

## GS SUSTAIN ESG Series

## Shareholder engagement in the age of transparency

## Opportunities and challenges for corporates and investors

**Shareholders are expanding their influence through the proxy voting process**

We observe growing efforts by shareholders to influence corporate disclosure, risk assessment and oversight around the world, both through shareholder resolutions and direct engagement. We also see evidence of these pressures beginning to translate directly to board elections — the number of S&P 500 directors receiving >20% votes *against* was 45% higher in 2018 vs. 2014, albeit from a low base.

**What resolutions can tell us about corporate culture and risk**

We believe shareholder resolutions can offer additional insight into emerging material risks and externalities for issuers, as well as management responsiveness. Momentum in shareholder engagement on environmental & social (E&S) topics is closing the gap with traditional governance — average support for 2019 E&S proposals in the US market to date is 30%, just shy of 33% for governance.

**Where are the big debates?**

The highest profile topics coming to vote include greater shareholder access to the board (e.g., proxy access and special meetings), board composition (e.g., diversity and skills), corporate lobbying, and climate. We also highlight emerging sector-specific resolution efforts such as data privacy, drug pricing and plastic pollution. Although the US market is the most active in shareholder proposals today, we are seeing growing engagement internationally — 58% of global proposals were outside the US in 2018 vs. 49% in 2014.

**The democratization of share ownership: benefits and risks**

We believe increasing accountability to shareholders coupled with consolidating share ownership (e.g., large passives) are promoting heightened accountability and rising ESG standards at issuers. However, growing public scrutiny of investor stewardship activities creates the potential for increased tension between public relations considerations and financial materiality in shareholder voting decisions, in our view.

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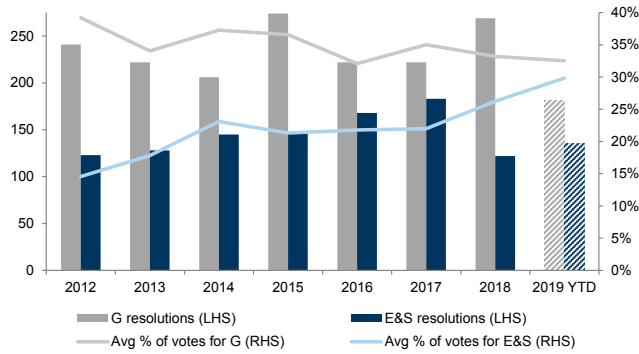
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# Overview in 6 charts

## Exhibit 1: Rising support for Environmental & Social proposals in the US...

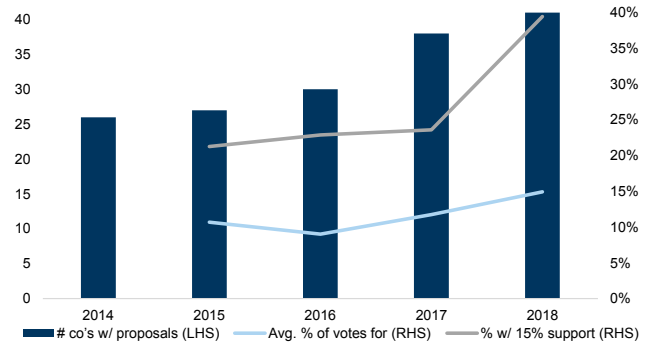
No. of shareholder proposals and avg. % of votes for, S&P 500



Source: Proxy Insight, Goldman Sachs Global Investment Research

## Exhibit 2: ...and Governance proposals in Japan are indicative of growing shareholder influence on issuers

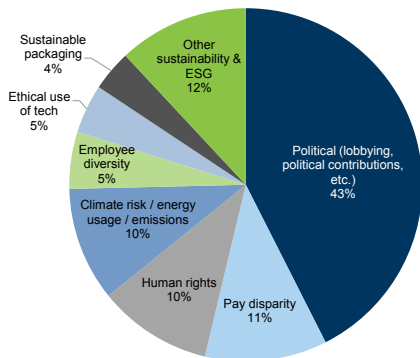
No. of Japanese co's receiving shareholder proposals and results



Source: Proxy Insight, Goldman Sachs Global Investment Research

## Exhibit 3: Focal engagement topics signal areas of heightened corporate risk exposure for issuers

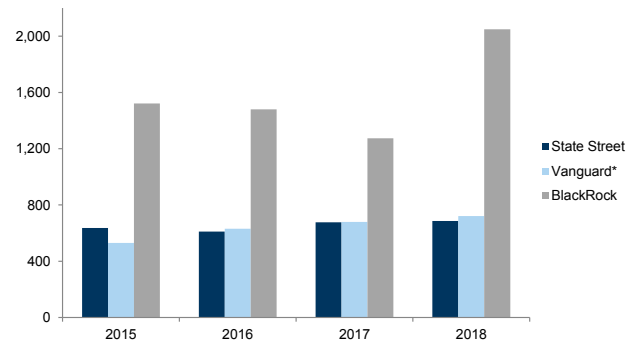
% of 2019 E&S shareholder proposals by category, S&P 500 YTD



Source: Goldman Sachs Global Investment Research

## Exhibit 4: Investors are also receiving more scrutiny on voting and engagement

Self-reported corporate engagements by large passive investors

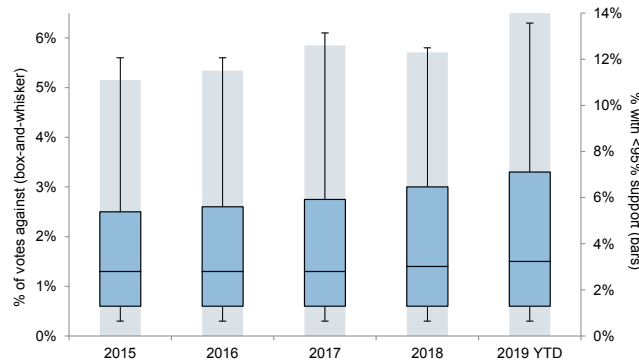


\*Vanguard reports no. of companies engaged rather than total no. of engagements

Source: Company data

## Exhibit 5: Signs of rising voting pressure on boards

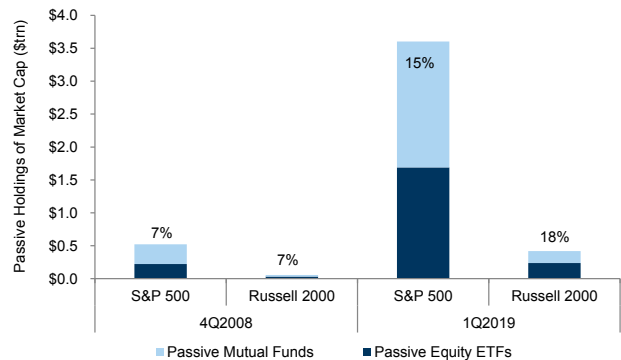
% of votes against corporate directors, S&P 500 (markers for 90th, 75th, 50th, 25th, and 10th %iles — LHS); % with <95% support (RHS)



Source: Goldman Sachs Global Investment Research

## Exhibit 6: Passive voting blocs poised to have growing influence

Passive holdings as % of market cap, 2008 and 1Q2019



Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

# Summary: Why rising shareholder engagement matters

We survey global trends in shareholder voting and engagement, emphasizing the US market where shareholder resolution activity is currently most robust. We identify the key topics of shareholder emphasis for governance and show how a burgeoning focus on corporate E&S issues is closing the gap. Against these trends, we highlight potential challenges for investors and corporates. Our key takeaways follow:

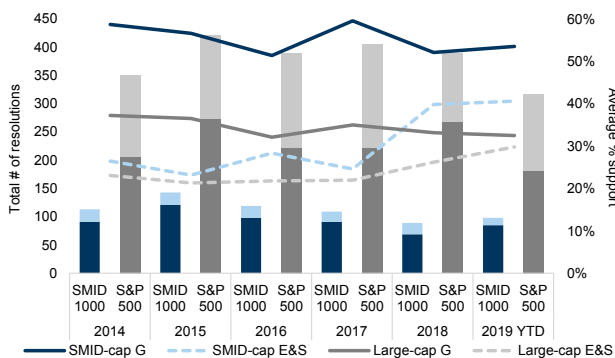
## An additional source of insight into material and emerging risks

In our view, shareholder resolution activity can complement the **investor mosaic of material and emerging Environmental, Social & Governance (ESG) risks** faced by corporates, in addition to measurable performance, incentives and intensities. Resolutions with strong shareholder support include those related to political contributions, diversity and climate. Emerging categories include risks related to drug pricing, sustainable packaging and ethical use of technology (see 'Key shareholder issues to watch' section for more).

## None are exempt from scrutiny in the age of transparency

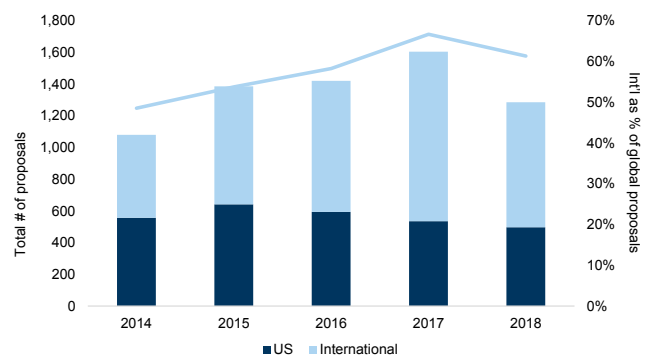
**Large multi-nationals** attract the most attention from shareholders given their size and footprints, but expectations for **smaller companies** to engage with ESG earlier in their lifecycles are increasing (Exhibit 7). Shareholder pressure is broadening across sectors (14 of the 15 top US E&S vote-getters were in Energy or Utilities in 2017 vs. just 3 of the top 15 this year), and company responsiveness looks set to grow as rising ESG expectations are increasingly translating to **director elections** and **say-on-pay results** (Exhibits 5 and 10). **Institutional investors** are also receiving greater scrutiny for their stewardship efforts and voting records. See 'Beyond the ballot box: Engagement vs. voting' section for more.

**Exhibit 7: Smaller companies lag in terms of proposal volume but have seen stronger support for proposals on the ballot**  
 S&P 400 (mid cap) + 600 (sm cap) total no. of shareholder proposals and avg. support vs. S&P 500



Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 8: Markets outside the US are accounting for a growing percentage of shareholder proposals**  
 Combined global proposals (LHS) and proposals at non-US companies as % of total (RHS)



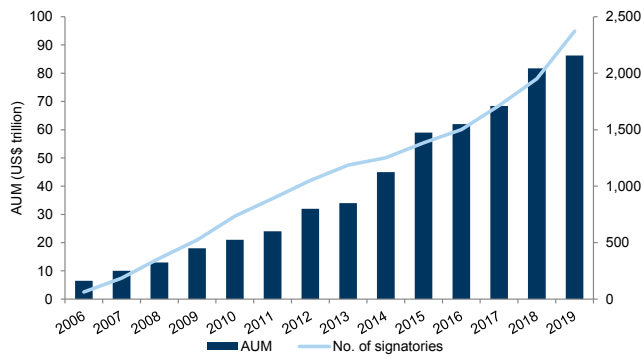
Excludes director re/election proposals

Source: Proxy Insight, Goldman Sachs Global Investment Research

**Engagement trends are demanding more resources from both investors and corporates**

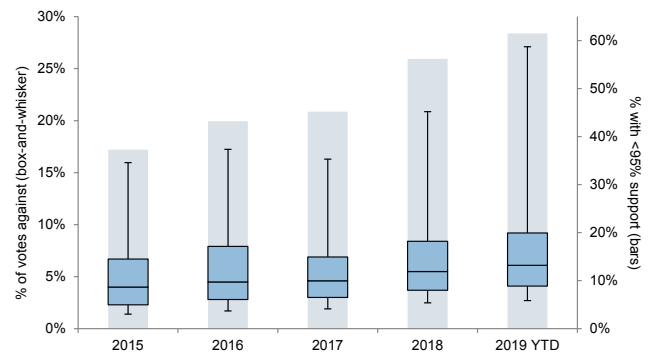
Beyond the ballot box, demonstration of corporate engagement on ESG topics – whether by meeting, phone or written communication – is being demanded by clients and signatory bodies such as Principles for Responsible Investment (PRI). Year-round engagements (up 31% at large passives in 2018) on an expanding array of topics from board structure to executive pay to social impact are **requiring more time and resources from asset managers, corporate leadership and board members**, creating scale challenges that are likely to favor larger players on both sides of the conversation.

