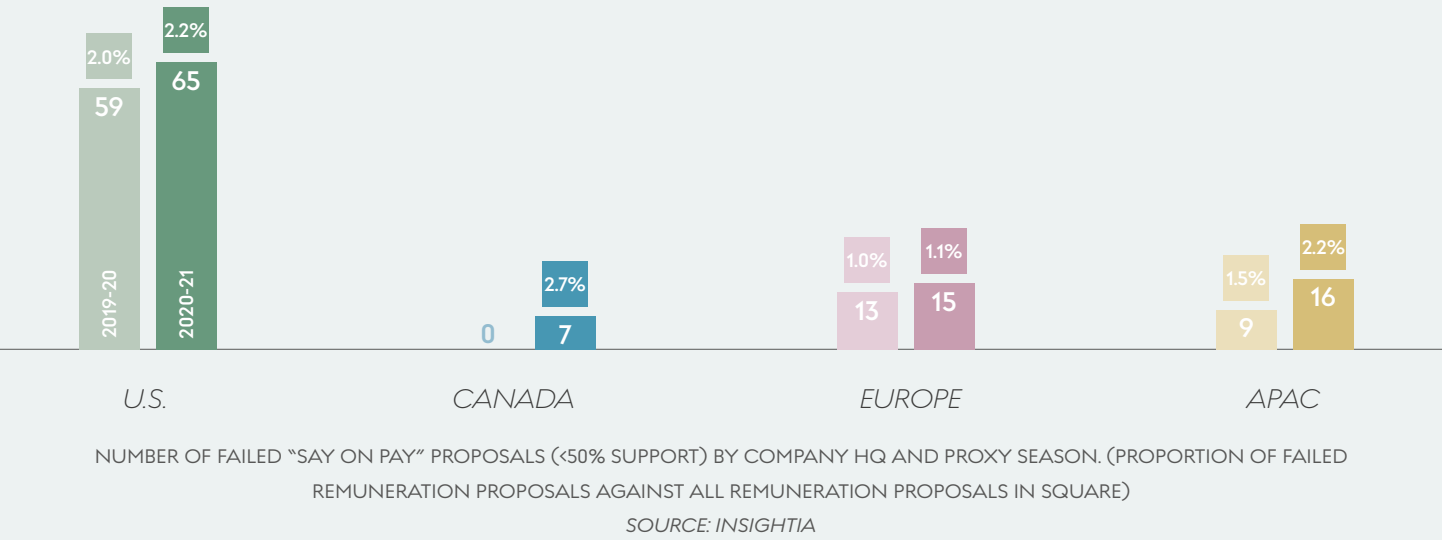
European issuers were similarly subject to hefty opposition, in instances where companies provided CEOs with outsized awards while seeking government financial support and furloughed workers.

Einar Lindh, reward and employment director at PricewaterhouseCoopers, said it was not surprising remuneration proposals received such “polarized” responses from investors this season. “Increasing director pay whilst making staff redundancies and adjusting executive performance conditions to remove pandemic-related costs have been two of the biggest sins in investors’ eyes,” he said.

The implementation of the Shareholder Rights Directive II ruling also meant that an increased number of European investors got their first ever opportunities to call out deficient compensation structures this year, resulting in an increased number of both “say on pay” votes and pay revolts across Europe this season.

“It is highly likely that a sustained level of scrutiny on executive pay will continue from shareholders into the next season,” Lindh said. “Therefore, committees will need to retain a high degree of caution in how they operate, pay, and assess the outcomes under incentives over the coming year if they wish to obtain high levels of shareholder support.” 

## FAILED “SAY ON PAY” PROPOSALS



## REMUNERATION REVOLTS

|        | 2019-20 | (%)  | 2020-21 | (%)  |
|--------|---------|------|---------|------|
| U.S.   | 401     | 13.8 | 341     | 11.6 |
| CANADA | 17      | 8.0  | 27      | 10.3 |
| EUROPE | 111     | 9.0  | 168     | 11.8 |
| APAC   | 63      | 10.3 | 89      | 12.2 |

NUMBER OF REMUNERATION REVOLTS (<80% SUPPORT), AND SHARE OF TOTAL REMUNERATION PROPOSALS, BY COMPANY HQ AND PROXY SEASON.

