



# KARNER BLUE

## CAPITAL

### **PROXY VOTING GUIDELINES** **May 2018**

These Proxy Voting Guidelines (the “Guidelines”) summarize the positions of Karnier Blue Capital, LLC (“KBC”) with respect to various issues of concern to responsible investors and are intended to provide a general understanding of how KBC will vote portfolio securities with respect to those issues. KBC believes that companies have a broad range of stakeholders that extend well beyond the company’s shareholders, and those companies that are most effective at understanding and creatively meeting the needs of these various stakeholders will be best positioned to build value and reduce risk over the long-term. The ability of a company to meet the needs of all of its stakeholders is strengthened by the development and implementation of strong governance structures and the skillful management of a wide array of production methodologies and business operations that can significantly impact stakeholder wellbeing and the long-term health of our planet. Due to the critical role that proxy voting has in providing oversight of a company’s board of directors and management team and the voice that proxy voting affords a company’s shareholders to ensure that the board of directors and management team remain focused on long-term value creation, KBC has elected to draw upon the expertise, knowledge and deep understanding of As You Sow, a non-profit shareholder advocacy organization that uses the power of the proxy to create positive, lasting changes in corporate behavior. Accordingly, KBC has adopted the 2018 Proxy Voting Guidelines of As You Sow (attached hereto), subject to the modifications specified below.

KBC may abstain from voting any proxy if, based on factors such as the expense or difficulty of voting a proxy, it determines that a client’s interests are better served by abstaining. Further, because proxy proposals and individual company facts and circumstances may vary, KBC may vote in a manner that is contrary to the Guidelines if it believes that doing so would be in a client’s best interest. If a proxy proposal presents a conflict of interest between KBC and a client, then KBC will disclose the conflict of interest to the client prior to the proxy vote and, if participating in the vote, will vote in accordance with the client's wishes.

Clients may contact KBC in writing to request information concerning the manner in which proxy votes have been cast with respect to portfolio securities held by the relevant client during the prior annual period.

KARNER BLUE CAPITAL  
MODIFICATIONS TO THE  
2018 AS YOU SOW PROXY VOTING GUIDELINES

- A. The following sections are deleted and will therefore not be applied by KBC:
- i. Second bullet under “Management Resolutions – Board of Directors – Specific Votes – Accountability – Audit Committee Members” opposing the election of any director who allows an alternative dispute resolution (ADR) clause in an audit contract;
  - ii. Second bullet under “Management Resolutions – Auditors – Specific Votes” opposing the ratification of the auditor in cases where the auditor requires the company to sign an arbitration agreement;
  - iii. Third bullet under “Management Resolutions – Auditors – Specific Votes” opposing the ratification of the auditor in cases where the same auditor or firm has been hired more than five years in a row; and
  - iv. All of the content under “Shareholder Resolutions – Corporate Governance – Specific Votes – Auditors” supporting resolutions that seek to rotate auditors every five years.
- B. The following sections are deleted and replaced as indicated below, and KBC will therefore apply the guidelines set forth below in lieu of those provided by As You Sow:
- i. The Fourth bullet under “Management Resolutions – Board of Directors – Guiding Principles”, which establishes standards for gender and ethnic diversity, is replaced by the following guidelines:
    - The nominating committee should be held accountable for producing a diverse board, and therefore KBC will oppose each individual director who serves as a member of the nominating committee if the board does not have at least one woman and one director who is not Caucasian for every eight directors who serve on the board.
    - The nominating committee should be held accountable for ensuring that diversity is a key component of each director search, and KBC will therefore support proposals requesting that companies adopt policies or nominating committee charters that describe in reasonable detail the manner in which the nominating committee shall conduct a director search.
  - ii. All of the content under “Executive and Director Compensation – Short Form Voting Guidelines for Compensation”, which opposes any compensation package if (i) salary exceeds \$1.25 million, (ii) salary has increased by more than \$100,000 or more than 10% in the last three years, or (iii) the ratio of CEO compensation to the compensation paid to the second most highly paid active executive is equal to or greater than three, is replaced by the following guidelines:
    - KBC will oppose executive compensation proposals that fail to give adequate weight to all material factors that a reasonable compensation committee would consider, including financial, economic and social circumstances affecting the company that may be contributing to underperformance or excessive financial burdens.

- KBC will generally oppose proposals that seek shareholder ratification of the company's executive officers' compensation (commonly referred to as an Advisory Vote on Compensation) if incentives are thereby created for executives to operate the company in a manner that is inconsistent with the interests of shareowners and long-term value creation.
- KBC will generally oppose compensation proposals if the proposal is unclear, is not reasonably linked to performance, lacks adequate disclosure, or includes terms that are inconsistent with best market practice, the interests of shareholders or long-term value creation.

