




ALLIANCEBERNSTEIN®

October 2023



2023 US Proxy Season Review



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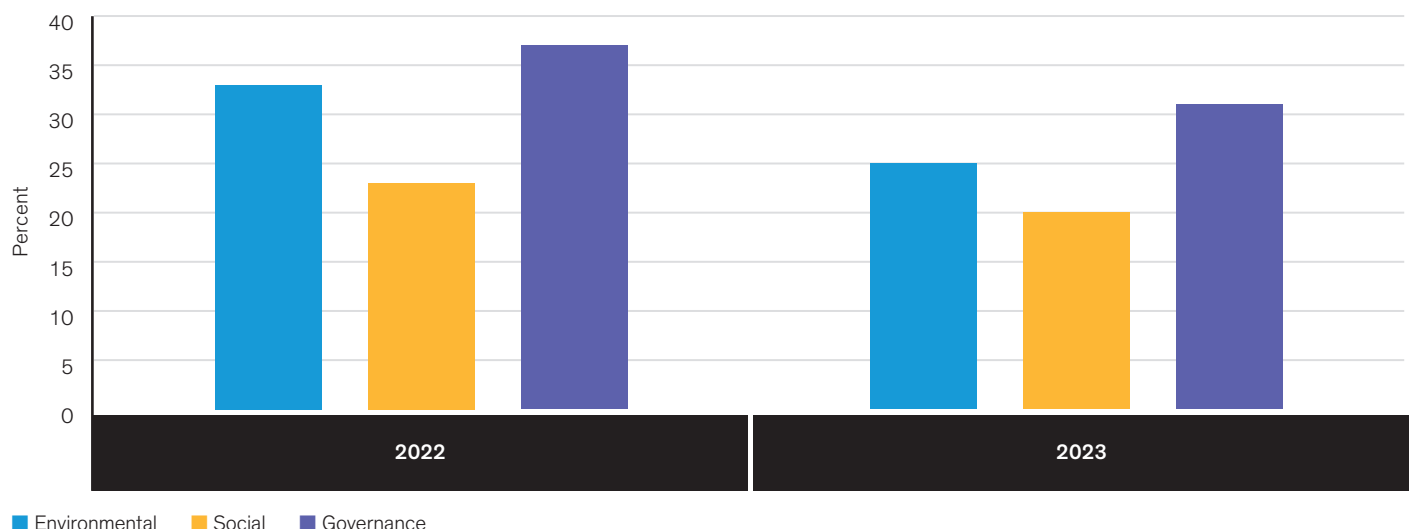
2023 Proxy Season Highlights

The 2023 US Proxy Season was marked by a few distinct themes across environmental, social and governance (ESG) topics. The most frequently observed topics on the ballot included climate; pay equity; diversity, equity and inclusion (DEI); and shareholder rights. There was a notable increase in the volume of shareholder proposals (SHPs) put on the ballot, coupled with a notable decline in market-wide support rates across ESG topics compared with 2022, likely due to a variety of reasons, including the sheer volume of proposals and the increased prescriptiveness of many of them.

In 2023, the market voted on a total of 947 SHPs in the United States. Of those, 186 were environmental-related proposals, 421 were social-related proposals and 340 were governance-related

proposals. Across E, S and G topics, we saw market-wide support rates drop compared with 2022 (*Display 1*).

DISPLAY 1: MARKET-WIDE AVERAGE SUPPORT RATES FOR ESG-RELATED SHAREHOLDER PROPOSALS



As of June 30, 2023 | **Source:** *Shareholder Proposal Developments During the 2023 Proxy Season*, Gibson Dunn, July 25, 2023; *An Early Look at the 2023 Proxy Season*, Georgeson

Proxy Voting Data for 1H:23

25,373

Total number of US proposals AB voted on

24,746

Total number of US management proposals AB voted on

627

Total number of US shareholder proposals AB voted on

94

Total number of environmental-related shareholder proposals AB voted on

224

Total number of social-related shareholder proposals AB voted on

309

Total number of governance-related shareholder proposals AB voted on

As of June 30, 2022

On the heels of the UN Biodiversity Conference (COP15) in December 2022, which brought governments together to guide global action on biodiversity, and several other environmental-focused international conferences, this proxy season saw a wide variety of environmental topics. This will likely continue in the future as environmental regulations continue to increase around the world.

Social topics, like DEI, pay equity and human capital management, continue to be top of mind for many stakeholders (investors, employees and others), and the number of proposals brought forth grew compared with last year.