SOURCE: INSIGHTIA

## REMUNERATION SUPPORT (%)

|        | 2019-20 | 2020-21 |
|--------|---------|---------|
| U.S.   | 90.4    | 91.0    |
| CANADA | 92.7    | 91.3    |
| EUROPE | 93.7    | 92.7    |
| APAC   | 93.1    | 92.4    |

AVERAGE SUPPORT FOR REMUNERATION PROPOSALS, BY COMPANY HQ AND PROXY SEASON.

SOURCE: INSIGHTIA

## BIGGEST SUPPORT DECREASES

|                                    | AUM (\$B) | MEETINGS VOTED |         | FOR (%) |         | CHANGE (pp) |
|------------------------------------|-----------|----------------|---------|---------|---------|-------------|
|                                    |           | 2019-20        | 2020-21 | 2019-20 | 2020-21 |             |
| AMUNDI ASSET MANAGEMENT            | 1,794     | 1,465          | 1,710   | 77.6    | 36.4    | -41.2       |
| LEGAL & GENERAL INVESTMENT MGMT.   | 1,327     | 2,124          | 3,710   | 64.9    | 53.1    | -11.8       |
| ROBECO                             | 208       | 1,134          | 1,221   | 61.5    | 51.5    | -10.0       |
| SWISSCANTO                         | 160       | 517            | 646     | 72.9    | 64.0    | -8.9        |
| STATE OF WISCONSIN INVESTMENT BRD. | 144       | 1,887          | 2,720   | 85.4    | 78.2    | -7.2        |
| AMERICAN CENTURY                   | 209       | 3,014          | 3,718   | 86.4    | 79.7    | -6.7        |
| NEW YORK CITY PENSION FUNDS        | 216       | 3,838          | 4,183   | 76.4    | 70.1    | -6.3        |

INVESTORS EXHIBITING THE BIGGEST DECREASE IN SUPPORT FOR GLOBAL REMUNERATION PROPOSALS IN 2020-21.

\*LIMITED TO INVESTORS WITH \$100B+ AUM WHO VOTED AT LEAST 500 MEETINGS EACH PROXY SEASON.

SOURCE: INSIGHTIA

# DIVERSITY DOMINATES

RIISING TENSIONS IN THE U.S. LED TO A RENEUED INVESTOR FOCUS ON DIVERSITY AT BOTH THE BOARD AND EMPLOYEE LEVELS, WRITES REBECCA SHERRATT.

The Black Lives Matter protests in June and July 2020 accelerated investor engagement with social concerns in the 2021 proxy season, leading to increased support for diversity-related shareholder proposals and opposition toward nominating committee members, particularly at U.S. issuers.

Average support for director elections globally decreased slightly to 96.2%, compared to 96.4% the previous year. Of the 17 failed director elections at U.S.-listed companies this proxy season, 10 were due at least in part to a lack of board diversity, according to investor voting rationales. In contrast, just one of 16 and six of the 11 failed director elections in the 2019 and 2020 proxy seasons, respectively, were cited as due to a lack of board diversity, according to Insightia data.

The biotechnology sector faced some of the biggest investor revolts, as companies navigated diversity-related demands alongside the challenge of finding directors with the specialized experience demanded by the sector.

Directors at Arrowhead, Catalyst, and Collegium Pharmaceuticals all failed to win the favor of investors, due to insufficient levels of board diversity. Allianz Global Investors opposed the re-election of both Arrowhead and Catalyst directors, believing that boards “should seek to achieve at least 30% gender diversity and promote diversity throughout the organization.”

“Diversity of perspectives is a key ingredient for effective boards,” David Shammai, ESG analyst at Allianz Global Investors, told Insightia. “Compared with several years ago, in the U.S. generally the message from investors about the importance of gender diversity has been heard. At the same time, some companies still fall behind, and should be accountable for this.”

## IMPROVING DISCLOSURE

Shareholder proposals also reflected this increased demand for improved board diversity. The six shareholder proposals seeking board diversity reporting that went to a vote at U.S.-listed companies won an average of 61.9% support this proxy season, compared to 8% and 34.1% support in the past two proxy seasons.

