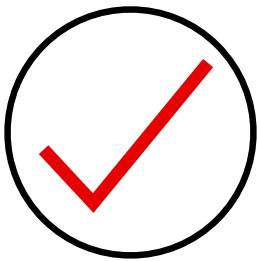


Voting counts

UBS-AM insights from the 2022 annual general meeting season **shareholder votes**



In the second quarter of 2022, the majority of public companies around the world held their annual general meetings (AGMs). We drew a number of key insights from the shareholder votes cast that point to rising or crystalizing trends in 2022 and identify an underlying challenge for investors.

- It is no longer enough to have a net zero commitment in place: investors are now seeking more detailed and ambitious decarbonization plans. An increase in socially-themed proposals was primarily driven by racial and civil rights audits.
- Many asset managers and proxy advisors increased the stringency of their existing voting guidelines not only in relation to gender, but also with regard to the introduction of ethnicity targets for specific markets.
- Shareholder dissent toward executive pay at US companies was mostly due to excessive pay mid cycle adjustments of vesting conditions, while in the UK it became best practice for investors to vote against bonus payouts at companies that utilized public support schemes.
- AGMs provided compelling evidence of the importance of stewardship and the power that using the influence of ownership of companies can have.

Underlying some of these trends is a growing challenge for investors: By voting shares on ESG-related resolutions at annual general meetings investors get ever more closely involved in the running of companies, whether they like it or not, as shareholder proposals increasingly request corporate action beyond disclosure and long-term ambitions or targets.

The prescriptive nature of some of the shareholder proposals adds complexity for investors and, in our view, requires credible stewardship, combining effective voting, engagement and investment capabilities and insights. At UBS AM we are actively looking at how we can further develop our policies and processes around proxy voting.

Voting on climate change proposals

As expected, we have seen a significant increase in the number of proposals put to shareholders in regard to climate change. In 2022 there were 91 shareholder proposals put forward at company meetings, up from 48 during the same period in 2021. UBS supported 74% of the proposals as compared to 66% in 2021. However, whereas one or two years ago it was enough to have a net zero commitment in place, investors are now seeking more detailed and ambitious decarbonization plans aligned with corporate strategies.

Case Studies

We supported a proposal that requested Costco Wholesale Corporation adopt science-based greenhouse gas (GHG) emissions reduction targets for emissions from its full value chain, as the firm does not disclose its Scope 3 emissions, which comprise a majority of its overall GHG emissions, and has not made clear whether it intends to set targets aligned with the Paris Agreement goals. The proposal was supported by a majority (69.9%) of shares voted.

A third-party not-for-profit organization through a coordinated filing sought to require six US banks to adopt policies on financing consistent with the 'IEA's Net Zero Emissions by 2050 Scenario.' After a series of industry engagement, discussions with the filers, and internal assessments, UBS-AM did not support these proposals, as we came to the conclusion they were overly prescriptive, as it essentially required the banks to cease all fossil fuel lending almost immediately. The proposals were supported by between 11% and 16% of the shares voted at each AGM.

We have also seen investors start to focus their attention on financial institutions, moving to the source of capital, away from more traditional carbon intensive sectors, and, in a positive move, we have seen companies voluntarily increasing their climate disclosure and commitments.

A notable positive change regarding climate change proposals is the so-called 'management say-on-climate' resolutions, which seek shareholder approval of a company's decarbonization strategy.

While these votes are on an advisory basis only, and not required by regulatory bodies at this stage, they are a clear signal of companies' increasing willingness to hold their climate strategies up to scrutiny, and to receive feedback from shareholders on their pathway to environmental sustainability and decarbonization.

Voting on social-themed proposals

In addition to environmental related proposals, Q2 saw a general increase in shareholder proposals put forward on social themes. In Q2 2021, there were only 44 proposals, whereas in Q2 2022 the number of social shareholder proposals had risen by 139% to 105. UBS supported 67% of these proposals in 2022, as compared to 70% in 2021.

