AllianceBernstein

March 2022

2022 US Proxy Season Preview

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.

2022 Proxy Season Expectations

In our [2021 Proxy Season Review](#), we shared that, in the 2022 proxy season, we expect diversity, equity and inclusion (DE&I) to be one of the key focus areas for investors. We also wanted to see more companies take a strategic approach to integrating environmental, social and governance (ESG) issues by strengthening accountability at the executive and board levels.

Directly ahead of the season, we dig deeper into key trends in policy updates, net-zero expectations and employee management.

Key Trends in Policy Updates Across Managers, Advisors and Regulators

Board Diversity

As the broader market continues to advance on certain ESG themes, institutional managers—including AB—are using their rights as shareholders to hold boards and companies accountable for ESG practices. In 2021, many large institutional managers announced their commitment to voting against the nominating or governance committee chairs at companies that lack racial and ethnic diversity in their boards. Major proxy advisors, such as ISS and Glass Lewis echoed this approach by announcing that they may recommend a vote against these chairs for relevant companies in 2022. Further, ISS expects boards around the world to have at least one gender diverse member and Glass Lewis is following the lead of California and some European Union members of requiring that at least 30% of a board is gender diverse by 2023 (increasing the requirement from two gender diverse directors in 2022).

For boards with five or more directors, the Nasdaq's board diversity rule adds further encouragement, asking companies to comply or explain why they do not have at least two diverse directors. Recognizing that change takes time, Nasdaq has implemented a staggered approach (*Display 1*), but the impetus is there—with urgency coming from managers, advisors and regulators.

DISPLAY 1: NASDAQ BOARD DIVERSITY RULE

<table>
<tr><th></th><th>Initial Board Matrix</th><th>One Diverse Director or Provide Explanation*</th><th>Two Diverse Directors or Provide Explanation*</th></tr>
<tr><td>Nasdaq Global Select or Global Markets</td><td rowspan="3">August 8, 2022 or the date the company files its 2022 proxy, whichever is later</td><td rowspan="3">August 7, 2023 (two years)</td><td>August 6, 2025 (four years)</td></tr>
<tr><td>Nasdaq Capital Markets</td><td>August 6, 2026 (five years)</td></tr>
<tr><td>Boards with five or fewer directors</td><td>N/A</td></tr>
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* A company that files its proxy or information statement after these dates in each respective calendar year would have to explain why it meets, or does not meet, the objective at the time of its proxy filing (or, if the company does not file a proxy or information statement, in its Form 10-K or 20-F).

Source: Nasdaq

Multi-Class Share Structures with Unequal Voting Rights

Proxy advisors have also announced more stringent requirements regarding companies with multi-class share structures with unequal voting rights, especially when there is no sunset provision of seven years or less post initial public offering. ISS will set 2022 as a grace period for removing the grandfather clause for companies with such structures while Glass Lewis will begin recommending a vote against the governance committee chair in 2022. While the topic is not new, we expect to see increased attention on the issue from shareholders due to these developments.

Changes from the US Securities and Exchange Commission (SEC)

Ahead of the US proxy season, the SEC has released multiple updates that will improve shareholder democracy and keep ESG issues on the agenda. First, the SEC raised the bar on excluding shareholder proposals based on the ordinary business exemption in favor of social policy significance. This means that, where companies could previously exclude a proposal that was deemed to be related to a company's ordinary business operations and therefore "impractical" for shareholders to help solve the issue at the annual general meeting, now, that proposal may remain on the agenda as long as it raises a significant social policy issue. We expect this to further increase shareholder focus on social topics like employee rights or labor management in the US.

Additionally, the SEC adopted a new rule that will allow shareholders to support any director nominees in a contested election regardless of whether they are registrant or dissident nominees, effective for all applicable shareholder meetings held after August 31, 2022. We believe that these updated rules might increase the total number of shareholder proposals submitted and included on the agenda.

Finally, the SEC reopened the comment period on pay-for-performance disclosure, which we believe could reshape compensation discussion and analysis for years to come. Specifically, the SEC is asking investors whether additional metrics like net income on a pre- and after-tax basis would be valuable for assessing the link between executive pay and performance—in addition to the previously proposed metric of cumulative total shareholder return, which was proposed in 2015. Our comments to the SEC can be viewed here.

Net Zero Expectations: Climate-related Proposals and Advisor Recommendations

2021 Climate Change-related Shareholder Proposals.

Environmental shareholder proposals focused on climate change earned the highest levels of support in 2021.[1] Specifically, 17 of the 20 environmental shareholder proposals that passed in 2021 were related to climate change. These proposals varied in their requests, with the most popular being calls to provide additional reporting on climate change–related lobbying efforts. Notably, some proposals earned an impressive support rate (*Display 2*).