Campaigns by the New York City Comptroller and Calvert Research and Management for EEO-1 disclosure – a U.S. labor market form that details corporate diversity - won

55.5% support on average this proxy season, compared to 38.6% and 40.7% in the previous two proxy seasons. Five proposals of this kind won majority support this year, compared to two and four in both the 2019 and 2020 proxy seasons, respectively.

“This year, expectations for corporate diversity are rising, and we are more aware than ever of the value of diverse leadership for long-term corporate performance,” John Wilson, director of corporate engagement at Calvert Research and Management, told Insightia in an interview.

Furthermore, the first racial audit proposals, which sought third-party audits analyzing an organization’s impact on nonwhite stakeholders and communities, were filed by SOC Investment Group and the Service Employees International Union (SEIU).

Eight proposals of this kind were subject to a vote, primarily at major U.S. banks, and went on to win an average of 33.1% support, despite attempts from JP Morgan, Citigroup, Amazon, and Johnson & Johnson to block these resolutions that were denied by the Securities and Exchange Commission (SEC).

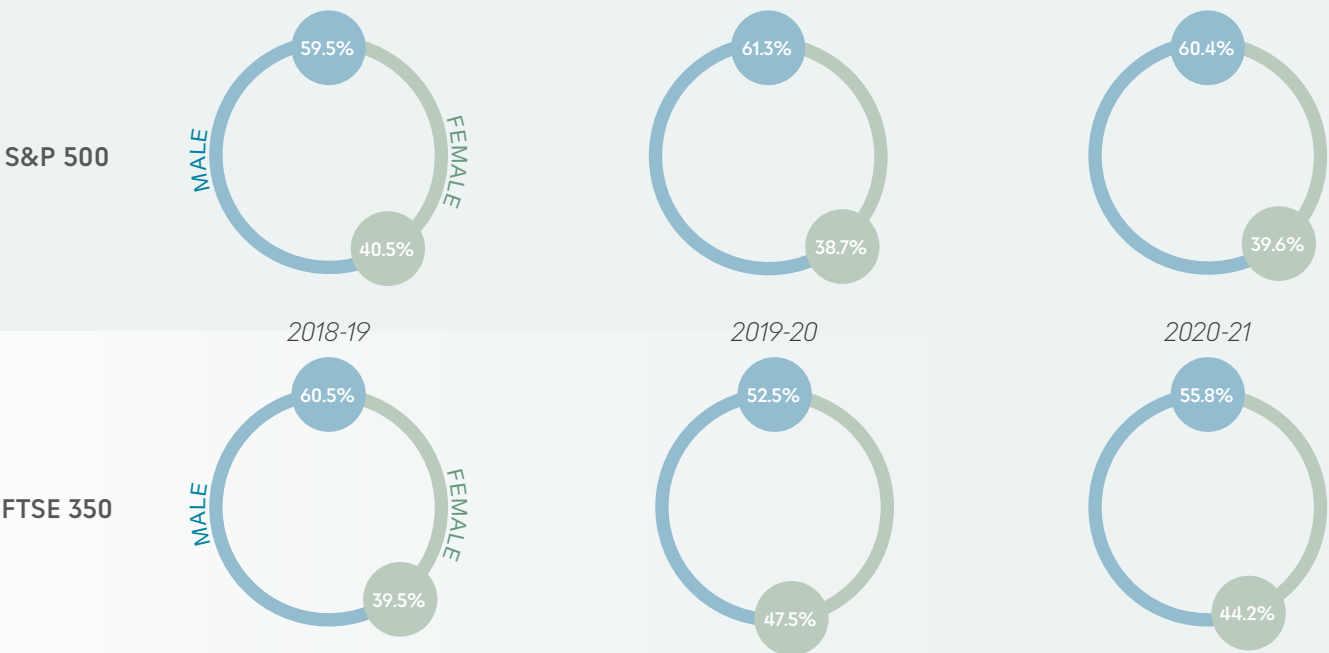
Looking forward, racial audits will likely play a significant part in the 2022 proxy season. Edgar Hernández, assistant director at SEIU, told Insightia that the fund manager will be filing resolutions at “similar” companies and “encourage[s] investors who are passionate about advancing racial equity to look at filing similar proposals.”

## TAKING ACTION

Expectations surrounding board diversity are continuing to rise. Starting in 2022, Glass Lewis will require all U.S. boards to feature a minimum of two female directors, while State Street Global Advisors (SSGA) will take voting action against S&P 500 and FTSE 100 companies that don’t have at least one director from an underrepresented community.

