EQUITY IN THE BOARDROOM

HOW ASSET MANAGER VOTING SHAPED CORPORATE ACTION ON RACIAL JUSTICE

majority action SEIU

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SECTION 01: EXECUTIVE SUMMARY

Persistent racial inequalities in income, wealth, housing, and other economic and social indicators produce outsized harm for directly impacted people and communities. They also have substantial negative impacts on long-term, broad-based economic growth. In addition to the human and economic costs of systemic racism, the impairments to GDP growth caused by systemic racial inequalities have the inevitable consequence of lowering returns across portfolios for diversified investors. Conversely, policies and practices that address persistent racial disparities in income, housing, and wealth can provide a strong foundation for the sustainable economic growth sought by long-term investors.

Given the strong links among systemic inequities, economic growth, and portfolio performance, however, it is not enough for fiduciaries to consider only the risks that racial inequities and harmful corporate behavior pose to individual companies. To address both the systemic and company-specific risks and harms related to systemic racism, long-term investors must ensure that all portfolio companies are taking sustained, comprehensive, and proactive action to identify and eliminate ways that their products, policies, and practices may exacerbate systemic racial inequities. As the largest shareholders in many of the world's largest companies, the world's largest asset managers have a responsibility to mitigate risks to client portfolios by addressing systemic racism.

Shareholders routinely vote on a wide range of shareholder proposals that have substantial racial equity impact, including racial equity audits, political spending and lobbying activity, workforce issues, consumer products, climate and environmental justice, and discriminatory corporate practices. Director elections also have substantial racial equity impact: at boards with insufficient diversity, or that have failed to adequately respond to such proposals that received majority support from voting shareholders in prior years. This report reviews asset manager voting behavior across a range of proposals and director elections at S&P 500 companies in 2022 to assess the extent to which asset managers voted to hold boards accountable for perpetuating and exacerbating systemic racism and the associated risks to diversified investors.

KEY FINDINGS:

1. Overall shareholder proposals related to racial equity received strong support in 2022: **a majority of the 20 largest asset managers** — those with more than $1 trillion in assets under management — **voted in favor of a majority of shareholder proposals on racial equity audits, board diversity, political spending and lobbying activity, human capital management, and tech company product and service issues.**

2. **Racial equity audits** — an essential mechanism for management and oversight of risks associated with systemic racism — **saw increased support from shareholders in 2022**, with average support **increasing from 33 percent to 44 percent**, and **six receiving majority support.** However, the four largest asset managers lagged their peers in supporting racial equity audit proposals, undermining widespread adoption of racial equity audits. **Fidelity supported just one racial equity audit proposal, while Vanguard supported none. BlackRock's support fell** from 87.5 percent in 2021 to 52.6 percent in 2022. **State Street's support increased from 12.5 percent in 2021 to a bare majority** of racial equity audit proposals (52.6 percent).

3. **Amundi Asset Management, Northern Trust Investments, and PIMCO were leaders in supporting racial equity audits,** voting in favor of 100 percent of proposals. Morgan Stanley, UBS, Legal & General Investment Management, and Capital Group supported between 88 and 95 percent of proposals.

4. Across racial equity audit, political spending and lobbying, human capital management, and tech company product proposals, **the "Big Four" asset managers — BlackRock, Fidelity, State Street, and Vanguard — effectively blocked shareholder action on critical racial equity issues**, with 44 proposals that could have received majority support with their individual or collective support. These include proposals on **racial equity audits at Chevron** and **Wells Fargo**, improved **oversight of political spending at AT&T**, and reporting on efforts to improve employment conditions for low-wage workers at The Kroger Company.

5. Non-binding shareholder proposals are ultimately only as powerful as shareholders' willingness to enforce them by voting to hold directors accountable if companies fail to adequately respond to shareholder concerns about racial equity-related issues. Director accountability efforts at companies such as Wendy's and Amazon demonstrated that **most major asset managers are not yet voting to hold directors accountable for failing to respond to shareholder concerns relating to racial equity.** For example, at **Amazon**, the New York City and New York State Comptrollers launched a "vote no" campaign against two directors following the company's inadequate responsiveness to unsafe working conditions in its warehouses among other human capital management issues. The long-serving Chair of the Leadership and Development Committee, Judith McGrath, received support from only 78 percent of shares voted, a drop of more than 20 percentage points. **Among the Big Four, only State Street voted against McGrath's re-election, with BlackRock, Fidelity, and Vanguard voting in favor of it.**

SECTION 02:
INTRODUCTION

SYSTEMIC RACIAL INEQUITIES AND THE US ECONOMY

Throughout its history, the United States has never had an economic model divorced from racial inequity and violence.[1] An economy rooted in 250 years of slavery created vast disparities that successive generations of policymakers reinforced through explicit racial barriers, including Jim Crow laws, discriminatory federal policies, and exclusionary and discriminatory immigration laws. As a result, Black and other communities of color in the U.S. experience stark disparities across a wide range of interconnected indicators of individual and social wellbeing relative to the white population. These include, and are not limited to, higher rates of infant mortality, worse health outcomes, lower lifespans, lower levels of educational attainment, higher rates of violent interactions with law enforcement, harsher criminal sentences, higher rates of incarceration, and lower levels of political representation across most layers of government relative to population.[2]

STARK INEQUALITIES IN ECONOMIC FUNDAMENTALS CUT ACROSS KEY SOCIAL INDICATORS:

- **Income**
  Analysis of U.S. census data demonstrates that the median Black worker earned 24.4 percent less than the median white worker in 2019 — **an even larger wage gap than in 1979.** These gaps persist even when controlling for human capital factors such as education and experience. Similarly, Black populations are, on average, twice as likely to experience unemployment as white populations, even when controlling for levels of education, age cohorts, and gender. The median white worker experienced wage growth of 20 percent from 1979 to 2018 (0.5 percent per year), which was 5 times larger than the wage growth experienced by the median Black worker (0.1 percent per year), even though the gap in both high school and college graduation rates between white and Black populations narrowed considerably over the same 40-year period.[3]

- **Housing**
  Analysis by the U.S. Department of the Treasury demonstrates that while 75 percent of white households owned homes in 2022, it was "45 percent for Black households, 48 percent for Hispanic households, and 57 percent for non-Hispanic households of any other race." Moreover, the homes of white families were worth 2.5 times those of Black families in 2022, the same ratio as in 1970. Analysis from the Federal Reserve Bank of St. Louis demonstrates that during the height of the COVID pandemic, Black and Hispanic families were significantly more likely to experience housing distress than white families.[4]

- **Wealth**
  Recent analysis by the U.S. Federal Reserve demonstrates that both the mean and median wealth of Black families is just 15 percent of that of white families, and that such disparities have persisted over time and remain constant even when controlling for variables such as education, types of wealth, and marital status.[5] The Federal Reserve Bank of St. Louis found that in 2019, wealth for the median white family was $184,000, compared to $38,000 for the median Black family and $23,000 for the median Hispanic family (see Figure 1 below)[6]. A landmark 2022 National Bureau of Economic Research study of the wealth gap between Black and white Americans from 1860 to 2020 describes the racial wealth gap as "the largest of the economic disparities between Black and white Americans," and finds that **convergence between Black and white wealth as measured since 1860 stalled out after 1950 and widened again after the 1980s.**[7]

MEDIAN WEALTH GAP BETWEEN WHITE AND BLACK FAMILIES HAS BARELY CHANGED OVER THE LAST 30 YEARS

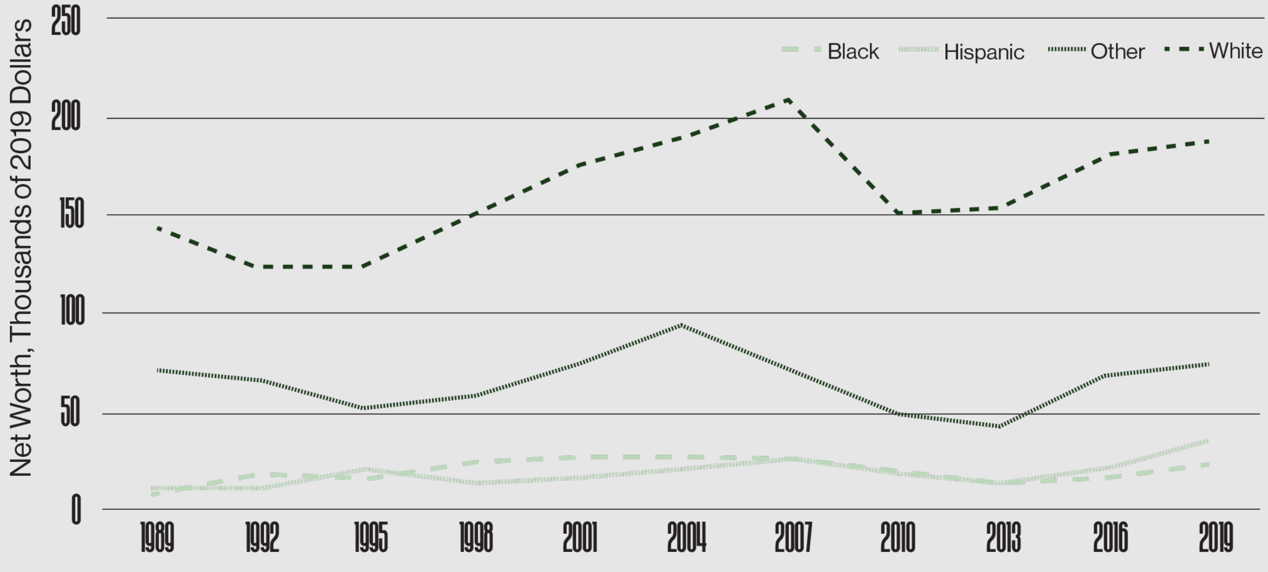


Figure 1 Median U.S. family net worth by race, 1989 through 2019. Disparities in wealth by race are a major concern for individual families and the U.S. economy overall. The 'other' category contains Asian, Native Hawaiian or Pacific Islander, American Indian or Alaska Native, and multi-race households. Source: U.S. Department of the Treasury[8]

Of all of these persistent disparities, the racial wealth gap is widely understood to be the most powerful and adverse due to its self-reinforcing nature, as racial differences in wealth holdings lead to stark disparities in capital gains, which in turn drive further divergence in wealth outcomes. Moreover, the racial wealth gap is widely recognized as influencing not only other economic indicators but critical social indicators as well. As described by research cited by the Federal Reserve Bank of Minneapolis: "Wealthier families are far better positioned to finance elite independent school and college education, access capital to start a business, finance expensive medical procedures, reside in higher amenity neighborhoods, lower health hazards, etc.; exert political influence through campaign financing; purchase better counsel if confronted with the legal system, leave a bequest, and/or withstand financial hardship resulting from any number of emergencies."[9]

The consequences of an economy rooted in systemic racism extend beyond the immeasurable harm experienced by Black and other communities of color. As Raphael Bostic, President and CEO of the Atlanta Federal Reserve Bank wrote in 2020, "Systemic racism is a yoke that drags on the American economy."[10] Various economic analyses confirm the negative impacts of persistent racial inequalities on GDP, which arise, as one analysis published by the International Monetary Fund describes, due to lost opportunities for consumption and investment that prevent impacted communities from "making the most of their economic potential."[11]

Other analyses conclude there has been a massive loss in U.S. GDP due to the racial wealth gap:

- According to a 2021 study from the Federal Reserve Bank of San Francisco, labor market disparities led to **an estimated $51 trillion loss in U.S. GDP between 1990 and 2019**, with these inequities in earnings, hours worked, and other dimensions of labor market outcomes costing the U.S. GDP $2.6 trillion in 2019 alone.[12] In fact, a significant portion of U.S. GDP growth per capita — 40 percent — between 1960 and 2010 is owed to "falling human capital barriers" in the form of increased representation of women and Black men in highly skilled occupations.[13] As the U.S. Department of the Treasury stated, "working to ensure that every American has an equal opportunity to pursue the career he or she chooses should improve economic outcomes for all."[14]

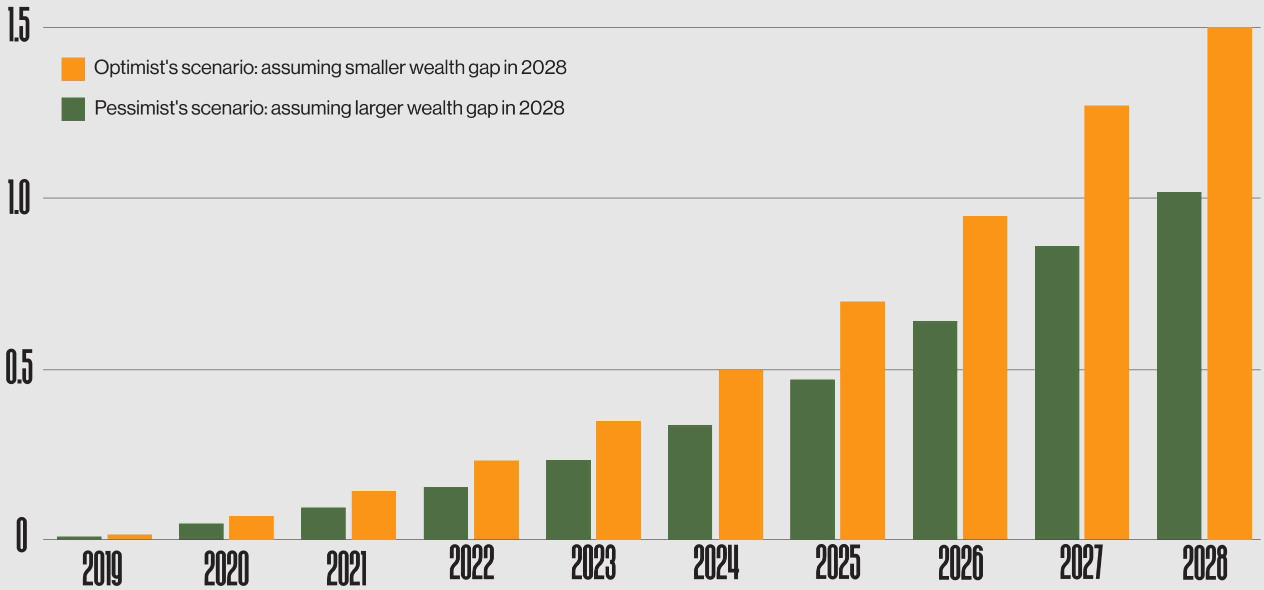
- In addition to these labor market dynamics, a 2020 Citigroup analysis examined the economic harm arising from racial disparities in housing, access to credit, and education. Citi concluded that $5 trillion could be added to U.S. GDP, or an average of 0.35 percentage points in GDP growth per year, over the following five years, if racial wealth gaps could be closed immediately.[15]

- A 2019 study by *McKinsey & Company* further broadened the scope to examine the economic consequences of the racial wealth gap itself, modeling the impact on U.S. GDP if disparities in stock ownership were closed alongside those in wages and housing. *McKinsey* found that closing the racial wealth gaps could increase the U.S. GDP by 4-6 percent by 2028, translating to an increase of $2,900-$4,300 per capita.[16]

"SYSTEMIC RACISM IS A YOKE THAT DRAGS ON THE AMERICAN ECONOMY"

— Raphael Bostic, President and CEO of the Atlanta Federal Reserve Bank

BY CLOSING THE RACIAL WEALTH GAP, THE U.S. GDP COULD BE 4 TO 6 PERCENT HIGHER BY 2028



Depending on assumptions regarding growth in racial wealth gap, real GDP could be 4-6% higher by 2028 if gap is closed, translating to an increase of $2,900-$4,300 in GDP per capita

Figure 2 *Real GDP increase from closing racial wealth gap, $ trillion*
Source: McKinsey & Company[17]

Long-term, diversified investors rely on economic growth to support portfolio performance; as BlackRock notes, GDP growth is a primary driver of returns across asset classes.[18] As such, **in addition to the human and economic costs of systemic racism, the substantial impairments to GDP growth caused by systemic racial inequalities have the inevitable consequence of lowering returns across portfolios.** The converse also appears true — policies and practices that address persistent racial disparities in income, housing, and wealth can provide a strong foundation for the sustainable economic growth sought by long-term investors.

ORDINARY BUSINESS OPERATIONS CAN EITHER AMELIORATE OR EXACERBATE SYSTEMIC RACIAL INEQUITIES

Corporations operate within a broader economic context; given the impairments to GDP due to systemic racial inequities, corporate performance can be negatively impacted by systemic racial inequities. Moreover, addressing systemic racism in the U.S. requires action beyond the corporate sector, as closing systemically persistent economic disparities will require substantial policy interventions at the federal, state, and local levels.

