AllianceBernstein®

December 2021

2021 Proxy Season Review

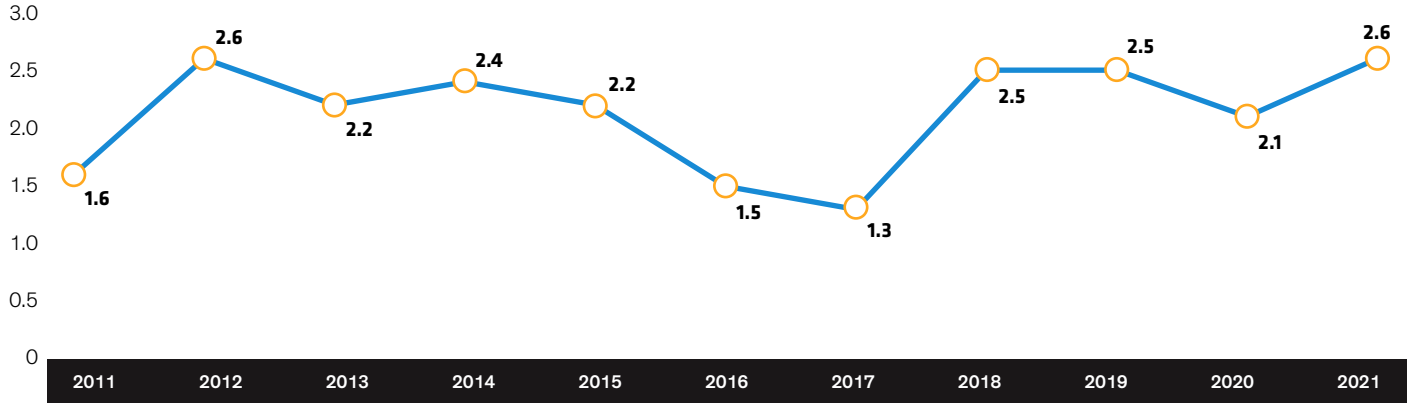
As responsible stewards of our clients' capital, we actively exercise our right to vote in accordance with our robust, rules- and principles-based, global in-house Proxy Voting and Governance Policy. We make investment and proxy voting decisions in our clients' best interests and support strong corporate governance structures, shareholder rights and transparency. For more details on our proxy voting philosophy, policy and process, please see our Global Stewardship Statement.

2021 Proxy Season Highlights

The 2021 proxy season was marked by a few distinct themes. Among US compensation-related proposals, management proposals on executive compensation (Say on Pay proposals) have faced hurdles. The proportion of failed Say on Pay proposals increased from 2.1% last year to 2.6% this year, tying this year with 2012 as the highest failure rate since mandated Say on Pay votes began in 2011 (*Display 1*).