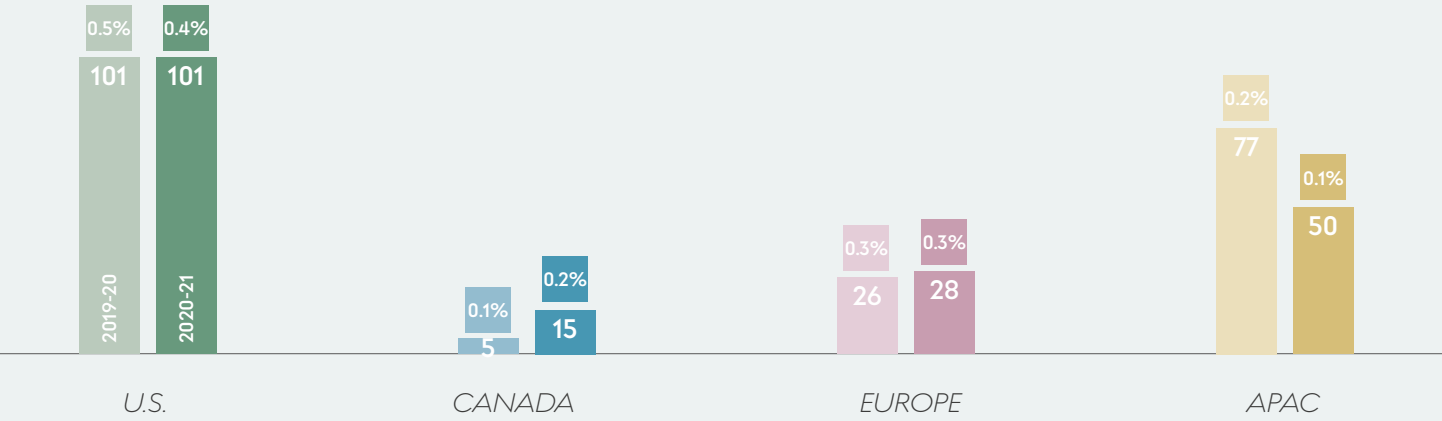
Nasdaq-listed companies will also be required to disclose diversity metrics and “comply or explain” with a requirement to have at least one female and one underrepresented minority on their boards, following regulatory approval from the SEC in August. With pressure to improve diversity coming from all angles, issuers will be expected to prioritize diversity in their coming engagements. [iQ](#)

## BOARD APPOINTMENTS BY GENDER



PROPORTION OF NEW S&P 500 & FTSE 350 DIRECTOR APPOINTMENTS EACH PROXY SEASON BY GENDER. SOURCE: INSIGHTIA

## FAILED DIRECTOR PROPOSALS



NUMBER OF FAILED DIRECTOR ELECTION PROPOSALS (<50% SUPPORT) BY COMPANY HQ AND PROXY SEASON. (PROPORTION OF FAILED DIRECTOR PROPOSALS AGAINST ALL DIRECTOR PROPOSALS IN SQUARE) SOURCE: INSIGHTIA

## AVERAGE SUPPORT (%)

|        | 2019-20 | 2020-21 |
|--------|---------|---------|
| U.S.   | 96.1    | 94.4    |
| CANADA | 96.8    | 95.9    |
| EUROPE | 97.2    | 96.9    |
| APAC   | 97.4    | 97.4    |

AVERAGE SUPPORT FOR DIRECTOR PROPOSALS, BY COMPANY HQ AND PROXY SEASON. SOURCE: INSIGHTIA

## DIRECTOR REVOLTS

|        | 2019-20 | (%) | 2020-21 | (%) |
|--------|---------|-----|---------|-----|
| U.S.   | 1,500   | 6.7 | 1,682   | 7.1 |
| CANADA | 147     | 2.9 | 296     | 4.6 |
| EUROPE | 207     | 2.5 | 244     | 2.7 |
| APAC   | 589     | 1.6 | 632     | 1.8 |

NUMBER OF DIRECTOR REVOLTS (<80% SUPPORT), AND SHARE OF TOTAL DIRECTOR PROPOSALS, BY COMPANY HQ AND PROXY SEASON. SOURCE: INSIGHTIA

# VOTING TRENDS

Following a spike in the number of environmental shareholder proposals filed at Asia Pacific-listed (APAC) companies in the 2020 proxy season, the number of proposals subject to a vote this season decreased. Despite this, average support for environmental shareholder proposals reached record heights, reflecting renewed investor interest in climate change.