**Exhibit 9: Signatory bodies such as PRI are spurring investor commitments to shareholder engagement**  
AUM of PRI signatories (LHS) and total number that have signed (RHS)



Source: PRI

**Exhibit 10: Growing pressure also apparent in say-on-pay voting**  
S&P 500; markers for 90th, 75th, 50th, 25th, and 10th percentiles (LHS); % of advisory say-on-pay votes with <95% support (RHS).



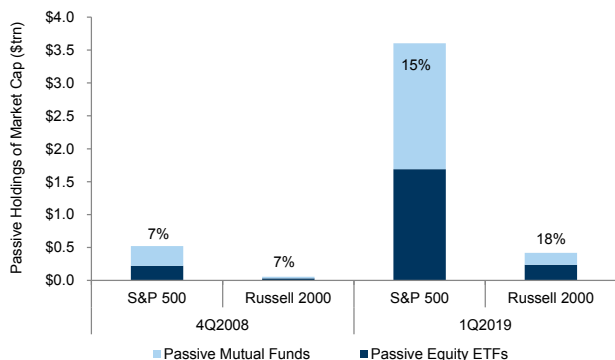
Source: Goldman Sachs Global Investment Research

**Don't lose sight of materiality**

In our view, growing scrutiny of ESG performance by corporates and investor stewardship by asset managers creates the potential for **public relations considerations** to increasingly weigh on corporate resource allocation and shareholder voting. **Consolidating share ownership** could exacerbate this pull as interested parties set their sights on influencing more concentrated voting blocs (Exhibit 11). For ESG to fulfill its potential of delivering performance and risk advantages, we believe investors need to maintain sharp focus on the most material risks and opportunities (Exhibit 12).

**Exhibit 11: Passive voting blocs poised to have growing influence on shareholder voting**

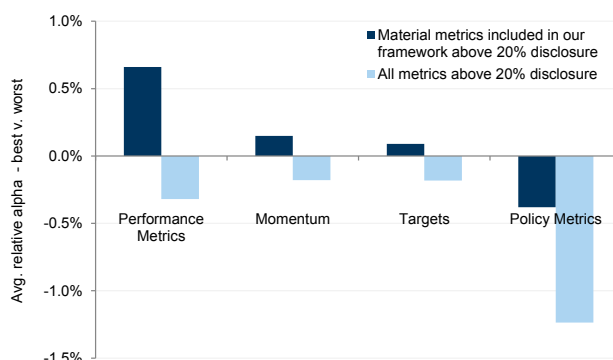
Passive holdings as % of market cap, 2008 and 1Q2019



Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

**Exhibit 12: A narrowed focus on material ESG factors is key to investment performance**

Avg. 3-yr rolling sector- and region-relative TSR, 2011-16, MSCI ACWI



Source: Bloomberg, Thomson Reuters, FactSet, Goldman Sachs Global Investment Research

**Investors can use our ESG datapack to gauge how well companies may be positioned in the face of current or prospective shareholder engagement**

**Our research and datasets emphasize materiality and performance**

Our ESG research series offers insights into how sector-tailored material factors have the potential to enhance performance and reduce risk. Investors can use **our ESG datapack** to benchmark companies vs. select peers, metric by metric, to discern how well they may be positioned in the face of current or prospective shareholder engagement.

**GS SUSTAIN ESG Series**

[Japan: ESG Results in Review](#) (May 21, 2019)

[ESG data quality improving, but still a long way to go](#) (May 3, 2019)

[Chart of the Week: Sizing the ESG market – growth is accelerating](#) (April 10, 2019)

[Japan: ESG – Four themes in focus for 2019](#) (Jan. 17, 2019)

[Momentum & Materiality – Building blocks for ESG integration](#) (Dec. 10, 2018)

[ESG in the Compensation Conversation](#) (Oct. 21, 2018)

[A Revolution Rising – From low chatter to loud roar](#) (April 11, 2018)

[The Emerging ESG Toolkit – Promise and Pitfalls](#) (Feb. 19, 2018)

[The PM’s Guide to the ESG Revolution](#) (April 18, 2017)

**A word on our analysis**

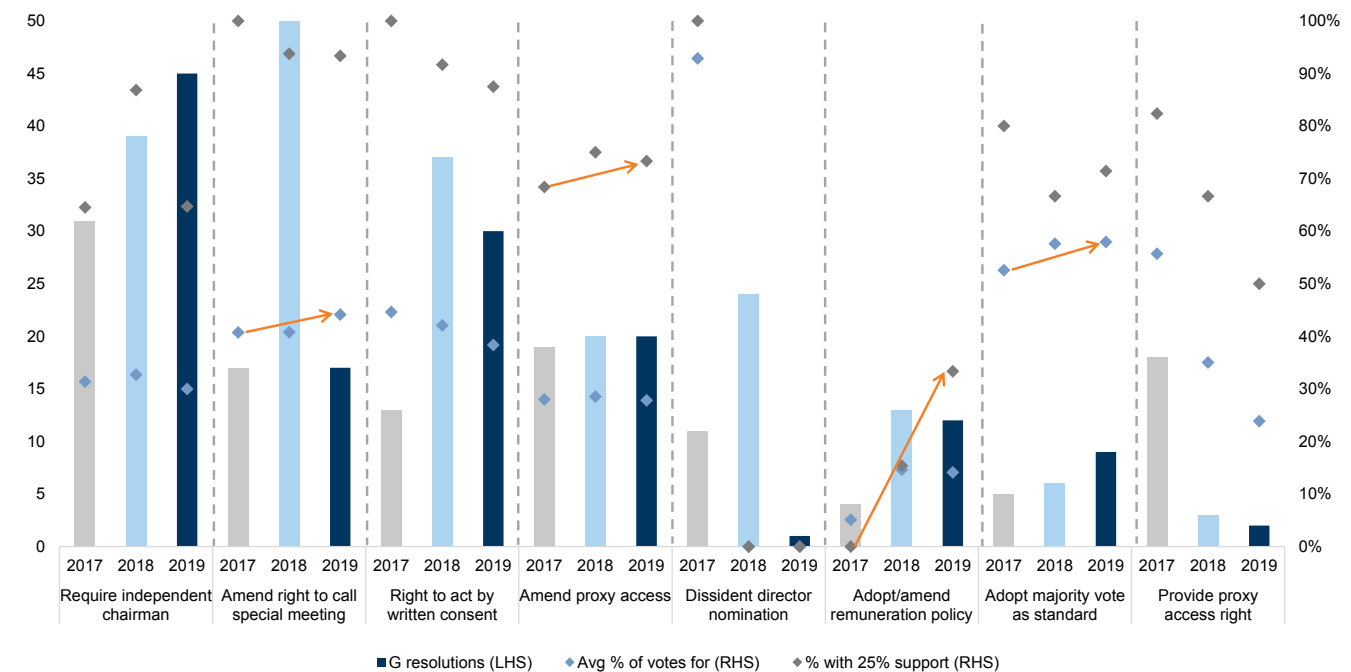
The data summarized and analyzed in this report was collected from Proxy Insight, Bloomberg, Thomson Reuters and company source documents, with a focus on the period 2014-2019 (for our purposes, up to and including May 31, 2019). While the definition of “% support” varies at different issuers, for the analysis in this report we define it as percent of votes in favor out of total active votes, or “% for / (% for + % against)”, removing abstentions and broker non-votes from the calculation.

# Governance: Accountability trending

**The overarching theme of governance resolutions in major developed economies in recent years has been increased accountability to shareholders** through mechanisms such as annual board elections, majority voting standards and elimination of anti-takeover provisions. In the US market, there has been rising support for greater access to the board, including the ability of shareholders to place director nominees on the proxy ballot (“proxy access”) or to call special meetings outside of the normal annual general meeting (AGM) rhythm (e.g., special meeting, written consent, etc.).

## Exhibit 13: US governance resolutions related to greater board access have been trending higher

Most common S&P 500 governance resolution categories and support, 2017-19 to date



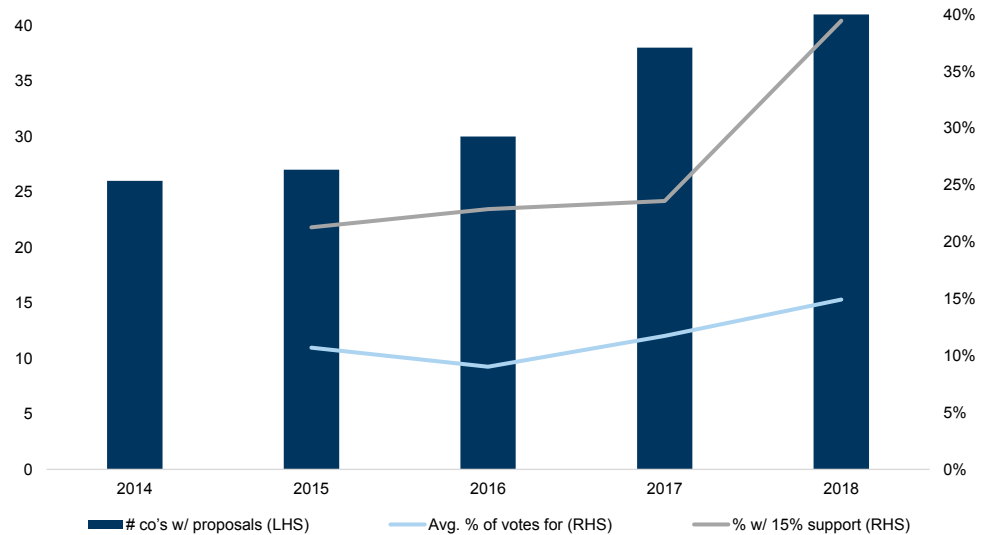
2019 is YTD as of 5/31/2019

Source: Proxy Insight, Goldman Sachs Global Investment Research

**In regions where governance structures are less shareholder friendly, we are seeing rising support levels for governance resolutions broadly.** Japan offers a good example — our [2018 AGM season preview](#) pointed out that the number of Japanese companies subject to shareholder proposals has been reaching new highs, with momentum in management resolutions receiving ‘no’ votes, including takeover defense, auditor approval and director support. Topics receiving increasing numbers of proposals in 2018 included those related to shareholder returns (i.e., dividends) and cross-shareholder unwinds. Japan has also offered unique cases of CEOs being replaced by shareholder resolution (see [Chart of the Week: Japan shareholders find their voice](#)). The nation’s 2017 revised Stewardship Code required transparent voting disclosures, likely boosting support rates.

### Exhibit 14: A growing number of Japanese companies have been subject to governance proposals with voting support increasing

No. of Japanese companies receiving shareholder proposals and voting results



Source: Proxy Insight, Goldman Sachs Global Investment Research

### Other governance factors receiving heightened scrutiny include board composition (including diversity and domain expertise among directors) and outside board

**affiliations** (generally combating 'overboarding'), which can apply to both directors and executives. Resolutions for independent chairs remain common in the US, though with average support levels south of 50%.

**Our GS SUSTAIN governance framework** assesses a range of factors related to board independence & accountability as well as board effectiveness, including director tenure, board size, diversity, outside board affiliations and board skills (see a summary of our Governance framework in the Appendix).

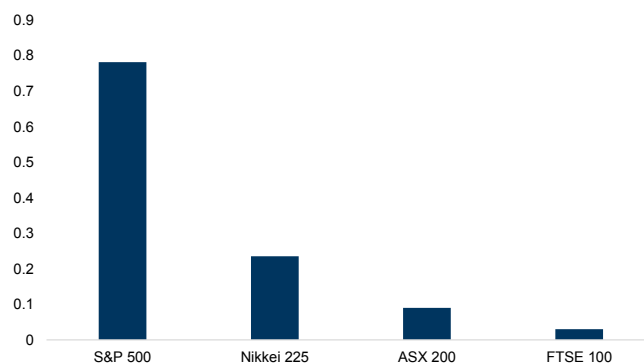
### Differing submission thresholds contribute to regional differences in activity

Shareholder proposals are less prevalent in most developed markets outside of the US, due in part to higher ownership thresholds for submission. For example, in the US shareholders can submit proposals once \$2,000 of stock is owned for a year, while the ownership requirement is 5% of share capital in the UK and Australia (though in both countries groups of 100+ shareholders can combine share capital to reach qualifying ownership). The threshold is comparatively low in Japan at 1% of shares outstanding or 300 votes, coinciding with a higher relative incidence of shareholder proposals (Exhibit 15). Elsewhere, the 0.33% ownership of share capital threshold in the Netherlands is quite low, while Switzerland's 10% or 1 million Swiss Francs requirement is on the high end of countries we looked at (Exhibit 16).