At the same time, corporate actions are not neutral. Corporate products, policies, and practices either ameliorate or reinforce the systemic racial harms and inequities outlined above, which individually and collectively have consequences for their internal and external stakeholders and economic prosperity more broadly. Frequently, corporate actions directly inflict harm to stakeholders, including communities of color, exacerbating inequities in health, income, housing, wealth, and other indicators linked to economic underperformance. And given that S&P 500 company revenues represent a 50 percent or greater share of U.S. GDP,[20] the actions or inactions of large publicly traded firms can have outsized impact on these disparities and dynamics across the U.S. economy and beyond.

Key Term: Systemic Racism

"Systemic Racism includes institutional and structural racism.

*Institutional racism occurs **within** institutions. It involves unjust policies, practices, procedures, and outcomes that work better for White people than people of color, whether intentional or not.*

*Structural racism is racial inequities **across** institutions, policies, social structures, history, and culture. Structural racism highlights how racism operates as a system of power with multiple interconnected, reinforcing, and self-perpetuating components which result in racial inequities across all indicators for success. Structural racism is the racial inequity that is deeply rooted and embedded in our history and culture and our economic, political, and legal systems."[19]*

— Race Forward

TO CITE A LIMITED SET OF EXAMPLES:

Consumer Products and Services

Black Americans widely report discriminatory experiences while shopping, according to Gallup polling,[21] with racial profiling practices by national retailers exposed to extensive media scrutiny in the immediate aftermath of the racial justice demonstrations in the summer of 2020.[22] However, racial inequalities can extend into products themselves; Black and Hispanic women have been shown to be exposed to significantly higher levels of toxins harmful to reproduction or that can cause cancer from commonly used personal care products than white women, even controlling for socioeconomic status. These outcomes are in turn influenced by disparities in product design, marketing, and availability.[23] For example, as years of litigation and investigative reporting revealed, consumer health product manufacturer **Johnson & Johnson had known for decades that its iconic baby powder was at times tainted with carcinogenic asbestos.**[24] However, the company hid the fact from consumers and regulators while targeting marketing efforts specifically to Black and Hispanic women.[25] Only after 40,000 lawsuits, calls from nearly 200 organizations in 51 countries,[26] and extensive media scrutiny did Johnson & Johnson announce plans to phase out sales of the powder globally in 2023.[27]

Workforce Demographics and Worker Safety

Black workers are disproportionately underrepresented in private sector senior management, C-suite, and board of director roles. A 2021 analysis from *McKinsey* demonstrates that given contemporary structural barriers to advancement, it would take 95 years for Black employees to reach parity across these categories with their overall representation in the U.S. population of 12 percent.[28] By contrast, Black and Hispanic workers are disproportionately overrepresented in jobs with the highest rates of injury risk, even after adjusting for level of education and gender, leading to significant increases in work-related disabilities.[29] **Amazon's highest earning job categories are disproportionately white** — analysis of internal demographic and promotion data and interviews with Amazon diversity and inclusion professionals led Recode to conclude in 2021 that at Amazon corporate offices, "Black Amazon employees are promoted less frequently and are rated more harshly than non-Black peers."[30] Two of Amazon's few Black executives departed in 2022, including the only Black member of its senior executive team.[31] At the same time, more than 60 percent of the 400,000 workers at Amazon's warehouses and in other of its lowest-paying jobs are Black or Hispanic. Amazon's warehouse employees experienced over 38,000 workplace injuries in 2021 — nearly half of all warehouse injuries across the US — and these injuries were twice as severe as those in non-Amazon warehouses.[32]

Technology and Algorithmic Bias

As artificial intelligence and predictive modeling expand into a wide range of use cases, so too do opportunities to code bias directly into seemingly neutral decision making. Harmful discrimination in hiring, lending, health care, criminal sentencing, civil penalties, and many more domains can result from algorithmic discrimination, arising from programs in which data itself contains racial biases, or biased assumptions of engineers are coded into software.[33] The predominantly white male makeup of technology company employees, C-suites, and boards of directors have raised concerns about these firms' ability to identify and correct such issues before and as they harm users and stakeholders. **Two prominent researchers who were employed to promote "Ethical AI" reported being fired by Google** — both women, one a Black woman — after they raised concerns about discrimination and disparities in the tech giant's AI systems and hiring practices.[34] Though Google sought to move past the controversy, additional prominent AI ethics researchers have since quit the tech giant, citing concerns about a hostile work environment and unaddressed harms from the company's products to communities of color.[35]

Housing and Consumer Finance

Disparities in availability and terms of access to capital persist across the economy, even after legislation such as the Fair Housing Act and Equal Credit Opportunity Act had been passed to combat widespread discrimination in the banking sector. For example, analysis from the U.S. Department of the Treasury shows that going into the housing market crash of 2008, Black and Hispanic families were more likely to either be denied mortgages or receive worse mortgage terms than white families even after controlling for factors such as wealth and credit history, and during the Great Recession were far more likely to experience foreclosure, leading to larger decreases in housing wealth.[36] In 2021, during the low interest rate environment of the COVID pandemic, mortgage purchaser Freddie Mac released data showing that white borrowers who could have saved at least $100 per month through mortgage refinancing were 62 percent more likely to actually refinance than Black borrowers, citing numerous structural barriers inhibiting the financially beneficial practice.[37] Wells Fargo pledged in 2017 to to create 250,000 Black homeowners within a decade. However, by 2021 not

***Attorney Ben Crump**, who represented the families of George Floyd and Breonna Taylor, joins lawsuit against Wells Fargo*
Source: Vanity Fair[40]

only had the bank's mortgage underwriting to Black home buyers fallen 42 percent from its 2017 levels;[38] during the pandemic, **Wells Fargo approved Black homeowners' applications for mortgage refinancing at only two-thirds the rate that it did for white applicants**.[39]

Health Impacts of Fossil Fuel Production and Consumption

Numerous studies have demonstrated that fossil fuel extraction, refinement, transportation, and consumption release toxins into water, land, and air, leading to increased rates of cancer, asthma, heart disease, and other harmful health outcomes.[41] Research from Harvard University demonstrated that fine particulate matter from burning fossil fuels caused an estimated 350,000 excess deaths in the United States in 2018.[42] Black Americans are 54 percent more exposed to this airborne pollution than the general population.[43] Fossil fuel production disproportionately impacts Black, Indigenous, and other communities of color. For example, the NAACP and the Clean Air Task Force demonstrated in 2017 that over one million Black Americans live within half of a mile of oil and natural gas production, processing, and transmission and storage facilities. Their report concluded that such facilities expose Black communities to elevated rates of diseases such as cancer and asthma, "causing over 138,000 asthma attacks among school children and over 100,000 missed school days each year."[44] The American Petroleum Institute, backed by oil majors such as **ExxonMobil** and **Chevron** that own facilities analyzed in the report, dismissed the NAACP's study by blaming health disparities on other factors, **including "genetics."**[45]

U.S. REFINERIES AND PETROCHEMICAL PLANTS ARE DISPROPORTIONATELY SITUATED IN LOW-INCOME COMMUNITIES AND COMMUNITIES OF COLOR

Figure 3 *2018 data on the geographic distribution of 133 U.S. refineries (left) and 48 petrochemical facilities (right). The x-axis shows the minority proportion of the population in the region in which the facility is located, and the y-axis shows the proportion living in poverty. The size of the bubbles indicates the magnitude of toxic emissions of the plant. Source: Greenpeace*[46]

As the examples above illustrate, **the systemic racial disparities that impact U.S. economic performance are not only the product of historic forces and public policy; individual corporate actions and industry norms and practices can and do also influence these outcomes**. At the same time, as the Center for Political Accountability has demonstrated, many companies make public and/or dark money contributions to elected officials and organizations that promote public policies that would restrict voting access or suppress political representation for **Black, Indigenous, and people of color** (BIPOC), at times directly contravening stated commitments to racial equity generally and voting rights specifically.[47]

IT IS CONSISTENT WITH LONG-TERM INVESTORS' FIDUCIARY DUTIES TO ADDRESS COMPANIES' CONTRIBUTIONS TO SYSTEMIC RACIAL INEQUITIES

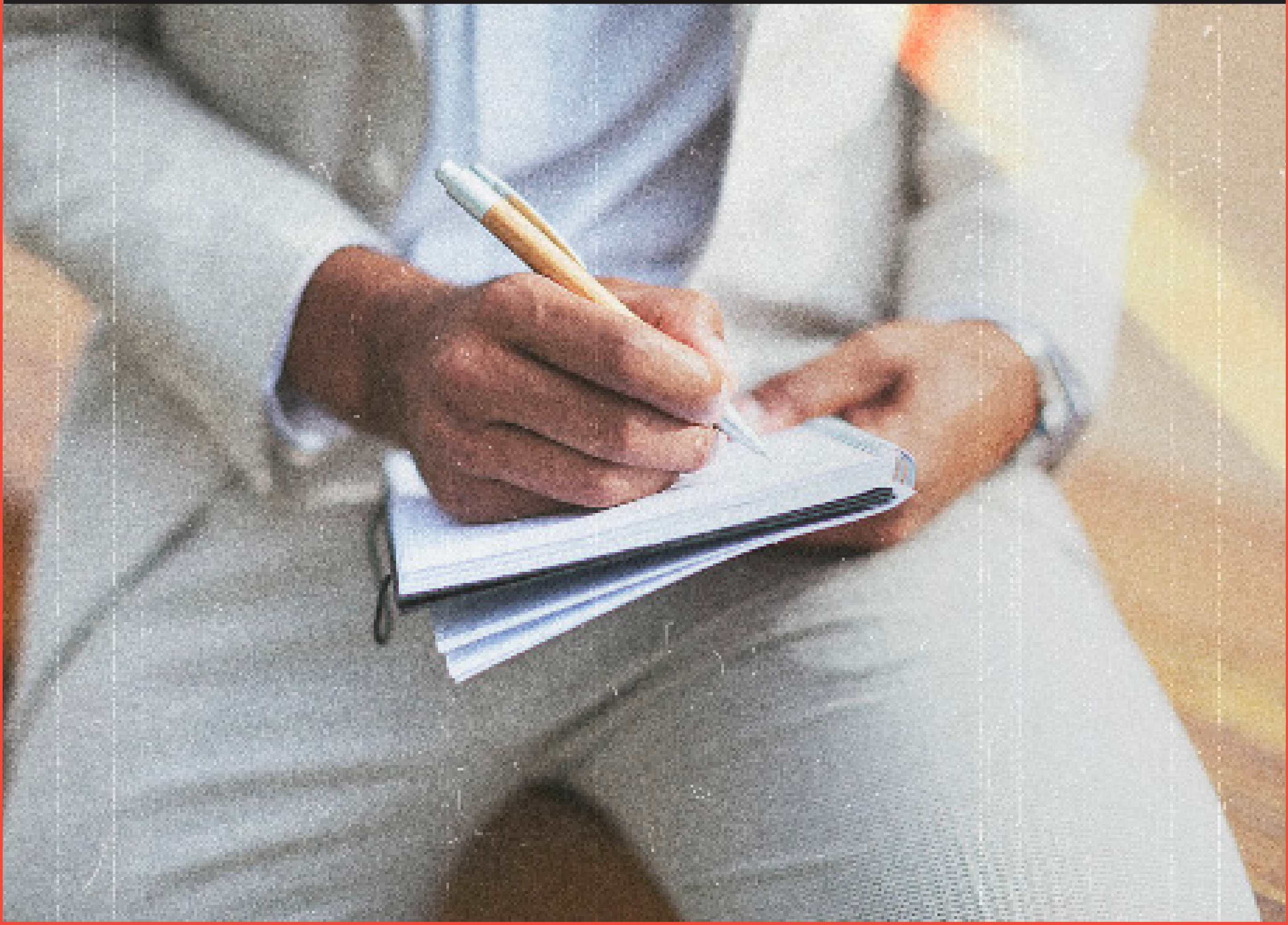
Corporate behavior that exacerbates systemic racism can also translate into risks for companies themselves. Workplace discrimination can undermine both morale and productivity, and poor diversity, equity, and inclusion (DEI) practices can impair corporate recruitment and retention efforts.[48] Conversely, research from *McKinsey* found that companies with higher levels of racial and ethnic diversity in their leadership exhibited financial outperformance.[49] The technology-focused magazine *CIO* reported findings from Gartner that "inclusive teams perform up to 30 percent better in high-diversity environments."[50] In 2019, research from the *Wall Street Journal* concluded, "Diverse and inclusive cultures are providing companies with a competitive edge over their peers."[51] *The Wall Street Journal's* ranking of S&P 500 companies found that the 20 most diverse companies also "have better operating results on average than the lowest-scoring firms, [and] their shares generally outperform those of the least-diverse firms."[52]

Consumer confidence can falter over failures to address product harms, political contributions, or other gaps between brand values and corporate actions.[53] Johnson & Johnson was ordered to pay $2.1 billion[54] recently to plaintiffs in the baby powder case described earlier,[55] and in 2022, Wells Fargo was fined $3.7 billion by the Consumer Financial Protection Bureau over the bank's "widespread mismanagement" of consumer finance products, including mortgages.[56] Failure to adequately oversee and manage human capital, reputational, litigation, and regulatory issues can clearly have adverse consequences for individual firms and their shareholders; **as New York State Comptroller Tom DiNapoli stated, "companies face increased risks when their corporate policies, practices, products, or services are, or are perceived to be, discriminatory, racist, or adding to racial inequities."**[57] Investors should expect and seek robust corporate governance to monitor and address these risks.

Given the strong links between systemic inequities, economic growth, and portfolio performance, however, it is not enough for fiduciaries to consider only the risks to individual companies arising from failure to adequately manage firm-specific risks related to racial equity. For diversified long-term investors, the benefits gained by reducing corporate contributions to systemic racial disparities are at least as important to long-term portfolio performance as mitigating the risks to individual companies themselves arising from harmful behavior. Both typical and aberrant corporate actions can exacerbate racial gaps in health, wealth, income, and other dimensions central to GDP. Investor interest in corporate behavior related to racial equity persists regardless of whether a given firm has already seen harm materialize from these actions. Moreover, by the time a company has suffered legal or reputational damage from its actions, broader harm has potentially already impacted the company's internal and external stakeholders, reinforcing the broader inequities that undermine economic prosperity. **As the Task Force on Inequality-related Financial Disclosures states, "Investors cannot diversify away certain risks that are pervasive across markets, as they do with idiosyncratic risk within their portfolios… inequality's harmful effects tend to cancel out any of its financial benefits."**[58]

Thus, to address both the systemic and company-specific risks and harms related to systemic racism, long-term investors have a strong incentive to ensure that all portfolio companies are taking sustained, comprehensive, and proactive action to identify and eliminate ways that their products, policies, and practices may exacerbate systemic racial inequities.

SECTION 03:
RACIAL EQUITY AUDITING:
A VALUABLE MECHANISM FOR ADDRESSING HARMS, MITIGATING RISKS, AND PROTECTING INVESTORS



Many companies made commitments to racial equity and justice following the murder of George Floyd in May of 2020. Recognizing the public backlash against systemic racism and the need and opportunity to contribute to improving racial equity outcomes, firms across a wide range of sectors pledged to donate to Black-led causes; reform their internal DEI practices; or undertake new initiatives to promote economic prosperity for Black and other stakeholders of color. New resources emerged to support corporate leaders in efforts to undertake self-examination of corporate practices, such as JUST Capital, PolicyLink, and FSG's *CEO Blueprint for Racial Equity*, offering executives a comprehensive roadmap for reform of a company's relationships and practices with both internal and external stakeholders.[59]

Many companies have come under sharp criticism for failing to follow up on racial equity pledges or for subsequent actions that contradicted their commitments; as JUST Capital explains, "Companies must consider that their shareholders, employees, communities and customers are all paying attention to how they bring their commitments to life through action."[60] However, just as shareholders would not depend solely on a company's own commitments and self-disclosures to ensure the integrity of a firm's financial statements, it would be folly to rely on selective, self-reported descriptions of firm commitments and actions on a topic as material for long-term investors as the systemic and company-specific risk of corporate actions related to systemic racism. Investors require a more robust framework for regular, comprehensive, third-party examination and validation.

Corporate racial equity or civil rights audits are a mechanism for uncovering and addressing harms and disparate outcomes for a corporation's internal and external stakeholders, and, in turn, the ways in which that corporation contributes to systemic racism more generally. Beginning with an engagement between Color Of Change and Airbnb in 2016,[62] corporate racial equity audits are an "independent, systematic examination of significant civil rights and racial equity issues that may exist in a company [which] provides a plan of action to address those issues in a thorough, deliberate, timely, and transparent manner," as described by civil rights audit pioneer Laura Murphy.[63] Properly conducted racial equity audits involve independent auditors with civil rights expertise to engage corporate stakeholders, analyze how company products, services, policies, and operations may harm or create disparate impact for communities subject to systemic inequities, and create concrete remediation plans and accountability structures to address these issues and prevent further harm.