# PROXY VOTING GUIDELINES

2018

# INTRODUCTION

As *You Sow*, founded in 1992, is a non-profit shareholder advocacy organization that uses the power of the proxy to create positive, lasting changes in corporate behavior.

Our *Proxy Voting Guidelines*, written in consultation with Proxy Impact, are designed for socially responsible investors who want to align their proxy voting with environmental, social, and governance (ESG) principles. Our goal is to help shareholders vote their own proxies, or provide instructions to their proxy voting services. To this end, we offer voting recommendations on resolutions commonly found on proxies. The *Guidelines* are not meant to be comprehensive, although we hope to expand their scope in future editions.

As *You Sow* updates these *Guidelines* annually to account for new social and environmental issues and the latest trends in corporate governance. The *Guidelines* are formatted to reflect a typical proxy statement in that they are divided into two categories: management resolutions and shareholder resolutions. Management resolutions are proposed by companies and include votes (required by the Securities and Exchange Commission) on board of director elections, auditor ratification, executive compensation, and as-needed resolutions on related governance issues such as stock options, take-over defense, and capital structures. Shareholder resolutions are resolutions made by shareholders to companies, and include both governance issues such as board diversity, compensation, and proxy access, as well as resolutions on the company's social and environmental impact, including the company's policies and actions on political contributions, climate change, product safety, and human rights. As *You Sow* and Proxy Impact co-publish an annual [Proxy Preview](#) that provides in-depth analysis and expert insight of the hundreds of social and environmental resolutions proposed in a given year.

This edition of the *Guidelines* is notable in that it incorporates new ESG principles applied by leading sustainable and responsible investors on such issues as board diversity, board accountability, and proxy access, among others. Additionally, the *Guidelines* help shareholders evaluate executive compensation resolutions by identifying red flags in the proxy statement. As *You Sow* continues to research and document the issue of excessive executive compensation, and recently published a fourth annual scorecard of [The 100 Most Overpaid CEOs](#) of the S&P 500.

## MANAGEMENT RESOLUTIONS

Annual proxy statements typically include “management resolutions”, or resolutions put forth by the company for shareholder consideration, regarding elections for members of the board of directors, auditor ratification, and executive compensation.

### BOARD OF DIRECTORS

In most companies, the board of directors holds the power to ultimately decide corporate policies. The board is charged, first and foremost, with making decisions that it believes are in the best interests of a company and its shareholders. In today's business climate one of the best ways of safeguarding the financial health of the company is by ensuring that ESG issues are properly evaluated and incorporated into the company's strategy.

Another challenge facing boards is how to navigate the growing debate over executive compensation. In the last 30 years, increases in executive pay have far outstripped stock performance and worker pay. The board is responsible for determining executive compensation that is fair to the CEO, employees, and shareholders.

## Guiding Principles

- The board must be independent in order to provide proper oversight of management.
- The board should install policies that ensure long-term shareholder value, ethical behavior, good governance, and a commitment to sustainability.
- The board and its committees should be held accountable for their actions and the actions of the CEO who reports to them.
- The board should reflect both gender and ethnic diversity.
  - The board should set a goal that qualified women hold a minimum of 40% of board seats, increasing to 50% by 2019, with a minimum of three women on the board, as the [Critical Mass research](#) shows that this is the minimum number to “change the culture” of a company. We recommend a vote against the entire board if there are fewer than 40% women, with a minimum of three women on the proxy for board candidates.
  - The board should set a goal that 50% of the board be composed of ethnically diverse members. We recommend a vote against the entire board if there are fewer than 40% board candidates that are other than Caucasian ethnicity.

## Specific Votes

### Accountability

We *oppose* the election of a director:

#### Multiple boards

- Who sits on more than two other public company boards for the CEO, and three other public company boards for the rest of the board;
- Who serves as an executive of a non-profit or educational institution that receives contributions from the company.

#### Poor attendance

- Who attends less than 75% of board meetings without a valid reason for their absence.

#### Poor performance

- Who is the CEO or audit committee member of a company that required a financial restatement due to fraud, misrepresentation, significant noncompliance, or accounting errors;
- Who has served on the board of a company for the last three years, during which time the company's stock performance has ranked in the bottom 25% of the sector.

*In those cases where we disagree with management's vote recommendation, we will also vote against the corresponding committee members responsible for the action we are opposing.*

For example, we *withhold* votes for:

#### Nominating committee members

- If they nominate the CEO to serve as board chair; or nominate a slate of candidates that lacks gender or racial diversity.

#### Compensation committee members

- That have proposed compensation packages that fail to appropriately link pay to performance;
- That offer excessive golden parachutes or severance packages;
- Who failed to take adequate action on previous say-on-pay resolutions that received less than 70% of the vote;
- If the CEO is listed among [The 100 Most Overpaid CEOs](#), the report published by As You Sow.