### Exhibit 15: The US market stands out in terms of shareholder proposal activity per company

No. of proposals per company of four large-cap indices, 2018



Source: Goldman Sachs Global Investment Research

### Exhibit 16: Requirements for submitting shareholder proposals in select countries

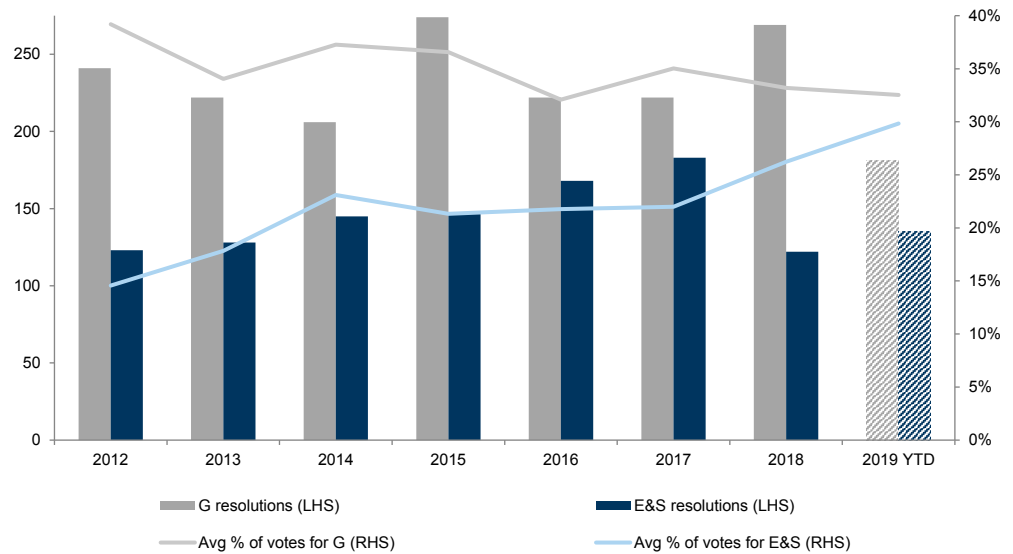
Country	Shareholder proposal requirement
Australia	At least 5% of share capital or a group of at least 100 shareholders. Cannot pertain to ordinary business of the company unless a bylaw amendment is first passed by a 75% supermajority.
Brazil	Shareholders may request a special meeting if they hold at least 5% of voting shares. A proposal may only be submitted without doing this if all shareholders are participating.
Canada	Varies between territories, but generally similar to USA except only held for at least six months.
China	At least 3% of share capital.
France	At least 5% of voting shares.
Germany	At least 5% of share capital or €500,000 in shares.
Hong Kong	At least 2.5% of total voting rights
Italy	At least 2.5% of share capital.
Japan	At least 1% of shares or 300 votes, held for at least six months.
Netherlands	At least 0.33% of share capital.
Singapore	Any number of members representing at least 5% of total voting rights or at least 100 members holding shares for which there has been paid an average sum per member of at least \$500.
Spain	At least 3% of share capital.
South Korea	At least 3% of total voting rights.
Switzerland	At least 10% of share capital or 1 million Swiss Francs in shares (lower thresholds may be stipulated in bylaws).
UK	At least 5% of voting shares, or any group of 100 shareholders with the right to vote and each holding at least £100 in shares.
USA	\$2,000 worth of stock or 1% of voting shares, held for at least one year.

Source: Proxy Insight

# Environmental & Social: Rising tide

**Shareholder engagement on E&S topics is drawing even with governance-related action around the world.** In the US, there continues to be more governance proposals by volume, but the support rates are converging above the 30% level (Exhibit 17). The number of E&S proposals have exceeded governance proposals among large UK issuers recently, and with strong recent momentum in Australia, E&S proposals equaled governance in 2018 for the ASX 200 (Exhibits 18-19).

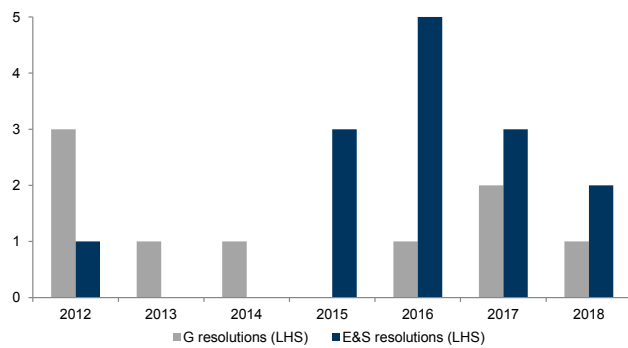
**Exhibit 17: Votes in favor of E&S proposals in the US are approaching that of G proposals**  
No. of shareholder proposals on both G and E&S topics and avg. % of votes for, S&P 500



Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 18: E&S has outnumbered G proposals among large UK corporates...**

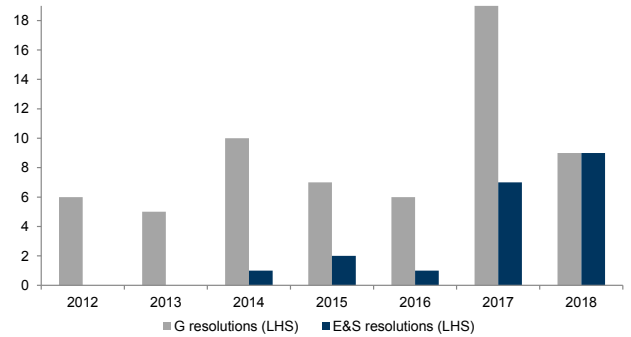
No. of shareholder proposals, FTSE 100



Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 19: ...while E&S equaled G proposals by volume last year among large corporates in Australia**

No. of shareholder proposals, ASX 200



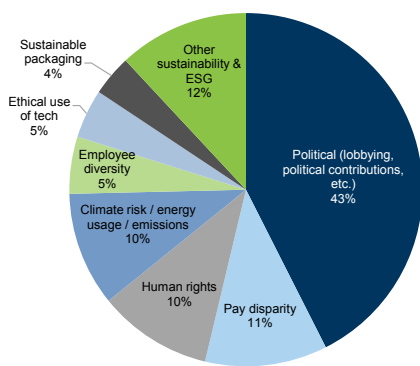
Source: Proxy Insight, Goldman Sachs Global Investment Research

## Focal topics of E&S resolutions and a read on 2019 so far

The US offers a good representation of momentum in E&S resolutions by topic. **Some of the topics with the greatest momentum include political spending, emissions/climate reporting, social reporting, diversity, and pay disparities.**

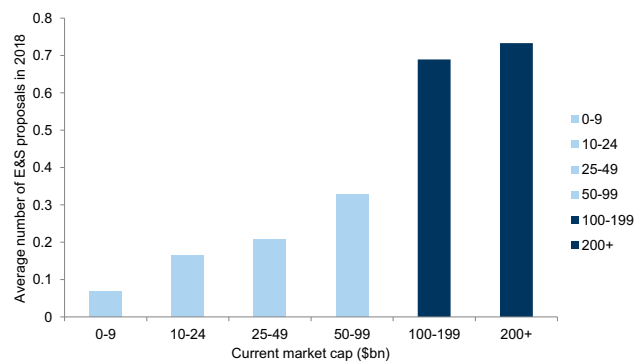
Recent E&S proposals in Japan have been weighted toward company energy policies (including nuclear), while in the UK and Australia demands for emissions and climate reporting have been most common (see Appendix). However, no E&S proposals among large companies in these markets achieved higher than 20% support levels in 2017-2018 (Exhibit 50).

**Exhibit 20: Top E&S topics so far in 2019**  
% of E&S proposals by category, S&P 500



Source: Goldman Sachs Global Investment Research

**Exhibit 21: Larger companies receive greater scrutiny**  
Average number of E&S proposals at S&P 500 companies in 2018 by market cap



Source: FactSet, Goldman Sachs Global Investment Research

Visibility on resolution activity in the US for the in-process 2019 proxy season points to continued focus on political spending, including lobbying and political contributions, as well as pay disparities (primarily gender as opposed to executive pay ratio) and climate (Exhibit 20). **2019 E&S proposals also offer a look into topical or more idiosyncratic company controversies garnering attention in the context of shareholder risk,** including opioids, sustainable packaging, drug pricing, plastic pollution, and digital content stewardship (Exhibit 22).

**We believe shareholder resolutions can serve as an additional resource for identifying specific material and emerging risks faced by corporates.** However, we note it's no surprise that larger companies tend to receive greater focus in the shareholder proposal process (Exhibit 21). Amazon had the largest number of E&S proposals go to vote in 2019 (7) (see Exhibit 40). In 2018 the leading recipient was Chevron (4) preceded by Alphabet in 2017 (6).

**Exhibit 22: Top 2019 E&S vote-getters and other notable proposals**

Proposals introduced during 2019 proxy season, S&amp;P 500

Company name	Ticker	GICS 1 sector	Shareholder proposal	% support
<b>Highest 2019 E&amp;S vote-getters</b>				
Walgreens Boots Alliance	WBA	Consumer Staples	Report on governance measures implemented related to opioids	60.5%
Newell Brands	NWL	Consumer Discretionary	Prepare employment diversity report	56.6%
Alliant Energy Corp.	LNT	Utilities	Report on political contributions	54.3%
Macy's	M	Consumer Discretionary	Report on political contributions	53.1%
Travelers Cos	TRV	Financials	Prepare employment diversity report, including EEOC data	50.9%
Kohl's Corp.	KSS	Consumer Discretionary	Report on political contributions	49.8%
Nextera Energy	NEE	Utilities	Report on political contributions	48.7%
Analog Devices	ADI	Information Technology	Prepare employment diversity report and report on diversity policies	48.0%
Allstate Corp.	ALL	Financials	Report on political contributions	46.9%
Fluor Corp.	FLR	Industrials	Adopt quantitative company-wide GHG goals	46.3%
NRG Energy	NRG	Utilities	Report on political contributions	45.4%
Starbucks Corp.	SBUX	Consumer Discretionary	Report on sustainable packaging	44.5%
Western Union Co.	WU	Information Technology	Report on political contributions	44.3%
Amphenol Corporation	APH	Information Technology	Report on human rights risks in operations and supply chain	43.9%
Fiserv Inc.	FISV	Information Technology	Report on political contributions	43.8%
<b>Other notable E&amp;S proposals</b>				
Twitter, Inc.	TWTR	Communication Services	Report on content enforcement policies	39.4%
Yum! Brands Inc.	YUM	Consumer Discretionary	Report on sustainable packaging	33.6%
Yum! Brands Inc.	YUM	Consumer Discretionary	Report on supply chain impact on deforestation	32.1%
Amazon.com Inc.	AMZN	Consumer Discretionary	Report on impact of government use of facial recognition technologies	28.2%
Altria Group	MO	Consumer Staples	Reduce nicotine levels in tobacco products	27.9%
Amazon.com Inc.	AMZN	Consumer Discretionary	Report on products promoting hate speech	27.2%
C.H. Robinson Worldwide	CHRW	Industrials	Report on greenhouse gas emissions disclosure	26.6%
Amazon.com Inc.	AMZN	Consumer Discretionary	Report on management of food waste	25.9%
Exxon Mobil Corporation	XOM	Energy	Report on risks of petrochemical operations in flood prone areas	25.0%
AbbVie Inc.	ABBV	Health Care	Report on drug pricing	21.9%
Facebook Inc.	FB	Communication Services	Report on content governance	5.7%
Coca-Cola Company	KO	Consumer Staples	Report on the health impacts and risks of sugar in the company's products	4.9%
Amazon.com Inc.	AMZN	Consumer Discretionary	Prohibit sales of facial recognition technology to government agencies	2.5%

Source: Proxy Insight

**Seeking change through incentive pay**

In Exhibit 23, **we also highlight resolutions related to E&S factors in incentive pay**, from broad sustainability performance to more specific issues such as drug pricing, cyber security and data privacy. Our October 21, 2018 report *ESG in the Compensation Conversation* took an in depth look at the increasing presence of ESG in executive compensation plans, and how these can offer signals of ESG engagement, accountability and material risks.