> ***Racial equity audits exist to drive changes in policy, not rhetoric. Committing to racial equity means committing to the changes that bringing about true racial equity inevitably requires. It requires identifying and changing specific business practices — framing hiring and management, to product development and marketing — that harm Black people and other people of color, especially those that harm them disproportionately. Corporations that use racial equity audits to delay, derail or dodge their responsibility to enact real change are no friend to Black communities.[64]***
>
> — Rashad Robinson, President of Color Of Change

For investors, racial equity auditing can have significant benefits at both the company and portfolio level. At the company, successfully instituting comprehensive racial equity auditing should lead to the amelioration of issues that animate disputes between corporations and their internal and external stakeholders, mitigation of reputational and litigation risks, and a pathway for those that have experienced harm from a company's actions to address new issues as they arise.[65] As Murphy describes: "this all becomes a very smart business practice that helps companies mitigate risks from lawsuits, from regulatory sanctions, from congressional inquiries."[66] For diversified investors, the benefits of racial equity auditing will begin to accrue when firms across economic sectors follow up on these initial examinations with both concrete actions and ongoing monitoring designed to reduce their contributions to systemic racial inequities, unlocking new opportunities for economy-wide value creation.

Key Term: Racial Equity

"Racial Equity is a process of eliminating racial disparities and improving outcomes for everyone. It is the intentional and continual practice of changing policies, practices, systems, and structures by prioritizing measurable change in the lives of people of color."[61]

— Race Forward

GROWING SHAREHOLDER SUPPORT REINFORCES NEED FOR CLEAR STANDARDS FOR RACIAL EQUITY AUDITING

Investors have demonstrated overwhelming support for proposals calling for third party racial equity audits since their first appearance as shareholder resolutions during the 2021 proxy season. The 2021 shareholder season saw eight shareholder proposals for racial equity audits reach a vote at six banks and asset managers, along with Amazon and Johnson & Johnson. The average support for those proposals was 33 percent of shares voted,[67] "an unusually high percentage for a first-of-its-kind proposal" as reported by ValueEdge Advisors.[68] In the 2022 shareholder season, 19 shareholder proposals for racial equity audits went to a vote at a variety of S&P 500 companies, and the average support increased to 44 percent. Six racial equity audit proposals reached majority support in 2022 (none did so in 2021), and another eight were settled with the proponent before going to a vote, up from three settlements in 2021. Once a shareholder proposal is successful — whether because a proponent and company agree to settle or because the proposal receives majority support — the onus shifts to the company to implement it. Racial equity audit shareholder proposals, like nearly all 14a-8 proposals, are non-binding on the company, and it is rare for a proponent and company settling a proposal to enter into a detailed agreement governing how the company will proceed. As a result, issuers enjoy wide latitude in the implementation of shareholder proposals, which are ultimately only as powerful as shareholders' willingness to hold directors accountable if companies fail to appropriately carry through.

In the case of racial equity audits, companies have discretion over issues ranging from what firm they would employ to conduct the audit, to what issues are addressed in an audit, to the timing and process through which stakeholders are engaged. Moreover, a racial equity audit must be customized to individual companies: The issues that a global retailer like Amazon should address through a racial equity audit could be different from those that a systemically important financial institution like JPMorgan Chase must confront. This need for customization complicates investors' ability to measure company racial equity performance along standardized metrics, which could easily turn into a "box-checking" exercise instead of a conscientious effort to mitigate risks to shareholders through ameliorating systemic racism.

Against this backdrop, civil rights organizations have articulated standards to ensure that corporate racial equity audits adhere to principles and practices that enable them to fulfill their purpose. In letters to 20 corporations that agreed to conduct racial equity audits since the 2021 shareholder season, civil rights leaders called on them to:

- **Select an independent person or firm** with civil rights and racial justice expertise and adequate resources to complete the audit.
- **Ensure the audit comprehensively examines** how corporate policies, practices, and products can either ameliorate or exacerbate racial inequalities. Audit processes should include proactively identifying and reaching out to BIPOC stakeholders who are disproportionately impacted by racial inequity at corporations, as well as provide pathways for stakeholders to engage. The company and the auditor should make a clear commitment that any stakeholder who does participate in the audit will be protected from any form of retaliation, intimidation, or disciplinary action.
- **Publicly release audit findings, recommendations, and progress reports** under clear timelines, with action plans for the issues identified.[69]

In order to serve long-term shareholder interests in reducing systemic racial inequities, racial equity audits will need to be followed up with concrete actions to remedy harmful impacts. Similarly, auditing will succeed to the extent that it becomes a standard, regular practice across publicly traded companies, with clear pathways for stakeholders to address new issues as they emerge and clear operationalization of ongoing board oversight of matters related to racial equity. **Given the pervasiveness of corporate actions that reinforce or exacerbate systemic racial inequities, racial equity audits should not be limited only to companies that have demonstrated track records of harm or failures of risk mitigation;** independent racial equity audits should be conducted regularly (e.g. every 5 years) across all firms regardless of the perceived quality of a company's self-disclosures related to racial equity. Of course, corporate racial equity auditing must be overseen by boards with the requisite diversity of backgrounds reflecting the demographics of a company's broader stakeholders to enable directors to provide the robust oversight necessary to grapple with the complex challenges and opportunities raised by these processes.

A TALE OF TWO AUDITS: COMPARING CORPORATE RACIAL EQUITY AUDITING AT AIRBNB AND JPMORGAN CHASE

Auditing at early adopter Airbnb introduces multiple best practices for a corporate racial equity audit

Airbnb, an online platform connecting guests with short-term housing, enlisted civil rights auditor Laura Murphy to survey its policies and products in one of the first documented corporate civil rights audits, and the first report was published in 2016. At the time, the firm was beset by controversies around discrimination on its platform experienced by both hosts and guests.[70] The firm's initial 2016 audit engaged a wide range of internal and external participants and delved deeply into a comprehensive set of public-facing and behind-the-scenes operational dynamics that collectively contributed to the harmful outcomes experienced by the company's stakeholders. The auditors met with directly impacted hosts and guests, internal product teams, civil rights organizations, tourism industry experts, federal and state regulators, and more to uncover the interconnected drivers of these harmful experiences and the barriers to their resolution, leading to a set of targeted interventions to ameliorate the harm while balancing a complex set of competing needs. The results of the audit brought "'a policy and process to help any guest who reports discrimination find a new place to stay,' established an anti-discrimination product team and changed the platform 'to only show guest profile photos to hosts after a booking is confirmed,'" among other shifts designed to combat bias on the platform.[71]

In 2019, the company again retained Laura Murphy to conduct a review of the company's progress against its 2016 findings and commitments, and in 2022 the platform followed up with a 6-year review.[72] In doing so, Airbnb has demonstrated what a model process can look like, particularly for its explicit and ongoing engagement with civil rights stakeholders across these external audits, as well as the company's success in identifying and developing new data collection and analysis processes to monitor key indicators of its success — known as *Project Lighthouse*, which Airbnb operates in partnership with civil rights organization Color Of Change. These efforts have enabled Airbnb to be "the first consumer tech company to collect data to measure and evaluate discrimination on its platform in the U.S. so it can take additional action against it."[73]

JPMorgan Chase: an audit in name only

Significant issues emerge when companies agree to an audit, but fail in the process, whether by choosing an auditor with no demonstrable civil rights expertise, or allowing too narrow a scope of review. The banking sector is an area that has received particularly strong demands from investors for comprehensive racial equity auditing, due to both the historical legacy of deliberate discrimination and the ongoing harmful impact of systemic inequalities in access to responsible credit products and services.

Recently, JPMorgan Chase, the largest bank in the U.S.[74], issued a *2022 Racial Equity Commitment Audit Report*,[75] which was supposed to cover the firm's $30 billion, 5-year Racial Equity Commitment[76] made in the wake of the Black Lives Matter movement of 2020. This audit and report, however, fell short of the requirements and best practices of a racial equity audit. The SOC Investment Group, the proponent of a 2021 shareholder proposal at JPMorgan that received 40.5 percent support from shares voted,[77] roundly criticized the company's report, which was published after SOC Investment Group agreed to withdraw its refiled 2022 racial equity audit proposal at the bank. SOC Investment Group's executive director, Dieter Waizenegger stated, "I think it's clear that if [JPMorgan Chase] wanted to do an audit like the one that Airbnb and Starbucks did, they could have done that."[78]

The SOC Investment Group's analysis of the audit report highlights major flaws, including JPMorgan Chase's failure to retain an auditor with "core competency in civil rights or racial equity related issues."[79] The SOC Investment Group further states that the auditor, PricewaterhouseCoopers, has been JPMorgan's independent registered public accounting firm since 1965,[80] "making it questionable that PWC is in fact truly independent and objective."[81] As JPMorgan Chase's financial auditor, and lacking demonstrated civil rights expertise, PWC did not — and could not — "cover or provide assurance on whether or not JPMorgan Chase is achieving its commitment to advance economic growth and opportunity for Black, Hispanic, and Latino communities."

OTHER GLARING ISSUES INCLUDE:

- Limited scope of the audit itself, which covered only JPMorgan Chase's self-described 5-year Racial Equity Commitment: no internal DEI issues were covered, nor were issues related to historic or ongoing harms and inequities resulting from the company's financing practices;
- JPMorgan Chase itself authored the report, rather than the third-party auditor;
- The audit did not include any independent recommendations about how the firm could achieve its stated goals on racial equity, even within the limited scope of the company's self-developed Racial Equity Commitment;
- Lack of transparency concerning which components of the bank's $30 billion pledge were covered by pre-existing loans and corporate programs, when independent analyses estimate that as much of $28 billion was so covered;
- No disclosures on any stakeholder engagement with the audit; and
- No details on how the Public Responsibility Committee of JPMorgan Chase's board of directors oversaw the audit.

Taken together, Airbnb and JPMorgan present shareholders with racial equity audits at either end of the quality spectrum, and illustrate the need for shareholders to hold boards accountable to clear standards of racial equity audit scope, independence, engagement, and transparency.

WHAT MAKES A RACIAL EQUITY AUDIT?

Criteria	Airbnb	JP Morgan
Independent auditor with civil rights expertise	✓	✗
Review of company policies, practices, and products	✓	✗
Transparent engagement with impacted stakeholders	✓	✗
Demonstrated action to remedy harms identified by audit	✓	✗
Commitment to and ongoing review and oversight	✓	✗

Figure 4 *Criteria for racial equity audit reports Source: Airbnb's Work to Fight Discrimination and Build Inclusion and JPMorgan Chase's 2022 Racial Equity Commitment Audit Report*

SECTION 04:

ASSET MANAGERS' FIDUCIARY DUTIES SUPPORT ADOPTING A RACIAL EQUITY LENS FOR PROXY VOTING POLICIES AND PRACTICES

Large institutional investors and asset managers managing portfolios on behalf of clients and their beneficiaries have a fiduciary responsibility to enhance returns and mitigate risks in the long-term interest of those clients. Such diversified investors, often referred to as "universal owners,"[82] typically hold portfolios with exposure to a wide range of asset classes, geographies, and industries.

Since company-specific risks can theoretically be managed through diversification, the most important driver of universal owners' long-term returns is market performance overall, which in turn is rooted in the overall strength and growth of the underlying economy. Non-diversifiable risk, or systematic risk, can arise either external to the market, or from the actions of systemically important market participants.

Thus, as Columbia Law School professors John Coffee and Jeffrey Gordon have described, rather than emphasize stewardship over idiosyncratic or company-specific risks, it is rational for diversified investors to focus instead on reducing systematic risks that affect the value of investments across the portfolio.[83] The professors explicitly recognize failure to address matters related to racial diversity and inclusion among these risks, and they suggest that diversified investors "may want to take actions (either by voting, litigation, or persuasion) to induce changes that reduce such risk (even if they cause losses to some companies in their portfolio, so long as the action taken implies greater gains than losses to the portfolio)."[84]

Such considerations are particularly salient for the world's largest asset managers. The 20 asset managers with assets under management of more than $1 trillion collectively manage over $51 trillion dollars, and the top four, the Big Four asset managers — BlackRock, Vanguard, Fidelity, and State Street — manage over $23.8 trillion.[85] BlackRock, Vanguard, and State Street together hold 20 percent of the shares of the S&P 500 and account for 25 percent of shares voted.[86] The clients of these largest asset managers are typically diversified investors, and the asset managers themselves have such outsized impact that their stewardship and proxy voting policies effectively set baseline standards across much of the U.S. corporate governance ecosystem.

Given their size, ubiquitous holdings, and proxy voting impact, large asset managers are well-positioned to mitigate systemic risks to their clients' portfolios through their stewardship policies and practices. The negative impact of systemic racism on U.S. economic performance — and the ways in which corporate behavior can contribute to or mitigate that impact — means that asset managers should, in the exercise of their fiduciary duties, evaluate their stewardship policies and practices to ensure that they explicitly recognize both the systemic and company-specific risks related to entrenched racial disparities and hold boards accountable for not ameliorating them.

To do so, asset managers should adopt and apply an explicit racial equity lens to their stewardship practices. Asset manager proxy voting policies themselves are not neutral; the standards they set and enforce will either communicate to portfolio companies that actions exacerbating racial inequities are acceptable or unacceptable. Proxy voting matters that have an impact on racial equity outcomes include those addressing board diversity, racial equity audits, and DEI disclosures, although they also extend well beyond these topics. For example, shareholder proposals on topics such as corporate political spending or lobbying disclosure and alignment, workforce safety and freedom of association, climate risks, consumer product safety, and more can have significant racial equity implications for the corporations at which they are filed, as can management proposals on director elections, executive compensation, or mergers and acquisitions. Thus to ensure that their proxy voting standards and practices are aligned to the goal of mitigating these systemic and company-specific risks to long-term portfolio performance, asset managers should routinely audit the racial equity impact of their own stewardship policies and voting behavior.

Key Term: Racial Equity Lens

1. *What is the policy, program or decision under review?*
2. *What racial, cultural and/or ethnic group(s) experience disparities related to this policy, program or decision? Are they at the table? (If not, why?)*
3. *How might the policy, program or decision affect the group(s)? How might it be perceived by the group(s)?*
4. *Does the policy, program or decision improve, worsen, or make no change to existing disparities? Does it result in systemic change that addresses institutional racism?*
5. *Does the policy, program, or decision produce any intentional benefits or unintended consequences for the affected group(s)?*
6. *Based on the above responses, what are the possible revisions to the policy, program, or decision under review?*
7. *What next step is recommended and how will it be advanced?*

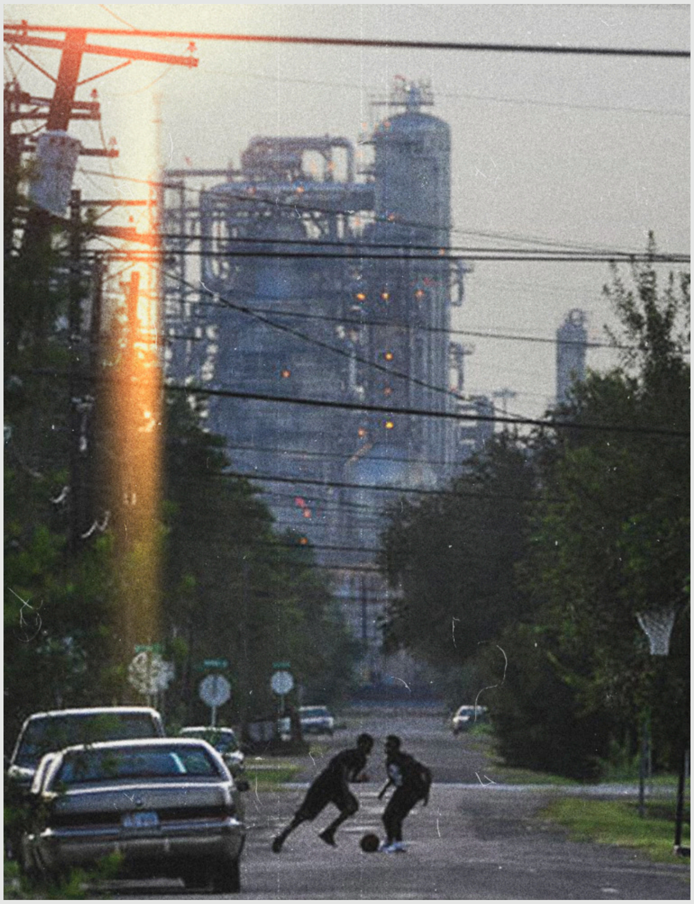
Excerpted from the Harvard T.H. Chan School of Health

SECTION 05:

ASSET MANAGER PROXY VOTING ON MATTERS RELATED TO RACIAL EQUITY IN THE 2022 PROXY SEASON

As noted in the prior section, a wide range of corporate policies and practices can exacerbate and reinforce systemic racism and the related negative economic impacts. The 2022 proxy season provided many opportunities to assess the alignment between asset manager proxy voting and the goal of addressing systemic racial disparities with the potential to harm investor returns.