This increase in proposals was primarily related to racial and civil rights audits, which were driven by the events of the Black Lives Matter movement in 2020/21, and the COVID-19 pandemic which helped to highlight perceived inequalities within society. Many proposals were submitted to companies essentially calling into question their perceived "policies" and actual practices.

Case Study

We didn't support a request for a report on external costs of misinformation and impact on diversified shareholders at the AGM of Alphabet, Inc. While the firm has been involved in controversies related to misinformation and other related issues, the requested report was deemed to be overly broad in scope and it did not appear clear which information or data it should contain and how such information or data should be sourced, audited and measured against any given target. The proposal was supported by 4.20% of the shares voted.

Voting on DE&I

Diversity has been a further key topic for shareholders during the Q2 AGM period, with many asset managers and proxy advisors increasing the stringency of their existing voting guidelines not only in relation to gender, but also with regard to introduction of ethnicity targets for specific markets.

We have strengthened our global policy to require 30% gender diversity at the board level for large cap companies in developed markets, including markets generally lagging in this regard, such as Japan.

For instance, during the period we withheld support for the election of board directors responsible for the nomination process at 441 Japanese companies (up from 204 in 2021), 49 Swiss (up from 25 in 2021), and 389 US companies (up from 32 in 2021) due to lack of gender diversity. Furthermore, in markets such as the UK and US we now require at least one director from an ethnic minority to be serving on the board, and will also hold the nomination committee chair accountable for failing to achieve 33% female representation at senior management level at UK FTSE 350 companies.

Case Study

We supported a proposal for a third-party audit and report on the racial impacts of Johnson & Johnson's policies, practices, and products. While recognizing substantial steps to minimize racial and gender disparities (communicated in one-to-one meetings as well as collective engagements), we believe that a third-party racial audit could help investors assess the effectiveness of the company's efforts to address the issues of racial inequality and its management of related risks. The proposal was supported by a majority (62.6%) of shares voted.

Executive remuneration – US companies

In the US, the percentage of 'say-on-pay' proposals which failed to receive support from a majority of votes cast increased slightly during Q2 '22 vs. Q2 '21. Average support remains very high, but marginally decreased to 89.8%.

During the quarter we elected not to support approximately 65% of all 'say-on-pay' proposals at US companies, down from 76.5% in Q2 2021. This was mostly due to changes to our Proxy Voting Policy related to severance pay.

Shareholder dissent toward executive pay at US companies was mostly due to excessive pay level, the grant of oversized recruitment/retention awards and the mid-cycle adjusting of vesting conditions of outstanding awards due to the COVID-19 pandemic. UBS-AM votes against US 'say-on-pay' also reflected concerns over the lack of performance conditions attached to incentive pay and the short-term profile of certain executive pay frameworks.

Executive remuneration – UK companies

During Q2 there were 27 companies (32 remuneration proposals) to make the UK Investment Association public register, compared to 50 companies (62 proposals) in 2021 showcasing a 48% decrease in the number of proposals gaining a significant vote against (defined as more than 20% against).

Of the 32 proposals to make the list in 2022, UBS voted against 78%, with the main issue being pay-outs under variable compensation schemes as a result of COVID-19.

Remuneration committees were facing internal retention pressures as a result of targets not being met under variable compensation schemes for the past two years.

During the pandemic the UK governments furlough scheme allowed many companies to avoid making layoffs. While this support did not place specific restrictions regarding executive compensation, it quickly became best practice for investors to routinely vote against any company who utilized these programs and wanted to make bonus payouts at the executive level during the same year.

The influence of ownership is powerful

We believe that these trends in voting at AGMs provide compelling evidence of the importance of credible stewardship, effectively combining voting, engagement and investment capabilities and insights, and the power that using the influence of ownership of companies can have in achieving sustainability goals globally.

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Americas

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