#### Audit committee members

- That recommend auditors who, during the previous year, received more than 25% of total auditor fees for non-audit work;

- That allows an alternative dispute resolution (ADR) clause in audit contract.

### **Governance or Public Policy committee members**

- Whose recommendations on shareholder resolutions are in opposition to our vote; or that failed to respond appropriately to shareholder resolutions that received at least 20% support the previous year.

### **Independence**

We *oppose* the election of a director that is a(n):

- CEO who also serves as the board chair;
- Insider or affiliate director who sits on key board committees such as the compensation, audit, and nominating committee;
- Compensation committee member who also serves as CEO of any public company.

### **Responsiveness**

We *withhold* votes for the entire board (except new nominees) if:

- It failed to act on a shareholder resolution that received a majority vote;
- It failed to put a Proxy Access resolution that aligns with SEC recommendation to allow 3x3 (shares held by 3% of shareholders for three years) on the proxy ballot for a vote.

## **AUDITORS**

The audit committee reviews financial statements and sets accounting standards that are designed to prevent or detect fraud, financial mismanagement, or large accounting errors. A string of high-profile accounting scandals led to an expansion of the role of the audit committee under the 2002 Sarbanes-Oxley Act.

### **Guiding Principles**

- Ensure auditor independence.
- Eliminate the possibility of a conflict of interest.

### **Specific Votes**

We *oppose* the ratification of the auditor in cases where:

- Non-audit consultant fees represent more than 25% of the total fees paid to the auditor during the previous fiscal year;
- The auditor requires the company to sign an arbitration agreement;
- The same auditor or firm has been hired more than five years in a row.

## **EXECUTIVE AND DIRECTOR COMPENSATION**

The current system of executive compensation is broken. CEO pay has increased by [937% since 1978](#), more than double stock market growth, and exponentially more than the 11% growth of a typical worker. It is hard to see how executive pay that far outpaces stock performance benefits shareholder value. Furthermore, this pay disparity contributes to the destabilizing effects of income inequality and distorts incentives, leading to a short-term focus rather than an emphasis on sustainable growth. Shareholders are allowed a non-binding vote on executive compensation resolutions (commonly referred to as say-on-pay) and can also cast binding votes on approval of equity and incentive plans.

### **Guiding Principles**

- Executive pay must be appropriately linked to company performance and should not be excessive.
- Shareholders are entitled to transparency regarding compensation decision-making.

## Specific Votes

### Advisory Vote on Executive Compensation (Say-on-Pay)

The following red flags can be determined from a quick review of the proxy statement's summary compensation table. We vote *against* say-on-pay if:

#### Discretionary bonuses

- Discretionary cash bonuses awarded are not based on any performance criteria. These generally rare bonuses appear in the summary compensation table column labeled bonus, whereas the performance-based bonuses are reported as non-equity incentives. There may be occasions where a small discretionary bonus is appropriate, but given the lack of accountability, any bonus above \$50,000 deserves special scrutiny.

#### Dual salaries

- An executive chairman has a similar level of compensation to that of CEO. Separation of chair and CEO positions is in shareholders' interests, but not when the result is paying two CEO-level salaries. A non-executive chair is preferred.

#### Pay disparity

- There is a significant CEO vs. NEO (Named Executive Officer) internal pay disparity. (If the CEO is paid more than double the next highest-level executive, this may suggest an insulated CEO and a lack of succession.) This proxy season brings a new disclosure: the ratio of CEO to median employee. The reporting rules do not require a standard reporting format and inevitably companies will report their results differently. This will be preventing a clear "apples to apples" comparison between peers and the raw data provided should be considered when voting.

#### Perks

- Excessive perquisites (perks) are reported in the "All other pay" column of the summary compensation table. These are inherently non-performance based and any perk over \$50,000 deserves special scrutiny.

### Short Form Voting Guidelines For Compensation

- Vote against any compensation package that includes a salary over \$1.25 million.
- Vote against any compensation package if salary has increased by over \$100,000 in past three years, or more than 10%.
- Vote against any compensation package if CEO pay ratio is more than 3x that of the second highest active executive.

### Equity Plans

We *oppose* resolutions that:

- Allow for re-pricing without shareholder approval;
- Provide a grant discount stock option;
- Include evergreen provisions (automatic renewal);
- Has a three-year burn rate average that is more than 2% of its weighted common share;
- The total potential dilution from all company stock plans exceeds 15% of the current outstanding stock.

We generally *support* resolutions that:

- Offer broad-based plans that include non-executive managers and employees.