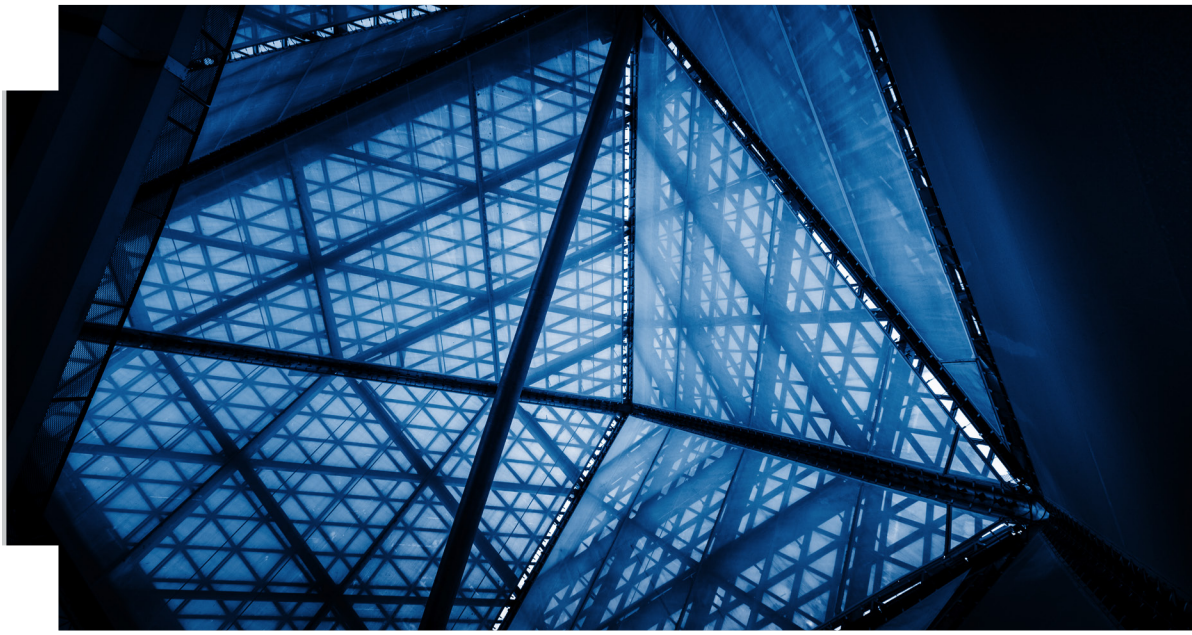
In Canada, six Say on Pay votes failed versus none failing last year. Shareholders focused on adjustments to compensation plans amid the continued fallout from the COVID-19 pandemic. Many companies tried to amend executives' base salaries or annual or long-term incentive programs, which was met with investor skepticism regarding the degree of adjustments warranted by the ongoing effects of the pandemic. AB voted in line with this broader trend, with our votes against management on compensation increasing to 20% in the first half of 2021 from 17% in 2020.

DISPLAY 1: RUSSELL 3000 SAY ON PAY PROPOSALS RECEIVING <50% SUPPORT



Source: Institutional Shareholder Services Governance Research & Voting

Meanwhile, investor focus on environmental, social and governance (ESG) issues continued to grow. For example, median support for US directors dropped for the third year in a row, with investors holding boards accountable for a broader set of issues, including climate and diversity. The trend was apparent outside the US as well, with total ESG proposals and support increasing in Europe, while investors in Latin America pushed for greater director disclosure and more sustainability initiatives. Approximately 36% of environmental proposals and 17% of social proposals passed, although Say on Climate, a newly proposed mechanism that allows shareholders to express their views on companies' climate-related initiatives through an annual advisory vote, was not as popular (see page 6). Perhaps the most widely publicized ESG-related proxy contest this season was ExxonMobil and Engine No. 1.



ExxonMobil

The voting results of ExxonMobil's 2021 annual meeting of shareholders were among the most controversial and widely discussed stewardship topics in the first half of this year's voting season. Of the 21 proposals raised—including seven shareholder proposals—three were climate related.

Engine No. 1 is an activist hedge fund that owns a relatively small number of ExxonMobil shares, which aimed to shake up the company's board and encourage more robust climate risk management. AB supported three of the four Engine No. 1 director nominees at ExxonMobil's proxy contest—voting in favor of appointing Gregory J. Goff, Kaisa Hietala and Alexander Karsner. We based our vote on ExxonMobil's self-refreshment efforts in early 2021 and our assessment of the board's ability to act on key climate issues and to ensure that the business responds to shareholder actions that have received significant shareholder support. At the same meeting, AB voted in favor of the separation of the roles of CEO and board chair as well as the appointment of an independent board chair; we want to see more stringent oversight of management and a shift in both the tone of and the approach to climate risk management.

However, we did not support the shareholder proposal to assess the cost/benefit analysis of ExxonMobil's current climate policy. The proponent framed the company's existing investment on climate risks as "don't-look-behind-the-curtain corporate green propaganda," which we believe was unnecessarily critical and did not accurately describe the company's current approach or clearly outline the analysis to be conducted. Finally, we voted in favor of the proposal requesting a report on corporate climate lobbying aligned with the Paris Agreement.

