MORNINGSTAR | SUSTAINALYTICS

# ESG Voting Policy Overlay
## 2023 Mid-Year Report

September 2023

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# Executive Summary

**Jackie Cook**
Director, Stewardship

The sustainable business movement has gained significant ground so far in 2023, thanks to several regulatory and standard-setting developments.

In June, the International Sustainability Standards Board (ISSB) issued new globally-applicable sustainability disclosure standards – IFRS S1 and IFRS S2 – which are endorsed by the International Organization of Securities Commissions (IOSCO), the G20's Financial Stability Board and the Taskforce on Climate-Related Financial Disclosures (TCFD). Also in June, the Organization for Economic Co-operation (OECD) released revised Guidelines for Multinational Enterprises on Responsible Business Conduct (previously updated in 2011).

These are important milestones: the former sets a global baseline for sustainability reporting that extends the climate-focused TCFD framework to encompass sustainability in general, while the latter guides global value chain due diligence - recommending that companies identify, prevent or mitigate and account for how they are addressing actual or potential negative impacts on human rights, workers and the environment.

International corporate sustainability developments are mirrored at the EU level. The final version of the European Sustainability Reporting Standards (ESRS) was adopted by the European Commission on 31 July 2023. Under the Corporate Sustainability Reporting Directive (CSRD), the ESRS will become mandatory for the largest European companies in January 2024. In June 2023 the European Parliament adopted its position on the Corporate Sustainability Due Diligence Directive (CSDDD), which will require management procedures for governing and mitigating negative impacts on human rights and the environment. Under the CSDDD, European companies and, eventually, all companies with significant business interests in Europe, will be required to develop and implement science-based transition plans.

At the national level, a new law in Canada mandates corporate human rights due diligence, and another in Germany mandates corporate environmental and human rights due diligence. Furthermore, the UK's Financial Conduct Authority (FCA) announced that, by July 2024, it will develop standards for company sustainability disclosures based on the ISSB's standards.

Corporate sustainability standard-setting progress at International, EU and national levels is bolstered by market-led initiatives. One such initiative, the Taskforce on Nature-Related Financial Disclosures (TNFD), launched a new voluntary framework for reporting on nature-related risks - requiring disclosure of, and corporate responsibility for, full value chain environmental impacts based on the TCFD four-pillar framework. In June, Climate Action 100+ (CA100+), the world's largest investor-led engagement initiative on climate change, announced a Second Phase, which will focus on the implementation of corporate climate transition plans and global scaling up of active ownership through to 2030.[1]

The heightened level of accountability for sustainability performance and impacts places corporate governance at the center of the sustainable business movement. For instance, the revised G20/OECD Principles of Corporate Governance, adopted in July, contains a new chapter on "Sustainability and Resilience," in line with "[a]n overarching goal…to promote corporate governance policies that support the sustainability and resilience of corporations." The language of sustainability and resilience features among the proposed changes to the UK's Corporate Governance Code released in May, with implications for the board's role in overseeing environmental and social matters and for delivering on strategic climate ambitions and transition planning; incorporating 'sustainability matters' into companies'

# Executive Summary

strategic climate ambitions and transition planning; incorporating 'sustainability matters' into the audit committee remit and including delivery of 'environmental, social and governance objectives' into remuneration policy.[2]

Shareholder voting is a powerful way for investors to shape sustainability and governance practices. It is not surprising therefore that some jurisdictions are considering how to encourage more constructive shareholder engagement on governance and climate plans by strengthening fiduciary voting accountability and shareholder voting rights. For instance, in June, the UK's Financial Conduct Authority launched a consultation to build a reporting template for UK asset managers with the aim of improving proxy voting transparency by investment fiduciaries to "drive sustainable, real-world outcomes." [3] In July, France's national assembly adopted a proposal for requiring a mandatory say on climate vote at public companies.[4]

Sustainability progress has not been even, however. In the US, the momentum created in 2022 by the SEC's proposed climate disclosure rule appears to have been stalled by political opposition. Political attacks on ESG may have led to companies receiving mixed messages from shareholders on the prioritization of sustainability in the 2023 proxy season. Compared to previous years, this season saw much lower levels of support on environmental and social resolutions, such as those asking US companies to set climate targets and commission independent racial justice audits. At the same time, new types of resolutions, such as those requesting oil and gas companies to estimate asset retirement obligations under a net zero by 2050 energy transition scenario, set the scene for more focused engagements in the post-proxy season months.

**Exhibit 1:** Regulatory and Standard-Setting Developments Thus Far in 2023

**January**

German Act on Due Diligence in Supply Chains takes effect

EU Corporate Sustainability Reporting Directive enters into force

**March**

European Commission adopts proposal for a Green Claims Directive

TNFD Nature-Related Risk & Opportunity Management and Disclosure Framework Released

**May**

Canada passes the Fighting Against Forced Labour and Child Labour in Supply Chains Act

UK's Financial Reporting Council (FRC) launches public consultation on changes to the UK Corporate Governance Code

**June**

European Parliament adopts position on Corporate Sustainability Due Diligence Directive (CSDDD)

OECD publishes Updated Guidelines for Multinational Enterprises on Responsible Business Conduct

ISSB issues inaugural global sustainability disclosure standards - IFRS S1 and IFRS S2