This report assesses the voting records of the largest asset managers — those with assets under management greater than $1 trillion — on ballot items at annual meetings in the 2022 shareholder season including proposals ranging from requests for racial equity audits, greater transparency and improved oversight of political spending and lobbying activities, addressing human capital management, and the impact of tech companies and products on communities of color. Additionally, this report covers such items as votes on directors at company boards with no racial diversity, or proposals calling for more disclosure of board demographics or greater diversity on boards of directors. These votes illustrate many of the areas that implicate racial equity in corporate policies, practices, and products, and are not intended to be an exhaustive list of all possible issues touching on racial equity facing shareholders in 2022. For further detail on the data and methods used in this report, see Appendix A.



CLIMATE CHANGE AND IMPACT OF SYSTEMIC RACISM

The risks associated with climate change and systemic racism are intertwined; global warming past 1.5°C will have a heightened impact for Black, Indigenous, and other communities of color in the U.S. and abroad, and companies engaged in fossil fuel production or consumption infrastructure have a long track record of disproportionately harming Black, Indigenous, and other communities of color.

These links have deep historical antecedents: researchers found that historical redlining of minority neighborhoods in more than 100 American cities has placed a heavier burden on these neighborhoods' residents from extreme heat than other communities.[88] In its 2021 comment in favor of strengthening the Community Reinvestment Act (CRA), investor organization Ceres stated that "systemic racism has worsened climate impacts on vulnerable communities... climate change impacts — both the cause and the consequences — also fall harder on communities of color... high polluting power plants and refineries are more often sited closer to African American communities than white communities... result[ing] in poor air quality and adverse health impacts in those communities."[89]

Each year, asset managers have the opportunity to hold boards of directors accountable at companies that are seriously misaligned with limiting global warming to 1.5°C. Given the disparate impacts of climate change and fossil fuel production, asset managers should also view climate-related director elections and shareholder proposals through a racial equity lens in making proxy voting decisions. These votes are not assessed here — Majority Action's *Climate in the Boardroom* series provides greater detail on asset manager proxy voting policies and performance on climate risks.

ASSET MANAGER PROXY VOTING ON RACIAL EQUITY AUDIT PROPOSALS

Shareholder proposals calling for racial equity or civil rights audits at major corporations received substantial shareholder support in the 2022 proxy season (see section 03 for more detail); the nineteen proposals requesting a racial equity audit at S&P 500 companies received on average 44 percent of shares voted in favor, an increase from 33 percent in 2021.

In 2022, the four largest asset managers — BlackRock, State Street, Fidelity, and Vanguard — ranked among the lowest supporters of racial equity audits at S&P 500 companies among major asset managers (see Figure 5). BlackRock's support fell from the 2021 season, in which the asset manager voted for all but one racial equity audit proposal (voting in favor of 87.5 percent of such proposals) to supporting just 10 of 19 such proposals in 2022 (52.6 percent). State Street's support increased from 2021, though it supported a bare majority of racial equity audit proposals (10 of 19). **Fidelity supported just one racial equity audit proposal, while Vanguard supported none.** Goldman Sachs Asset Management also failed to support any racial equity audits in 2022.

While six of the nineteen racial equity audit proposals at S&P 500 companies received majority support in 2022, **a further nine of these proposals could have reached majority support had some combination of the Big Four asset managers voted in favor (see Figure 5).** This includes racial equity audit proposals at Wells Fargo, Chevron, and Chipotle Mexican Grill.

Conversely, three asset managers — **Amundi Asset Management, Northern Trust Investments, and PIMCO — were leaders in supporting racial equity audits, voting in favor of 100 percent of these proposals.** Four more — Morgan Stanley, UBS, Legal & General Investment Management, and Capital Group — were close behind, supporting between 88 and 95 percent of these proposals.

THE FOUR LARGEST ASSET MANAGERS LAG PEERS IN SUPPORTING RACIAL EQUITY AUDIT PROPOSALS

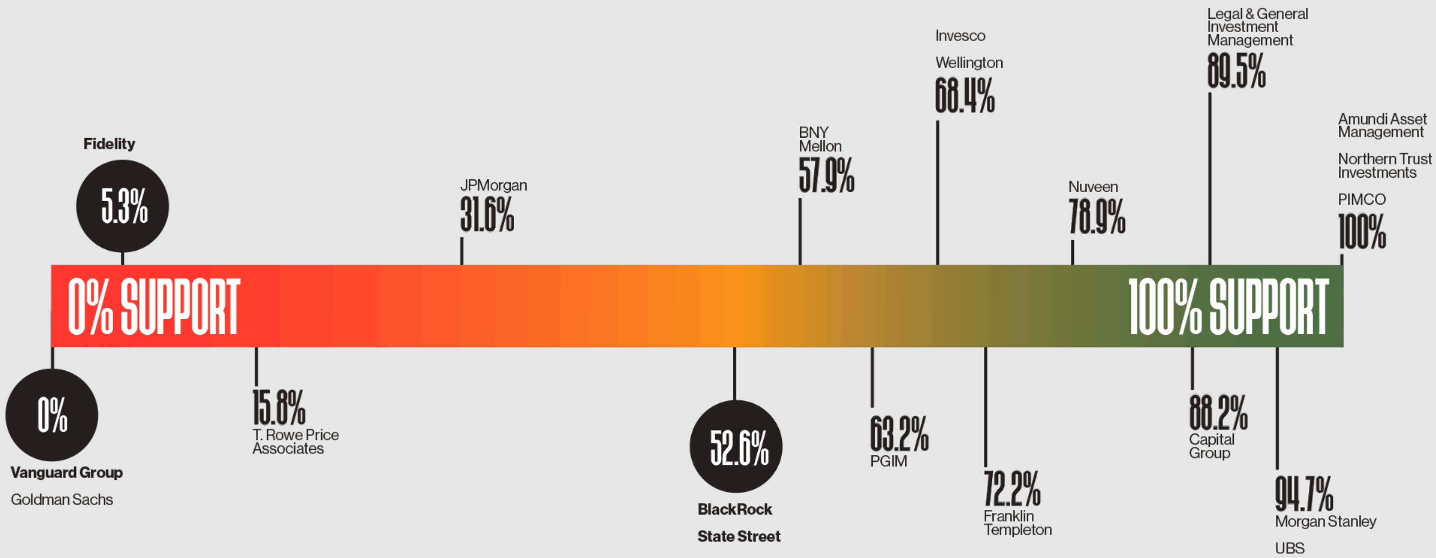


Figure 5 *Asset manager votes on racial equity audit proposals at 19 S&P 500 companies in 2022 Source: Insightia*

NINE RACIAL EQUITY AUDIT PROPOSALS COULD HAVE REACHED MAJORITY SUPPORT WITH THE BACKING OF THE FOUR LARGEST ASSET MANAGERS

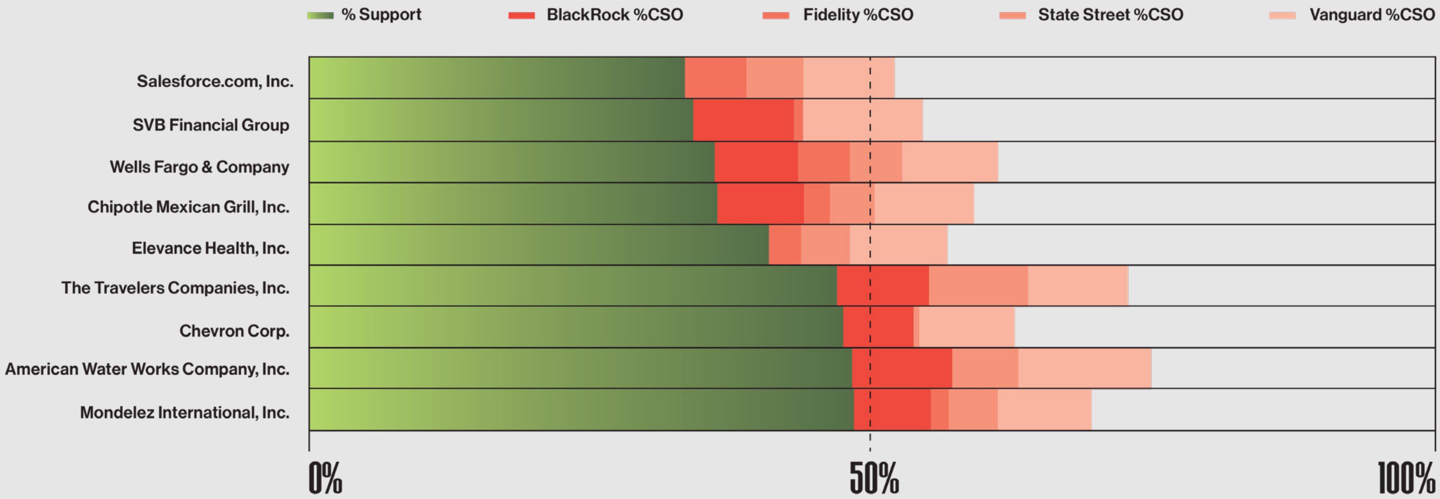


Figure 6 *Percent support for racial equity audit proposals at S&P 500 companies and major asset manager holdings Source: Insightia*

CASE STUDY

RACIAL EQUITY AUDIT PROPOSAL AT CHEVRON

Chevron, the second largest oil and gas company in the U.S., is one of the largest historical corporate contributors to greenhouse gas emissions that cause climate change.[90] In 2022, Chevron shareholders proposed the company conduct a racial equity audit, arguing that "Chevron's operations, discharges, and leaks disproportionately burden communities of color with pollution and human health risks."[91] In particular, the proposal highlighted documented issues stemming from Chevron's oil refinery in Richmond, CA. Eighty percent of the population in and around Richmond are people of color,[92] and those who live nearest to the refinery have "disproportionately high rates of cardiovascular disease and cancer."[93] When an explosion and fire occurred at the refinery in 2012, 15,000 people in the area sought medical attention related to the effects of the smoke.[94] Chevron was charged with "failing to maintain equipment in safe working order in addition to labor codes and environmental violations."[95] The incident cost Chevron over $12 million.[96]

In a 2020 statement on racial injustice, released in the wake of the murder of George Floyd, Chevron CEO Mike Wirth stated, "I share the anger and pain felt by so many Americans at the recent killings of unarmed black men and women. Racism and brutality have no place in America. Yet these incidents still occur. And they impact people well beyond those directly affected by such tragedies. Including people at our company... I absolutely believe we are stronger when we embrace our differences, and now is an important time to do just that."[97] Yet Chevron's board, chaired by CEO Wirth, recommended shareholders vote against a shareholder proposal for a racial equity audit at the oil major in 2022.[98]

The racial equity audit proposal received 47 percent support from shareholders. However, only one of the four largest holders, State Street, voted in favor. **It would likely have reached majority support if either Vanguard (which held 8.5 percent of shares) or BlackRock (6.5 percent) had voted in favor.**

CASE STUDY

RACIAL EQUITY AUDIT PROPOSAL AT ALPHABET

Alphabet, the parent company of Google and YouTube, received a shareholder proposal in 2022 requesting that the company undergo a racial equity audit. **The proposal highlighted concerns that many of Alphabet's business practices are "enabling racism and discrimination, posing legal, financial, and reputational risk."[99]** Issues cited in the proposal included:

- The amplification of racism and bigotry, in particular the role of YouTube in exposing young people to white supremacist ideology;
- The deployment of AI tools that have the potential to discriminate, such as Google's face detection technology;
- The supply of technology used in surveilling communities of color and border communities; and
- Alleged retaliation against BIPOC employees who raise concerns about discrimination.[100]

In its advertising products, Civil rights organizations allege that Google has blocked companies from using racial justice terms like "Black Lives Matter" while allowing advertisers to search and placing their content on tens of millions of videos tagged with white nationalist terms like "White Power" or "White Lives Matter."[101]

Google faced further scrutiny in 2020 when AI research scientist, and co-lead of Google's Ethical AI team, Dr. Timnit Gebru reported being fired. According to *Wired*, Gebru had been working on a paper about "the ethical questions raised by recent advances in AI that processes text."[102] Unwilling to retract the paper, Gebru, a Black woman, said she was fired. Google's response to the research and handling of Gebru's departure "raises doubts about Silicon Valley's ability to self-police, especially when it comes to advanced technology that is largely unregulated and being deployed in the real world despite demonstrable bias against marginalized groups."[103]

The racial equity audit proposal received 22.4 percent support from shareholders. Given the controlling voting power of Google's co-founders, Larry Page and Sergey Brin, this represents approximately 61 percent support from outside shareholders. But while most major asset managers voted in favor of this proposal, **Fidelity, Goldman Sachs, State Street, and Vanguard failed to do so.**

ASSET MANAGER PROXY VOTING ON BOARD DIVERSITY

DIRECTOR ELECTIONS AT S&P 500 COMPANIES WITH ALL-WHITE BOARDS

Studies have shown that board diversity "leads to better business outcomes, smarter decision-making," and increased innovation.[104] The Nasdaq Stock Market now has rules requiring all companies listed on that exchange to have at least one female board member and at least one director who identifies as an underrepresented minority or LGBTQ+ (lesbian, gay, bisexual, transgender, queer, and/or questioning).[105] The Board Diversity Proposal requires companies to publicly disclose voluntary self-identified gender and racial characteristics, and LGBTQ+ status of the board.[106] In 2021, there were still 29 S&P 500 companies with all-white boards as of their annual meetings, according to data from ISS ESG. **By 2022, the number fell to only four companies, while there remained 113 companies with a sole non-white director on the board** (132 in 2021).

Among S&P 500 companies, only DISH Network, PTC Inc., Universal Health Services, Inc., and West Pharmaceutical Services, Inc. remain governed by all-white boards as of their 2022 AGM.[107] At three of these companies, the chairs of the nominating committee— the committee charged with overseeing board composition— faced re-election in 2022. The largest asset managers varied in their support; however, **BlackRock and Fidelity supported all three of these directors,** while Vanguard supported two.

LARGEST ASSET MANAGERS STRONGLY SUPPORTED COMMITTEE LEADERSHIP RESPONSIBLE FOR ENSURING DIVERSE BOARD COMPOSITION AT COMPANIES WITH ALL-WHITE BOARDS

✓ FOR
○ MIXED
✗ AGAINST
N/A DATA NOT AVAILABLE

COMPANY	DISH Network Corporation	PTC Inc.	West Pharmaceutical Services, Inc.
CHAIR NOMINEE	Kathleen Q. Abernathy	Janice Chaffin	William F. Feehery
OVERALL SUPPORT	96.3%	82.2%	74.4%
Legal & General Investment MGMT	✗	✗	✗
Amundi Asset MGMT	✗	✓	✗
Morgan Stanley	✗	✓	✗
State Street	✗	✓	✗
UBS	✗	✓	✗
PIMCO	N/A	✗	✗
Franklin Templeton	N/A	✗	○
Capital Group	N/A	N/A	✗
BNY Mellon	○	○	✗
Goldman Sachs Asset Management	N/A	✓	✗
Nuveen	N/A	✓	✗
Northern Trust Investments	✓	✓	✗
JPMorgan	✗	✓	✓
T. Rowe Price Associates	✗	✓	✓
Vanguard Group	✗	✓	✓
Wellington	✗	✓	✓
BlackRock	✓	✓	✓
Fidelity	✓	✓	✓
Invesco	✓	✓	✓
PGIM	✓	✓	✓

Figure 7 *S&P 500 companies where asset managers voted in favor of the chair of the nominating committee or equivalent on all-white boards in 2022. Source: Insightia*

SHAREHOLDERS **ASK FOR GREATER DIVERSITY** OF OR DISCLOSURE REGARDING CORPORATE BOARD MAKEUP

Shareholder proposals at two companies requested the company either make strides to improve gender, racial, and/or worker representation on the board or disclose all directors' self-identified gender and race/ethnicity. **Each of the Big Four voted against both proposals.**

LARGEST ASSET MANAGERS **FAIL TO SUPPORT** PROPOSALS REQUESTING DATA AND EXPANSION OF BOARD DIVERSITY

✓ FOR

○ MIXED

✗ AGAINST

COMPANY	Amazon.co, Inc.	Nextera Energy
PROPOSAL TYPE	Board Diversity	Board Diversity-Disclosure
PROPOSAL SUPPORT	22.2%	25.3%
ASSET MANAGER	Vote Cast	Vote Cast
Amundi Asset MGMT	✓	✓
Legal & General Investment MGMT	✓	✓
Morgan Stanley	✓	✓
UBS	✓	✓
Invesco	✓	✗
Northern Trust Investments	✓	✗
Nuveen	✓	✗
Capital Group	✗	✓
Goldman Sachs Asset MGMT	✗	✓
PGIM	✗	✓
Wellington	✗	✓
Franklin Templeton	○	✓
BlackRock	✗	✗
BNY Mellon	✗	✗
Fidelity	✗	✗
State Street	✗	✗
T. Rowe Price Associates	✗	✗
Vanguard Group	✗	✗
JPMorgan	✗	✗

Figure 8 *Asset manager votes on board diversity proposals at two S&P 500 companies in 2022. Source: Insightia*

ASSET MANAGER PROXY VOTING ON CORPORATE POLITICAL SPENDING AND LOBBYING DISCLOSURE AND ALIGNMENT

Corporate policy influence has substantial direct and indirect impacts on communities of color, including on issues relating to economic inequality, civil rights, and environmental justice. Longstanding shareholder demands for enhanced corporate transparency on political spending and lobbying took on new urgency in the wake of the January 6th insurrection of the U.S. Capitol, the dangerous attempt to overturn the results of the 2020 presidential election, and the subsequent wave of state-level legislation restricting voting access for communities of color.[108]

Given the systemic and company-specific risks posed by political spending and lobbying, appropriate board-level oversight of the racial equity impacts of such activity is critical to protect the interests of long-term shareholders. Disclosure of political spending and lobbying allows shareholders to assess whether a company's board is appropriately overseeing the risks and benefits of its political engagement.