**Exhibit 23: Incentive-related shareholder resolutions so far in 2019**

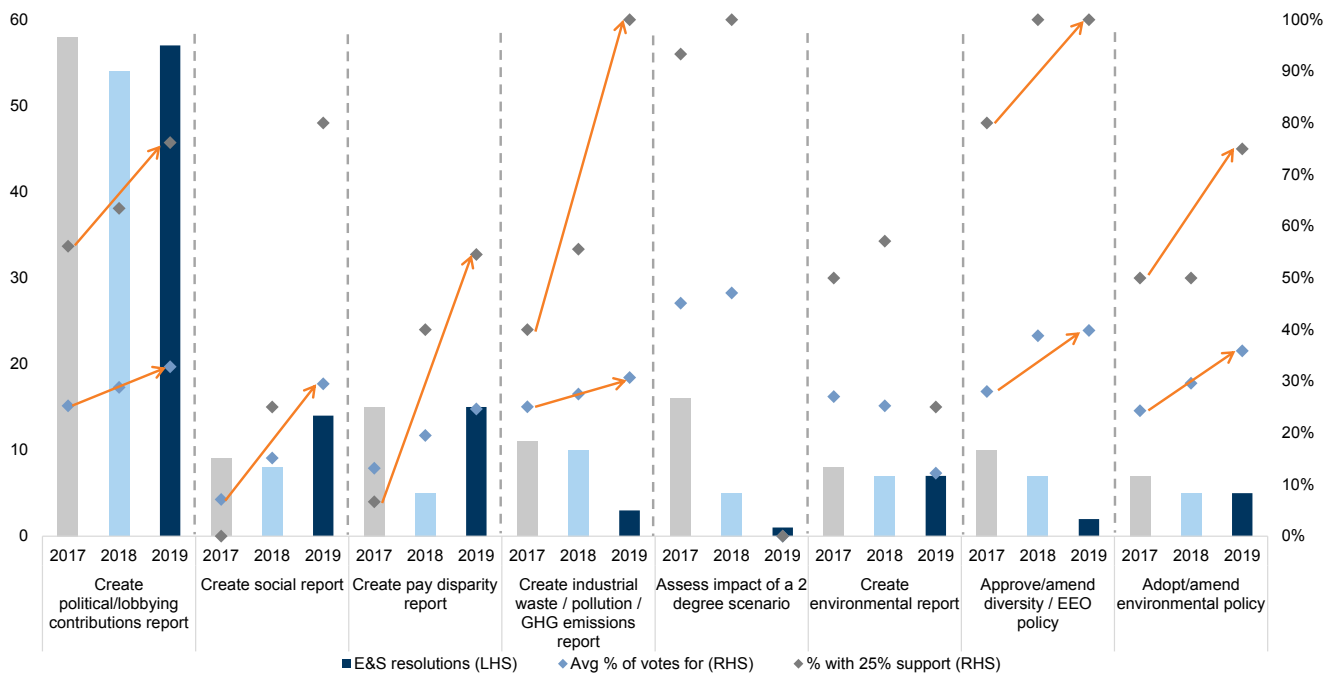
Shareholder resolutions that have been proposed in 2019

Company name	Ticker	GICS 1 sector	Shareholder proposal	% support
Johnson & Johnson	JNJ	Health Care	Report on integrating risks related to drug pricing into executive comp	29.2%
Merck & Company Inc.	MRK	Health Care	Report on integrating risks related to drug pricing into executive comp	29.1%
Pfizer Inc.	PFE	Health Care	Report on integrating risks related to drug pricing into executive comp	28.7%
Walt Disney Company	DIS	Communication Services	Assess feasibility of cyber security and data privacy as a performance measure for executive comp	26.8%
Vertex Pharmaceuticals	VRTX	Health Care	Report on integrating risks related to drug pricing into executive comp	22.8%
Amazon.com Inc.	AMZN	Consumer Discretionary	Assess feasibility of including sustainability as a performance measure for executive comp	19.1%
United Parcel Service Inc.	UPS	Industrials	Assess feasibility of including sustainability as a performance measure for executive comp	15.7%
Verizon Communications	VZ	Communication Services	Assess feasibility of cyber security and data privacy as a performance measure for executive comp	12.5%
Alphabet	GOOGL	Communication Services	Assess feasibility of including sustainability as a performance measure for executive comp	Upcoming

Source: Proxy Insight

**Exhibit 24: S&P 500 E&S resolutions and trends in support**

Most common S&P 500 environmental & social resolution categories and support, 2017-19 to date



2019 is YTD as of 5/31/2019

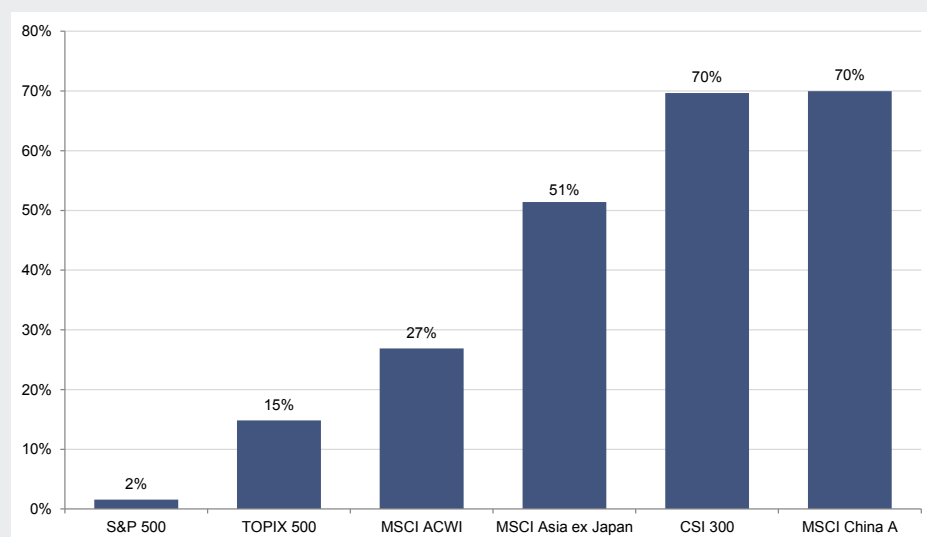
Source: Proxy Insight, Goldman Sachs Global Investment Research

## A word on shareholder engagement in Asian markets

Publicly expressed challenges via shareholder proposals have been less common in Asia. The impetus of engagement in the region is challenged by the unique characteristics of the equity markets – a high percentage of founder-controlled companies, high levels of government ownership in certain countries and complex shareholding structures.

### **Exhibit 25: China and Asia ex-Japan stand out as having concentrated ownership**

Percent of companies with more than 25% block ownership (as of June 2018)



Source: Bloomberg, Thomson Reuters, Goldman Sachs Global Investment Research

Minority shareholders in Asian companies have historically preferred to influence outcomes behind the scenes, avoiding public criticism of corporate strategy and leadership. Against this unique backdrop, Japan and South Korea have offered more accessible opportunities for improving capital structures and returns, board composition and unwinding cross shareholdings. However, instances of environmental and social shareholder activism remain rare even in Japan and Korea.

**Japan's** implementation of the Stewardship code in 2014/17 and the Corporate Governance Code in 2015/18 has required active engagement with companies to achieve higher returns on equity, capital efficiency and transparency. In **South Korea**, the National Pension Fund (NPS) signing the stewardship code in 2018 has created impetus there. The conclusions of **Hong Kong's** Securities and Futures Commission (SFC)'s consultation paper on Principles of Responsible Ownership in 2016 recommended that investors encourage companies to have policies on ESG issues and to engage with companies where the ESG issues have the potential to impact goodwill, reputation and performance. The recommendations were driven by global momentum behind UN PRI and UN Sustainable Development Goals (SDGs). Further drivers in Hong Kong are integration of ESG investing principles by the HK Monetary Authority and guidance materials issued by the Stock Exchange of Hong Kong on the preparation of ESG reports.

Currently, shareholder engagement is uncommon in **China** even though the current regulatory framework allows shareholder activism. According to Activist Insight, listed companies facing public activist demands rose significantly between 2013 to 2017 but activism remains much less common than in other parts of

Asia and is more focused on governance than E&S issues. Half of all activist campaigns mounted in China in the four years to 2017 were successful, but in contrast to other countries in Asia, many of these were waged by local investors (Activist Insight). Regulatory steps to improve market access for global investors coupled with a growing weight of A-shares in key global indices should help pollinate expectations of global stakeholders in China’s capital markets, potentially raising investor engagement over time.

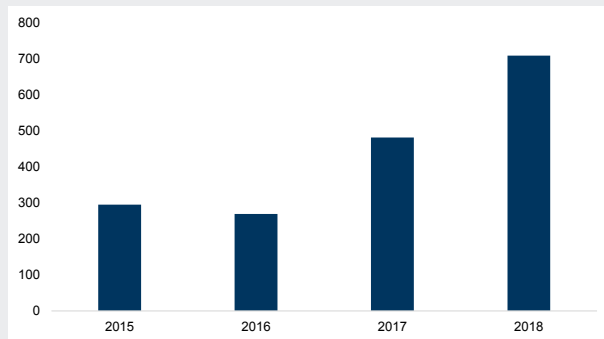
Seven Chinese asset managers signed the UN PRI in 2018, bringing the total to 18 in 2018, including some larger fund management firms. In addition, in September 2018 the China Securities Regulatory Commission (CSRC) published a revised governance code for listed companies, which included new sections on stewardship and ESG activities and disclosure. As a result of this, Luo Nan, Head of China at PRI, expects Chinese companies to begin to disclose ESG information starting in 2020.

In **Australia**, shareholder engagement has been more prominent, reflective of dispersed ownership of public companies and the role of the superannuation funds, which have the power to exert pressure on boards. However, major shareholders in Australian companies hold less stock in publicly listed entities than their US counterparts, meaning less ability to influence on a relative basis. This year, the Australian Centre for Corporate Responsibility (ACCR) challenged Woodside and Santos on their environmental practices. On the social front, the ACCR’s resolutions also included a request for the review of their relationships with lobby groups. Similar proposals were put to Origin and Westpac. Neither company passed the resolutions, but did commit to communicating strategy on climate change in a more transparent fashion.

Lastly, **Singapore**’s 2018 changes to its Code of Corporate Governance should support the interests of minority shareholders. One of the changes in the revision is a requirement for annual reports after 1 Jan 2019 to raise stakeholder engagement through sustainability reporting in an effort to align with global governance norms and benefit social and environmental causes.

**Exhibit 26: Shareholder proposals in AEJ are becoming increasingly common**

Total shareholder proposals in Asia ex. Japan (AEJ), 2015-18

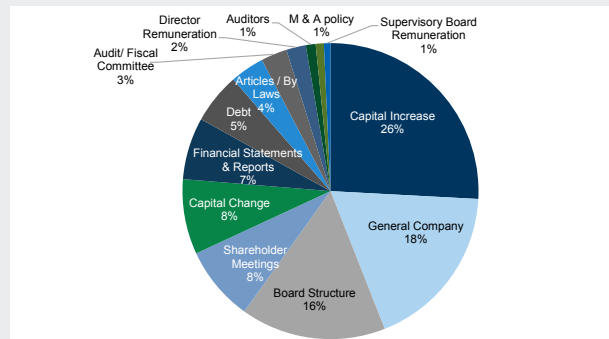


Excludes director re/elections (~80% of proposals) and proposals that are unclassified by our data provider (~14%).

Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 27: Governance proposals currently dominate shareholder resolutions in AEJ**

2015-18 shareholder proposals by category, Asia ex. Japan



Excludes director re/elections (~80% of proposals) and proposals that are unclassified by our data provider (~14%).