EU Deforestation-Free Products Regulation enters into force

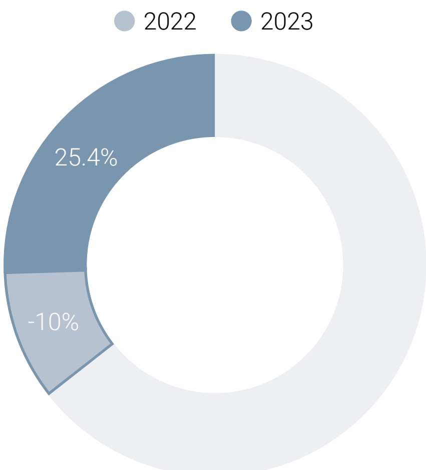
**July**

Consultation on final draft European Sustainable Reporting Standards (ESRS) ended, with expected passage into law in early August 2023

Revised G20/OECD Principles of Corporate Governance adopted

# Executive Summary

**Exhibit 2:** U.S. Overall Level of Support for Sustainability Initiatives, 2022 to 2023




**Here are some of the outcomes of the 2023 proxy season that stand out to us:**

- The number of sustainability-focused shareholder resolutions coming to vote globally rose in 2023 due to increased numbers voted at US and Japanese companies and, to a lesser extent, within European markets and the UK.
- In the US, while the first half of 2023 saw a 17% jump in the number of shareholder-sponsored sustainability initiatives voted, the overall level of support dropped 10 percentage points, from 35.4% in 2022 to 25.4% in 2023. Climate, environment, human rights and racial justice themes each saw support levels drop by more than 12 percentage points to averages at or below 25%, while human capital themes – DEI and decent work – received the strongest levels of support, each at around 33% average support.
- In Canada, while the number of resolutions coming to vote was slightly down in 2023, at 46 compared with 53 voted in 2022, average support was 4 percentage points higher compared with 2022 at 20%. An interesting feature of the Canadian proxy season is that a broader set of proponents filed shareholder resolutions in 2023 compared with previous years. Section 3 takes a deeper dive into the Canadian 2023 proxy season.
- Japanese companies saw a significant jump in filing activity in 2023, with the number of sustainability-linked shareholder resolutions voted increasing by 50% over the same period in 2022 to 119. More resolutions came to vote at companies other than electric power utilities, which have traditionally been the target of regular nuclear safety resolutions. This year, banks, industrials, mining and automobile companies are among the targets. Climate action and ethical business conduct resolutions were filed in greater numbers in 2023, with notable results on climate resolutions at KEPCO (36% support) and J-Power (20%).
- Fewer "say on climate" resolutions came to vote in 2023, with some 2021 and 2022 approvals earning a 3-year mandate and therefore not being up for vote in 2023. Most say on climate resolutions were voted at European companies and achieved an average of 89.5% support, compared with 87% average support in 2022.
- Where markets require remuneration reporting, we find that most of the heaviest emitters have introduced some climate-related metrics into senior executive variable incentive pay. However, these are generally weak and most of the heaviest emitting companies have not set net zero-aligned emission reduction targets with which to align incentive pay.

In Section 1 we summarize our recommendations and activity over the first half of 2023. In Section 2 members of the Governance and Proxy Voting Team share key insights and reflections on the 2023 proxy season. Finally, Section 3 spotlights the Canadian proxy season.

Throughout the report, we adjust for the voting influence of significant insider shareholders by calculating an estimate for 'non-affiliated' shareholder support.

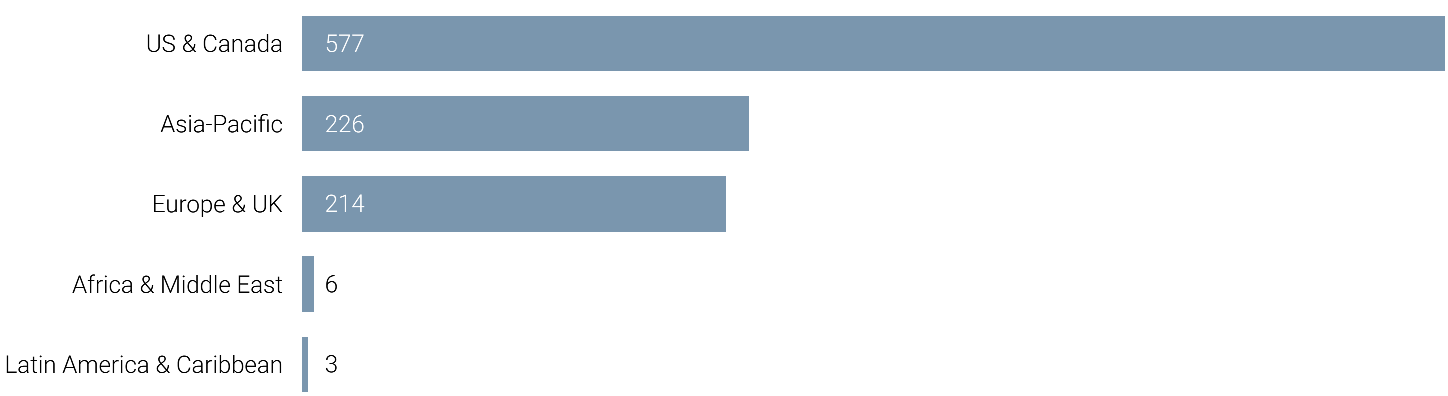
## Summary of Voting: January to June 2023

In H1 2023, we delivered 1,026 recommendations on resolutions voted at 603 shareholder meetings across 31 markets. This represents a 27% increase in our voting recommendations over the same period in 2022, and a 23% increase in the number of meetings covered.