2021 Proxy Season Review: Executive Compensation

Shareholders were acutely focused on executive compensation plans this proxy season. Although 77% of companies listed on the Russell 3000 Index received shareholder support of 90% or greater on their executive pay plans, more companies failed to obtain majority support from their shareholders.

APTIV

We engaged with auto-parts maker Aptiv ahead of the 2021 shareholder vote. When governments imposed mandatory shutdowns across Europe and North America in the second quarter of 2020, Aptiv had to furlough its production employees and chose to take broad austerity measures, including the reduction of executive salaries, as many others did. The severe, although temporary, business disruption significantly affected the financial metrics Aptiv uses in its annual incentive plan (AIP), which covers ~30% of Aptiv's non-hourly workers, and its three-year rolling long-term incentive plan (LTIP), which covers Aptiv's top ~300 managers. On an unadjusted basis, the 2020 AIP and LTIP would have paid out 10% and 49% of the target, respectively, despite the company's strong recovery in the second half of the year. Because of the LTIP's three-year rolling basis, 2021 and 2022 were projected to be hit as well, posing risks to retention among the company's top managers.

In July 2020, Aptiv's Compensation Committee reset the 2H20 financial metrics and capped the total 2020 payout at 65%, which was ultimately realized in full because of the strong rebound in industry production in the second half of the year. Similarly, in December 2020, the Compensation Committee adjusted the LTIP by truncating the 2018–2020 plan at 2019 and adjusting the 2019–2021 and 2020–2022 targets to levels "deemed rigorous and challenging, while acknowledging the current operating environment." The maximum payout on the new, lower targets was reduced to 150% from 200%, with a cap of 100%, unless Aptiv's total shareholder return is at or above the median of its peer group. Aptiv recognized US$22 million in compensation expenses related to these adjustments. In recognition of structured limits to payout and logical rationales behind each amendment, AB was comfortable supporting the plan for the year in review.

2021 Proxy Season Review: Say on Climate

Like Say on Pay, Say on Climate proposals ask companies to include an annual advisory vote for shareholders to express their views on companies' climate efforts. Only one Say on Climate shareholder proposal passed this year, Canadian Pacific Railway (*Display 2*). All Say on Climate management proposals passed (*Display 3*).

Display 2: 2021 Say on Climate Shareholder Proposals

Company	% Votes For
Booking Holdings	34%
Canadian Pacific	85% (Passed)
Charter Communications	39%
Hennes & Mauritz	2.7%
Monster Beverage	7%
Santos Limited	Withdrawn
Union Pacific	31.6%
Woodside Petroleum	Withdrawn

Display 3: 2021 Say on Climate Management Proposals

Company	
Aena	**National Grid**
Atos	**Ninety One**
Aviva	**Royal Dutch Shell**
Canadian National Railway	**S&P Global**
Gestamp Automoción, S.A.	**Severn Trent Plc**
Glencore	**SSE**
HSBC Holdings (PLC)	**TotalEnergies SE**
Iberdrola	**Unilever**
Investec	

Investors and proxy advisors have mixed views on Say on Climate resolutions. Consistent with our broader proxy voting guidelines on climate change proposals, AB takes a case-by-case approach to voting on Say on Climate: rather than automatically supporting all climate-related proposals, we evaluate whether they promote genuine improvement on climate issues and enhance shareholder value.

AB generally supports proposals calling for greater transparency. However, since climate change and related goals are multiyear issues, we're skeptical of annual votes on companies' climate strategies and what investors could expect in terms of incremental improvements. We believe that engaging with companies and voting against directors through an escalation policy is a more effective approach to addressing climate change issues.

2021 Proxy Season Review: Racial Equity Audit

SOC Investment Group, in partnership with the Service Employees International Union, introduced a new proposal during the 2021 proxy season asking target companies' boards to "oversee a racial equity audit, analyzing adverse impacts on minority stakeholders and communities of color."