How to customize executive compensation policies for the three largest proxy voting services to make them more rigorous:

#### **ISS Specific:**

- ISS's QualityScore provides a single score that measures a company's level of overall corporate governance risk in four categories, including compensation. The score is based on various factors, including analyses of equity plan policies and measures of equity risk mitigation (including stock ownership and anti-hedging policies). Vote against any company with a score of 70th percentile or higher.
- CEO pay multiples – ISS calculates CEO pay ratio against ISS-selected peer median or company-selected peer median. Vote against if percentage is above 1.25 (approximately 150 of S&P 500).
- CEO compensation as percent of EBITDA is also calculated. Vote against packages if CEO's pay is more than 2% of EBITDA (110 of S&P 500).
- CEO compensation as percent of revenue is calculated. Vote against packages if CEO's pay is more than 0.3% of revenue (130 of S&P 500).

#### **Glass Lewis Specific:**

- Glass Lewis maintains a proprietary Pay-for-Performance model that awards letter grades.
- The model evaluates “five indicators of shareholder wealth and business performance: change in operating cash flow, earnings per share growth, total shareholder return, return on equity; and return on assets,” and then evaluates compensation of the five NEOs as well as performance compared to those of peers.
- We recommend a vote against companies earning a “C” or below.

#### **Egan Jones Specific:**

- Vote against Neutral or below.
- The quantitative “raw score” is derived from a combination of the issuer's performance or total shareholder return (“TSR”) and market capitalization as compared to the issuer's total CEO compensation. The resulting ratio of pay versus performance, or “wealth creation,” is then benchmarked against a group of well-known and widely-held issuers, with the resultant quintile equaling one of the five EJPS Ratings: “Needs Attention,” “Some Concerns,” “Neutral,” “Good,” or “Superior.” Egan-Jones then looks at a series of qualitative factors and creates an “adjusted score” combining the two.

## **CAPITAL STRUCTURES**

Capital structure refers to a company's decision to finance itself through equity and debt. Resolution votes regarding new stock offerings are not uncommon. A company may recommend increasing shares for a variety of reasons, such as the need to raise new capital, allow for stock splits or dividend payments, or to fund compensation. These votes generally need a case-by-case evaluation, although some general guidelines do apply.

### **Guiding Principles**

- Shareholders must approve or ratify any changes in capitalization.
- Common stock should have equal voting rights.
- All stock must clearly specify voting, conversion, dividend distribution, and other rights.

### **Specific Votes**

We *support* resolutions that ask to:

- Adopt a one-share, one-vote policy.

We *oppose* resolutions that request:

- Dual classes of common stock that have different voting rights;
- Preferred (blank check) stock that allows directors to issue shares at their discretion or with unspecified terms and conditions.

## MERGERS AND ACQUISITIONS

Mergers and acquisitions need to be evaluated on a case-by-case basis. Non-financial factors need to be part of the evaluation process as these ventures can have significant impacts on stakeholders, markets, and industry sectors. And given that the acquiring company's culture and practices often dominate the new entity, the acquiring company's past history with mergers and acquisitions, as well as its commitment to ESG principles, can provide insight into the management of the new company. Another red flag is the possible conflict of interest from board members due to extensive compensation packages triggered by a merger.

### *Guiding Principles*

- ESG impacts must be considered along with financial interests.
- Any immediate vesting of shares upon a change in control must effectively link executive pay with performance.

We *oppose* resolutions that request:

- Compensation be increased or accelerated for mergers and that incentivizes executive compensation over shareholders interest.

## TAKEOVER DEFENSES

Designed to scare off hostile takeovers, the most common takeover defenses are shareholder rights protection plans (poison pills) which allow shareholders to purchase or sell shares at a special price and limit the purchasing company's ability to buy a controlling interest and voting rights rules such as classified boards (staggered board elections) and super-majority voting (requiring a 67-90% vote for approval). These tactics cut both ways as they may help stave off bad deals for shareholders, but they can also be used by boards to concentrate power against outside bids or shareholder resolutions that are in the shareholder's best interest.

### *Guiding Principles*

- As owners of the company, shareholders should be given the opportunity to decide on the merits of takeover offers.
- Unequal voting rights rarely work in favor of the shareholder.

### *Specific Votes*

We *oppose*:

- Dual class exchange offers or recapitalization that establishes two classes of common stock;
- Supermajority voting threshold for approval of charter and by-law amendments.

## SHAREHOLDER RESOLUTIONS

There are several hundred shareholder resolutions filed every year. About half of these focus on governance issues such as shareholder rights, executive compensation, and board-related issues. The other half focuses on environmental and social issues that are deemed to be integral to long-term shareholder value and society at large.

## CORPORATE GOVERNANCE

Many shareholder sponsored governance resolutions mirror management's resolutions (above) on board of director elections, auditor ratification, and executive compensation. Resolutions aim to change the power dynamics between the board, CEO, and shareholders; ensure proper oversight of the company; or to install a greater commitment to corporate responsibility.