The largest share of our recommendations covered North American companies' shareholder meetings; of the 603 meetings on which we offered one or more voting recommendations in H1 2023, 247 (41%) were for US companies. These accounted for half of all voting recommendations.

From January to June, twenty-three management-sponsored resolutions asked shareholders to approve companies' climate transition plans or transition plan progress reports. In six cases we recommended a vote against approval, including on high-profile votes at Shell, TotalEnergies and Glencore. We expanded our climate governance voting strategy to consider and recommend votes on climate-linked incentive pay arrangements at large mining and power companies (in addition to large oil and gas companies previously covered under this strategy). We also expanded coverage of sustainability-linked resolutions to offer recommendations on several new categories of governance arrangements which we consider to be key underpinnings of sustainable business.

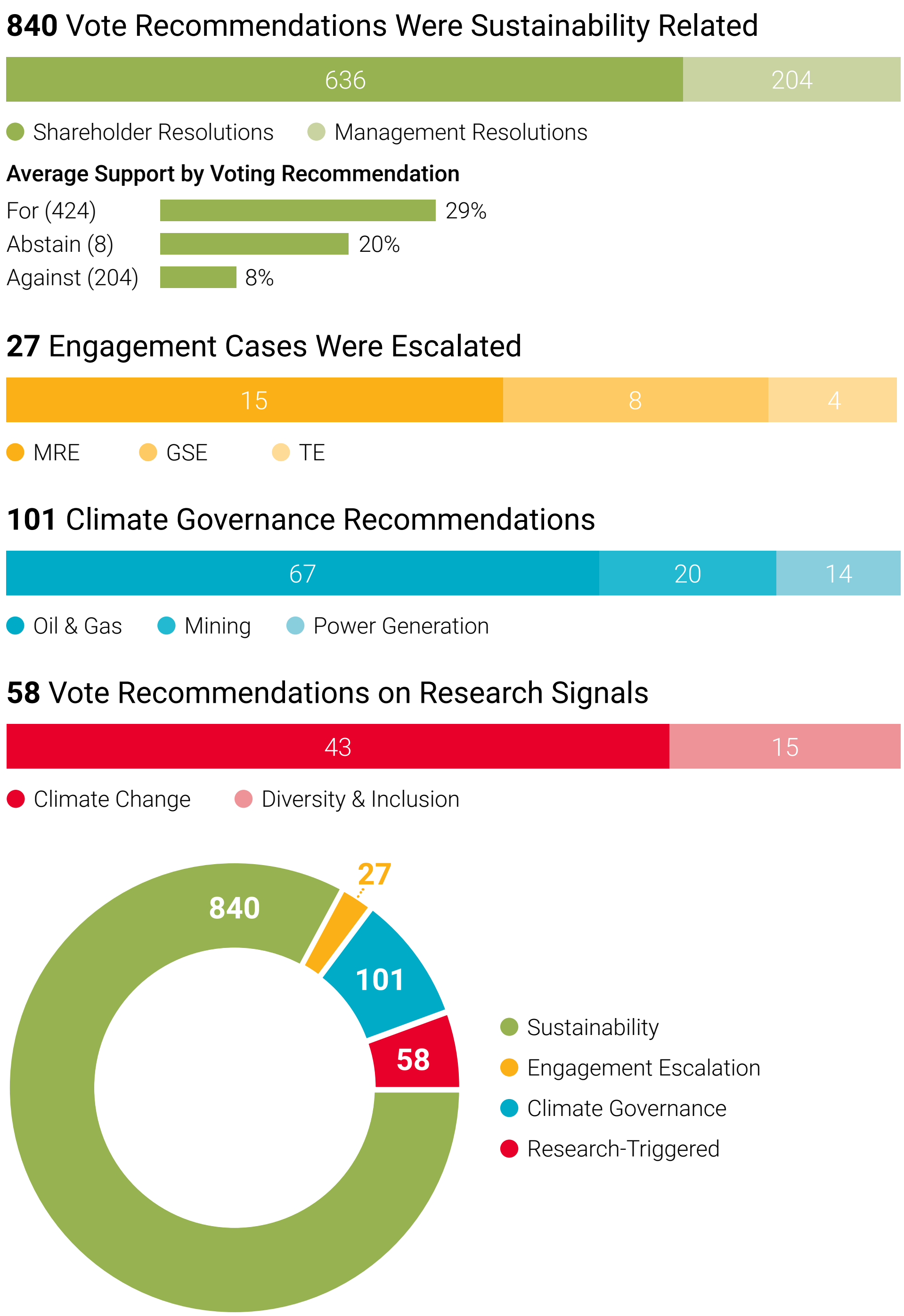
**Exhibit 3:** Regional Distribution of Voting Recommendations



## Summary of Voting: January to June 2023

The number of sustainability-linked resolutions on which we offered voting recommendations increased by 36% in H1 2023, compared with H1 2022. This was largely driven by an increase in the number of shareholder proposals on US and Japanese company ballots as well as our expanded coverage of governance topics.