This proposal comes amid broader racial tensions across the US and evidence that banks' minimum maintenance fees, loan distribution processes and other service protocols disproportionately affect people of color and contribute to systemic racism. As a result, the proposal targeted major US banks, including Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, State Street and Wells Fargo. BlackRock and Morgan Stanley were also targeted, but the proposals were dropped after the companies committed to conducting audits. In other sectors, several other shareholder proponents filed nearly identical proposals at Amazon, Johnson & Johnson, CoreCivic and Amgen, demanding audits to assess their racial impact. As was the case for multiple banks, CoreCivic and Amgen agreed to conduct an audit, leading to the proposal being withdrawn.

The new proposal—which targeted banks—received relatively high support: 31% on average. AB voted in favor of this proposal among banks with a significant retail presence, such as Wells Fargo, given our view that these companies could start auditing those areas where they are most exposed.

Wells Fargo

Before casting our vote at Wells Fargo, we spoke with members of the company's board about its approach to championing racial equity. Although the company gave us a very detailed overview of its planned third-party human rights assessment, our view was that this assessment does not match the scale of the audit as requested by the proponent. In particular, we believe that this action would not address the impact of Wells Fargo's business policies in areas such as opening checking accounts and approving loans—which could significantly limit underserved communities' access to financial services. As a result, we supported the Racial Equity Audit shareholder proposal at Wells Fargo.

At AB, we also scrutinize racial and gender equity at the board level. We believe that diversity is an important element of assessing a board's quality, as it promotes a wider range of perspectives to be considered, which helps companies strategize and mitigate risks. This view is supported by regulation around the world: several European countries legally require a quota of female directors while others have a comply or explain policy; in the US, California requires corporations headquartered in the State of California to have at least one female director on the board, which will be increasing to a minimum of two out of five directors or three out of six directors by the end of 2021. California also requires that boards include at least one individual who "self-identifies as Black, African American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian, or Alaska Native, or who self-identifies as gay, lesbian, bisexual, or transgender."

AB's global policy is to vote against the nominating/governance committee chair, or a relevant incumbent member in the case of classified boards, when the board has no female members. In Japan, we will vote against top management, as most listed Japanese companies do not have three-committee boards. In 2021, we are escalating the topic of board-level ethnic/racial diversity and engaging with our significant holdings that appear to lack ethnic/racial representation on their boards. In 2022, based on the outcomes of these engagements, we will begin voting against the nominating/governance committee chair or a relevant incumbent member for classified boards of companies that lack minority ethnic/racial representation on their boards.

2022 Proxy Season Preview

Looking ahead at 2022, we expect COVID-19-related compensation disclosures to continue to be top of mind for investors. We also hope to see more companies take a strategic approach to integrating ESG by strengthening accountability at the executive and board levels. In addition, we expect to observe the implications of the Nasdaq's board diversity rule, especially as more institutional managers, including AB, begin to hold board members accountable for lacking racial and ethnic diversity in the US.

We are keeping an eye on the impact of new shareholder proposal submission requirements from the US Securities and Exchange Commission (SEC), according to which shareholders must own at least US$2,000 in shares for three consecutive years or at least US$25,000 for one year before submitting proposals. The SEC is also increasing the minimum support levels required to resubmit shareholder proposals (*Display 4*). We've expressed concerns about this change because we believe that it will hinder shareholders from voting on important topics and surfacing these issues—ranging from data privacy and employee rights to climate and community—to companies and other market participants. The announcement from the Division of Corporation Finance on the SEC's existing rules for granting the exclusion of certain shareholder proposals under Rule 14a-8 might also have a notable effect on the shareholder proposal landscape.

Display 4

	Pre-Amendment Levels of Shareholder Support Necessary to be Eligible for Resubmission	Amended Levels of Shareholder Support Necessary to be Eligible for Resubmission
If previously voted on once	3%	5%
If previously voted on twice	6%	15%
If previously voted on three times or more	10%	25%

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