1 ISS Vote Analytics and AB analysis

DISPLAY 2: PASSING CLIMATE CHANGE–RELATED SHAREHOLDER PROPOSALS

Company	Proposal Topic	Support
Rio Tinto Limited	Climate-related Lobbying	99%
Rio Tinto Limited	Greenhouse Gas (GHG) Emissions Reduction Target	99%
DSV	Climate Risk Reporting	98.80%
General Electric	Net Zero	98%
Sysco	GHG Emissions Reduction Targets	92.10%
Canadian Pacific	Say-on-Climate	85.40%
Phillips 66	GHG Emissions Reduction Targets	79.40%
Norfolk Southern	Climate-related Lobbying	76.40%
Bloomin' Brands	Climate Risk Reporting	76.20%
AutoZone	GHG Emissions Reduction Targets	70.40%
United Airlines	Climate-related Lobbying	65%
ExxonMobil Corporation	Climate-related Lobbying	64.20%
Delta Air Lines	Climate-related Lobbying	62.70%
Phillips 66	Climate-related Lobbying	62%
Chevron	GHG Emissions Reduction Targets	60.70%
ConocoPhillips	GHG Emissions Reduction Targets	58.60%
Booking Holdings	Say-on-Climate	56.20%

Other environmental proposals received great support, including a resolution to report on the soy supply chain at Bunge (99% support) and a resolution to report on plastic pollution at DuPont de Nemours (81% support).

Proxy Advisor's Recommendations

Increased shareholder focus on climate change issues is also being reflected in proxy advisors' voting recommendations: in 2022, ISS will recommend a vote against certain directors at the highest emitting companies that don't have appropriate climate-related disclosures or quantitative GHG reduction targets, based on the Climate Action 100+ framework. Meanwhile, Glass Lewis intends to take a case-by-case approach to shareholder proposals seeking approval of climate transition plans or the adoption of say-on-climate votes, given the multiyear nature of climate risk management.

AB's Approach to Climate-related Proposals

AB believes that board oversight and director accountability are critical elements of corporate governance. Companies demonstrate effective governance through proactive monitoring of material risks and opportunities, including ESG-related risks and opportunities. To evaluate investee companies' adaptiveness to evolving climate risks, we have engaged our significant holdings on climate risk goals and disclosures in firmwide campaigns in 2020 and 2021. Based on each company's response, AB will hold appropriate directors accountable starting in 2022.

Employee Management

Racial Equity Audits

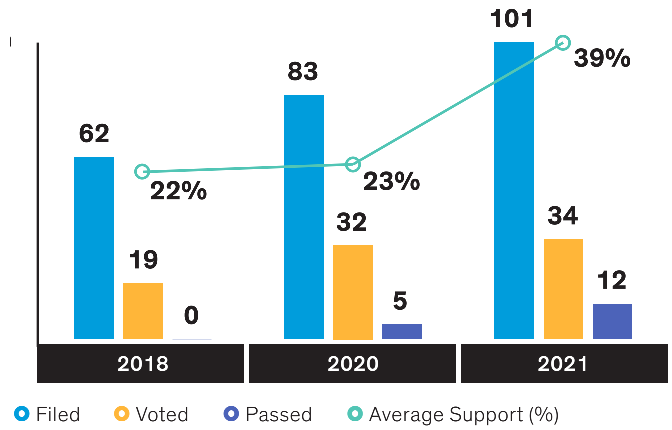
Following the increased prevalence of racial equity audit proposals in 2021, we anticipate seeing many workplace equity and civil rights audit–related proposals in 2022. Support of 39% for these proposals—which ask companies to conduct independent audits to find signs of racial inequity within a business—in 2021 was significant, considering it was the first season that such proposals were introduced. In 2022, the language in these proposals is evolving to increase focus on civil rights, in addition to racial justice and equity issues.

Shareholder proposals regarding employee management have increased in recent years (Display 3), largely driven by increases in diversity-related proposals, which increased by 36 year over year to 77 filed in 2021. Interestingly, 2021 saw fewer proposals versus 2020 related to: employee arbitration policies, employee health and safety, gender or racial pay gaps, and sexual harassment.

AB considers these proposals on a case-by-case basis and determines how to vote based on a company's existing risk-management practices. We strongly support comprehensive DE&I oversight, and supported the majority of these proposals in 2021.

DISPLAY 3: SHAREHOLDER PROPOSALS ON EMPLOYEE MANAGEMENT

Number of Proposals



Source: ESGAUGE

Pay Equity

As pay equity regulations continue to evolve, we expect to see greater emphasis on the topic within the social shareholder proposal landscape. For example, the SEC is considering requiring companies to increase their disclosure of employee management metrics, including compensation and benefits. Even in the UK, which remains the leader in gender pay equity disclosure regulations, union leaders and other stakeholders continue to urge the government to consider mandatory reporting of racial and ethnic pay gaps by employers.

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