Although support for social shareholder proposals among APAC-listed companies decreased this proxy season, the number of proposals filed tripled compared to the previous proxy season.

## SUPPORT FOR APAC SHAREHOLDER PROPOSALS (%)

ALL ENVIRONMENTAL PROPOSALS

ALL ENVIRONMENTAL PROPOSALS AT CARBON INTENSIVE INDUSTRIES\*

ALL SOCIAL PROPOSALS

| 2016-17 |         | 2017-18 |         | 2018-19 |         | 2019-20 |         | 2020-21 |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| No.     | FOR (%) | No.     | FOR (%) | No.     | FOR (%) | No.     | FOR (%) | No.     | FOR (%) |
| 41      | 5.1     | 40      | 6.2     | 34      | 7.3     | 53      | 11.0    | 33      | 13.7    |
| 37      | 5.3     | 33      | 6.9     | 27      | 8.4     | 36      | 11.4    | 22      | 15.7    |
| 9       | 6.5     | 4       | 8.6     | 6       | 11.8    | 3       | 13.5    | 10      | 9.0     |

NUMBER OF AND AVERAGE SUPPORT FOR (%) ENVIRONMENTAL AND SOCIAL PROPOSALS AT APAC-BASED COMPANIES WHERE VOTING RESULTS HAVE BEEN CAPTURED, BY PROXY SEASON.

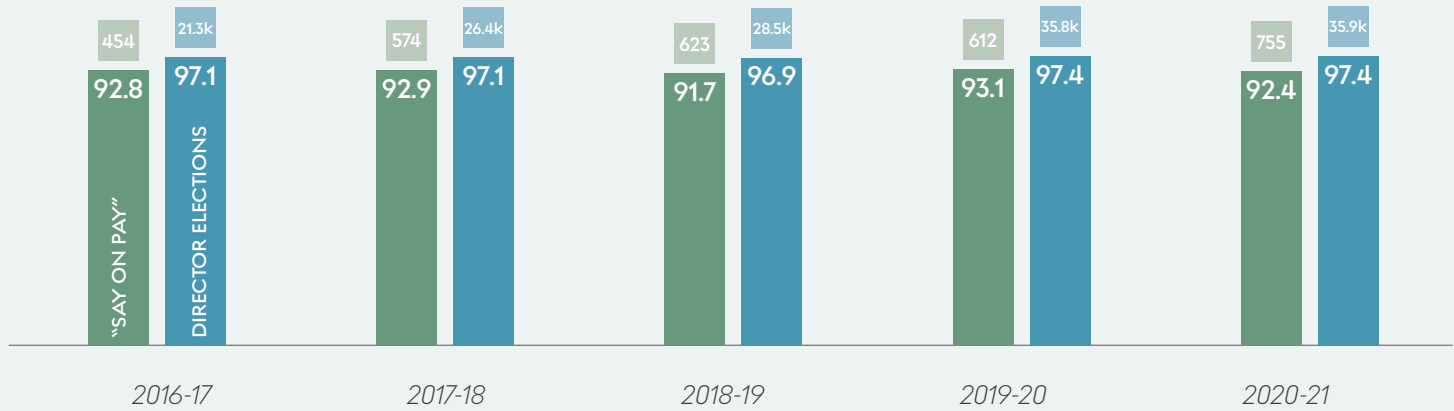
\* EMISSIONS-INTENSIVE INDUSTRIES INCLUDE COMPANIES IN THE OIL & GAS, ENERGY, MINERALS, AND MINING SECTORS.

SOURCE: INSIGHTIA

The 2020 proxy season experienced an increase in support for “say on pay” proposals among APAC-listed companies but that trend began to reverse this proxy season, in response to executive compensation structures failing to align with broader stakeholder experiences during the pandemic.

Support for director elections remained unchanged compared to the previous proxy season. 