**Exhibit 4:** ESG Voting Policy Overlay Activity Summary, H1



## Summary of Voting: January to June 2023

Climate change was the dominant theme in the 2023 proxy season, accounting for 148 (23%) shareholder resolutions across 10 markets. Diversity, equity and inclusion (DEI), worker treatment and lobbying transparency attracted strong support, averaging above 30% of votes 'for' by non-affiliated shareholders - and voted primarily by US companies. While the overall level of support for shareholder-sponsored sustainability resolutions was down in the US, compared with 2022 and 2021, support increased in Canada, as well as notable levels of support recorded for annual general shareholder meetings (AGM) for Japanese companies, where reported. We also note that a broader cross section of investors are participating in the proxy process in the US, Canada and Japan.

At the same time, a small group of individuals and organizations vocally opposed to ESG considerations in investing filed 68 of the resolutions voted at US companies, and three resolutions voted at Canadian companies in H1; these resolutions largely challenged companies' diversity commitments, climate goals and operations in China. Some appeared to mimic strongly supported governance resolutions as a 'Trojan horse' strategy. On average, resolutions filed by 'anti-ESG' groups were supported by less than 5% of shares voted.

# Reflections on the 2023 Proxy Season

**Matteo Felleca**
Team Assistant, Stewardship

**Key Themes and Trends in the US 2023 Proxy Season**

Here we are going to examine sustainability-focused resolutions voted at US companies. When comparing the proxy season trends of 2023 and 2022, several noteworthy differences emerge, which we discuss below.

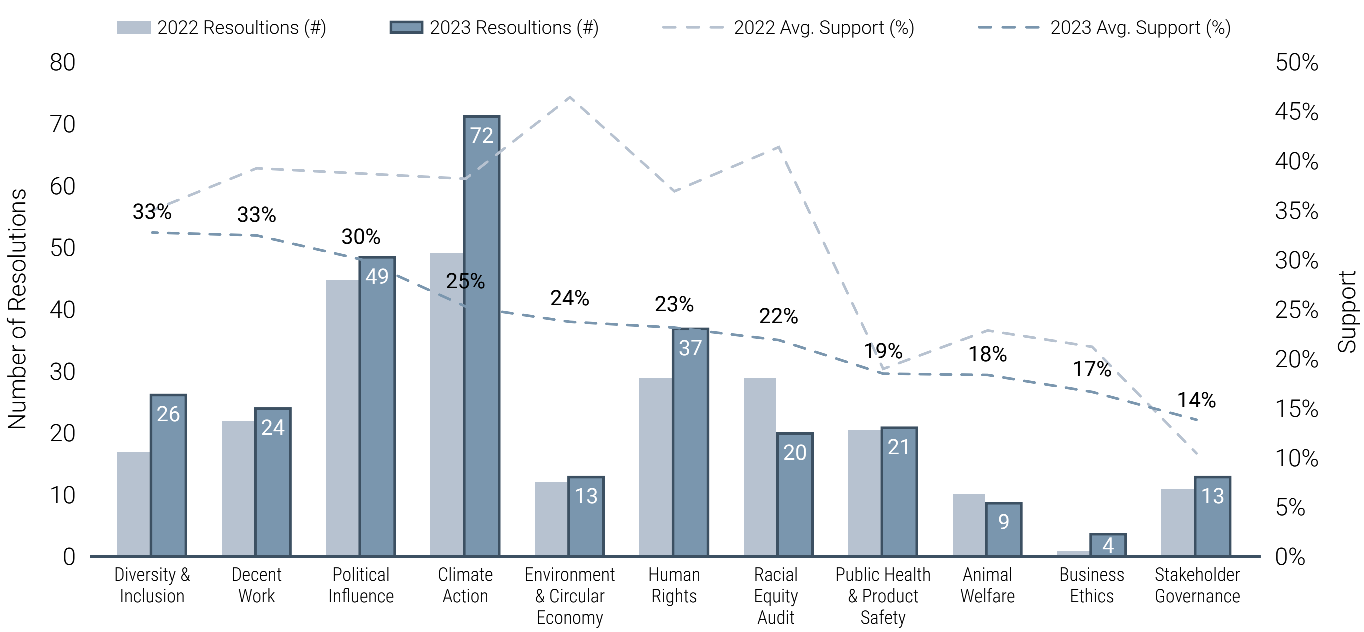
The most notable trend characterizing the 2023 proxy season is an increase in the number of sustainability-focused shareholder proposals coming to vote, coupled with a decline in their overall support. While the number of ESG resolutions rose by 17% - from 246 to 288, their average support (adjusted for insider influence) dropped by 28% year-on-year (or 10 percentage points): from 35.4% to 25.4%.

All themes saw a drop in support, with some more impacted than others.

While Climate is the theme that exhibited the most substantial surge in the number of proposals, it also encountered a significant decline in support from investors, amounting to nearly 13 percentage points – from 38% average support across 49 resolutions to 25% average support across 72 resolutions. Environmental Stewardship proposals showed the most pronounced decline in support across all themes, with a 23 percentage point decrease from a near 47% average in 2022. However, the declining support extends to social themes as well. Human Rights proposals, ranking as the second highest theme in terms of numbers, dropped by 14 percentage points in terms of average support.