Governance topics, which had the highest market-wide support rates, likewise saw an increase in volume from the previous year. In fact, a new item was put on the ballot in 2023—director exculpation, a topic that we will go into later on in this review.

Environmental Shareholder Proposals

In the first half of 2023, the volume of environmental shareholder proposals continued to rise, with AB voting on a total of 94 compared with 60 in the first half of last year.¹ Climate-related shareholder proposals continued to be the most popular, comprising roughly 17% of all shareholder proposals.² This year, the focus of environmental shareholder proposals was enhanced reporting on greenhouse gas (GHG) emissions; 26 proposals were slated this season requesting companies to establish GHG reduction targets or improve their GHG emissions disclosures.³

Alongside this increased volume, support rates for environmental shareholder proposals significantly decreased—as was the case last year—with an average support rate of 21.3%, down from 33.8% last year.⁴ Similarly, the passage rate of environmental shareholder proposals declined year over year (YoY), with shareholders rejecting all but two proposals: one asking Coterra Energy to issue a report on the reliability of methane emissions disclosures, and another, which was supported by management, at the New York Community Bancorp (NYCB), requesting climate lobbying disclosures. In addition to supporting the proposal at NYCB, AllianceBernstein (AB) voted in favor of the proposal at Coterra, as shareholders would benefit from enhanced transparency around the company's methane measurement activities, particularly considering the rapidly evolving regulatory landscape pertaining to methane emissions. The decreased passage of proposals in 2023 is in contrast to the nine proposals that received majority support in 2022.⁵

The continued decline in support for environmental shareholder proposals may largely be a result of the increased volume of proposals put to a vote in 2023, coupled with the more prescriptive nature of many shareholder requests. The revised approach of the US Securities and Exchange Commission (SEC) toward proposal excludability has made it more difficult for issuers to omit proposals that may be overly prescriptive or misaligned with shareholder value creation. For example, proposals requesting financial and insurance issuers to cease all underwriting or lending for new fossil fuel development received an average support rate of 7.2%.⁶ On the other hand, less prescriptive proposals that pursued the disclosure of companies' climate transition plans received an average support rate of 26.9%.⁷

¹ [2023 Proxy Season: Lessons Learned and Coming Attractions](#), Latham & Watkins and Georgeson, June 29, 2023.

² [Shareholder Proposal Developments During the 2023 Proxy Season](#), Gibson Dunn, July 25, 2023.

³ Institutional Shareholder Services (ISS).

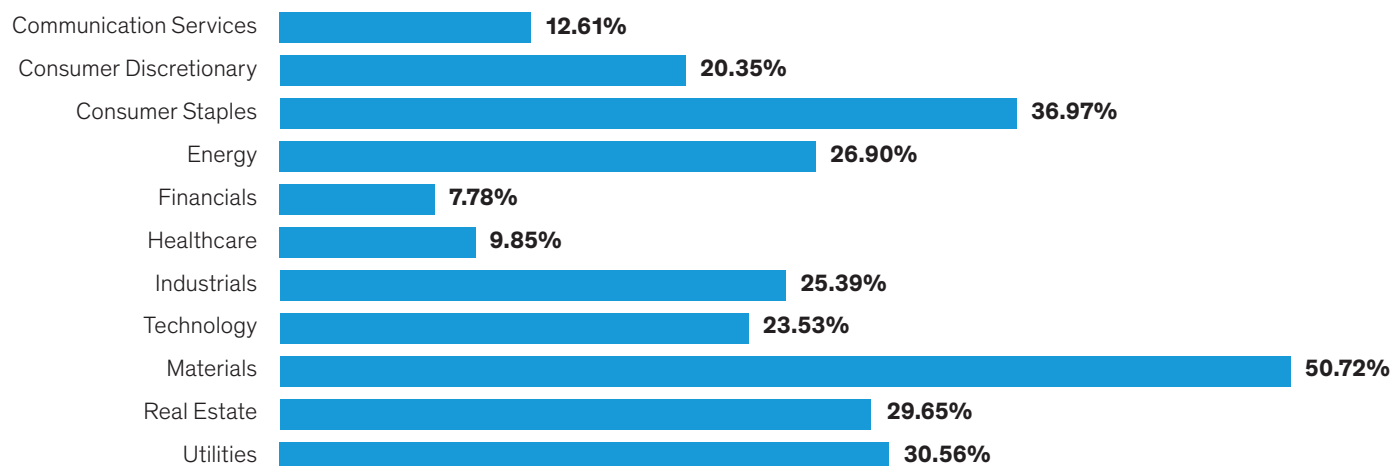
⁴ [Shareholder Proposal Developments During the 2023 Proxy Season](#).

