AllianceBernstein®

September 2022

2022 US Proxy Season Review

As responsible stewards of our clients' capital, we actively exercise our right to vote in accordance with our robust global rules- and principles-based 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 Highlights

The 2022 proxy season was marked by a few distinct themes, including executive compensation, racial equity and civil rights audit requests, employee rights, and human rights. With regard to environmental, social and governance (ESG)–related proposals, social proposals had the highest year-over-year (YoY) increase versus environmental and governance proposals, mainly driven by elevated interest in diversity, equality and inclusion data (and more specifically, EEO-1 data[1]). Political spending and lobbying disclosures, which made up 26% of submissions for the year, was another topic area with a high YoY increase.

The YoY increase in social proposals came on the heels of the successful social proposals in 2021, when we saw a market push for improved diversity data as well as improved disclosures on political spending and lobbying, and a continued focus on racial equity and civil rights audits, which had been successfully implemented at companies like Citigroup. The successes last year spurred investors to submit other social proposals at annual general meetings this year.

Compared with the past two years, the 2022 US proxy season had the highest number of shareholder proposals on the ballot. However, the percentage of AB's support for ESG-related proposals decreased in 2022. One of the main contributing factors to this was the increasingly prescriptive ask within shareholder proposals, which made many proposals overbearing or unmindful of the progress that had been made by companies in these areas, in our view.

This season we also saw a proliferation of proposals filed as "civil rights and nondiscrimination." Yet while the text of these proposals called on companies to conduct civil rights audits, the proposals also argued that "antiracist" programs are discriminatory "against employees deemed nondiverse." The National Center for Public Policy Research filed 10 of these proposals, which were uniformly unsuccessful this season, achieving less than 5% shareholder support in each case.

In our 2022 Proxy Season Preview, we said we hoped to see more companies take a strategic approach to integrating ESG issues by strengthening accountability at the executive and board levels. Relatedly, some notable proposals passed for the first time in 2022, including proposals for a civil rights audit (five passages), racial equity audit (three passages), pay gap audit (two passages), and a sexual harassment and mandatory arbitration (one passage). In our view, the passage of these proposals demonstrates that an increased number of shareholders expect companies to take a strategic approach to integrating ESG issues by strengthening accountability at the executive and board levels.

1 The EEO-1 Component 1 Report is a mandatory annual data collection that requires all private sector US employers with 100 or more employees, and federal contractors with 50 or more employees meeting certain criteria, to submit demographic workforce data, including data by race/ethnicity and job categories. The filing by eligible employers of the EEO-1 Component 1 Report is required under section 709(c) of Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000e-8(c), and 29 C.F.R. § 1602.7-.14 and 41 C.F.R. § 60-1.7(a).