Source: Goldman Sachs Global Investment Research

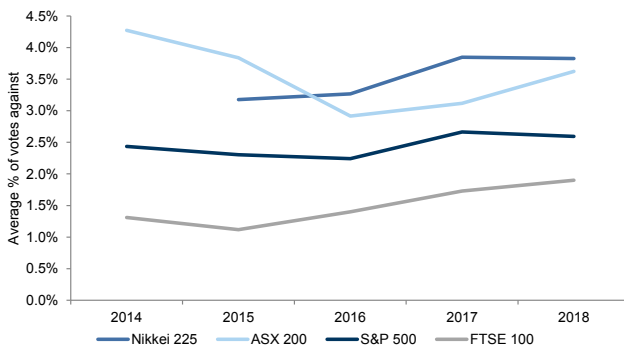
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# How shareholder engagement is translating to director votes, manager pay

While shareholder resolutions tend to be advisory votes, director elections are binding. Though the vast majority of directors are approved with over 90% of votes cast around the world, we are seeing **signs that investors are growing more willing to express dissatisfaction by way of directorship and say-on-pay voting**. 14% of director nominations and 62% of say-on-pay votes at S&P 500 companies now receive less than 95% support, compared to 11% and 37% respectively in 2015 (Exhibits 30-31). Japan and Australia have the highest average votes against director re/election among the four indexes analyzed below, while the S&P 500 and ASX 200 lead in say-on-pay votes against. In the US specifically, the Communication Services sector has the highest average percent of votes against director nominations in 2019 to date, followed by Healthcare and Energy (Exhibit 33).

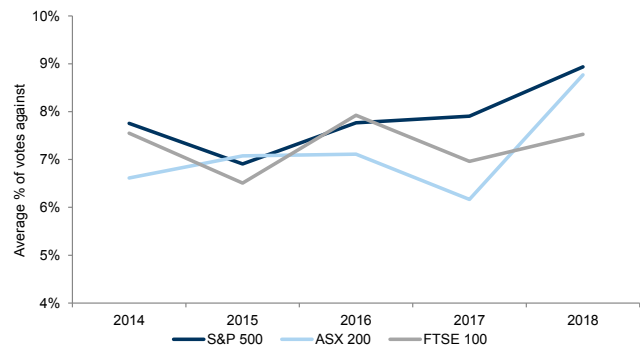
**Exhibit 28: Seeing a general increase in votes against directors in major indexes...**

Average % of votes against individual board directors



Source: Goldman Sachs Global Investment Research

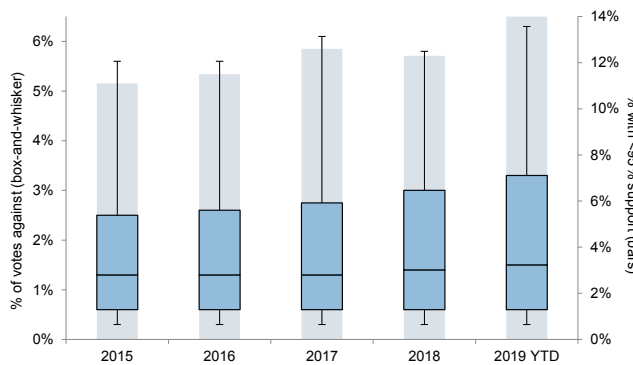
**Exhibit 29: ...and also an increase in votes against say-on-pay**  
Avg. % of votes against annually in each index



Not applicable to Nikkei 225

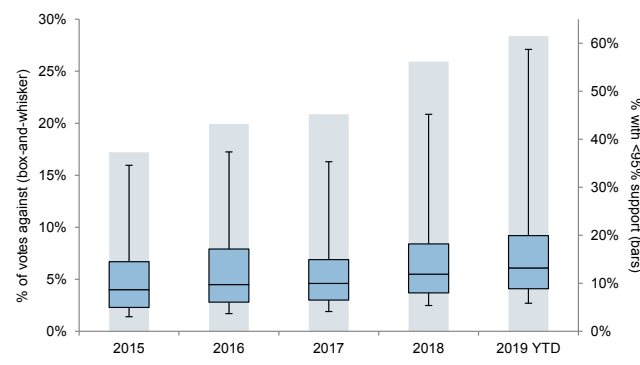
Source: Goldman Sachs Global Investment Research

**Exhibit 30: Votes against directors are creeping higher**  
S&P 500; Box-and-whisker plots mark 90th, 75th, 50th, 25th, and 10th percentiles from top to bottom (LHS); % of individual director nominations with less than 95% support (RHS)



Source: Goldman Sachs Global Investment Research

**Exhibit 31: Increased pressure on companies via say-on-pay voting**  
S&P 500; Box-and-whisker plots mark 90th, 75th, 50th, 25th, and 10th percentiles from top to bottom (LHS); % of advisory say-on-pay votes with less than 95% support (RHS)

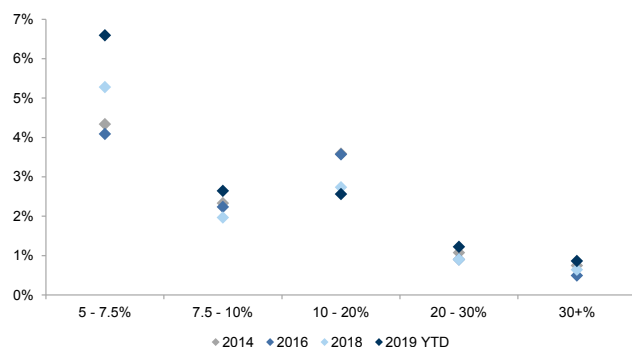


Source: Goldman Sachs Global Investment Research



### Exhibit 32: Recent years have seen more directors getting 5%+ votes against

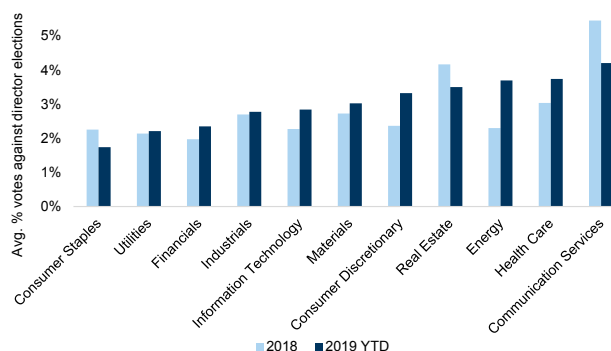
% of votes against individual directors, S&P 500



Source: Goldman Sachs Global Investment Research

### Exhibit 33: Communication Services has seen the most votes against directors recently

Avg. % of votes against individual director elections by GICS 1 sector, S&P 500



Source: Goldman Sachs Global Investment Research

## Director election policies becoming more prescriptive on ESG issues

While institutional investors often tailor their votes case-by-case, we are seeing increasing instances of **publicly articulated voting policies or initiatives** related to ESG performance. Below we list some high profile examples:

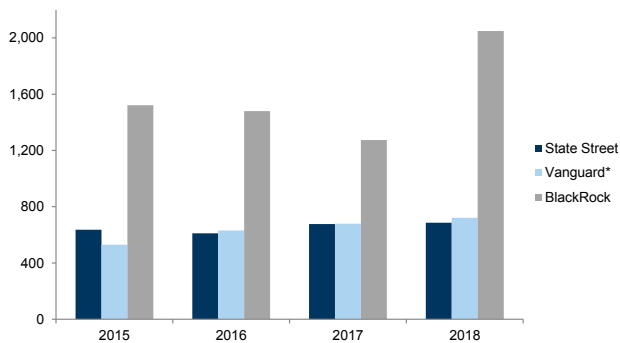
- Leading proxy advisors announced plans to recommend against nominating committee chairs and potentially other directors of companies with no **female directors** (beginning in 2019 for Glass Lewis and 2020 for Institutional Shareholder Services (ISS), with exceptions for companies outside the Russell 3000 for Glass Lewis or if sufficient rationale is provided).
- Glass Lewis indicated it may consider recommending a vote against directors responsible for **oversight of E&S risks** where mismanagement of such has threatened to decrease shareholder value.
- Beginning in 2020 State Street will vote against the entire nominating committee (previously only chair of the committee) of US, UK and Australian companies **without at least one woman** where there has been no engagement dialog, expanding to Japan, Canada and Europe in 2021.
- Church Commissioners for England and the NY State Common Retirement Fund started an 'exempt solicitation' campaign to persuade investors to vote against the entire board of ExxonMobil after a **climate change**-related shareholder proposal was excluded from the company's proxy ballot. Both entities are members of the Climate Action 100+ initiative, an investor-led initiative group to promote coordinated action.
- ISS and Glass Lewis identified '**overboarding**' as a circumstance that may trigger a negative vote recommendation, including directors who sit on more than five public company boards or directors who are executives at a public company and sit on more than one additional public board (for Glass Lewis, more than two additional boards for ISS).

## Beyond the ballot box: Engagement vs. voting

**Institutional investors are increasingly using corporate engagements — i.e., meetings, calls, or written letters — to articulate positions on ESG issues and influence board level decision making.** In Exhibit 34, we show disclosed engagement activity from large passive asset managers to illustrate the trend in constructive private dialog in lieu of confrontation by vote. In Exhibit 35, we show a rise in withdrawn proposals, often the outcome of company engagement with investors in advance of the proxy filing.

### Exhibit 34: Large passives are among the most active in corporate engagements

Number of company engagements reported annually

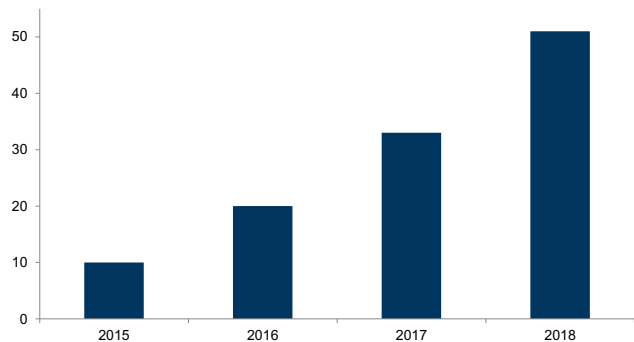


\*Vanguard reports no. of companies engaged rather than total no. of engagements

Source: Company data, Goldman Sachs Global Investment Research

### Exhibit 35: Withdrawn proposals are often the result of constructive engagements

No. of management and shareholder resolutions withdrawn among Russell 3000 companies



Source: Proxy Insight

### What's driving the engagement movement?

Growth in investor engagements is being driven by a variety of factors, including **global stewardship codes, PRI principles, and rising client expectations**. This is requiring issuers to spend time with shareholders year-round on potential proxy issues, including increasing demand for audience with corporate directors. In markets where investor voting records are made public (e.g., US and UK), **asset managers are receiving heightened scrutiny by third parties seeking to hold them to account in the public forum**.

**A shift toward longer-term capital?** While we believe that motivations for asset managers to increase their holding periods in the current investment environment are on the rise, the shift toward passive is one of the most significant forces dampening equity turnover. Without the option to sell in the face of heightened corporate risk or unresponsive management, we believe **passive managers have emerged as some of the most vocal investment stewards in the marketplace**. Furthermore, as the largest shareholders of an increasing proportion of public companies, passives are emerging as **decisive voting blocs** in proxy voting.