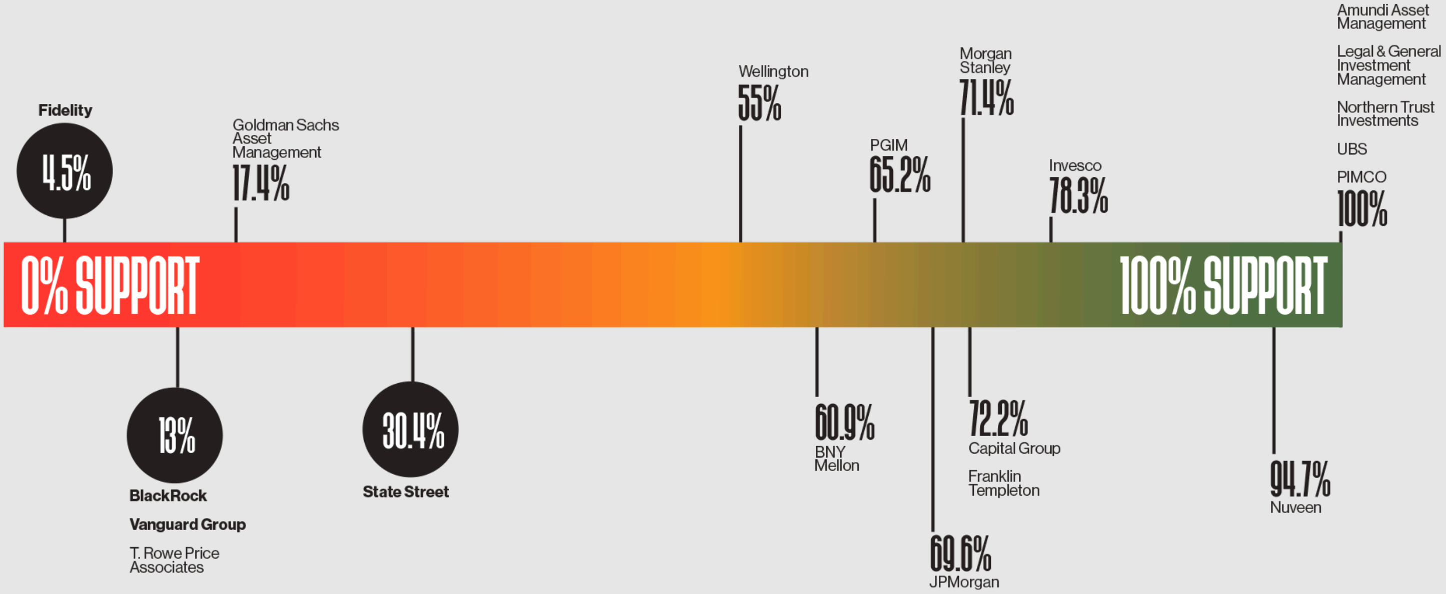
POLITICAL CONTRIBUTIONS AND LOBBYING ACTIVITY DISCLOSURE SHAREHOLDER PROPOSALS

Twenty-three proposals requesting greater disclosure of corporate political contributions and lobbying activity went to a vote in the 2022 shareholder season. While most major asset managers voted in favor of a majority of these proposals, the **Big Four asset managers, along with Goldman Sachs and T. Rowe Price, supported fewer than half.**

Four of these proposals received majority support in 2022 — an additional ten could have reached majority support had the Big Four asset managers voted in favor.

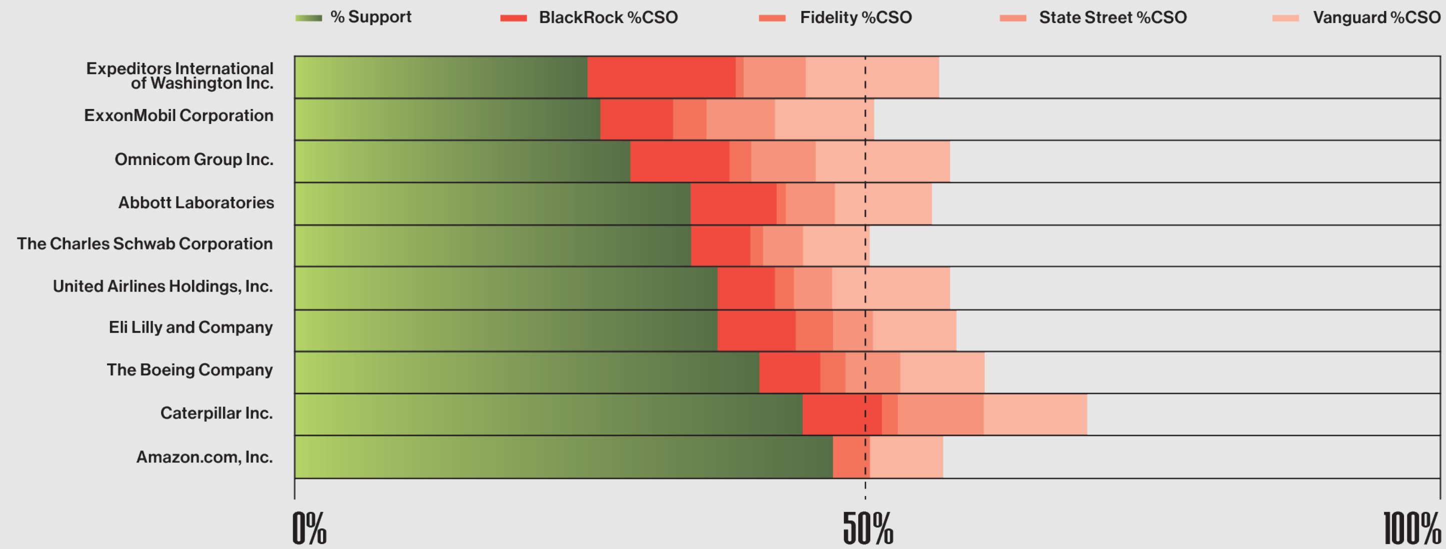
THE FOUR LARGEST ASSET MANAGERS SUPPORTED FEWER THAN HALF OF POLITICAL SPENDING AND LOBBYING DISCLOSURE PROPOSALS

Figure 9 *Asset manager voting results on lobbying and political spending disclosure proposals at 23 S&P 500 companies in 2022. Source: Insightia*



TEN POLITICAL SPENDING AND LOBBYING DISCLOSURE PROPOSALS COULD HAVE REACHED MAJORITY SUPPORT WITH THE BACKING OF THE FOUR LARGEST ASSET

Figure 10 *Percent support for lobbying and political spending disclosure proposals at S&P 500 companies and major asset manager holdings. Source: Insightia*

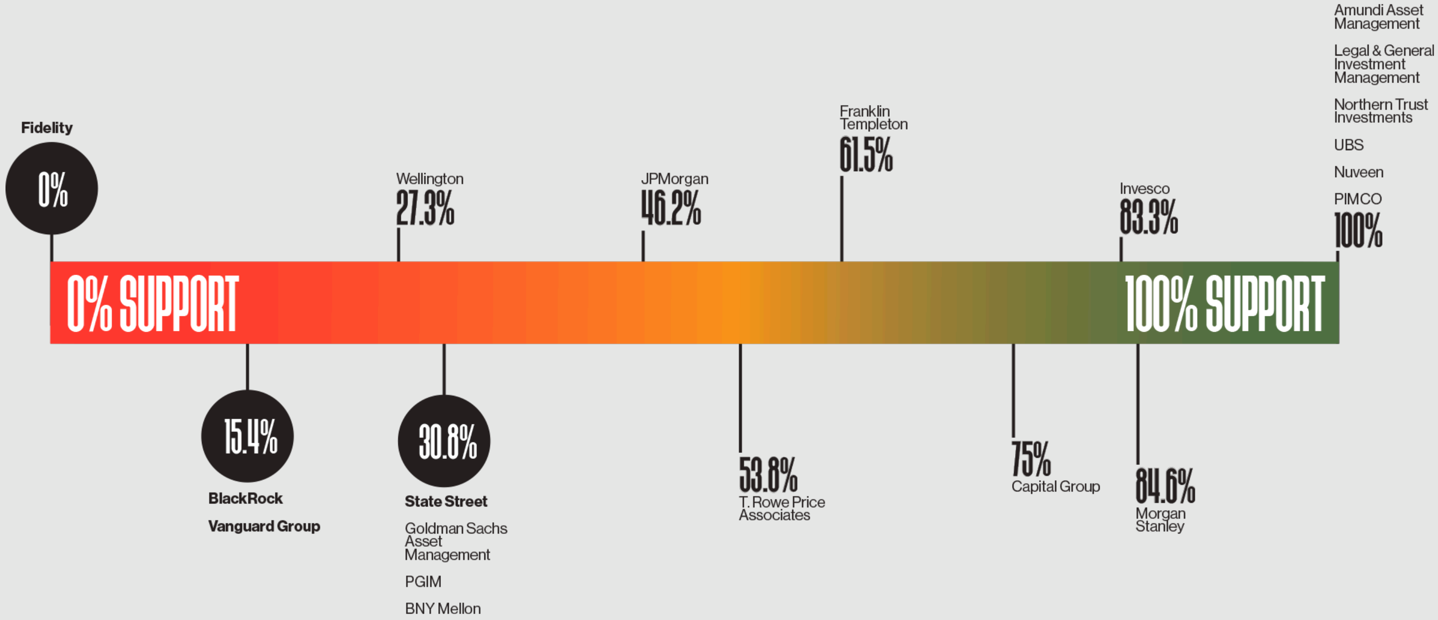


POLITICAL CONTRIBUTIONS AND LOBBYING ACTIVITY ALIGNMENT AND CONGRUENCY PROPOSALS

In 2022, 13 shareholder proposals went beyond seeking additional disclosures to call for further alignment between stated corporate values and political and lobbying activity. These proposals requested that corporations disclose whether their corporate political contributions or lobbying activities were congruent with their stated policy, values, and commitments on issues such as racial injustice, voter suppression, climate change, or healthcare access. On average, these proposals received 42 percent of shares voted in favor, and only two received majority support. In the 2022 shareholder season, **Fidelity failed to support any, and BlackRock and Vanguard supported only two — these three asset managers have the lowest support for such proposals** among the large asset managers reviewed in this report. **Eight of the 13 proposals in this category could have received majority support had some combination of the Big Four supported them.**

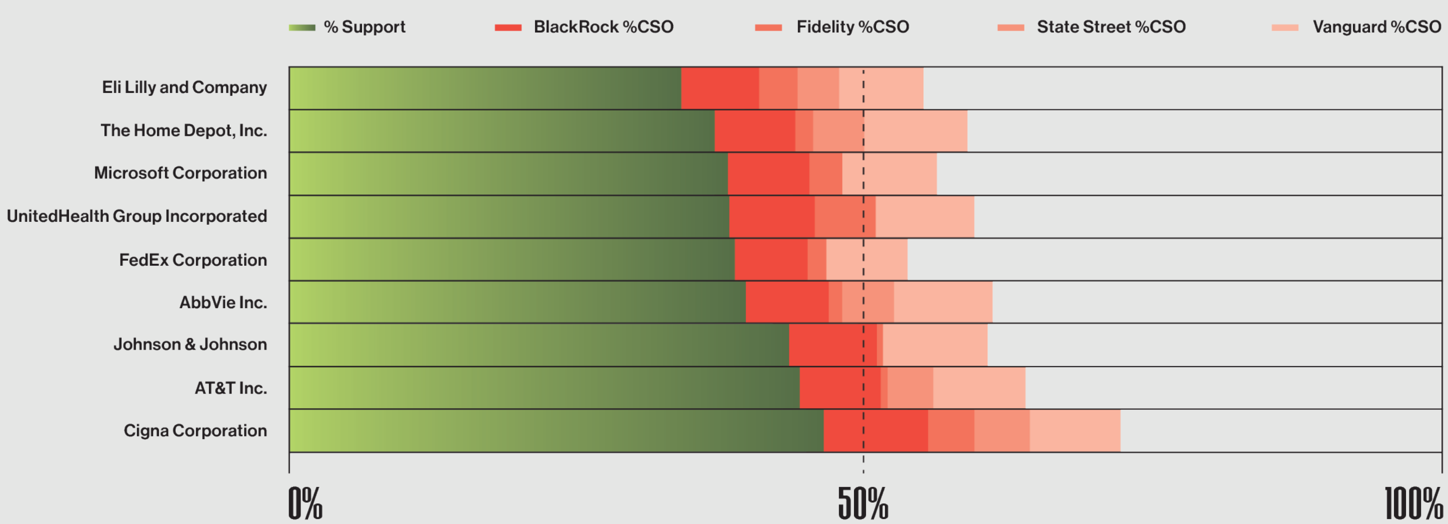
BLACKROCK, VANGUARD GROUP, AND FIDELITY **SUPPORTED THE FEWEST** POLITICAL SPENDING AND LOBBYING ALIGNMENT PROPOSALS

Figure 11 *Asset manager voting results on lobbying and political spending congruency proposals at 13 S&P 500 companies in 2022. Source: Insightia*



NINE POLITICAL SPENDING AND LOBBYING ALIGNMENT PROPOSALS **COULD HAVE REACHED MAJORITY SUPPORT** WITH THE BACKING OF THE FOUR LARGEST ASSET MANAGERS

Figure 12 *Percent support for policy influence congruency proposals at S&P 500 companies and major asset manager holdings Source: Insightia*



CASE STUDY

POLITICAL SPENDING ALIGNMENT PROPOSAL DEFEATED AT AT&T, FOUR LARGEST ASSET MANAGERS COULD HAVE DELIVERED MAJORITY SUPPORT

AT&T is the world's largest telecommunications company and the second largest provider of mobile phone services.[109] The company has faced scrutiny due to its corporate PAC's substantial support for members of congress who voted to challenge the Electoral College vote to certify the 2020 Presidential election.[110] Following the U.S. Capitol insurrection on January 6, 2021, AT&T announced its PAC would pause donations to those members, to whom it donated more than $2 million from 2015-2020.[111] Shortly after it made that commitment, its corporate PAC donated $125,000 to the Republican Attorneys General Association which, via its "policy branch," **sent robocalls to individuals encouraging them to participate in the January 6 rally.**[112] Since January 6, 2021, the PAC has donated at least $694,400 directly to 103 members of congress who voted against certifying the results of the 2020 election.[113] The Center for Political Accountability further noted that AT&T was one of 182 corporations that donated to the campaigns of legislators and governors who worked to restrict access to voting in the 2018 and 2020 election cycles.[114]

In 2022, shareholders filed a proposal requesting an analysis of the alignment between AT&T's 2021 political spending and its "publicly stated company values and policies"[115] as well as "changes in contributions or communications to candidates as a result of identified incongruencies."[116] AT&T has made statements in support of racial equity and democracy, but, "between June 1, 2020 and March 25, 2021, AT&T or its PACs contributed at least $228,300 to state lawmakers who introduced or sponsored legislation restricting public protests... [and] in June 2021, AT&T or its PACs contributed $132,500 to Texas state lawmakers who had supported bills that raise voter suppression concerns."[117]

The political spending alignment proposal received 44 percent support.[118] **BlackRock, Fidelity, State Street, and Vanguard voted against this proposal. If BlackRock (which held 7.28 percent of shares) or Vanguard (8.18 percent of shares) alone had voted in favor of the proposal, it could have received majority support.**

ASSET MANAGER PROXY VOTING ON HUMAN CAPITAL MANAGEMENT PROPOSALS

Shareholder proposals relating to human capital management in 2022 included requests to eliminate gender and racial pay gaps; report on DEI initiatives; and workforce initiatives such as assessment of mandatory arbitration agreements, paid sick leave, whistleblower, and sexual harassment policies. While many of these proposals directly reference racial equity in both their rationale and resolved clause, those that do not are still relevant to issues of racial equity. For example, a 2017 study found that "disparities in economic opportunities expose members of minority groups to increased risk of workplace injury and disability."[119]

PROPOSALS RELATED TO DIVERSITY, EQUITY, AND INCLUSION

In 2022, there were 12 shareholder proposals that requested reporting on various workforce DEI initiatives, including diversity reporting, racial and gender pay gap disclosure, and disclosure of EEO-1 data. The average rate of support for such proposals was 39.6 percent. **BlackRock, State Street, and Vanguard supported no more than half of these proposals.**