⁵ [Shareholder Proposal Developments During the 2023 Proxy Season](#).

⁶ [Shareholder Proposal Developments During the 2023 Proxy Season](#).

⁷ [Shareholder Proposal Developments During the 2023 Proxy Season](#).

DISPLAY 2: PERCENTAGE OF COMPANIES IN THE RUSSELL 3000 (BY SECTOR) THAT HAVE DISCLOSED SCOPE 1 AND SCOPE 2 EMISSIONS-REDUCTION TARGETS



As of August 17, 2023 | Source: ISS

While environmental shareholder proposals are becoming increasingly focused on GHG emissions, only about 20% of Russell 3000 companies have disclosed their Scope 1 and Scope 2 emissions-reduction targets.⁸ The materials sector has the most issuers with disclosed Scope 1 and 2 emissions-reduction targets (50.7%), while the financials sector has the fewest (7.8%) (*Display 2*). In 2023, the average support rate for environmental shareholder proposals calling for reduced GHG emissions has been slightly higher for issuers that have not established emissions-reduction targets compared with those who have: 26.7% versus 24.3%, respectively.⁹

Apart from GHG-related proposals, the most popular environmental shareholder proposal topic was plastic pollution and sustainable packaging. Of the six slated proposals focusing on this topic, none of them received majority support. The votes in favor of these proposals ranged from 25.3% to 36.9%.¹⁰ The proposal that received support from 36.9% of shareholders was slated at Yum! Brands. It asked for the company to "issue a report, at reasonable expense and excluding proprietary information, describing how the Company will reduce its plastics use by shifting away from single-use packaging in alignment with the findings of the Pew Report, or other authoritative sources, to feasibly reduce ocean pollution." Following COP15, it is likely that the number of shareholder proposals put to a vote that focus on pollution, deforestation and biodiversity will rise in the coming years.

Social Shareholder Proposals

While the market has seen a record number of social shareholder proposals submitted in 2023 so far (421 in 2023 compared with 409 in 2022), the overall support rate for these proposals decreased YoY to 20.1% from 26% in 2022.¹¹ Stakeholders increasingly expect companies to view human capital management as an integral component of their business, and therefore proponents have become more specific and detailed in their requests.

Pay Equity

Proposals on pay equity continue to be top of mind for proponents. These requests typically seek reporting on any pay discrepancies between ethnic minority groups or women and the average pay of all employees. While 2022 marked the first time that a pay gap proposal had passed, in 2023 the average support for these proposals fell to 33% from 38% in 2022,¹² with no majority-supported proposals to date.

DEI

Similar to last year, proposals related to DEI have remained a major focus for proponents and represent 26% of all social-related proposals submitted in 2023.¹³ Consistent with previous years, the proposals have become more specific and detailed, and the shift from

⁸ ISS.

⁹ ISS.

¹⁰ [Shareholder Proposal Developments During the 2023 Proxy Season](#).

¹¹ [An Early Look at the 2023 Proxy Season](#), Georgeson.

¹² [An Early Look at the 2023 Proxy Season](#).

¹³ [Shareholder Proposal Developments During the 2023 Proxy Season](#).

general requests focused on disclosure (e.g., EEO-1 data requests or board diversity matrix) to requests related to undertaking specific activities (e.g., conducting an independent racial equity or civil rights audit or pay equity assessment) has continued. The average support rate for DEI-related proposals has dropped to 22% from 30% in 2022, with the greatest decline in support for racial equity audit requests.¹⁴ On this topic, Expeditors International of Washington had the only majority-supported proposal, which asked the company to report on the effectiveness of its DEI efforts and metrics.

Human Capital Management (Non-Diversity Specific)

Outside of DEI, other common topics included freedom of association (FOA), workplace harassment, mandatory arbitration and a just transition. FOA proposals typically relate to a company's stance, policy or actions taken on workers' right to organize, while just transition proposals have asked companies to consider the impact of the climate transition on workers. Despite lower support rates for social shareholder proposals this season, the support for these more nuanced topics has remained high YoY (*Display 3*).