### **How large passives approach shareholder stewardship, in their own words**

**Large passives are among the most active and transparent forces of investor engagement in the market. Below we highlight representative approaches to voting and engagement, as articulated in their stewardship disclosures.**

#### **BlackRock**

**On stewardship:** “One misperception related to voting at shareholder meetings equates ‘good stewardship’ with voting against management... Even the more controversial items are much more complex than a binary ‘for’ or ‘against’ vote decision. In our view, engagement with companies is more productive.” (Blackrock Investment Stewardship - 2018 Annual Report; Aug. 2018)

**On engagement:** “The public debate is often polarized. But, in our experience, practitioners tend to take a more nuanced and pragmatic approach focused on encouraging business and governance practices aligned with long-term shareholder value creation.” (Blackrock Investment Stewardship - 2018 Annual Report; Aug. 2018)

**On shareholder voting:** “Where management demonstrates a willingness to address the material issues raised, and we believe progress is being made, we will generally support the company and vote against the shareholder proposal... We... also vote against shareholder proposals that, in our assessment, are too prescriptive or narrowly focused, or deal with issues we consider to be outside the purview of the board or management.” (Blackrock Investment Stewardship - 2018 Annual Report; Aug. 2018)

“To ensure that active portfolio managers can execute votes in a manner consistent with their view of what is in the best interests of the clients invested in their fund, our process allows BlackRock to cast votes differently where index and active investors might have a different perspective on an issue.” (Blackrock Investment Stewardship - Protecting our clients’ assets for the long-term; Jan. 2019)

#### **Focal 2019 voting issues:**

- Overboarding — If director is a public company CEO, may sit on a total of two public company boards or otherwise may sit on a total of four public company boards
- Dual-class stock — Recognize potential benefit to newly public companies, but should have a specific and limited duration
- Board diversity — Will encourage companies to have at least two female board members and may vote against directors where concerns exist as to how a company is dealing with E&S factors

#### **Vanguard**

**On stewardship:** “While we recognize that our shareholders have a wide range of ideological perspectives, our decisions on these matters are grounded in long-term economic value.” (Glenn Booraem, Investment Stewardship Officer; 2018 Investment Stewardship Annual Report; Aug. 2018)

“Our objective is not to change what business a company is in or what product it produces, but rather to ensure that the risks of these choices are understood by the market and reflected in the company’s long-term value to investors.” (2018 Investment Stewardship Annual Report; Aug. 2018)

**On engagement:** “Because our index funds are practically permanent owners of portfolio companies, we aim in our engagements to build a strong understanding of how companies govern their long-term strategy. Importantly, we do not seek to influence company strategy.” (W. Robert Main III, CFA, Head of Portfolio Company Engagement, Analysis, and Voting; 2018 Investment Stewardship Annual Report; Aug. 2018)

**Focal 2019 voting issues:**

- Overboarding — Generally vote against executive officers that sit on more than one public company board beyond their employer’s and other directors who sit on more than four public company boards
- Dual-class stock — Support the idea of newly public, dual-class companies adopting a sunset provision
- Workforce inclusion — Will vote for proposals requiring inclusion of sexual orientation, gender identity, minority status, or protected classes (per local law) in a company’s employment and diversity policies when not already present

**State Street**

**On stewardship:** “As near perpetual holders of the constituents of the world’s primary indices, we use our voice and vote to influence companies on long-term governance and sustainability issues. Our approach to stewardship is designed to have an impact.”

**On engagement:** “We prefer to effect change through engagement with companies on concerns we may have with various aspects of pay at the company. However, if engagement is not found to be an effective tool for promoting change, we use our vote to highlight our concerns with pay practices.”

**On shareholder voting:** “The active equity team... provides recommendations on all resolutions... at companies within their investment universe. While these recommendations are taken into consideration..., the stewardship team has ultimate authority on the final vote decision.”

(Source of above quotes: Annual Stewardship Report 2017 Year End; July 2018)

**Focal 2019 voting issues:**

- Overboarding — May vote against directors that are CEOs of a public company and sit on more than three public company boards or other nominees who sit on more than six public company boards
- Board diversity — Expect boards of Russell 3000 and TSX-listed companies to have at least one female board member

*Source: Company reports*

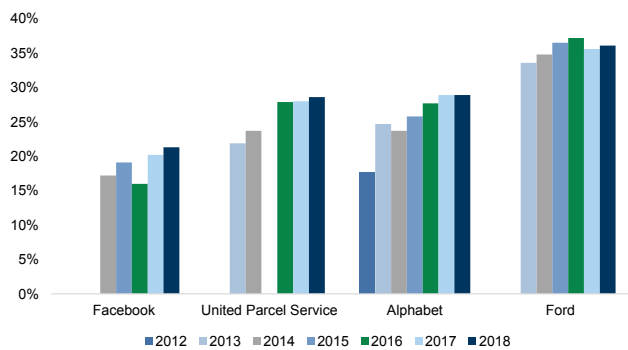
# Key shareholder engagement issues to watch

**Below we list shareholder issues across the ESG spectrum that we believe are poised to either remain high-profile or see an increase in focus going forward:**

- **Dual-class shares** – Although not one of the more common subjects of shareholder resolutions, we observe growing focus on this issue in the market and among engagement priorities. While there has been an uptick in unequal voting rights among younger tech firms in recent years, our data suggest that among more mature issuers this trend is in recession (Exhibit 45).

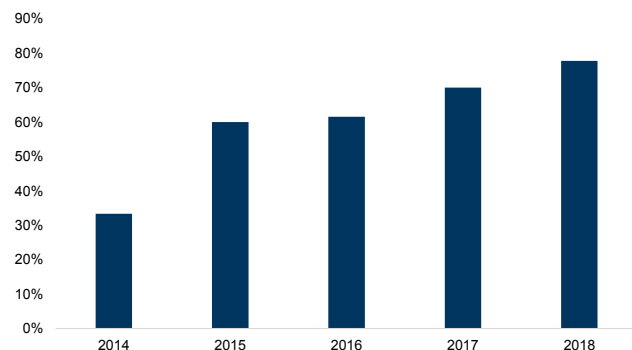
Proxy voting data show growing shareholder pressure on the topic (Exhibits 36-37), while some equity index providers have revised policy to exclude new candidates with unequal voting shares. It’s also worth noting that “one-share one-vote” proposals at two US companies, News Corp. and Rush Enterprises, nearly received majority support in 2015 (49.5% and 49.1%, respectively). According to Proxy Insight, these cases remain the closest that dual-class proposals have come to passing in the US during our period of study (2014-2019). Among S&P 500 companies the most supported proposals both came at Comcast, in 2013 (41.5%) and 2016 (38.5%).

**Exhibit 36: Support for removing dual-class shares inching higher**  
S&P 500 companies with voting results on this issue consistently available back to 2014



Source: Proxy Insight

**Exhibit 37: More proposals getting over 25% support**  
% of dual-class share removal proposals that get 25+% support; all available US companies



Source: Goldman Sachs Global Investment Research

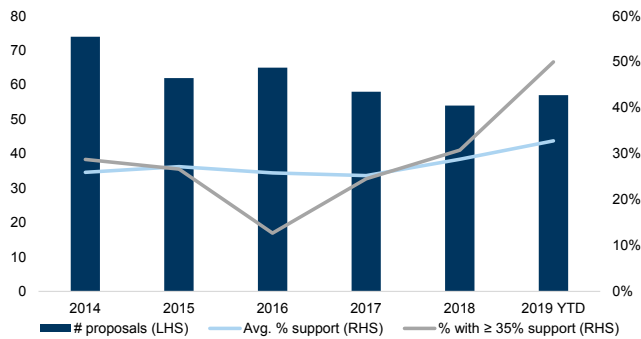
- **Political spending** – Currently the most common E&S proposal category, about 10% of the S&P 500 has had a shareholder resolution related to lobbying or political contributions on the ballot in recent years. Though these proposals generally receive solid support – in the 25-35% range on average – it has historically been uncommon for them to receive a majority of votes. According to Proxy Insight, before this year only four such proposals – NiSource and Fluor in 2016 and H&R Block and Valero in 2014 – have received majority support among S&P 500 companies during our period of focus. But the tide may be turning, with political contribution proposals already receiving majority support at both Macy’s and Alliant Energy this proxy season.

Given heightened investor scrutiny, industries with large lobbying efforts – such as Healthcare and Financials – could be impacted should the push for greater

transparency intensify in the coming years, in our view. We note that disclosure of political spending from the S&P 500 currently stands at just 29% vs. 17% globally (MSCI ACWI).

**Exhibit 38: While the number of political/lobbying disclosure resolutions has receded, support is growing**

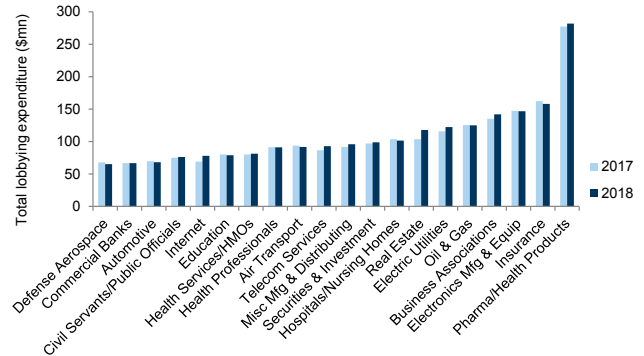
No. of resolutions per year and voting stats for S&P 500 companies



Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 39: Healthcare and financials lead in US lobbying expenditure**

Industries ranked by 2018 lobbying expenditure, top-20 US industries shown



Source: Center for Responsive Politics

**What does it look like when a political contribution proposal passes? Fluor Corp. as an example**

A majority of shareholders voted in favor of a political spending proposal at Fluor in 2016, which remains the most recent completed year that an S&P 500 company had this type of proposal receive majority support. Following the AGM, Fluor published its first formal report on political activity, a semi-annual document that outlines the date, recipient, and amount of each contribution made during the covered period. Fluor also maintains a 'Political Activities' web page, where its Political Activities Policy and historical contribution reports are available.

- **Ethical use of technology** – In the last few years, major tech companies have increasingly seen proposals addressing potential negative impacts of their products. In 2017, Alphabet and Facebook were subject to proposals calling for reporting on fake news. Though both received de minimis support on first pass, they were on the ballot again in 2018, this time with over 10% support (the proposal was also on the ballot at Twitter in 2018 and garnered a stronger 35% support). Similar proposals were among those received by Amazon this year (Exhibit 40). We note that internet platforms have been the top recipients of E&S shareholder proposals in two of the past three years in the US.

**Exhibit 40: Leading proposal target Amazon received three proposals related to ethical use of technology this year**

Shareholder proposals at Amazon, 2019

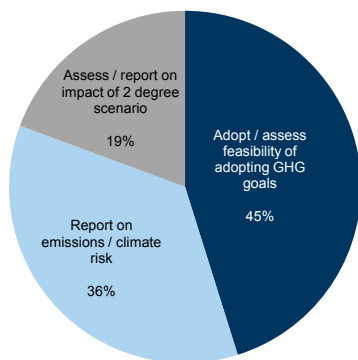
Proposal	% support
<b>Environmental &amp; social</b>	
Report on sexual harassment	33.3%
Report on climate change	30.9%
Report on impact of government use of facial recognition technologies	28.2%
Report on products promoting hate speech	27.2%
Report on gender pay gap	26.8%
Report on management of food waste	25.9%
Prohibit sales of facial recognition technology to government agencies	2.5%
<b>Governance and incentive-related</b>	
Reduce ownership threshold for shareholders to call special meeting	35.4%
Require independent board chairman	24.9%
Assess feasibility of including sustainability as a performance measure for executive comp	19.1%
Disclose a board of directors' qualification matrix	2.7%

Source: Proxy Insight

- **Cyber security** — In 2019, both Verizon and Walt Disney received shareholder proposals requesting that they assess the feasibility of including cyber security and data privacy incentives in management compensation plans. The proposal received 27% support at Walt Disney and 12% support at Verizon (Verizon also received the proposal in 2018, with similar support).
- **Carbon & climate** – Carbon and climate-related proposals remain common among S&P 500 companies, with 33 put on the ballot since the start of 2018. The resolutions fall into three general groups: assessing or reporting on the impact of alignment with the Intergovernmental Panel on Climate Change’s (IPCC) 2-degree warming scenario, reporting on emissions and/or climate change, and adopting (or assessing the feasibility of adopting) greenhouse gas goals (GHG) – the latter two making up the bulk of recent proposals (Exhibit 41). We’re also seeing strong voting trends for carbon and climate proposals, with average support at S&P 500 companies increasing from 24% in 2014 to 31% in 2018.