In 1H:2022

24,212
Total number of US proposals voted on

23,555
Total number of management proposals voted on

657
Total number of shareholder proposals voted on

60
Total number of environmental-related shareholder proposals voted on

193
Total number of social-related shareholder proposals voted on

404
Total number of governance-related shareholder proposals voted on

As of June 30, 2022

Executive Compensation

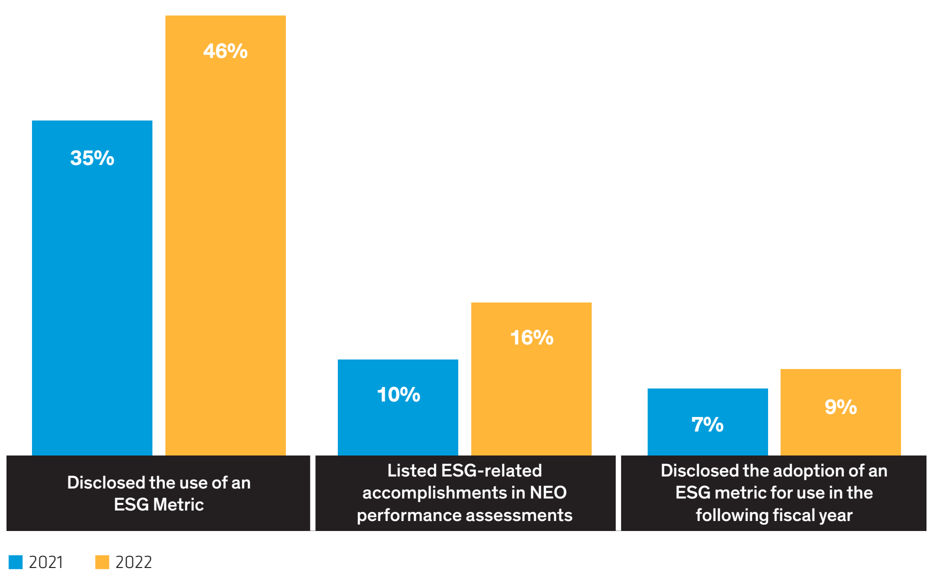
On the topic of executive compensation, we continued to observe how underperforming companies often cite uncertainties and impacts stemming from the COVID-19 pandemic and related supply-chain disruptions. Company adjustments included lowering targets, eliminating metrics or amending performance periods.

Among S&P 500 companies, chief executive officer (CEO) pay continued to increase substantially, resulting in a widening pay gap ratio between CEOs and employees (from 166:1 in FY20 to 186:1 in FY21).[2]

We found that the use of ESG-related metrics or the mention of specific ESG topics for assessing executives' performance continued to increase among S&P 500 companies. According to Mercer's preliminary analysis of 2022 proxies for 200 S&P 500 companies, use of ESG metrics (including qualitative, strategic and/or nonfinancial objectives) increased from 35% in 2021 to 46% in 2022 (*Display 1*).

However, incorporating a metric that mentions or touches on ESG issues shouldn't automatically be viewed in a positive light. ESG metrics or performance elements that don't demonstrate a clear link to a company's business strategy or existing firmwide efforts should be scrutinized. For example, "metrics" with vague goals, such as "improving culture," tend to inflate pay packages by guaranteeing a certain portion of variable pay. Whether an executive pay plan incorporates ESG metrics or not, the ideal plan should clearly establish accountability at the top to encourage positive performance in a sustainable manner, in our view.

DISPLAY 1: PREVALENCE OF ESG METRICS DISCLOSED IN EXECUTIVE INCENTIVE PLANS



NEO: named executive officer

As of April, 2022

Source: Mercer, *ESG Metrics in Executive Incentive Plans at S&P 500 Companies*, April 2022

2 Equilar, *Associated Press CEO Pay Study*, May 2022.

Third-Party Audit Requests

During the 2021 season, we saw an increase in requests for third-party audits, in particular civil rights audits and racial equity audits, with 13 related proposals filed. In the 2022 season, 40 companies received requests to complete either a civil rights or a racial equity audit.

Racial equity audits are independent examinations of whether a company engages in or perpetuates discrimination, whereas civil rights audits assess a company's business policies, practices, products and services to determine whether those components have a discriminatory effect on people historically subject to discrimination. Both audit requests have similar characteristics, such as asking for input from civil rights organizations and for a variety of stakeholders to help conduct the audit.

Among the racial equity audit requests, one proponent (Service Employees International Union Pension Plans Master Trust) asked for an audit on the adverse impacts of management practices on nonwhite stakeholders and communities of color, with input from civil rights organizations as well as employees and customers of MAXIMUS and Home Depot.

Among the civil rights audit requests, one proponent (not disclosed) asked for an audit analyzing the adverse impact of Apple's policies and practices on the civil rights of company stakeholders, above and beyond legal regulatory matters, as well as recommendations for improving the company's civil rights impact. Another proponent (the International Brotherhood of Teamsters General Fund) asked for an audit analyzing the impact of Stericycle's policies and practices on the civil rights of company stakeholders, above and beyond legal regulatory matters, with input considered from civil rights organizations, employees, customers and other stakeholders on what matters should be analyzed.