BLACKROCK, VANGUARD GROUP, AND STATE STREET SUPPORT HALF OR FEWER DIVERSITY INITIATIVE PROPOSALS

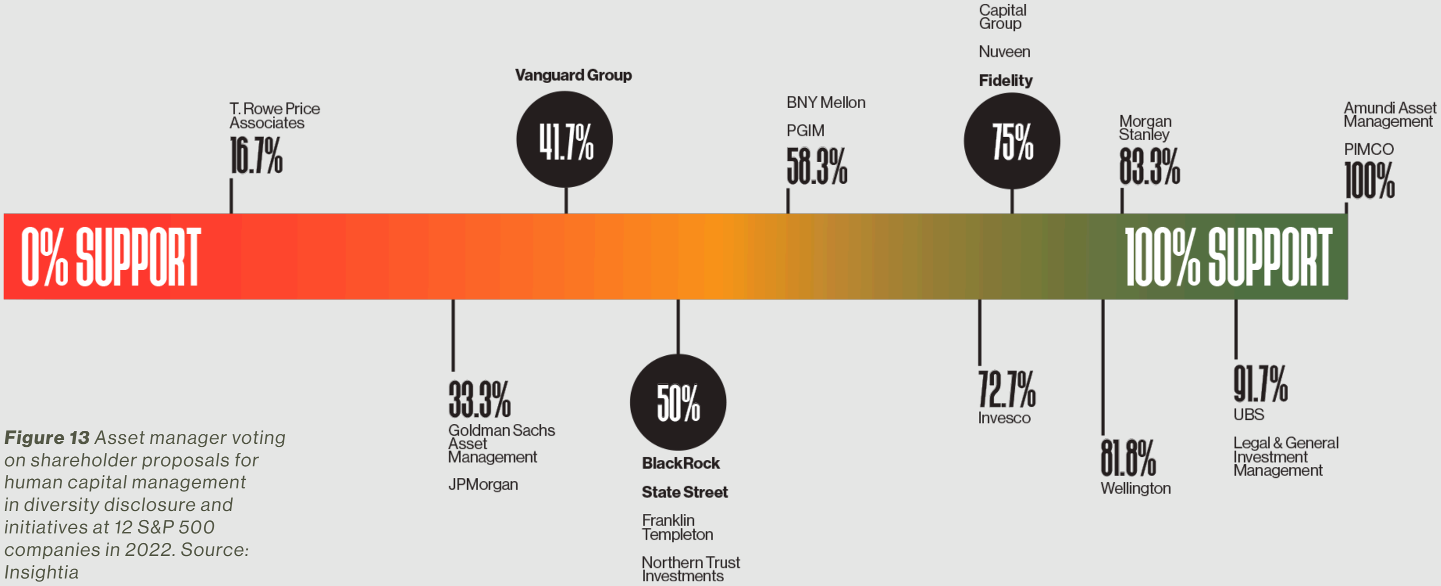
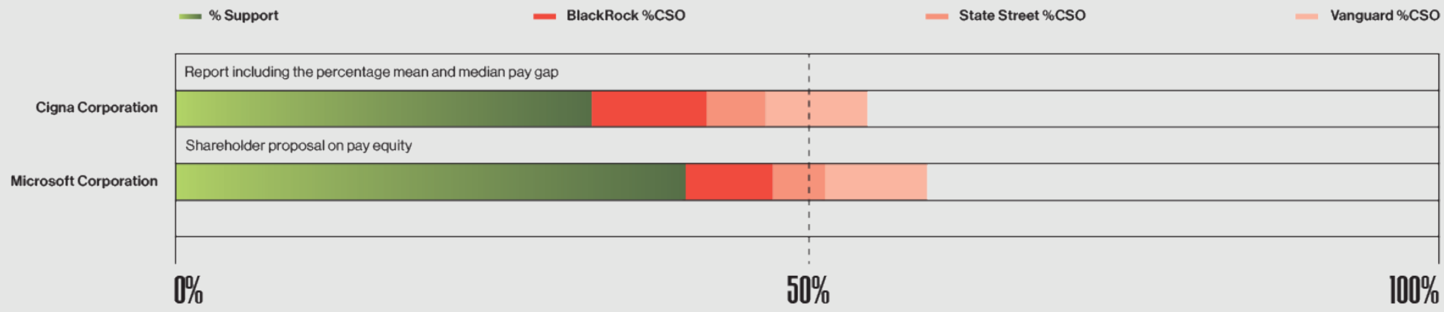


Figure 13 *Asset manager voting on shareholder proposals for human capital management in diversity disclosure and initiatives at 12 S&P 500 companies in 2022. Source: Insightia*

TWO DIVERSITY INITIATIVE PROPOSALS **COULD HAVE REACHED MAJORITY SUPPORT** WITH THE BACKING OF BLACKROCK, VANGUARD GROUP, AND/OR STATE STREET



Fidelity supported these two proposals

Figure 14 *Percent support for human capital management- diversity initiative proposals at S&P 500 companies and major asset manager holdings. Source: Insightia*

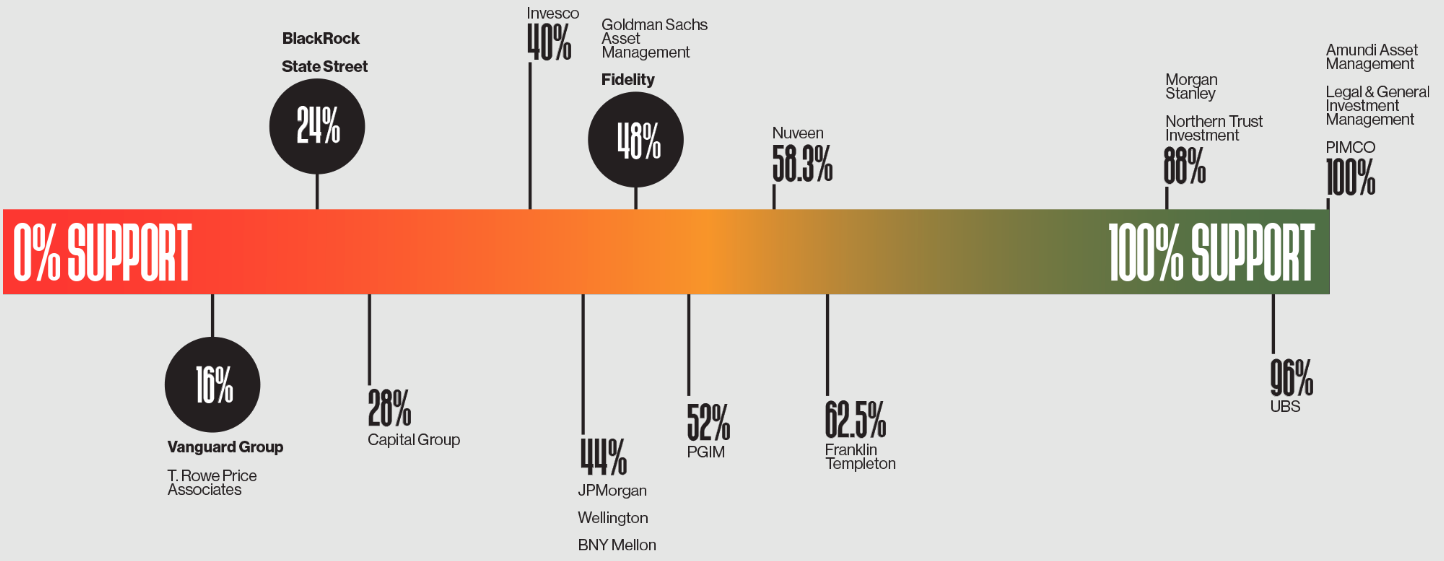
PROPOSALS RELATED TO WORKER SAFETY AND WORKERS' RIGHTS

Twenty-five proposals addressing worker rights and safety issues, such as mandatory arbitration agreements, whistleblower policies, and sexual harassment policies, were voted on at S&P 500 companies in 2022. These proposals received on average 37 percent of shares voted in favor, and five of them received majority support.

BlackRock, State Street, and Vanguard supported fewer than a quarter of these proposals. Ten additional proposals in this category could have received majority support if some combination of the Big Four asset managers had supported them.

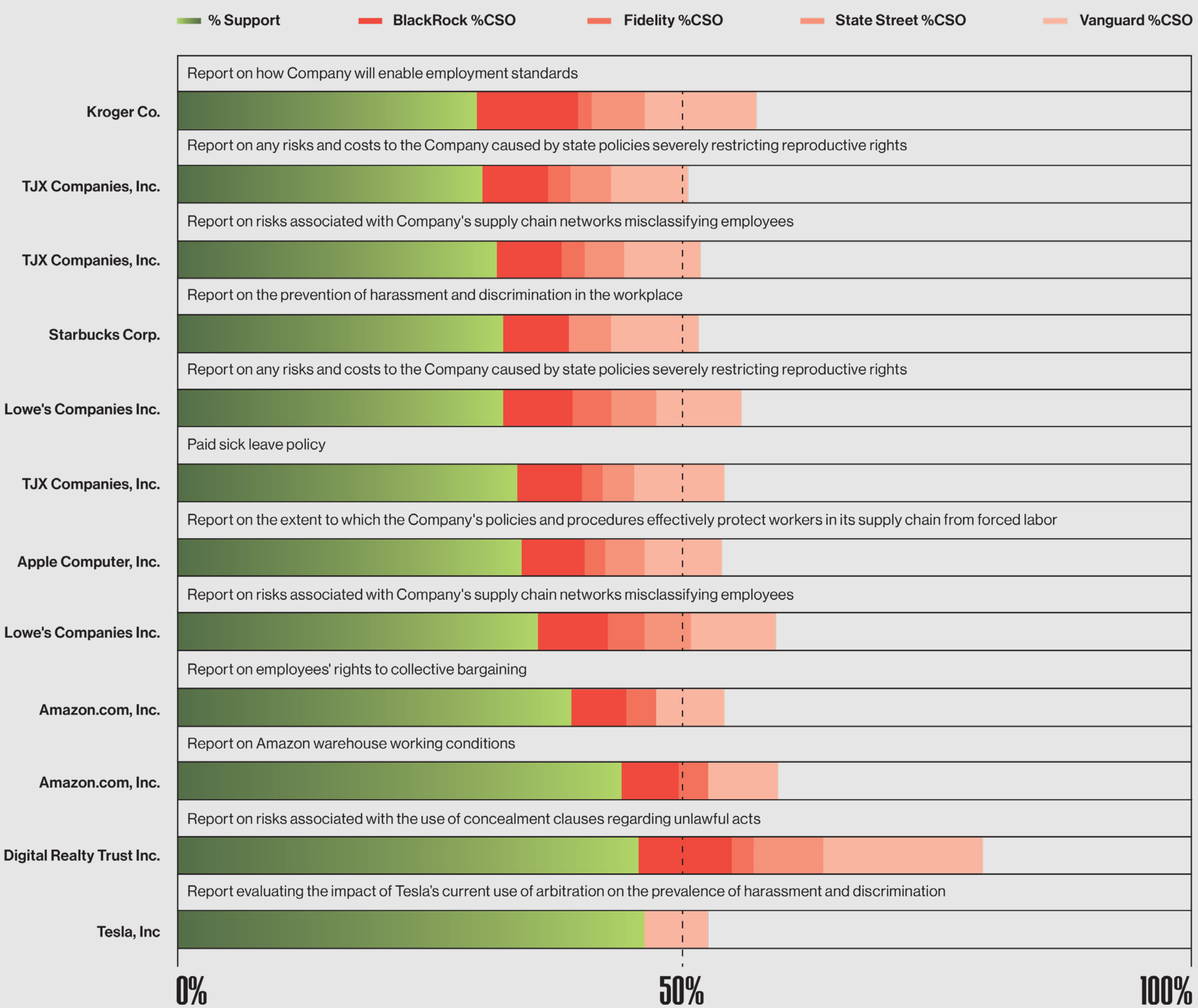
BLACKROCK, VANGUARD GROUP, AND STATE STREET IN **BOTTOM FOUR FOR SUPPORT OF WORKERS' RIGHTS PROPOSALS**

Figure 15 *Asset manager voting on shareholder proposals for human capital management in worker rights and safety at 25 S&P 500 companies in 2022. Source: Insightia*



TWELVE WORKERS' RIGHTS PROPOSALS COULD HAVE REACHED MAJORITY SUPPORT WITH THE BACKING OF THE FOUR LARGEST ASSET MANAGERS

Figure 16 *Percent support for human capital management-worker rights and safety proposals at S&P 500 companies and major asset manager holdings. Source: Insightia*



CASE STUDY

PROPOSALS SEEKING REPORTING ON KROGER'S HUMAN CAPITAL MANAGEMENT ISSUES NOT SUPPORTED BY LARGE ASSET MANAGERS

The Kroger Company is the largest supermarket operator in the U.S., with nearly 2,800 stores[120] operating as Kroger, Harris Teeter, Mariano's, Fry's, Ralphs, and Food 4 Less among others. Shareholders at the company filed two proposals relating to human capital management issues: one relating to the protection of farm workers in its food supply chain, and another regarding the company's strategy to attract and retain workers across racial and gender demographics.

In relation to the protection of workers in its food supply chain, Kroger has failed to join the Fair Food Program, which is recognized as the "'gold standard' for protecting farmworkers' human rights in food retailer supply chains."[121] The company claims that it can manage human rights issues through its Supplier Code of Conduct; however, according to the proponents,[122] Kroger's social compliance[123] or social responsibility auditors, Société Générale de Surveillance and Underwriters Laboratory, have weak track records, such as "approval of factories that subsequently collapsed or burned down, resulting in deaths."

In September 2021, CEO Rodney McMullen said that overall, Kroger had 20,000 job openings[124] and that the company has had issues hiring talent. Early in the COVID-19 pandemic, Kroger stores had incentivized employees to endure the risk of exposure to COVID-19 during the pandemic by increasing hourly wages by $2, known as "hero pay."[125] At Kroger, after a few months, this hero pay ended with a one-time bonus in May 2020, long before the subsequent Delta and Omicron waves. As the shareholder proposal for a report on workforce strategy stated, "The impact of poor labor conditions is felt especially by workers of color: nearly half of black workers are concentrated in healthcare, retail, and accommodation and food service industries, primarily in lower-paying service roles rather than professional roles."[126]

The proposal on the protection of workers in Kroger's food supply chain received 20.85 percent support. The proposal requesting a report on how Kroger could improve employment standards especially for its lowest paid employees globally, across race and gender demographics, received 29.53 percent support, and **could have received majority support had BlackRock, Fidelity, State Street, and Vanguard supported it.**

CASE STUDY

AMAZON DIRECTOR ACCOUNTABILITY FOR HUMAN CAPITAL MANAGEMENT FAILURES

The New York City and New York State Comptrollers joined together to demand board accountability for human capital management oversight failures at Amazon in 2022. The Comptrollers were concerned about Amazon's high injury rates, high turnover, and repeated violations of U.S. labor law, and called on fellow shareholders to vote against the re-election of long-serving Leadership Development and Compensation Committee members Daniel Huttenlocher and Judith McGrath to Amazon's board of directors.[127] The two directors were characterized as having failed to exercise adequate oversight of the company's human capital management practices. The comptrollers had asked various times to meet with Amazon board leadership, but the Comptrollers reported that "Amazon declined to make board directors available for a meeting."[128]

In addition to the major issues with worker safety and rights, the same Leadership Development and Compensation Committee is responsible for approving executive compensation. At Amazon, the CEO-to-median compensated employee ratio was 6,474-to-1 in 2021 — the greatest discrepancy at publicly traded companies that year— while "the average S&P 500 company's CEO-to-worker pay ratio was 324-to-1."[129] Amazon's top five executives received a combined $400 million in compensation in 2021.[130]

The two directors named in the campaign received low support, with **McGrath receiving only 78 percent support**, down from 97.5 percent in 2021. Only 2.5 percent of directors in the S&P 500 received less than 80 percent support from shareholders in 2022. Huttenlocher received 93 percent support, a five percentage point drop from 2021. Both directors benefited from support from Amazon Chairman and founder Jeffrey Bezos, who controls 12.7 percent of Amazon shares.