## SUPPORT FOR APAC MANAGEMENT PROPOSALS (%)



AVERAGE SUPPORT FOR (%) SAY ON PAY AND DIRECTOR ELECTION PROPOSALS AT APAC-BASED COMPANIES BY PROXY SEASON. (NUMBER OF RESPECTIVE PROPOSALS WITH VOTING RESULTS IN SQUARE)

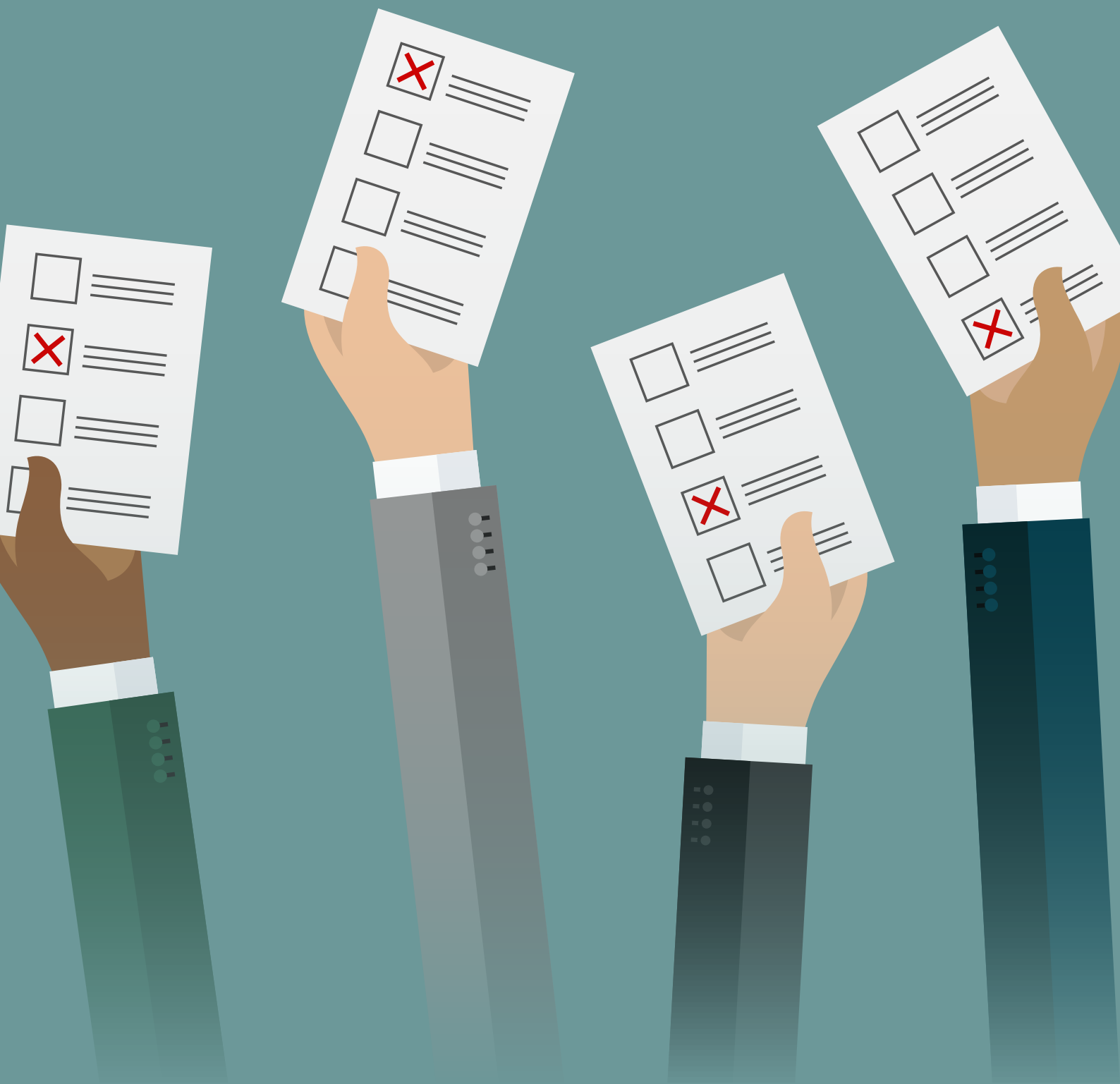
SOURCE: INSIGHTIA

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