## **Guiding Principles**

- Share ownership is not passive; shareholders have a right and a fiduciary responsibility to ensure that the company is being managed fairly and effectively.
- Increased transparency and accountability are in the shareholders' best interest.
- Corporations are accountable to their shareholders, employees, communities, and stakeholders.

## **Specific Votes**

### **Board of Directors**

We *support* resolutions that ask companies to:

#### **Board diversity**

- Adopt a board diversity policy that ensures that women and minorities are part of the nomination process;
- Report on board diversity policy, practices, and any plans to increase the number of women and minorities on the board.

#### **Board oversight and expertise**

- Adopt board oversight of harmful products (e.g., guns and tobacco);
- Establish board committees on sustainability, corporate responsibility, and human rights;
- Nominate climate and human rights experts to the board.

#### **CEO**

- Separate the board chair and CEO positions;
- Develop a CEO succession policy.

#### **Independence**

- Require that the chair of the board be an independent director;
- Require that the board is comprised of a super majority of independent directors (NYSE and NASDAQ listing standards already require majority-independent boards).

#### **Proxy access**

- Provide shareholders with the ability to nominate board candidates.

#### **Voting standards**

- Adopt a simple majority vote standard in the election of directors;
- Declassify the board (all board members are reelected annually);
- Provide for cumulative voting (also known as weighted voting, it allows a shareholder to apply all their allowable director votes towards one or more directors).

### **Auditors**

We *support* resolutions that ask companies to:

- Request that they rotate auditors at most every five years.

### **Executive Compensation**

We *support* resolutions that ask companies to:

#### **Link pay to performance**

- Seek to strengthen the link between executive pay and performance;
- Link executive pay to sustainability metrics or corporate social responsibility performance;
- Link executive pay to ESG metrics including greenhouse gas reductions;
- Report on linking executive pay to ESG metrics.

### **Pay disparity**

- Disclose and compare total executive compensation to employees' median wage.

### **Recoupment (clawbacks)**

- Adopt a policy to recoup unearned executive bonuses or incentive pay when performance targets have not been met.

### **Retention**

- Require stock retention as a means to incentivize executives on long-term shareholder value.

### **Severance**

- Require a shareholder vote on golden parachutes or severance compensation.

### **Share repurchasing**

- Adopt a policy that financial performance metrics shall be adjusted to exclude the impact of share repurchases when determining the executive incentive compensation grants or awards.

### **Tax gross-ups**

- Adopt a policy against paying tax gross-ups to executives.

## **Shareholder Rights**

We *support* resolutions that ask companies to:

### **Meetings and actions**

- Allow shareholders to call special meetings (10% threshold);
- Allow shareholders to act by written consent.

### **Proxy access**

- Provide shareholders, holding 3% or more of stock for at least 3 years, with the ability to nominate board candidates.

### **Vote requirements**

- Adopt a simple majority vote (For vs. Against; abstentions would not be allowed to be voted by management);
- Eliminate super-majority vote requirements;
- Require confidential voting and the use of independent tabulators (open voting allows for real or perceived coercion by management);
- Require an annual say-on-pay vote;
- Eliminate dual class stock with unequal voting rights.

## **Takeover Defenses**

We *support* resolutions that ask companies to:

- Submit shareholder rights plans (poison pills) for shareholder approval;
- Adopt anti-greenmail amendments (greenmail are premium stock payments made to the hostile party to stave off a takeover).

Support for shareholder resolutions on social and environmental issues has more than doubled in the last ten years as investors recognize that such issues have tangible connections to shareholder value.

**The following recommendations cover a wide variety of issues that have been voted on in recent years as well as current resolutions already filed as of 2/15/18.**

Details on these resolutions can be found in *Proxy Preview 2018* available at [www.proxypreview.org](http://www.proxypreview.org).

## ENVIRONMENT

There are many critical issues raised by shareholder resolutions within the category of environment, including climate change, land use, toxicity control, water management, forestry, waste reduction, and reduction of agriculture impacts. Climate change has emerged as a key issue across multiple industries. Shareholders have increasingly demanded that corporations reduce greenhouse gas emissions and account for risks related to climate change. These have a profound impact on how businesses will operate in the future. Another trend has been the demand for reports based on quantitative data so shareholders can track whether their companies are progressing and giving shareholders useful and comparable information to assess their holdings.

### **Guiding Principles**

- Companies that embrace financial, social, and environmental sustainability goals are better positioned for long-term success.
- Corporations should be accountable and transparent regarding their environmental and social impact.
- Shareholder resolutions play a vital role in alerting management to new issues.