The number of sustainability-focused resolutions supported by a majority of non-affiliated shareholders dropped from 58 in 2022 to just 12 in 2023, with the highest supported resolutions that were opposed by management being a request for a board diversity report voted at Red Rock Resorts, supported by approximately 77% of non-affiliated shareholders, and a resolution asking for a report on the reliability of methane emissions disclosures voted at Coterra Energy, achieving 74% support.

**Exhibit 5:** Comparison of Sustainability Themes Voted in 2022 and 2023



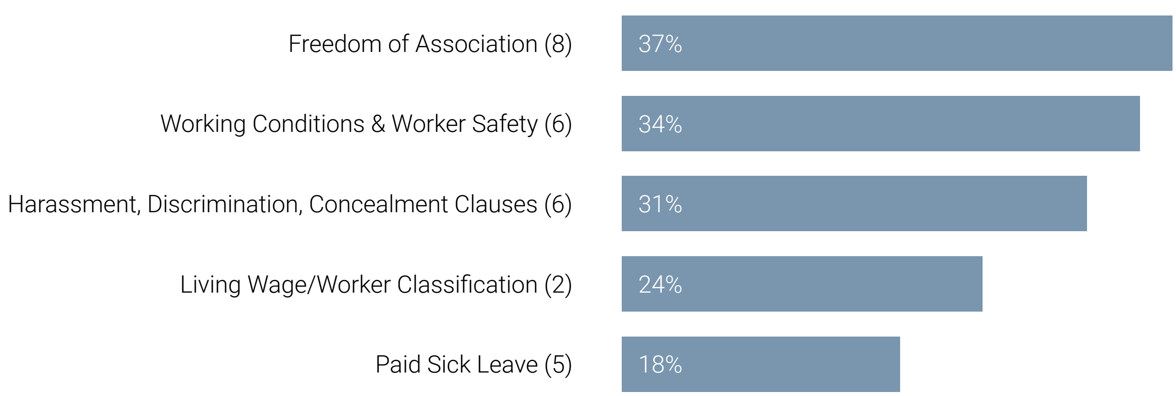
# Reflections on the 2023 Proxy Season

**Ignacio Garcia Giner**
Analyst, Stewardship

**Decent Work a Focus of the 2023 Proxy Season**

In 2023, 27 resolutions on US and Canadian company ballots tackled the topic of decent working conditions within companies' own operations – not counting resolutions that specifically addressed diversity and inclusion or pay equity topics. This is up from 24 in 2022. In both years, these proposals were filed by a wide range of proponents: state pension funds, trade union pension funds, asset managers, foundations and faith-based funds. In 2022, they received an average of 37% support and this year they received an average of 31% support from non-affiliated shareholders, which represents the second-highest supported category of resolutions in the 2023 proxy season.

**Exhibit 6:** Average Support Across Categories of Decent Work Resolutions Voted in 2023



# Reflections on the 2023 Proxy Season

Within this broad category, subsets of proposals earned much higher support. Eight proposals addressing workers' right to unionize and seek collective bargaining received an average 37% shareholder support. One such resolution voted at Starbucks' shareholder meeting earned 53% support. Another category of six resolutions addressing working conditions, including safety at work, earned an average 34% support. Within this category, resolutions voted at Amazon, Dollar General and Walmart requested that company boards commission third-party audits of working conditions at warehouse and store locations, averaging 55% support of non-affiliated shares voted. Notably, at Walmart and Dollar General, resolutions referenced the heightened exposure of employees to gun violence.

Two withdrawn proposals stand out this season as evidence of the progress that proponents have achieved.

At Apple, pre-season engagement with a coalition of several shareholders led to the withdrawal of a resolution filed by New York City pension funds. The resolution asked the board to assess compliance with the company's Human Rights Policy regarding workers' rights of freedom of association and collective bargaining in the US following employee allegations of interference with organizing efforts. The company agreed to conduct a third-party assessment overseen by its board of directors.

At Activision Blizzard, a 2022 resolution filed by the New York State Common Retirement Fund asking the company to report on its efforts to prevent abuse, harassment and discrimination against protected classes of employees received over 67% support. This season, the proponent withdrew a similar resolution before it went to vote after the company released its inaugural Transparency Report, which explains its efforts to expand employee benefits, advance workplace inclusivity and implement a company-wide zero tolerance approach to misconduct.