The following highlights represent the support for third-party audit requests:

- Eight companies received majority shareholder support for civil rights and racial equity audit proposals.
- Sixteen proposals were withdrawn after shareholders were petitioned prior to a vote, with companies in many cases announcing their intention to conduct an audit similar to the shareholder request.
- The eight proposals that passed (as of June 9) were from MAXIMUS, McDonald's, Home Depot, Waste Management Inc., Stericycle, Johnson & Johnson, Apple and Altria. (Proposals were still pending at three additional companies.)
- Of the above eight companies, we supported proposals at seven of them: Altria (civil rights audit), Apple (civil rights audit), MAXIMUS (racial equity audit), McDonald's (human rights impact assessment), Stericycle (civil rights audit), Home Depot (racial equity audit) and Waste Management Inc. (civil rights audit). Our vote against Johnson & Johnson's racial equity audit proposal was driven by the fact that, particularly in the context of more equitable COVID-19 vaccine distribution, we felt it was a more appropriate ask for policymakers to effectively enact the necessary changes throughout the company's entire global supply chain.

As defined by the Organisation for Economic Co-operation and Development, racial/gender pay gaps are the difference between nonminority and minority/male and female median earnings, expressed as a percentage of nonminority/male earnings.

Employee Rights

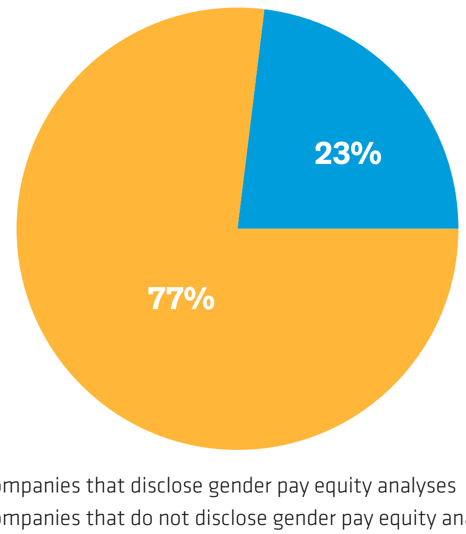
Gender and Racial Pay Gaps

This proxy season, we saw the number of shareholder proposals related to gender and racial pay gaps decrease to five in 1H:2022, compared with a high of 15 proposals in 2019. However, unlike in years past, in 2022, two proposals on this issue—at Disney and Lowe's—received majority shareholder support. AB voted in favor of all five shareholder proposals in 2022 asking for greater disclosure around any existing pay gaps at the relevant companies.

Per AB's policy in the US, we are generally supportive of proposals that require companies to make similar assessments and disclosures related to pay disparities between different gender and ethnic/racial groups. We believe that it is essential for companies to measure and properly manage any existing pay gaps. This statistic helps companies identify potential areas of improvement not only related to pay, but also to hiring and promotion. Measuring pay equity and pay gaps is a key pillar of an effective human capital management strategy, which should also be shared and overseen by the board of directors (*Display 2*).

DISPLAY 2: CORPORATE DISCLOSURE ON GENDER PAY EQUITY ANALYSES

Less than a Quarter of America's Largest Companies Disclose Gender Pay Equity Analyses



As of January 19, 2021

Source: JUST Capital's corporate engagement datasets

Worker Misclassification

Another topic of several proposals this year was worker misclassification, which is the practice of classifying workers as independent contractors rather than employees. This may result in the denial of fair wages and benefits and allow the employer to avoid paying employee-related expenses such as unemployment insurance, workers' compensation and social security.