Passing "S" Proposals

Three social-related shareholder proposals received majority support year to date, compared with nine for the same period in 2022. Apart from the DEI-related proposal at Expeditors International, Starbucks and Wells Fargo both had "S" proposals passed at their annual general meetings this year. At Starbucks, shareholders requested an independent assessment of the

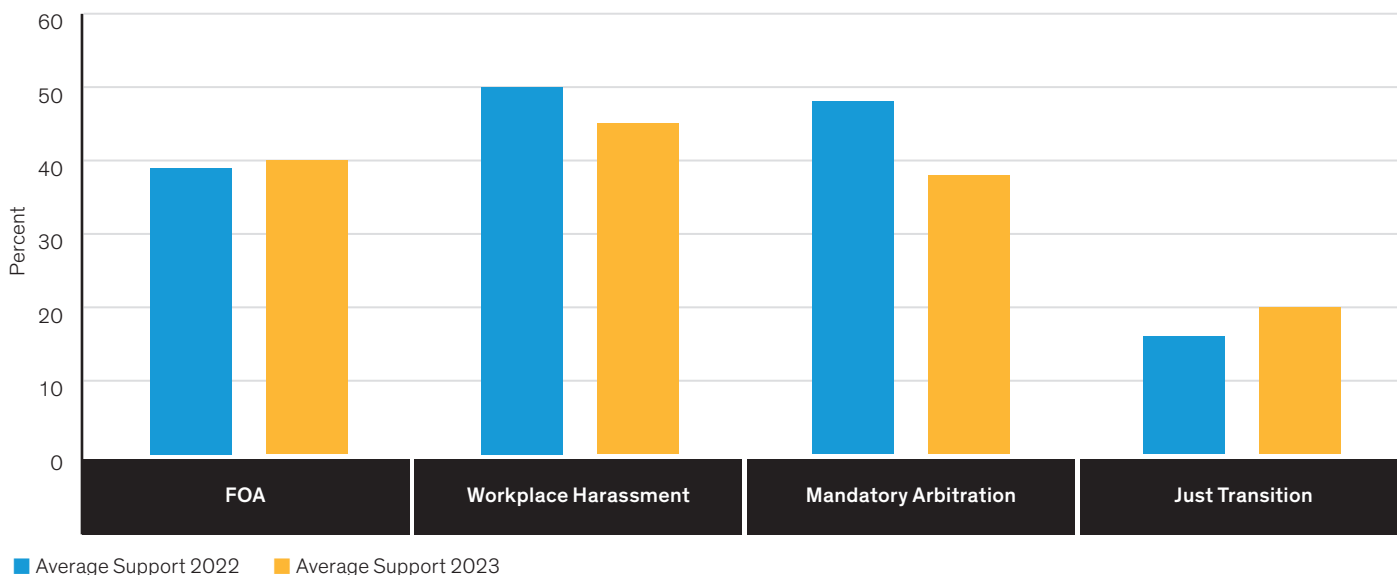
company's commitment to workers' FOA and collective bargaining rights and management noninterference when employees exercise their right to form or join a trade union. Considering the materiality of employee relations to Starbucks' business, AB voted in favor of the assessment. At Wells Fargo, shareholders asked the company to report on its efforts to prevent harassment and discrimination in the workplace. AB also voted in favor of the proposal, in acknowledgment of the materiality of the issue given the ongoing allegations of discrimination Wells Fargo faces.

Governance Shareholder Proposals

Focusing on the first half of the year, the rate for governance proposals, similarly to environmental and social proposals, declined YoY, to 31% from 36%.¹⁵ Despite this drop, governance topics remain a key priority for shareholders. Governance proposals with the highest average support included those calling for the adoption of a right to call a special meeting (44%), a majority voting standard for director elections (44%) and a simple majority voting standard (55%).¹⁶ Notably, simple majority voting proposals have made up roughly half of all governance proposal passages in 2023.

Certain governance issues saw dramatically increased levels of SHP activity during the 2023 proxy season. For example, severance pay proposals were up 176% from the prior year, reflecting investors' continued concerns regarding executive compensation.¹⁷ These proposals sought mainly to implement a shareholder vote for the approval of severance packages above a certain preset threshold.

DISPLAY 3: MARKET-WIDE SUPPORT FOR SOCIAL-RELATED PROPOSALS REMAINS HIGH



FOA: freedom of association

As of June 30, 2023 | Source: [An Early Look at the 2023 Proxy Season](#), Georgeson

¹⁴ [An Early Look at the 2023 Proxy Season](#).

¹⁵ [2023 Proxy Season: Lessons Learned and Coming Attractions](#).

¹⁶ [An Early Look at the 2023 Proxy Season](#).

¹⁷ [2023 Proxy Season: Lessons Learned and Coming Attractions](#).