While BlackRock and State Street voted against McGrath, **Fidelity and Vanguard supported both members of the committee.**

LARGEST ASSET MANAGERS FAIL TO HOLD AMAZON LEADERSHIP DEVELOPMENT AND COMPENSATION COMMITTEE ACCOUNTABLE FOR HUMAN CAPITAL MANAGEMENT

Figure 17 *Asset manager voting on directors responsible for human capital management oversight at Amazon. Source: Insightia*

DIRECTOR	Judith A. McGrath	Daniel P. Huttenlocher
COMMITTEE ROLE	Chair	Member
SUPPORT IN 2022	78.0%	93.2%
ASSET MANAGER	**Vote Cast**	**Vote Cast**
Legal & General Investment MGMT	✗	✗
BlackRock	✗	✓
Morgan Stanley	✗	✓
State Street	✗	✓
Franklin Templeton	✗	○
BNY Mellon	○	○
Amundi Asset Management	✓	✓
Capital Group	✓	✓
Fidelity	✓	✓
Goldman Sachs Asset Management	✓	✓
Invesco	✓	✓
JPMorgan	✓	✓
Northern Trust Investments	✓	✓
Nuveen	✓	✓
T. Rowe Price Associates	✓	✓
UBS	✓	✓
Vanguard Group	✓	✓
Wellington	✓	✓
PGIM	○	✓

✓ FOR
○ MIXED
✗ AGAINST

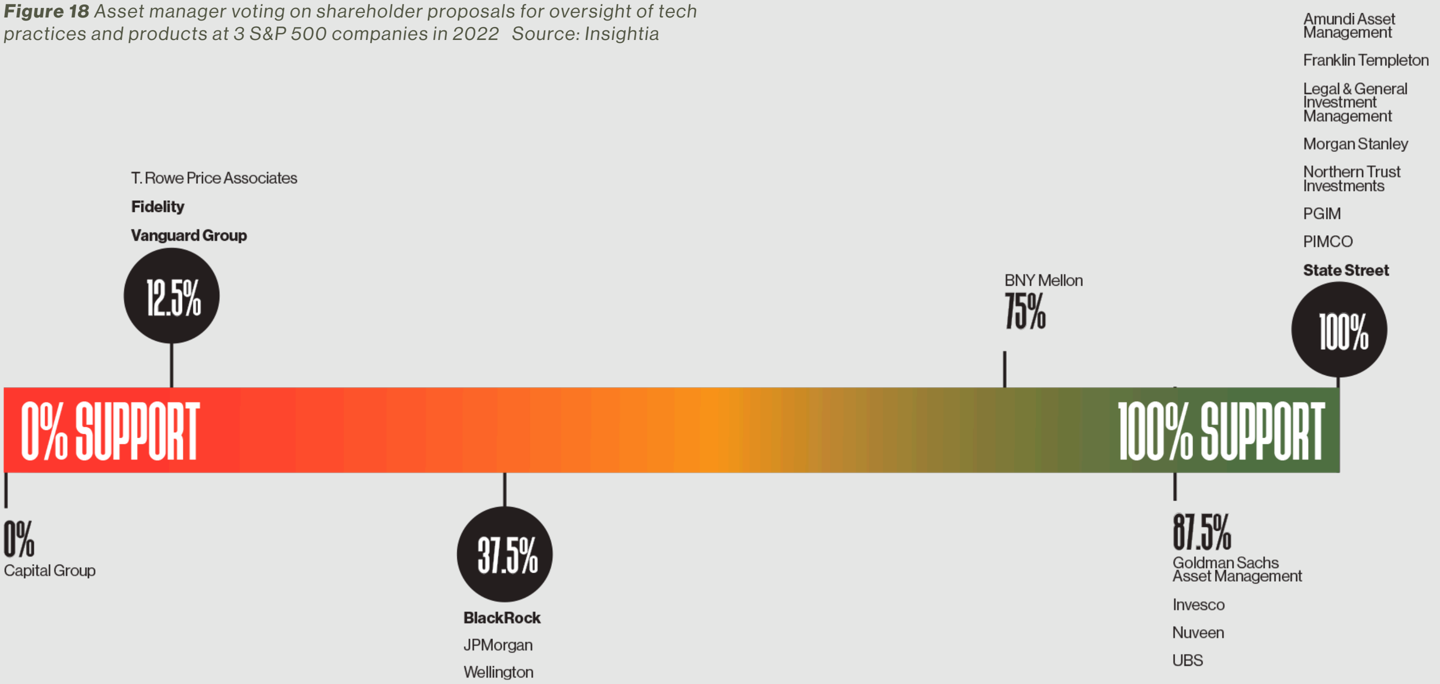
TECH INDUSTRY PRACTICES AND PRODUCTS

Human rights and civil rights risks associated with tech products can manifest in the form of surveillance, use of facial recognition technology, ad targeting, dissemination of misinformation, and online threats and harassment. According to a 2022 Brookings Institution report on police surveillance and facial recognition, "Surveillance and data collection have disproportionately affected communities of color under both past and current circumstances and political regimes... From the historical surveillance [COINTELPRO] of civil rights leaders by the Federal Bureau of Investigation (FBI) to the current misuse of facial recognition technologies."[131] In 2018, AI ethicists Dr. Timnit Gebru and Joy Buolamwini "found that commercial facial recognition tools sold by companies such as IBM and Microsoft were 99 percent accurate at identifying White males, but only 35 percent effective with Black women."[132] Shareholders are increasingly calling on major tech companies to develop and enforce policies and practices that mitigate such risks.

In the 2022 shareholder season, eight shareholder proposals at Alphabet, Amazon, and Meta Platforms received an average of 24.5 percent support. None of the proposals reached majority support, and all three companies have substantial insider ownership. **Vanguard and Fidelity voted in favor of only one proposal —a proposal at Meta seeking a Human Rights Risk Assessment —while BlackRock voted for fewer than half of these proposals.** By contrast, State Street voted in favor of all eight proposals.

VANGUARD GROUP, FIDELITY, AND BLACKROCK SUPPORT FEW TECH OVERSIGHT PROPOSALS

Figure 18 *Asset manager voting on shareholder proposals for oversight of tech practices and products at 3 S&P 500 companies in 2022   Source: Insightia*



Amazon received a proposal requesting an independent third-party report assessing whether its customer due diligence on customer use of products and services contributes to human rights violations, and another requesting an independent study and report of its surveillance product Rekognition.[133] If these two proposals had received support from a combination of BlackRock (which held 5.73 percent of shares), Fidelity (2.97 percent of shares), and Vanguard (6.67 percent of shares), they could have received majority support.

TWO TECH OVERSIGHT PROPOSALS COULD HAVE REACHED MAJORITY SUPPORT WITH THE BACKING OF BLACKROCK, VANGUARD GROUP, AND/OR FIDELITY

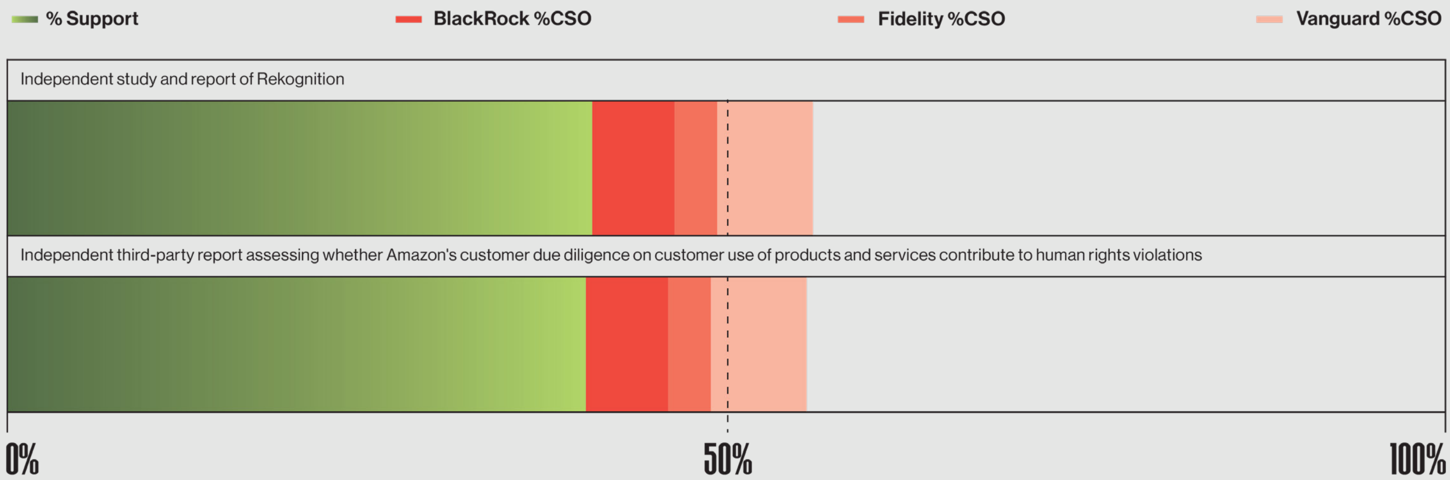


Figure 19 *Percent support for tech oversight proposals at Amazon and major asset manager holdings Source: Insightia*

State Street supported these two shareholder proposals

HOLDING DIRECTORS ACCOUNTABLE FOR INADEQUATE RESPONSIVENESS TO MAJORITY-SUPPORTED SHAREHOLDER PROPOSALS

Shareholder proposals seeking disclosure and action from corporations on environmental and social topics critical to long-term value creation are increasing year over year.[134] However, these 14a-8 proposals are non-binding, even when they receive overwhelming shareholder support. These expressions of shareholder concern are ultimately only as effective as shareholders' willingness to enforce them by voting to hold directors accountable if companies fail to adequately implement them.

CASE STUDY

CORPORATE GOVERNANCE FAILURES AT THE WENDY'S COMPANY

In 2021, 95 percent of shares voted at Wendy's annual meeting supported a proposal requesting disclosure relating to the oversight of human rights risk in Wendy's food supply chain.[135] Despite multiple attempts from the proponents and leading institutional investors to engage with the company, the Wendy's board failed to disclose the critical information necessary to substantiate the board's claim of adequate oversight.[136]

As a result, in 2022, the proponent's representative, Investor Advocates for Social Justice (IASJ), and Majority Action recommended votes against four directors.[137] The campaign highlighted Chairman Nelson Peltz, Senior Vice Chairman Peter May, Vice Chairman Matthew Peltz, and Nominating and Corporate Governance Committee Chair Peter Rothschild for a "vote no" recommendation for failure to adequately implement a majority vote proposal.[138]

In a day of action leading up to Wendy's annual general meeting, a major delegation comprised of impacted farm workers, concerned investors, community members, and New York City elected officials — including Manhattan Borough President Mark Levine and New York City Comptroller Brad Lander — called on key Wendy's investors BlackRock and JPMorgan at their headquarters to remind them to vote their shares against the four directors for their failure to implement the majority-supported proposal. Members of the delegation also visited Nelson Peltz's Trian Partners to insist on the Wendy's board fulfilling its governance obligations by ensuring human rights protections throughout the Wendy's supply chain.[139]

Shareholder support for Peter Rothschild, Chair of the Nominating and Corporate Governance Committee, fell to 86.9 percent, a decline of more than 10 percentage points.[140] The largest asset managers, including **BlackRock, Fidelity, State Street, and Vanguard, failed to hold any of the named directors accountable,** despite having voted in favor of the shareholder proposal the prior year.

LARGEST ASSET MANAGERS **FAIL TO HOLD WENDY'S BOARD ACCOUNTABLE** FOR FAILURE TO IMPLEMENT MAJORITY-SUPPORTED SHAREHOLDER PROPOSAL

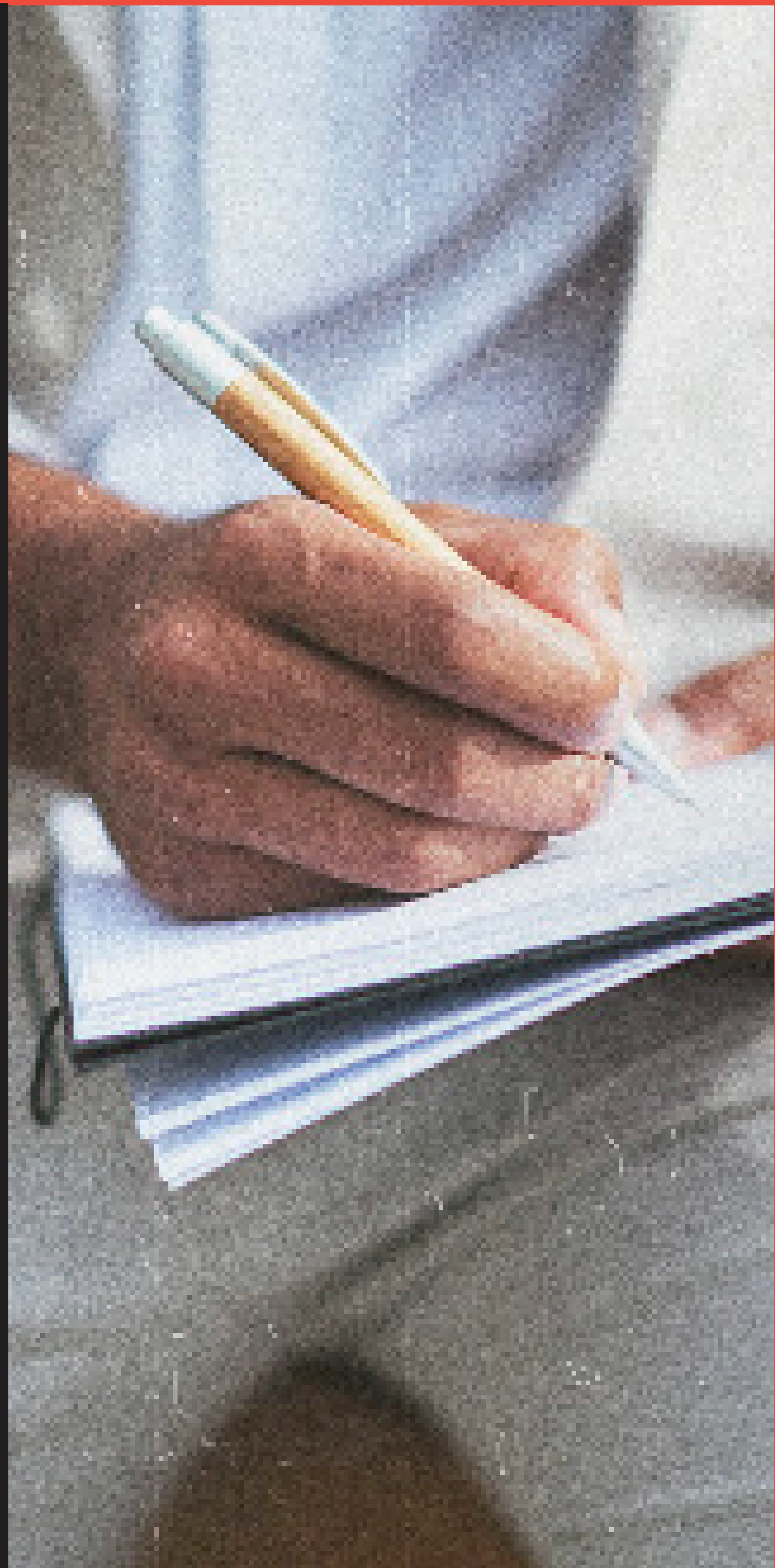
DIRECTOR	Nelson Peltz	Peter H. Rothschild	Peter W. May	Matthew H. Peltz
POSITION	Chair	Chair, Nominating And Corporate Governance Committee	Senior Vice Chair	Vice Chair
OVERALL SUPPORT	92.6%	86.9%	96.0%	96.2%
ASSET MANAGER	Vote Cast	Vote Cast	Vote Cast	Vote Cast
Amundi Asset Management	✗	✗	✗	✗
PIMCO	✗	✗	✗	✗
UBS	✗	✗	✗	✓
Legal & General Investment Mgmt	✗	✗	✓	✓
PGIM	✗	✓	✓	✓
Northern Trust Investments	✓	✗	✓	✓
BNY Mellon	✓	○	✓	✓
BlackRock	✓	✓	✓	✓
Fidelity	✓	✓	✓	✓
Goldman Sachs Asset Mgmt	✓	✓	✓	✓
JPMorgan	✓	✓	✓	✓
Nuveen	✓	✓	✓	✓
State Street	✓	✓	✓	✓
T. Rowe Price Associates	✓	✓	✓	✓
Vanguard Group	✓	✓	✓	✓

✓ FOR
○ MIXED
✗ AGAINST

No data available for Capital Group, Franklin Templeton, Invesco, Morgan Stanley, and Wellington at The Wendy's Company

Figure 20 *Asset manager voting on directors responsible for board leadership and Chair of Nominating and Corporate Governance Committee at The Wendy's Company. Source: Insightia, Wendy's May 19, 2022 8-k*

SECTION 06:
RECOMMENDATIONS



ASSET MANAGERS MUST UNDERTAKE COMPREHENSIVE RACIAL EQUITY AUDITS THAT EXAMINE AND RECTIFY THE EQUITY IMPACTS OF THEIR OWN STEWARDSHIP POLICIES AND PRACTICES