**Exhibit 7:** Strongly Supported Decent Work Resolutions in 2023

| Company | Year | Title | Board Rec. | Sust. Rec. | Reported Support | Adjusted Support |
|---|---|---|---|---|---|---|
| Activision Blizzard, Inc. | 2023 | Report on Company Efforts to Prevent Abuse, Harassment, and Discrimination | **Against** | **For** | | **Withdrawn** |
| | 2022 | Report on Company Efforts to Prevent Abuse, Harassment, and Discrimination | **Against** | **For** | | **67.40%** |
| Amazon.com, Inc. | 2023 | Issue Audit and Report on Warehouse Working Conditions | **Against** | **For** | **35%** | **43%** |
| | 2022 | Issue Audit and Report on Warehouse Working Conditions | **Against** | **For** | | **53%** |
| Amazon.com, Inc. | 2023 | Report on Freedom of Association | **Against** | **For** | **35%** | **42%** |
| | 2022 | Report on Freedom of Association | **Against** | **For** | | **47%** |
| Digital Realty Trust, Inc. | 2023 | Report on Concealment Clauses | **Against** | **For** | | **Withdrawn** |
| | 2022 | Report on Concealment Clauses | **Against** | **For** | | **45.60%** |
| Dollar General Corp. | 2023 | Commission an Independent Worker Safety and Well-being Audit and Report | **Against** | **For** | **68%** | **68%** |
| Starbucks Corp. | 2023 | Assess Worker Rights Commitments | **Against** | **For** | **52%** | **52%** |
| Wells Fargo & Co. | 2023 | Report on Prevention of Workplace Harassment and Discrimination | **Against** | **For** | **55%** | **55%** |
| Walmart, Inc. | 2023 | Conduct Third-Party Review of Impact of Policies and Practices on Workplace Safety and Violence Including Gun Violence | **Against** | **For** | **24%** | **55%** |

## Reflections on the 2023 Proxy Season

**Kate Spiridonova**
Analyst, Stewardship

**Climate Dominates Ballots, but Support at Oil and Gas AGMs Dips**

The 2023 proxy season saw another year-on-year decline in average support for climate target setting resolutions voted at US oil and gas companies; whereas resolutions voted at oil and gas sector companies in Europe received similar or stronger support compared to last year's results.

Follow This, a Dutch shareholder advocacy organization, filed a resolution asking Chevron to set a medium-term Scope 3 GHG emissions reduction target. This resolution received 9.6% support at the company's 2023 general shareholder meeting, while similar resolutions voted at the company's 2022 and 2021 meetings received 32.6% and 60.7% support, respectively. By contrast, support for a similar request at BP rose from 14.9% in 2022 to 16.8% in 2023.

In the context of record 2022 profits for oil and gas companies in the US and Europe, companies in Europe face strengthening sustainability disclosure and due diligence requirements, whereas climate action found itself in the crosshairs of political opposition to ESG investing in the US in 2023. Political opposition in the US likely dampened institutional investors' readiness to support target setting and transition planning at US companies. Additionally, energy security concerns resulting from the ongoing war in Ukraine continue to remind investors of the seemingly more urgent scarcity issue.

While oil and gas companies continue to commit to exploration and new production, transition risks grow from year to year with new climate and ESG disclosure requirements being passed. The resolution filed at TotalEnergies by Follow This urges the company to "pre-empt risks of abrupt policy interventions, litigation, liability for the costs of climate change, disruptive innovation, and stranded assets." It received the strongest support among the resolutions asking oil and gas companies to set Paris Climate Agreement-Aligned emissions reduction targets in 2023.

**Exhibit 8:** Resolutions Requesting Emissions Reduction Targets in Oil and Gas Sector, H1 2023

| Company | Year | Title | Board Rec. | Sust. Rec. | Reported Support | Adjusted Support |
|---|---|---|---|---|---|---|
| BP Plc | 2023 | Align Scope 3 Targets with the Paris Agreement (PA) | **Against** | **For** | **17%** | **17%** |
| | 2022 | Set and Publish Targets that are Consistent with the PA | **Against** | **For** | **15%** | **15%** |
| Chevron Corp. | 2023 | Set a Medium-Term Scope 3 GHG Emissions Reduction Target | **Against** | **For** | **10%** | **10%** |
| | 2022 | Adopt Medium- and Long-Term GHG Reduction Targets | **Against** | **For** | **33%** | **33%** |
| Equinor ASA | 2023 | Report on Climate Risk Assessment and Strategy | **Against** | **For** | **4%** | **26%** |
| | 2022 | Set and Publish Targets that are Consistent with the PA | **Against** | **For** | **4%** | **26%** |
| Exxon Mobil Corp. | 2023 | Establish a Scope 3 Emissions Reduction Target | **Against** | **For** | **11%** | **11%** |
| | 2022 | Set and Publish Targets that are Consistent with the PA | **Against** | **For** | **27%** | **27%** |
| Imperial Oil Ltd. | 2023 | Set Absolute GHG Reduction Targets | **Against** | **For** | **4%** | **16%** |
| Shell Plc | 2023 | Align 2030 Scope 3 Target with the Goal of the PA | **Against** | **For** | **20%** | **20%** |
| | 2022 | Set and Publish Targets that are Consistent with the PA | **Against** | **For** | **20%** | **20%** |
| Total Energies SE | 2023 | Align 2030 Scope 3 Emissions Reduction Targets with the PA | **Against** | **For** | **30%** | **30%** |

## Reflections on the 2023 Proxy Season

**Mihnea Gheorghe**
Manager, Stewardship

**Tax Transparency Gains Ground in 2023 Proxy Season**

Building on the three tax transparency resolutions voted in 2022, five more resolutions came to vote in the 2023 proxy season calling on boards to issue a global tax transparency report in line with the Global Reporting Initiative's 207 Tax Standard. The standard requests that companies explain their tax strategy and governance as well as provide country-by-country tax reporting.