Overall, they garnered 28% support on average—an uptick from the prior season.¹⁸ AB was broadly supportive of these proposals given that they would simply give shareholders an advisory vote on potentially excessive severance payments.

Another topic facing increased attention is the combined chair/CEO position, with proposals calling for the separation of the combined role, which increased 57% from last year.¹⁹ Investors' growing preference for independent board chairs in recent years has resulted in modest increases in separation across the market: the percentage of Russell 3000 companies with a combined chair/CEO role fell from 37% in 2018 to 35% in 2022.²⁰ Given this season's record number of proposals, we anticipate that the topic will remain a key priority for shareholders.

Director Elections

In 2023, votes against directors have increased meaningfully. While nearly all directors received majority support, director elections continue to be a forum for shareholders to signal concern on many governance-related matters. In 2023, average support for directors was 1.5% lower YoY.²¹ Contributing to this decrease in average director support, the proportion of directors receiving less than 90% support nearly doubled, from 6.6% in the first half of 2022 to 12.9% in the first half of 2023.²² It appears that investors have continued to use their votes to hold directors accountable.

Reasons for voting against individual directors can vary, but at AB, inadequate board independence, a multiclass share structure and a classified board structure were common concerns over which we withheld director support this past proxy season.

What May Be Expected in 2024

Upcoming Changes to the SEC Rules

As we look ahead, the SEC is working to finalize the upcoming Climate Disclosure Rule (planned for October 2023), so it is reasonable to expect a continued increase in climate-related shareholder proposals. This rule is expected to require registrants to include certain climate-related disclosures in their registration statements and periodic reports, such as information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations or financial condition; and to include certain climate-related financial statement metrics in a note to their audited financial statements. If finalized, institutional investors will likely expect issuers to enhance their environmental reporting to comply with this regulatory development.

Similarly, it remains to be seen whether the SEC will propose disclosure rules relating to human capital before the end of the year. The SEC has recently extended the anticipated timing for these

rules until October 2023. These proposals could require companies to provide 10-K disclosures on metrics such as workforce turnover, skills and development training, compensation, benefits, and workforce demographics that include diversity and health and safety. Such disclosures would increase accountability with regard to companies' public commitments and inform both investors and employees by including a more standardized and comparable set of data points.

Extending Exculpation to Company Executive Officers

Due to recent changes in corporate law and financial regulations, the 2023 proxy season required investors to consider new governance topics.

Recent changes to Section 102(b)(7) of the Delaware General Corporation Law (DGCL) make it possible for Delaware corporations to add provisions to their charter that limit the personal liability of certain officers for breaches of fiduciary duty of care—previously, only exculpation of directors was permitted. While some companies may argue that extending exculpation to officers could help in attracting and retaining competent executives, there is also the view that risk of personal liability for officers minimizes the propensity for recklessness. In light of these considerations, AB is taking a case-by-case approach to the issue, emphasizing a company-specific context. While we are generally supportive of extending exculpation to officers in line with DGCL, we may oppose such proposals in instances where shareholder accountability is already severely impeded by poor governance practices.

From the time of the DGCL update through July 5, 2023, 279 companies had slated a proposal requesting shareholder approval to amend the charter to provide exculpation for officers, and these proposals passed at approximately 79% of companies.²³

Universal Proxy Rules

With the rollout of the SEC's long-anticipated "universal proxy rules" (Rule 14a-19 under the Securities Exchange Act of 1934), shareholders and companies engaged in a proxy contest are now required to share a single universal card containing both management and dissident nominees. With this update, shareholders can now "mix and match" their preferred nominees from both the company slate and dissident slate, instead of having to choose between the entire company slate or the entire dissident slate.²⁴

While universal proxy did not result in an increase in contests this proxy season, we are expecting companies to demonstrate the effectiveness and qualifications of their directors—in our view, universal proxy has lowered the barrier for supporting dissident nominees.

¹⁸ [An Early Look at the 2023 Proxy Season](#).

¹⁹ [An Early Look at the 2023 Proxy Season](#).

²⁰ Cydney Posner, "[More Independent Board Chairs—but Not for the Reason You Think](#)," Cooley PubCo, July 27, 2022.

²¹ [An Early Look at the 2023 Proxy Season](#).

²² [An Early Look at the 2023 Proxy Season](#).

²³ [Officer Exculpation Charter Amendments: A 2023 Proxy Season Review](#), Weil, Gotshal & Manges, July 5, 2023.

²⁴ [Amending Bylaws and Charters to Address Universal Proxy, Shareholder Activism and Officer Exculpation](#), White & Case, June 8, 2023.

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