### **Specific Votes**

#### **Climate Change**

We *support* resolutions that ask companies to:

##### **Carbon Transition**

- Report on or adopt accounting metrics that can better address market changes induced by climate change;
- Conduct and disclose planning for transitioning the company business model to align with a low carbon economy, including specifically alignment with a 2° C scenario.

##### **Emissions reduction**

- Track Greenhouse Gas (GHG) emissions;
- Adopt science-based GHG emissions reduction targets from company operations, supply chains, and/or products;
- Report on achievement of GHG emissions reduction targets;
- Report on actions to set methane emissions reduction targets from all company operations;
- Report on achievement of methane reduction targets;
- Report emissions, targets, and reductions on an absolute and/or intensity basis;
- Report on achieving net-zero GHG emissions by 2030;
- Report on auto fleet GHG emissions and regulations.

##### **Financing climate change**

- Report on GHG emissions resulting from lending, investing, and financing activities.

##### **Risk to business operations**

- Report on risks to company operations associated with climate change, such as financial risks and physical risks;
- Report risks associated with climate driven drought and mega-droughts;
- Report on fossil fuel stranded asset risk due to climate change regulations such as the 2° C scenario or climate change driven technology shifts.

#### **Energy**

We *support* resolutions that ask companies to:

##### **Energy targets**

- Assess the feasibility of increasing renewable energy sourcing, or adopting renewable energy targets;
- Consider adopting energy efficiency targets, or adoption of energy efficiency targets;

- Assess the feasibility of or adopt increased non-carbon distributed electricity resources;
- Join the RE100;
- Report to Carbon Disclosure Project on energy use and carbon emissions;
- Report on the impacts of climate change driven technologies on a company's business, such as off-grid distributed generation, and methods to adapt the electric utility business model to protect shareholder value;
- Report on supplying renewable energy to the electrified transportation sector.

### **Environmental and social impacts**

- Report on oil and gas railway transportation risks;
- Report on offshore oil risks and well impacts;
- Report on the financial risk of coal ash;
- Report on reducing hazards associated with coal ash disposal and storage;
- Report on the environmental and social impacts of hydraulic fracturing, shale energy development, and enhanced oil recovery methods;
- Report on actions being taken and methods to reduce community impacts associated with hydraulic fracturing and other enhanced oil recovery methods.

### **Pay dividends**

- Increase authorized dividends rather than use capital on high cost, high carbon fossil fuel projects with a high risk of stranding these assets.

### **Reporting standards**

- Account for reserves that can better address market changes induced by climate change in addition to standard required reporting metrics.

## **Environmental Management**

We support resolutions that ask companies to:

### **Deforestation**

- Adopt a sustainable palm oil policy;
- Set quantitative goals for reducing supply chain impacts on human rights using key performance indicators;
- Report on supply chain deforestation and human rights impacts.

### **Recycling and waste**

- Report assessing the environmental impacts of continuing to use non-recyclable brand packaging.
- Report on fulfilling environmental leadership commitments by scaling up a comprehensive policy on sustainable packaging;
- Report on actions taken to prevent brand risk from products and packaging that end up as plastic pollution;
- Report on impacts from use of non-recyclable brand packaging;
- Adopt a comprehensive recycling strategy for consumer packaging and containers, including recycling and recycling-content goals;
- Report on options to reduce pollution and public health problems from electronic waste resulting from sales by major retailers;
- Report on environmental impacts of continued use of polystyrene foam food service materials (cups, plates, trays, takeout packaging) and e-commerce packing materials, assessing reputational, financial, and operational risks associated with continued use;
- Report on policies for safe disposal of prescription drugs, syringes, and needles, and policy options for proactive response including whether company should endorse industry responsibility for take-back of pharmaceuticals by providing funding for such programs;
- Report on food waste management.

## **Sustainability**

- Create or establish an annual sustainability report;
- Report to the Carbon Disclosure Project on energy, water, or similar areas;
- Participate in well-established corporate environmental programs run by NGOs or the government.

## **Industrial Agriculture**

We *support* resolutions that ask companies to:

### **Animal welfare**

- Adopt a policy to stop dehorning cattle;
- Adopt a policy to raise or purchase only eggs that are cage-free;
- Adopt a policy to use gestation crate-free housing for pigs;
- Adopt anti-cruelty methods associated with raising and housing animals;
- Adopt a policy for the company operations, and/or develop supplier standards, to eliminate antibiotic use in animal meat production, excluding the treatment of sick animals or non-routine disease control;
- Report on / phase out antibiotic use in food animal supply chain.

### **Environmental impacts**

- Report on monitoring pesticide use and/or mitigating the impacts of pesticide use in company operations or supply chain (includes resolutions that specifically call for information on neonicotinoids and on glyphosate use);
- Report on policies to promote biodiversity and soil health in the agricultural supply chain.