Despite an overall drop in support for sustainability-focused shareholder resolutions in 2023, support for the proposal on Amazon's 2023 ballot held steady with that of 2022, at just over 21% of the independent shareholder vote. Support for first-time tax resolutions at oil and gas companies Exxon, Chevron and ConocoPhillips suggests that the request was supported by some of the companies' larger institutional investors, with 14%, 15% and 17% support, respectively. A similar resolution voted at Canadian asset manager, Brookfield Corp, was supported by 27% of votes cast.

Among the filers and co-filers of the 2022 and 2023 resolutions are large asset managers Amundi, Nordea and KLP, as well as influential asset owners such as AkademikerPension, the Greater Manchester Pension Fund and the B.C. General Employees' Union Funds in Canada. Two of the largest asset owners globally, CalPERS and CalSTRS, voted in support of tax transparency resolutions in 2023.

We believe that, going forward, as investors become more informed about the long-term investment risks associated with aggressive corporate tax avoidance and as global tax system reform progresses, the push for corporate tax transparency will continue to gain momentum. Investors will increasingly view tax transparency as a pillar of good governance, leading to further shareholder engagement and resolution filing.[7]

**Exhibit 9:** Shareholder Resolutions Requesting Tax Transparency Reporting, Voted in H1 2023

| Company | Year | Title | Board Rec. | Sust. Rec. | Reported Support | Adjusted Support |
|---|---|---|---|---|---|---|
| Conoco Phillps | 2023 | Report on Tax Payments | Against | For | 17% | 17% |
| Amazon.com, Inc. | 2023 | Issue Tax Transparency Report | Against | For | 18% | 21% |
| | 2022 | Alternative Tax Reporting | Against | For | 17% | 21% |
| Chevron Corp. | 2023 | Report on Tax Practices | Against | For | 15% | 15% |
| Exxon Mobil Corp. | 2023 | Issue Tax Transparency Report | Against | For | 14% | 14% |
| Brookfield Corp. | 2023 | Report on Tax Transparency | Against | For | 27% | 27% |

## Reflections on the 2023 Proxy Season

**Oge O'Haeri**
**ESG Engagement Senior Analyst, Stewardship**

**Investors Reject Anti-ESG Ballot Efforts by Political Non-Profits**

While most shareholder proposals aim to strengthen sustainability and governance practices, some are filed by groups that oppose sustainability. These are often referred to as 'anti-ESG' proposals; because they use the language of ESG proposals they are sometimes called 'Trojan horse' resolutions as well. Despite their titles, by taking a closer look it becomes apparent that the proponent is opposing a company's climate targets or workplace diversity initiatives.

We saw a significant rise in the number of anti-ESG proposals during the 2023 proxy season. In H1 of 2023, 68 anti-ESG proposals made it to vote at companies' AGMs in the US, compared to 40 in 2022. Another three were voted at AGMs in Canada. Although the number of these proposals increased in 2022 and 2023, compared with previous years, their support levels continue to decrease. They received an average of only 4.8% support this year, a decrease of 17% when compared with the level of support they gathered during the 2022 AGM season.

Another important point is that almost all of these proposals were filed by just a handful of groups and affiliated individuals.

Twenty anti-ESG proposals fell in the Human Rights category with most of these addressing companies' operations and dependency on China. Some of the largest companies targeted with this resolution include Apple, Starbucks, Walt Disney and Bank of America. These were filed by the National Center for Public Policy Research, which describes itself as a "communications and research foundation supportive of a strong national defense."

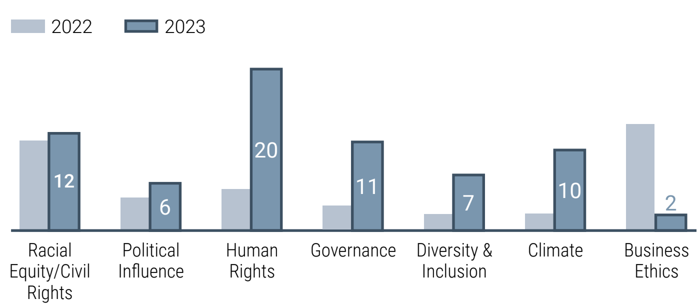
Three were filed by the American Conservative Values ETF, whose website offers a long list of companies it "boycotts" on ideological grounds.

In line with our voting policy, we typically recommend a vote against such proposals on the basis that they do not present a defendable agenda for promoting sustainability and long-term value.

**Exhibit 10:** 'Anti-ESG' Proposals Voted in 2022 and 2023

| | Resolutions (#) | Support (Avg. %) |
|---|---|---|
| 2022 | 40 | 5.8% |
| 2023 | 68 | 4.8% |
| **Percent Change** | **70%** | **-17%** |

**Exhibit 11:** 'Categories of 'Anti-ESG' Proposals Voted in 2023



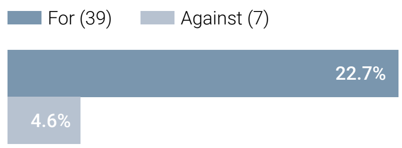
## Spotlight on the Canadian Proxy Season 2023

**Andrew Spurr**
Manager, Stewardship

Canada's proxy season tends to be a quieter and less eventful affair than that of its neighbour directly to the south. But things are changing.