XPO Logistics

In 2022, the Teamsters, a labor union in the US and Canada, launched a campaign against XPO Logistics, an American freight transportation company, to file for union representation for XPO's drivers, alleging that the company violated the law by misclassifying nearly 250 truck drivers in Southern California. As a result, the National Labor Relations Board ruled that the truck drivers were in fact company employees, a ruling that could potentially pave the way for the reclassification of numerous misclassified workers across all industries.

The warehouse industry has recently been a focus of worker misclassification, as many workers risked their health during the pandemic to serve those sheltering at home. The Teamsters urged companies that use warehouses, like Urban Outfitters, Lowe's and the TJX Companies, to produce a report on the risks of misclassifying employees as independent contractors within each of their supply chains.

While we agreed with the spirit of these proposals and recognize that vendor oversight is a critical part of a company's supply-chain management, the context of the proposals was overly broad in scope and did not take into account the varying state regulations that subject vendors to different sets of laws. The proposal at Lowe's received the highest level of support, at 35.7%, followed by TJX (31.8%) and Urban Outfitters (16%).

Reproductive Healthcare

This year, we also saw three proposals (at Lowe's, Walmart and TJX Companies) asking companies to report on the risks and impacts of potential restrictions on reproductive healthcare related to controversies surrounding Roe v. Wade. AB evaluates companies on their ability to attract and retain strong talent, which includes company benefits. While we agreed with the spirit of these proposals in raising the importance of reproductive healthcare, the requested actions to assess the "costs to the company caused by enacted or proposed state policies severely restricting reproductive rights" were too broad in scope, in our view. Accordingly, AB decided to abstain.

Eleven shareholder proposals that went up for a vote in 1H:2022 were directed at harassment and/or concealment clauses. Concealment clauses may limit an employee's ability to discuss unlawful acts in the workplace, including harassment and discrimination. These clauses, such as nondisclosure agreements and mandatory arbitration agreements, are increasingly becoming a greater point of tension between employees and employers.

Mandatory arbitration is a form of dispute resolution in which an arbitrator makes a decision, instead of a judge or jury. We have seen a shift in some large companies (e.g., Microsoft, Meta Platforms and Airbnb) toward making arbitration voluntary after feedback from employees around sexual harassment cases.

Of the 11 related shareholder proposals, five received majority support, including those at Activision Blizzard, Apple, IBM, Sunrun and Twitter, and AB supported all five. In general, AB is supportive of greater transparency around concealment clauses and policies related to harassment and discrimination.

The shareholder proposals we are seeing that ask companies to report on their use of concealment clauses and the potential risks to the company are in line with pending federal legislation around the matter and are increasingly becoming a focus for companies in managing their employees. Some company policies can include regular training related to harassment and discrimination, which is just one element in preventing controversies that could be detrimental to shareholder value.

Human Rights

In the 2022 proxy season, shareholder proposals surrounding human rights touched upon more commonly discussed issues such as child labor, human rights impact assessment (HRIA), privacy and surveillance, and political censorship.

Child Labor

General Motors (GM) and Hershey both received shareholder proposals related to the use of child labor in each company's supply chain. At GM, the proponent asked the company to report on how its electric vehicle production may involve child labor. At Hershey, the proponent asked the company to report on whether its planned implementation steps will put the company on track to eradicate child labor in all forms from its supply chain. Both proposals targeted specific sources within the companies' supply chains: for Hershey, it was West African cocoa farms (West Africa collectively supplies two-thirds of the world's cocoa crop); for GM, it was cobalt mining in the Democratic Republic of the Congo, where over 70% of the world's cobalt is produced.

The targeting of these specific sources reflects increased public awareness of the poor and inadequate working conditions in these regions, especially for children and teenagers. While we supported the spirit of both these shareholder proposals, we also recognize the significant progress both companies have recently made in developing policies against child labor. Hershey, specifically, has committed to 100% sourcing visibility by 2025, and already reports on its priority to eliminate child labor, so the new request would be duplicative. The proposal for GM, on the other hand, was overly broad in scope. An initial step the company could take in developing a policy to prevent child labor would be to oversee an audit of its suppliers, especially cobalt mines and refineries. AB will continue to monitor both companies' progress toward their publicly disclosed goals.