**Exhibit 41: Emissions goals and reporting are the most common climate-related proposals among US companies**

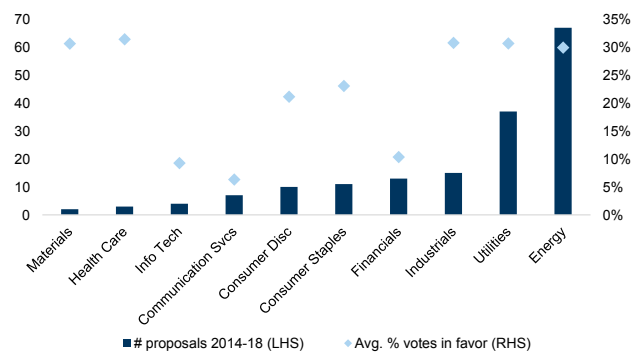
Climate change-related proposals, 2018-2019, S&P 500



Source: Goldman Sachs Global Investment Research

**Exhibit 42: Energy and Utilities lead in climate-related proposals received**

No. of proposals among S&P 500 companies (LHS) and avg. % support (RHS) from 2014-18

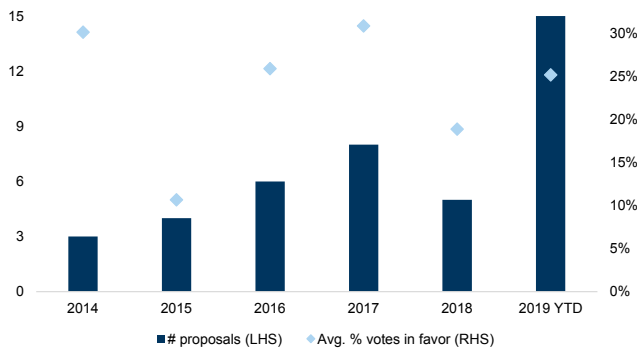


Source: Proxy Insight, Goldman Sachs Global Investment Research

- **Board diversity** – Proposals related to board diversity increased significantly in the US this year (Exhibit 43). Smaller public companies are likely to be the most affected by demands for improved gender diversity on boards, as their larger counterparts tend to have greater female representation. The average S&P 500 board has twice as many females as the average Russell 2000 board, and S&P 500 boards without at least one female member are now virtually non-existent (currently only one company). As previously highlighted, board diversity is one of the key areas of prescriptive voting policies among passives and other large asset managers.

**Exhibit 43: Shareholder proposals related to board diversity jumped this year in the US**

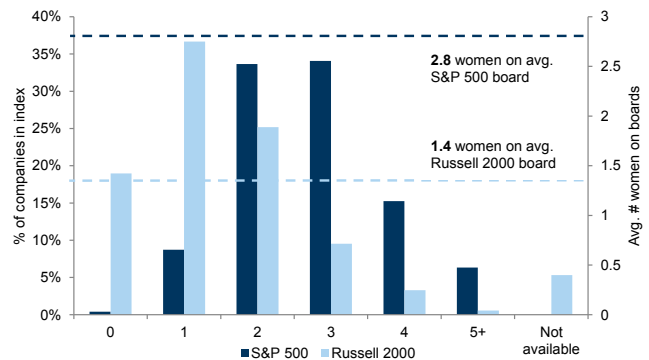
Proposals at Russell 3000 companies from 2014-2019



Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 44: Larger companies have stronger female board representation on average**

No. of women on S&P 500 and Russell 2000 boards, latest available



Source: Bloomberg, Thomson Reuters, Goldman Sachs Global Investment Research

- **Drug pricing risks** – Another proposal getting attention the last two years is integrating risks related to drug pricing into incentive compensation. Five S&P 500 companies received this proposal in 2018 – AbbVie (22% support), Amgen (26%), Biogen (28%), Bristol-Myers (23%) and Eli Lilly (18%) – with AbbVie the only company having it on the ballot again this year. So far in 2019, shareholders have voted on the proposal at AbbVie (22% support), Vertex (23%), Johnson & Johnson, Pfizer and Merck (each 29%). On a related note, last year a proposal at AmerisourceBergen that called for reporting on governance measures implemented related to opioids received 41% support, and this year a similar proposal at Walgreens received YTD majority support at 61%.

**What is typical language in a drug pricing proposal? AbbVie’s 2019 proposal as an example**

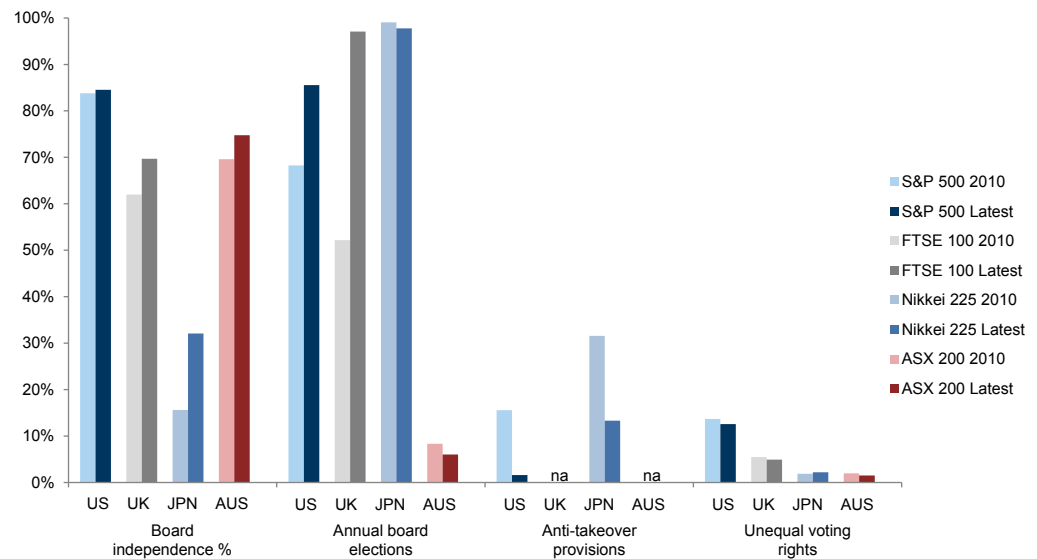
“Shareholders of AbbVie... urge the Compensation Committee... to report annually to shareholders on the extent to which risks related to public concern over drug pricing strategies are integrated into AbbVie’s incentive compensation policies, plans and programs... for senior executives. The report should include, but need not be limited to, discussion of whether (i) incentive compensation arrangements reward, or not penalize, senior executives for adopting pricing strategies, or making and honoring commitments about pricing, that incorporate public concern regarding the level or rate of increase in prescription drug prices; and (ii) such concern is considered when setting financial targets for incentive compensation arrangements.” (AbbVie proxy, March 2019)



# How greater engagement is upgrading ESG standards around the world

**As shareholder activism has persisted, the evolution of governance practices in major developed economies has been towards greater accountability and diminishing board entrenchment.** These include rising board independence and reductions in both staggered board elections (Australia is an exception) and anti-takeover provisions. As previously noted, despite the attention received by high-profile cases of newly public companies with unequal voting rights, overall the trend has been slightly down among large companies in these markets.

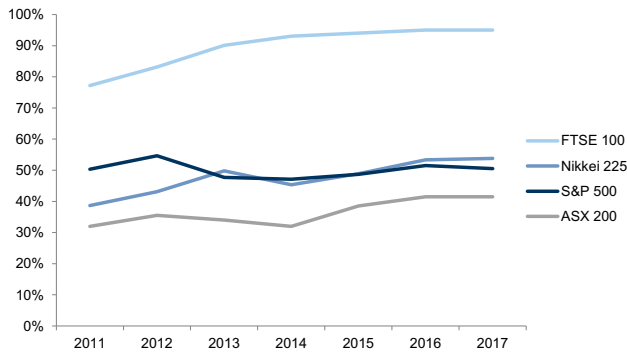
**Exhibit 45: Receding indicators of entrenchment**  
Recent governance trends in S&P 500, FTSE 100, Nikkei 225 and ASX 200



Source: Thomson Reuters, Bloomberg, Goldman Sachs Global Investment Research

**Steady improvements in E&S disclosure** can also be partly attributed to ongoing shareholder engagement efforts, in our view (see Exhibits 46-47, and our May 16 Chart of the Week: *A glass-half-full view of ESG disclosure* for a more detailed discussion of latest disclosure trends).

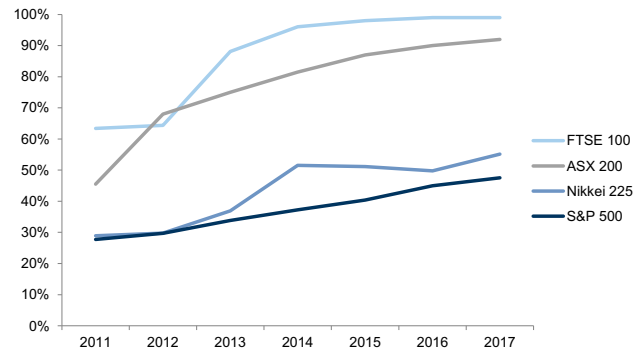
**Exhibit 46: Disclosure of scope 1 emissions are increasing...**  
 % of companies in each index that disclose scope 1 emissions



2017 is latest year with data consistently available

Source: Bloomberg, Thomson Reuters, Goldman Sachs Global Investment Research

**Exhibit 47: ... as are disclosure of women employee percentages**  
 % of companies in each index that disclose % female employees



2017 is latest year with data consistently available

Source: Bloomberg, Thomson Reuters, Goldman Sachs Global Investment Research

**Should investors look for sustainable leaders or ESG improvers?**

While our work suggests that alpha enhancement can be found both in sustained ESG leadership and directional improvement, we have found a stronger alpha signal in the former (see *Momentum & Materiality - Building blocks for ESG integration*). Thus, while shareholder voting activity can potentially help to identify targets for future performance momentum, **we prefer those that aren't persistent targets of resolution and engagement activity owing to cultures of proactive ESG risk mitigation.**