Recent years have seen more shareholder action, with not only a broadening of the issues covered by shareholder proposals, but also an increased range of proponents and targeted companies. Of the 46 shareholder proposals covered by the ESG Voting Policy Overlay in 2023, average support reached 18%, compared with 16% in 2022 across 53 resolutions, and 16% in 2021 across 16 proposals. We supported 39 resolutions in H1 2023, which averaged 22.7% support. We opposed 7 resolutions, which averaged 4.6% support.

**Exhibit 12:** ESG Voting Policy Overlay Recommendations on Canadian Shareholder Resolution in H1 2023




Shareholder proposals in Canada have tended to be dominated by MEDAC (Mouvement d'Education Et De Défenses Des Actionnaires), a non-profit organization working to promote and defend the rights and interests of shareholders of public companies. But in recent years, proponents, such as Vancity Investment Management, the BC General Employees' Union and the Shareholder Association for Research & Education (SHARE) have become staples of the Canadian proxy season, tackling issues from climate lobbying to tax transparency.

On the receiving end, in the past, the "Big Six" Canadian banks have tended to take the brunt of proxy season, given their stature and the fact that they have long been seen as leaders, particularly from a governance perspective – the thinking being that others will likely follow the corporate governance practices that they adopt. However, this year, targets of resolutions included four oil and gas companies, three retailers, and a restaurant company. The strongest supported resolution came to vote at Cenovus Energy. It was endorsed by the board and asked the company to report on the alignment of its lobbying activities with its net zero goal. The proposal was filed by a newly formed advocacy group called Investors for Paris Compliance, which also filed or co-filed five other resolutions calling for climate target setting, climate transition planning and climate lobbying disclosure.

**Exhibit 13:** Proposals on GHG Target Setting filed by Investors for Paris Compliance in 2023

| Company | Title | Board Rec. | Sust. Rec. | Reported Support | Adjusted Support |
|---|---|---|---|---|---|
| Toronto-Dominion Bank | Report on Transition Plan | Against | For | 24.8% | 24.8% |
| Cenovus Energy, Inc. | Report on Lobbying Activity Alignment with Net Zero Goal | For | For | 99.5% | 99.5% |
| Enbridge, Inc. | Report on Lobbying and Political Donations | Against | For | 18.5% | 18.5% |
| Enbridge, Inc. | Annually Disclose Scope 3 Emissions | Against | For | 24.4% | 24.4% |
| Suncor Energy, Inc. | Report on Alignment of CapEx with GHG Target and Net Zero Pledge | Against | For | 17.7% | 17.7% |
| Sun Life Financial, Inc. | Report on Potential Insurance Implications of Investments in Fossil Fuels | Against | For | 13.7% | 13.7% |

## Spotlight on the Canadian Proxy Season 2023

SHARE continued to focus on human rights and DEI in 2023, with proposals seeking reports on human rights impacts and companies' efforts to address racial disparities and equity issues at Metro and CGI, respectively, as well as another seeking a third-party racial equity audit at BMO. These proposals received strong support (average of 36% support in 2023), building on SHARE's success last year, when average support for its human rights and DEI proposal reached 32%. (See Exhibit 14 below.)

The 2023 Canadian proxy season also saw three anti-ESG proposals filed by a group called InvestNow Inc. These were targeted at three large banks: CIBC, Bank of Montreal and TD Bank. InvestNow describes itself as a not-for-profit dedicated to stopping fossil fuel divestment in Canada, and the proposals asked each bank to "make clear its commitment to continue to invest in and finance the Canadian oil and gas sector...and conduct a review of any and all of its policies to ensure that there are none that have the effect of encouraging divestment from the sector." While each of these proposals received shareholder support of only around 1%, if Canada follows the same pattern as the US, then we may see more of these types of proposals next year and beyond.

**Exhibit 14:** Proposals on Human Rights and DEI filed by SHARE in 2023

| Company | Title | Board Rec. | Sust. Rec. | Reported Support | Adjusted Support |
|---|---|---|---|---|---|
| Metro, Inc. | Report on Independent Human Rights Impact Assessment | **Against** | **For** | **28.6%** | **28.6%** |
| CGI, Inc. | Report on Efforts to Address Racial Disparities and Equity Issues | **Against** | **For** | **15.9%** | **40.5%** |
| Bank of Montreal | Conduct Third-party Racial Equity Audit | **Against** | **For** | **38.1%** | **38.1%** |

## Looking Ahead in 2023

In Q4 of 2023 we will be extending our suite of voting strategies. The service will add three new research signals and a voting signal based on recently reported controversies with a link to weak governance and board oversight. In addition to existing climate and DEI research signals, new research signals will identify weak oversight of biodiversity, circular economy and human rights risks leveraging Morningstar Sustainalytics ESG Research. Our voting guidelines will be updated with more information about these new voting strategies ahead of Q4 2023.

## Endnotes

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[3] UK Financial Conduct Authority (FCA), Vote Reporting: A consultation and discussion paper from the Vote Reporting Group, 21 June 2023. https://www.fca.org.uk/publications/consultation-papers/vote-reporting

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[6] Mihnea Gheorghe and Andrew Spurr, Global Corporate Tax Transparency Is Becoming the Norm. Jericho Chambers, 29 November 2022 https://jerichochambers.com/global-corporate-tax-transparency-is-becoming-the-norm/

## About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. With 17 offices globally, Morningstar Sustainalytics has more than 1,800 staff members, including more than 800 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit **www.sustainalytics.com**.

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