### **Right to know**

- Label and/or report on genetically modified ingredients in food products.

## **Toxics**

We *support* resolutions that ask companies to:

### **Product safety**

- Report on use of nanomaterials in food products or food packaging impacts;
- Reduce or avoid use of nanomaterials until proven safe for humans and the environment;
- Label use of nanomaterials in products;
- Reduce or avoid use of toxic chemicals in food and other consumer products;
- Reduce or prevent heavy metals in food products;
- Label presence of heavy metals in foods;
- Report on reducing occupational and community health impacts by eliminating use of lead in paint;
- Report on impacts of Bhopal accident legacy.

## **Water**

We *support* resolutions that ask companies to:

- Adopt strategies and goals to reduce water use;
- Adopt strategies, policies, and goals to reduce company's water quality impacts;
- Adopt policies of water replenishing;
- Report on water use risks and mitigation of water scarcity, including climate-related droughts;
- End use of coal ash ponds that threaten water quality;
- Adopt 'human right to water' policies.

## **SOCIAL**

Shareholders recognize that corporations are important agents of social change. Recent shareholder campaigns have focused on empowering women in the workforce, promoting gender and other diversification of boards of directors, supporting sexual orientation non-discrimination, promoting human rights standards throughout the supply chain, and challenging the corporate role in fostering pay disparity. The largest shareholder campaign is questioning the appropriate political role of corporations in a democracy, as shareholders have been at the forefront of moving corporations to disclose their political contributions and lobbying activities.

### **Guiding Principles**

- Corporations have a responsibility to respect human rights throughout their operations, create safe work environments, support fair wages, and not discriminate based on gender, race, or sexual orientation.
- Corporations should transparently report on their contributions to political activities to inform shareholders how capital is being allocated.

### **Specific Votes**

#### **Animal Testing**

We *support* resolutions that ask companies to:

- Report on laboratory animal welfare issues;
- Report on use of animal testing;
- Report on animal welfare in supply chain / adopt an animal welfare policy;
- End sales of animal products in apparel;
- End sales of animal glue traps;
- End orca breeding programs.

#### **Corporate Political Activity**

We *support* resolutions that ask companies to:

##### **Advocacy**

- Report on public policy advocacy related to energy policy and climate change.

##### **Corporate executives compensated to work as government regulators**

- Adopt a policy prohibiting accelerated vesting for executives voluntarily resigning to enter government service.

##### **Lobbying**

- Report on direct and indirect lobbying included payments, memberships in tax-exempt organization that write legislation, and management decision-making process;
- Report on contributions made to trade associations and other tax-exempt entities that are used for political purposes;
- Report on lobbying, campaign spending, and other election-related expenditures.

##### **Political contributions**

- Adopt board oversight of all political spending;
- Report on political spending including policies and procedures for contributing to political campaigns as well as the recipient, amount paid, and company decision maker;
- Ban political spending by company;
- Provide a congruency analysis between corporate values and political and electioneering contributions.

## **Ethical Finance**

We *support* resolutions that ask companies to:

### **Banking**

- Report on banking ethics and oversight.

### **Taxes**

- Report on fair tax policy principles.

## **Fair Wages**

We *support* resolutions that ask companies to:

### **Benefits**

- Report on paid family leave.

### **CEO-worker pay ratio**

- Report on pay disparity between top senior executives and lower level employees' median wage.

### **Gender and minority pay gap**

- Report on and/or adopt a policy to end gender/minority pay disparity.

## **Health**

We *support* resolutions that ask companies to:

### **Childhood obesity**

- Report on fast food nutritional initiatives in the face of childhood obesity concerns.

### **Drug pricing**

- Report on high-priced drug pricing policy including development costs, pricing regional differences, and patient access.

### **Opioids**

- Report on opioid crisis.

### **Tobacco**

- Initiate tobacco cessation program in low-income communities;
- Report on nicotine levels / reduce nicotine levels;
- Eliminate tobacco imagery from youth-rated films and television programming produced or distributed by the company.

## **Human Rights**

We *support* resolutions that ask companies to:

### **Agricultural workers**

- Join the Fair Food program to ensure humane wages and safe conditions for agricultural workers.

### **Board Committee**

- Establish a Board of Director's Human Rights Committee.

### **Conflict zones and high-risk countries**

- Report on criteria for investment, continued operations, and withdrawal from countries with a high risk of genocide or human rights violations.

### **Guns**

- Report on gun safety and harm mitigation.

### **Human rights policy**

- Adopt and/or report on human rights policy;
- Report on human rights risk assessment;

- Make public an assessment of a company's responsibility to respect human rights giving regard to the UN Guiding Principles on Business and Human Rights.