Human Rights Impact Assessment (HRIA)

At Sturm, Ruger & Co., one of the few publicly held gun manufacturers in the US, shareholders urged management to commission an HRIA. In 2018, AB had supported a similar proposal asking the company to report on gun violence, which received majority support at 68%.

Since then, the company has developed a human rights policy, but it does not directly address the potential risks related to the product it sells, including whether the company does business with gun dealers who have violated firearms laws, what research and development it undertakes, and how it markets its products. Accordingly, AB supported the 2022 proposal with the view that an HRIA would help identify potential gaps in the company's oversight of human rights–related issues and what steps could be taken to promote gun safety. The proposal passed with over 68% support.

Privacy and Surveillance

The emergence of facial recognition technologies in recent years has led to increased investor focus on how companies are managing the risks associated with the use of artificial intelligence in their products and services. Specifically, shareholders are critical of the lack of oversight or due diligence conducted by companies to mitigate the potential human rights violations associated with the use of this technology.

Political Censorship

In a proposal at Google, shareholders asked for greater transparency in the company's content takedown process, and specifically highlighted requests by entities of the US government. In response to the proposal, Google referenced its existing transparency report, which discloses the number of requests it receives from government agencies on a six-month basis. Although AB supports greater transparency on content removal, the proponent framed the government's request to remove misinformation as being potentially unconstitutional, putting a politically charged angle on the request that AB could not support.

Amazon

At Amazon, one proposal asked the company to commission an independent analysis to assess whether the company's due diligence process is sufficient to determine whether its surveillance, computer vision or cloud storage capabilities contribute to human rights violations. In response to the growing concern about this topic, Amazon conducted a civil rights and civil liberties audit in partnership with New York University School of Law on its Ring product, a home security video doorbell, and implemented over 100 changes to its policies.[3] Similarly, Amazon implemented a moratorium on its Rekognition facial comparison feature for criminal investigations and engaged with shareholders and experts on the topic (Amazon Rekognition allows applications to confirm user identities by comparing their live image with a reference image).

AB acknowledged Amazon's publicly disclosed efforts to mitigate the potential human rights violations of its technologies and did not vote in favor of this proposal, but we plan to continue to monitor and engage on this issue going forward. On the other hand, for the second consecutive year, Amazon received a proposal focused on its Rekognition software. The proponent highlighted the potential for the technology to disproportionately target underrepresented minority groups, as well as the sale of the product to authoritarian/repressive governments. Similarly, as in 2021, AB supported the proposal and underscored the importance of evaluating the Rekognition software's potentially harmful impact on users and communities. Both shareholder proposals at Amazon received over 40% support.

3 Policing Project at NYU School of Law, "Ring & Neighbors Public Safety Service: A Civil Rights & Civil Liberties Audit."

What May Be Expected in 2023

Looking ahead to the 2023 season, the US Securities and Exchange Commission has proposed multiple new rules that could affect what shareholder proposals we see on next year's ballots. Two rules could drive additional proposals around reporting and disclosure, if passed—the proposed Climate Change Disclosure regulation and the Cybersecurity Risk Disclosure regulation. If either pass, we may see increased calls to meet these standards or to rise above the standard level of reporting before the rules become law. The rules may also create a precedent for an increase in other ESG-related disclosures, which could end up as items on the ballot.

Predisclosed Vote Intentions

As part of our engagement and stewardship efforts, AB publishes our vote intentions on certain proposals in advance of select shareholder meetings, with an emphasis on issuers where our discretionary managed accounts have significant economic exposure. The selected proposals are chosen because they impact a range of key topics where AB may have expressed our viewpoints publicly, through prior engagement or proxy voting, or are relevant to AB's historical and current RI initiatives. We do not predisclose our vote intentions on mergers and acquisition activity.

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