# Appendix

## Exhibit 48: 2018 E&S proposals that are repeats from a previous year have tended to get increased support

E&S proposals and % of votes in favor, S&P 500 2016-18

Company name	Ticker	Resolution	Meeting date last included	Last % for	2018 meeting date	2018 % for	# years between	Change
Kinder Morgan	KMI	Report on Sustainability	5/10/2017	38%	5/9/2018	60%	1	+21.9%
Allstate Corp.	ALL	Report on Political Contributions	5/25/2017	25%	5/11/2018	47%	1	+21.7%
Juniper Networks	JNPR	Report on Annual Disclosure of EEO-1 Data	5/25/2017	25%	5/24/2018	44%	1	+18.9%
Home Depot Inc.	HD	Prepare Employment Diversity Report and Report on Diversity Policies	5/18/2017	34%	5/17/2018	48%	1	+14.6%
Charles Schwab	SCHW	Prepare Employment Diversity Report	5/16/2017	26%	5/15/2018	36%	1	+9.9%
CMS Energy Corp.	CMS	Report on Political Contributions	5/5/2017	36%	5/4/2018	45%	1	+8.9%
Ameriprise Financial Inc.	AMP	Report on Political Contributions	4/30/2014	31%	4/25/2018	39%	1	+7.5%
Kroger Co.	KR	Assess Environmental Impact of Non-Recyclable Packaging	6/22/2017	24%	6/28/2018	31%	1	+7.5%
Wynn Resorts	WYNN	Report on Political Contributions	4/21/2017	30%	5/16/2018	37%	1	+6.9%
Ameren Corp.	AEE	Report on Coal Combustion Residual and Water Impacts	4/27/2017	46%	5/3/2018	53%	1	+6.8%
Capri Holdings	CPRI	Assess Feasibility of Adopting Quantitative Renewable Energy Goals	8/3/2017	40%	8/1/2018	46%	1	+6.7%
IBM	IBM	Report on Lobbying Payments and Policy	4/25/2017	27%	4/24/2018	33%	1	+6.4%
Emerson Electric Co.	EMR	Adopt Quantitative Company-wide GHG Goals	2/7/2017	34%	2/6/2018	39%	1	+5.0%
Fluor Corp.	FLR	Adopt Quantitative Company-wide GHG Goals	5/4/2017	37%	5/3/2018	42%	1	+4.9%
Kroger Co.	KR	Report on Feasibility of Adopting Energy Efficiency and Renewable Energy Goals	6/22/2017	25%	6/28/2018	29%	1	+4.6%
NRG Energy	NRG	Report on Political Contributions	4/27/2017	31%	4/26/2018	35%	1	+4.5%
Honeywell Int'l	HON	Report on Lobbying Payments and Policy	4/24/2017	36%	4/23/2018	41%	1	+4.2%
Mondelez Int'l	MDLZ	Assess Environmental Impact of Non-Recyclable Packaging	5/17/2017	27%	5/16/2018	31%	1	+3.7%
Vertex Pharmaceuticals	VRTX	Report on Lobbying Payments and Policy	6/8/2017	27%	5/17/2018	31%	1	+3.6%
Pfizer	PFE	Report on Lobbying Payments and Policy	4/28/2016	31%	4/26/2018	33%	2	+2.8%
Chevron Corp.	CVX	Report on Lobbying Payments and Policy	5/31/2017	29%	5/30/2018	32%	1	+2.4%
Nextera Energy	NEE	Report on Political Contributions	5/18/2017	41%	5/24/2018	43%	1	+2.1%
Verizon Communications	VZ	Report on Lobbying Payments and Policy	5/5/2016	35%	5/3/2018	36%	2	+1.6%
Motorola Solutions	MSI	Report on Lobbying Payments and Policy	5/15/2017	33%	5/14/2018	35%	1	+1.3%
Walt Disney Co.	DIS	Report on Lobbying Payments and Policy	3/8/2017	37%	3/8/2018	37%	1	+0.6%
Alliant Energy Corp.	LNT	Report on Political Contributions	5/23/2017	39%	5/17/2018	39%	1	+0.5%
Travelers Cos	TRV	Prepare Employment Diversity Report and Report on Diversity Policies	5/18/2017	36%	5/23/2018	36%	1	+0.0%
Emerson Electric Co.	EMR	Report on Lobbying Payments and Policy	2/7/2017	40%	2/6/2018	40%	1	-0.4%
Emerson Electric Co.	EMR	Report on Political Contributions	2/7/2017	40%	2/6/2018	39%	1	-0.9%
Nucor Corp.	NUE	Report on Lobbying Payments and Policy	5/11/2017	38%	5/10/2018	37%	1	-1.2%
AT&T	T	Report on Lobbying Payments and Policy	4/28/2017	35%	4/27/2018	34%	1	-1.2%
Discovery Inc	DISCA	Report on Steps Taken to Increase Board Diversity	5/18/2017	35%	5/10/2018	33%	1	-2.1%
Kinder Morgan	KMI	Report on Methane Emissions Management	5/10/2017	41%	5/9/2018	38%	1	-2.6%
Western Union Co.	WU	Report on Political Contributions	5/11/2017	35%	5/18/2018	32%	1	-3.1%
Equifax	EFX	Report on Political Contributions	5/4/2017	36%	5/3/2018	30%	1	-6.2%
<b>Average of top 35</b>				<b>33.7%</b>		<b>38.3%</b>	<b>1.1</b>	<b>+4.6%</b>

Source: Proxy Insight, Goldman Sachs Global Investment Research

**Exhibit 49: S&P 500 E&S proposals with the highest votes for in last two years**

Shareholder proposals for S&amp;P 500 companies in 2017 and 2018

Company name	Ticker	GICS 1 sector	Shareholder proposal	Vote % for
<b>2018</b>				
Kinder Morgan	KMI	Energy	Report on Sustainability	60.4%
Kinder Morgan	KMI	Energy	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	59.7%
Ameren Corp.	AEE	Utilities	Report on Coal Combustion Residual and Water Impacts	53.2%
Anadarko Petroleum	APC	Energy	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	53.0%
Home Depot	HD	Consumer Discretionary	Prepare Employment Diversity Report and Report on Diversity Policies	48.3%
Allstate Corp.	ALL	Financials	Report on Political Contributions	46.5%
Capri Holdings	CPRI	Consumer Discretionary	Assess Feasibility of Adopting Quantitative Renewable Energy Goals	46.2%
Noble Energy	NBL	Energy	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	45.7%
CMS Energy Corp.	CMS	Utilities	Report on Political Contributions	45.2%
Chevron	CVX	Energy	Report on Methane Emissions	45.0%
Juniper Networks	JNPR	Information Technology	Report on Annual Disclosure of EEO-1 Data	43.9%
Applied Materials	AMAT	Information Technology	Adopt Policy to Annually Disclose EEO-1 Data	43.8%
Nextera Energy	NEE	Utilities	Report on Political Contributions	43.2%
Fluor Corp.	FLR	Industrials	Adopt Quantitative Company-wide GHG Goals	41.6%
AmerisourceBergen	ABC	Health Care	Report on Governance Measures Implemented Related to Opioids	41.2%
<b>2017</b>				
Occidental Petroleum	OXY	Energy	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	67.3%
Exxon Mobil	XOM	Energy	Report on Climate Change Policies	62.1%
PPL Corp.	PPL	Utilities	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	56.8%
Pioneer Natural Resources	PXD	Energy	Report on Annual Sustainability	52.1%
Dominion Energy	D	Utilities	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	47.8%
Ameren Corp.	AEE	Utilities	Assess Impact of a 2 Degree Scenario	47.5%
Ameren Corp.	AEE	Utilities	Report on Coal Combustion Residual and Water Impacts	46.4%
Duke Energy Corp.	DUK	Utilities	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	46.4%
Occidental Petroleum	OXY	Energy	Report on Methane Emissions and Flaring Targets	45.8%
Southern Company	SO	Utilities	Report on Strategy for Aligning with 2 Degree Scenario	45.7%
DTE Energy	DTE	Utilities	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	45.0%
Lam Research Corp.	LRCX	Information Technology	Adopt Policy to Annually Disclose EEO-1 Data	43.5%
FirstEnergy Corp.	FE	Utilities	Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	43.4%
FirstEnergy Corp.	FE	Utilities	Report on Lobbying Payments and Policy	41.5%
Devon Energy Corp.	DVN	Energy	Annually Assess Portfolio Impacts of Policies to Meet 2 Degree Scenario	41.4%

Source: Proxy Insight

**Exhibit 50: E&S proposals with the highest votes for in last two years in our international geographies of focus**

Shareholder proposals for companies in ASX 200, Nikkei 225, and FTSE 100 in 2017 and 2018

Company name	Local ticker	Index	GICS 1 sector	Shareholder proposal	Vote % for
<b>2018</b>					
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	End Reliance on Nuclear Power	20.0%
Rio Tinto Ltd.	RIO	ASX 200	Materials	Approve Public Policy Advocacy on Climate Change	18.0%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Encourage Dispersed Renewable and Natural Gas Power	16.7%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Commit to Nurture of Work Climate Conducive to Improving Quality of Nuclear Safety Mechanisms Through Debate Among Employees	16.7%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Request the Government to Develop Necessary Legal System to Promote Separation of Power Generation and Transmission	16.5%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Cease Nuclear Operations and Decommission All Nuclear Facilities as Soon as Possible	15.9%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Introduce Provision on Corporate Social Responsibility related to Information Disclosure	15.8%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Ban Reprocessing of Spent Nuclear Fuels	15.7%
Mizuho Financial Group Inc.	8411	Nikkei 225	Financials	Corporate Ethics Code	7.7%
Royal Dutch Shell PLC	RDSB	FTSE 100	Energy	Set and Publish Targets for Greenhouse Gas (GHG) Emissions	5.5%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Ban Investments and Debt Guarantees for Japan Atomic Power	3.8%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Introduce Provision on Corporate Social Responsibility related to Human Resource Development and Technology Development	3.5%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Introduce Provision on Corporate Social Responsibility to Promote Operational Sustainability	3.5%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Phase out Use of Nuclear Energy and Fossil Fuel Energy and to Promote Renewable Energy	3.4%
Chubu Electric Power Co. Inc.	9502	Nikkei 225	Utilities	Withdraw from Nuclear Fuel Recycling Business	3.3%
<b>2017</b>					
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	End Reliance on Nuclear Power	20.3%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Encourage Dispersed Renewable and Natural Gas Power	17.0%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Amend Articles to Encourage Dispersed Renewable and Natural Gas Power	16.8%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Commit to Nurture of Work Climate Conducive to Improving Quality of Nuclear Safety Mechanisms Through Debate Among Employees	16.8%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Introduce Provision on Corporate Social Responsibility related to Energy Saving	16.4%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Cease Nuclear Operations and Decommission All Nuclear Facilities as Soon as Possible	16.3%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Introduce Provision on Corporate Social Responsibility related to Information Disclosure	15.8%
Kansai Electric Power Co. Inc.	9503	Nikkei 225	Utilities	Ban Reprocessing of Spent Nuclear Fuel and Abandon Recycling Projects	15.7%
Origin Energy Ltd.	ORG	ASX 200	Energy	Approve Contingent Resolution- Climate Risk Disclosure	13.9%
BHP Group PLC	BHP	FTSE 100	Materials	Review the Public Policy Advocacy on Climate Change and Energy	9.1%
BHP Group Ltd.	BHP	ASX 200	Materials	Approve Contingent Resolution- Energy Policy and Climate Risk Disclosure	9.1%
Mitsui Mining & Smelting Co. Ltd.	5706	Nikkei 225	Materials	Disclose Policy concerning Return-on-Equity Ratio Target of 8 Percent Stipulated in Ito Review	8.8%
Mizuho Financial Group Inc.	8411	Nikkei 225	Financials	Add Provisions on Recruitment and Offer of Senior Positions to Women Who Interrupted Their Careers for Childbirth	6.7%
Royal Dutch Shell PLC (B)	RDSB	FTSE 100	Energy	Set and Publish Targets for Reducing Greenhouse Gas (GHG) Emissions	6.3%
Oil Search Ltd.	OSH	ASX 200	Energy	Approve Human Rights Compliance and Reporting	6.2%

Source: Proxy Insight

## Exhibit 51: Our governance scoring framework

Framework scoring	-1	0 (incl. data n/a)	+1
<b>Independence &amp; Accountability</b>			
Director independence	Director independence <33rd percentile (<43% independence)	Director independence 33-67th percentile -OR- n/a	Director independence >67th percentile (>78% independence)
Independent leadership	No independent chair or separate CEO/chair -AND- no independent lead director	n/a	Independent chair and separate chair/CEO -OR- independent lead director
Executive compensation	Say-on-pay vote <33rd percentile (<93.0% for)	Say-on-pay vote 33-67th percentile -OR- n/a	Say-on-pay vote >67th percentile (>96.7% for)
Auditor independence	Non-audit expense as % of audit fees >67th percentile (>24% non-audit vs. audit) -OR- significant auditor concentration (>10% of auditor total revenue)	Non-audit expense as % of audit fees 33-67th percentile -OR- n/a	Non-audit expense as % of audit fees is <33rd percentile (<7% non-audit vs. audit)
Board elections	Staggered board elections (excluding countries with provisions that allow shareholder to call an EGM with 5% or less shares)	n/a	Annual board elections (or staggered with provisions that allow shareholder to call an EGM with 5% or less shares)
Shareholder rights & control	Unequal voting rights -OR- state ownership	n/a	Equal voting rights -AND- no state ownership
Anti-takeover provisions	'Poison pill'	n/a	No 'poison pill'
<b>Board Effectiveness</b>			
Board tenure	Average board tenure >67th percentile (>8.6 yrs)	Average board tenure <33rd percentile (5.5 yrs) -OR- n/a	Average board tenure 33-67th percentile
Board size	Board size >67th percentile (>12 members)	Board size 33-67th percentile	Board size <33rd percentile (<10 members)
Board diversity	Female directors <33rd percentile (<10% female directors)	Female directors 33-67th percentile -OR- n/a	Female directors >67th (>22% female directors)
Outside board affiliations	Outside board affiliations >67th percentile (avg >1.9 outside boards per director)	Outside board affiliations <33rd percentile (avg <1.1 outside boards per director) -OR- n/a	Outside board affiliations 33-67th percentile
Board skills	Industry-specific or financial expertise <33rd percentile (<43% of directors)	Industry-specific or financial expertise 33-67th percentile -OR- n/a	Industry-specific or financial expertise >67th percentile (>64% of directors)

Source: Goldman Sachs Global Investment Research

# Disclosure Appendix

## Reg AC

We, Derek R. Bingham, Tristyn Martin, Sharmini Chetwode, Ph.D., Christopher Vilburn, CFA, Evan Tylanda, CFA and SoYoung Lee, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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