### ***Human trafficking***

- Adopt a policy with specific statements on human trafficking, forced labor, sexual exploitation of minors, recruitment fees, and/or The Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism (The Code);
- Report on the implementation of a program to address human trafficking internally and/or on efforts to ensure company's global supply chain is free of forced or bonded labor, including any efforts to reimburse workers for recruitment fees that were paid in violation of the Company's policies (ethical recruitment / no fees);
- Report on disclosure of, and determination of methodology to determine risk level of forced labor and slavery in supply chain according to the UK Modern Slavery Act, the California Supply Chain Transparency Act (SB657), and other regulation in a way that is public, easily accessible, transparent, and robust;
- Report on criteria and methodology used to determine risk-level of slavery and human trafficking in supply chain.

### ***Humanitarian aid***

- Report on its process for identifying and prioritizing humanitarian engagement other than charitable giving.

### ***Indigenous peoples***

- Establish a formal written policy on the rights of Indigenous peoples, including Free, Prior, and Informed Consent (FPIC);
- Hold consultations with, and report on, the impact of a company's operations on indigenous peoples;
- Detail the due diligence process to identify and address social and environmental risks, including Indigenous rights risks, when reviewing potential acquisitions.
- Adopt / assess policies associated with the financing of and companies involved in extractives and infrastructure operations, and projects that have the potential to result in human and indigenous rights violations and impacts, including impacts within indigenous territories.

### ***Lethal injections***

- Report on its policy regarding providing drugs used for lethal injections.

### ***Migrant workers***

- Adopt a policy to eliminate (migrant) worker recruitment fees and require supply chain verification.

### ***Prisons***

- Adopt a policy on prison labor in supply chain.

### ***Racial stereotypes in team names***

- Report on use of a derogatory sports team names.

### ***Supply chains***

- Report on the potential and actual human rights risks of its products, operations, and supply chain;
- Extend human rights policies to franchisees, licensees, and agents that market, distribute, or sell its products.

### ***Training***

- Conduct training of employees on its human rights policy and/or the recognition and prevention of forced labor, slavery, or human trafficking;
- Report on the content of human right trainings, in what form and frequency they are provided to employees, metrics used to assess their effectiveness, and processes to improve training and human rights performance over time.

### ***Water access***

- Adopt a policy on the human right to water.

## Media

We support resolutions that ask companies to:

### **Internet privacy and cyber-security**

- Report on privacy, data security, and civil rights risks related to use of big data.

### **Net neutrality**

- Report on company policies and practices that support net neutrality and an Open Internet.

### **Social media content**

- Report on problematic content management including election interference;
- Report steps to identify and address ‘fake news’ and related hate speech that may be enabled by company operations.

## Workplace Diversity

We support resolutions that ask companies to:

### **Diversity**

- Disclose equal employment opportunity (EEO-1) data regarding diversity in the workforce;
- Report on background checks in hiring.

### **Sexual orientation discrimination**

- Adopt a nondiscrimination policy for gender identity and sexual orientation.

## SUSTAINABILITY

Sustainability should be synonymous with long-term shareholder value, but for many companies it is not. Too many companies still do not consider environmental or social impacts as having significant financial risks or constituting a legitimate part of their bottom line. Sustainability reports help companies look at issues through a financial lens which has proven to help companies better identify risks and opportunities in their business model.

### **Guiding Principles**

- Companies that embrace financial, social, and environmental sustainability goals are better positioned for long-term success.
- Corporations should be accountable and transparent when reporting on their environmental and social impacts.
- Shareholder resolutions play a vital role in alerting management to new issues.

### **Specific Votes**

We support resolutions that ask companies to:

#### **Executive compensation**

- Report on / link executive pay to sustainability metrics and environmental targets;
- Delink executive compensation from incentives promoting development or use of fossil fuels.

#### **Sustainability goals**

- Report on efforts to support UN Sustainable Development Goals;
- Use ESG metrics in financial reports.

#### **Sustainability Reporting**

- Publish an annual sustainability report on short and long-term ESG issues, or key sustainability metrics such as GHG emissions and reduction goals.

## TROJAN HORSE RESOLUTIONS

The following resolutions often mimic the language of the ESG resolutions listed above but actually have a completely different intent. They are generally filed by groups and individuals in support of free enterprise policies and/or conservative values.

### ***Specific Votes***

We *oppose* resolutions that ask companies to:

#### ***Climate change denial***

- Disclose risks posed by government policies relating to climate change and/or renewable energy.

#### ***Contributions***

- Report on political spending and charitable giving (anti-gay);
- Limit non-discrimination policy (anti-gay).

#### ***Free political speech***

- Adopt free speech anti-bias by amending company policies to explicitly prohibit discrimination based on political ideology;
- Report on free speech anti-bias policy.

#### ***Religious Freedom***

- Report on religious freedom laws (anti-gay).



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