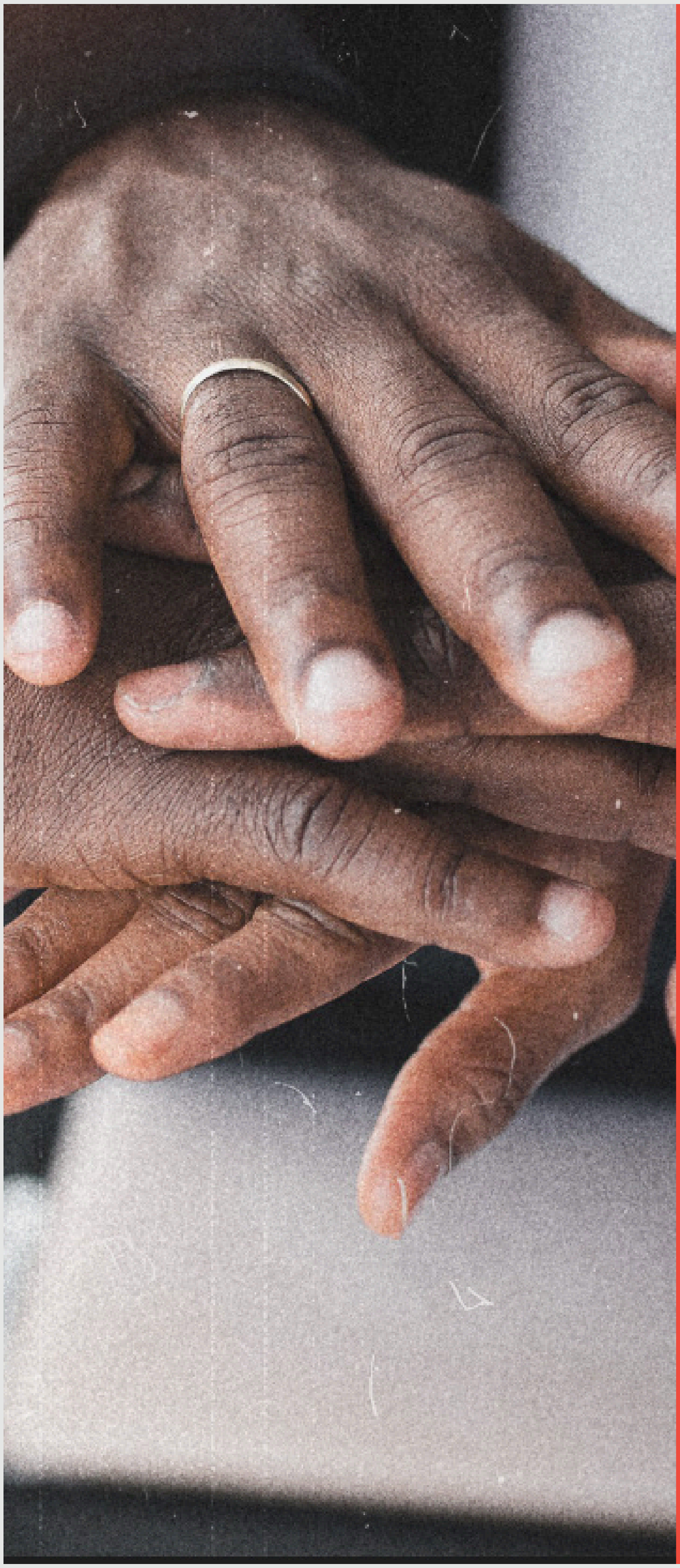
Systemic racism creates material portfolio-wide and company-specific risks for investors. As the largest shareholders in many of the world's largest companies, the world's largest asset managers have a role in rooting out systemic racial inequities from the U.S. economic system and thereby mitigating risks to their clients' portfolios.

The asset management sector itself exhibits many of the same patterns of systemic racial inequities as the broader economy. A December 2021 report by the U.S. House Committee on Financial Services, *Diversity and Inclusion: Holding America's Largest Investment Firms Accountable*, reviewed 31 of the largest investment firms in the U.S. (16 of which are reviewed in this report).[141] The findings were stark: "The lack of diversity and inclusion at these firms raises concerns regarding equal employment opportunities, the further widening of the racial wealth [gap], unequal distributions of capital, and the overall profitability of these firms."[142] As the congressional report stated, there was also "little progress across most data categories,"[143] which included workforce diversity, board diversity, procurement/supplier diversity, asset management diversity, underwriting diversity, data reliability, and the institution's diversity policies and practices.[144]

Though many of the largest asset managers have made statements in support of racial equity and two (BlackRock and State Street) committed to undertake racial equity audits,[145] none have yet established proxy voting guidelines that recognize the pernicious impacts of systemic racial inequalities on financial performance and hold portfolio companies accountable for actions that exacerbate systemic racial inequities. Relevant sections of proxy voting policies are often limited to general statements in support of board diversity without providing sufficient guidance to stewardship teams, such as by setting clear, numerical standards, or specifying consequences of failure to meet those standards.

The Big Four asset managers — BlackRock, Vanguard, Fidelity, and State Street — lag their peers in supporting racial equity audit proposals, proposals for greater transparency and congruency of political spending and lobbying activities, proposals related to worker rights and diversity initiatives, oversight of human rights in tech products and services, and board diversity. As a result, their approaches remain a substantial barrier to shareholder action to hold companies accountable for perpetuating and exacerbating racial inequalities and the risks these actions may pose to long-term value creation.

Given the company-specific and portfolio-wide significance of corporate practices for investors on racial equity, asset managers should review and update their stewardship and proxy voting policies to incorporate a comprehensive racial equity lens, establishing the reduction of racial inequities as a goal of their proxy voting policies, consistent with their fiduciary duty to manage systemic risks.



SPECIFICALLY, THIS SHOULD INCLUDE:

1. Acknowledging that a wide range of proposal categories can result in positive or negative racial equity impacts, and indicate (a) which proxy voting policies have been reviewed for racial equity impacts, and (b) the process for ongoing review;

2. Support for proposals to conduct comprehensive independent corporate racial equity audits as a standard practice as a complement to company disclosures and targets, unless the company has already conducted such an audit within the last five years and has established a governance mechanism for ongoing oversight of racial equity across their products, practices, and policies;

3. Setting a minimum standard of at least 30 percent racial and ethnic diversity on corporate boards, board demographic disclosures that include directors' racial and ethnic identities, and empowering votes against relevant committee and/or board leadership at companies failing to meet that standard; and

4. A policy of voting against directors for not fully implementing a shareholder proposal that received support from a majority of shares voted, with the adequacy of implementation judged by whether the company has implemented each of the proposal's essential elements, including any request that actions be carried out by an independent third party rather than the company.

IN ADDITION TO ADOPTING SIMILAR PROXY VOTING POLICY UPDATES, ASSET OWNERS SHOULD:

1. Engage with their existing asset managers over their voting records with respect to racial justice and the risks of systemic racism, including their plans to support key shareholder proposals— particularly racial equity audit proposals— in future years at portfolio companies, and hold boards accountable for actions perpetuating systemic racism; and

2. Incorporate criteria regarding proxy voting on systemic racism and associated systemic and company-specific risks into their asset manager search criteria, requests for proposals, and assessments.

SECTION 07:

APPENDICES

APPENDIX A: NOTE ON DATA AND METHODS

This report analyzes the votes of the 20 global asset managers with assets under management greater than $1 trillion according to data from Insightia as of May 16, 2022 and confirmed through asset manager sources via web research as of June 30, 2022. The list of asset managers can be found in Appendix B.

This report analyzes two facets of asset manager voting behavior. First, it assesses the extent to which each supported management recommendations on director elections at S&P 500 companies that had all-white directors on their board as of their annual meeting occurring between July 1, 2021 and June 30, 2022. Second, it evaluates how each asset manager voted on shareholder proposals relevant to racial equity and justice at S&P 500 company annual shareholder meetings between July 1, 2021 and June 30, 2022.

For director elections, the data on companies currently in the S&P 500 with all-white directors or one racially or ethnically diverse director as of their latest annual meeting during the period between July 1, 2021 and June 30, 2022 were provided by Institutional Shareholder Services ESG (ISS ESG) to Majority Action as of November 25, 2022. ISS generated this data through company and individual disclosures, surveys, and independent research. ISS ESG uses company-disclosed classifications of director gender identity and ethnicity where explicitly provided. In cases where companies do not explicitly disclose gender identity or ethnicity, ISS makes a classification determination using publicly available information, which may include a review of photographic images in company filings, and other information contained in annual reports, company websites and other publicly available sources (which inherently involves subjective assessments). ISS ESG classifications are based on ISS ESG's more granular version of the U.S. Office of Management and Budget's (OMB) definition of racial and ethnic categories as contained in OMB Directive 15.

All proposals calling on the company to conduct an independent racial equity audit were included for analysis. For all other shareholder proposals, only those that received at least 20 percent support from voting shareholders were included, to ensure that asset manager voting records were judged against other proposals with a baseline of significant shareholder support. Four tech-related proposals that received at least 20 percent outside shareholder support at companies with substantial insider holdings were also included.

A full list of these proposals at S&P 500 companies can be found in Appendices C through G. These proposals include:

- All proposals that asked the company to undergo an independent racial equity audit;
- Proposals that requested additional disclosure or alignment on policy influence activities, election spending and lobbying, including proposals calling on companies to disclose spending on elections or lobbying by trade associations and on the state level;
- Proposals that were directly related to human capital management, both in worker rights and diversity initiative areas;
- Proposals that were directly related to online safety, artificial intelligence, or surveillance at tech companies; and
- Proposals that asked the company to further or disclose its board diversity initiatives and demographics.

Voting data were provided by Insightia as of February 13, 2023, based on 2022 N-PX filings for those funds that file N-PX reports with the SEC, other public data sources, and direct investor reporting to Insightia. The proxy votes of relevant funds and subsidiaries as categorized by Insightia, and additional voting entities, were assigned to the appropriate fund sponsor or parent company for the purposes of this review. Within a single fund sponsor or parent company, there may be multiple reporting funds, which vote independently of one another, use different advisors, and follow different proxy voting policies.

Proposal votes are counted as "for" if 75 percent or more of funds within a fund family voted for a proposal and "against" if at least 75 percent of funds within a fund family opposed it. Director votes may be "against" or "withhold," depending on a company's voting standard for director elections. Both are treated as "against" votes. Votes where there was less than 75 percent agreement among funds in the same fund family are recorded as "mixed."

Only actual votes for a shareholder proposal are considered votes in support of it, with abstentions being counted as nonvotes. The support percentage is calculated by: votes in support / (votes in support + votes against).

Finally, this report identifies proposals that did not obtain majority support, but would have done so with the support of one or more of the largest asset managers. To determine this, the percent of common stock outstanding (percent CSO) held by the asset manager, as of March 31, 2022, according to Insightia, was added to the percent support obtained by the proposals.

This approach does not precisely match the voting impact an asset manager could have had, as asset managers do not disclose precisely how many shares were voted on any given proposal. In addition, an asset manager may have beneficial ownership over shares for which it does not have voting rights. Conversely, large asset managers tend to vote their shares at a higher rate than other shareholders, which amplifies their voting power beyond what is represented by percent CSO. That amplification is greatest at companies with lower shareholder turnout, where the number of shares voted at the meeting can be significantly lower than the number of shares outstanding. Therefore, the percent CSO method represents a conservative approach, often significantly underestimating the potential of top managers to swing close votes. More detailed discussion of this methodology can be found in Majority Action's 2019 *Climate in the Boardroom* report.

APPENDIX B:
ASSET MANAGERS WITH GREATER THAN $1 TRILLION IN ASSETS UNDER MANAGEMENT

Asset Manager	AUM ($B)
Amundi Asset Management	$1,963
BlackRock	$8,487
BNY Mellon	$2,400
+ Newton Investment Management	
+ Walter Scott Global Investment Managament	
Capital Group	$2,600
+ Capital Guardian Trust Co.	
Fidelity Management & Research Co. (FMR)	$4,238
+ Fidelity Institutional Asset Management	
Franklin Templeton	$1,500
Goldman Sachs Asset Management LP	$2,000
Invesco Advisers, Inc.	$1,390
JP Morgan	$2,500
Legal & General Investment Management	$1,700
Morgan Stanley Investment Management, Inc.	$1,400
Northern Trust Investments	$1,610
Nuveen Asset Management LLC	$1,200
Pacific Investment Management Co. (PIMCO)	$1,820
+ Parametric Portfolio Associates (PIMCO labeled funds only)	
Prudential Global Investment Management	$1,300
+ Jennison Associates LLC	
+ PGIM Quantitative Solutions	
State Street Corporation	$4,100
T. Rowe Price Associates, Inc.	$1,690
UBS Asset Management	$1,200
Vanguard Group, Inc.	$7,796
Wellington Management	$1,000

Note: The proxy votes of relevant subsidiaries as categorized by Insightia, and additional voting entities, were assigned to the appropriate parent company for the purposes of this review.

APPENDIX C:
RACIAL EQUITY AUDIT SHAREHOLDER PROPOSALS AT S&P 500 COMPANIES

Company	Proposal Number	Proposal Text	% in Favor
Alphabet Inc.	9.0	Stockholder proposal regarding a racial equity audit	22.4
Altria Group, Inc.	4.0	Shareholder proposal commission a civil rights equity audit	62.2
American Water Works Company, Inc.	5.0	Racial justice audit	48.3
Apple Computer, Inc.	9.0	Civil Rights Audit	53.6
Chevron Corp.	9.0	Stockholder proposal to report on racial equity audit	47.5
Chipotle Mexican Grill, Inc.	6.0	Shareholder proposal to commission a racial equity audit	36.4
Comcast Corp.	5.0	Shareholder proposal to perform independent racial equity audit	18.3
Elevance Health, Inc.	6.0	Racial Impact Audit and Report	41.2
Johnson & Johnson	7.0	Shareholder proposal – third party racial justice audit	62.6
McDonald's Corporation	8.0	Shareholder proposal on third-party civil rights audit	55.8
Mondelez International, Inc.	4.0	Shareholder proposal requesting a third-party audit analyzing Mondelēz's adverse impacts on non-white stakeholders and communities of colour	48.6
Oracle Corporation	5.0	Racial Equity Audit	31.8
Republic Services, Inc.	6.0	Commission a Third-Party Civil Rights Audit	38.7
Salesforce.com, Inc.	7.0	Stockholder proposal regarding a racial equity audit	33.9
SVB Financial Group	4.0	Regarding Racial Justice Audit	34.6
The Home Depot, Inc.	10.0	Shareholder proposal regarding racial equity audit	62.8
The Travelers Companies, Inc.	7.0	Shareholder proposal relating to a racial equity audit	47.2
Waste Management Inc.	4.0	Stockholder proposal urging the board of directors to perform a civil rights audit	55.0
Wells Fargo & Company	10.0	Conduct a Racial Equity Audit	36.1

Note: The proxy votes of relevant subsidiaries as categorized by Insightia, and additional voting entities, were assigned to the appropriate parent company for the purposes of this review.

APPENDIX D:
BOARD DIVERSITY PROPOSALS AT S&P 500 COMPANIES

Company	Proposal Number	Proposal Text	% in Favor
Amazon.com, Inc.	7	Shareholder proposal requesting an alternative director candidate policy	22.2
NextEra Energy	4	Shareholder proposal- board matrix	25.3

APPENDIX E:
POLICY INFLUENCE SHAREHOLDER PROPOSALS AT S&P 500 COMPANIES

Company	Proposal Number	Proposal Text	% in Favor
Abbott Laboratories	7	Proposal on lobbying disclosure	34.7
AbbVie Inc.	8	Stockholder Proposal on Political Spending	39.5
Amazon.com, Inc.	14	Shareholder proposal requesting additional reporting on lobbying	47.3
American Airlines Group Inc.	7	Stockholder proposal to provide a report on certain lobbying activities	22
AT&T Inc.	6	Political Congruency Report	44.1
Caterpillar Inc.	5	Shareholder proposal - lobbying disclosure	44.6
Charter Communications, Inc.	3	Stockholder proposal regarding lobbying activities	38.9
Cigna Corporation	6	Political Contributions Report	46.3
DaVita Inc.	4	Stockholder proposal regarding political contributions disclosure	24
Delta Air Lines, Inc.	4	Shareholder proposal - lobbying report	27.6
Dollar General Corporation	4	Shareholder proposal requesting political spending disclosure	57
Eli Lilly and Company	9	Disclose lobbying activities and alignment with public policy positions and statements (third party)	34
Eli Lilly and Company	8	Publish annual report disclosing lobbying activities	37
Expeditors International of Washington Inc.	4	Political spending disclosure	25.6
ExxonMobil Corporation	10	Report on Political Contributions	26.7
FedEx Corporation	5	Report on a congruency analysis between company values and any political or electioneering contributions made by the company and FedExPAC	38.6
FedEx Corporation	6	Report with full disclosure of FedEx's direct and indirect lobbying activities and expenditures (4 pts)	62.4
Fox Corporation	4	Stockholder proposal to disclose direct and indirect lobbying activities and expenditures	43
Gilead Sciences, Inc.	8	Disclose lobbying activities and alignment with public policy positions and statements (third party)	50.2

APPENDIX E:
POLICY INFLUENCE SHAREHOLDER PROPOSALS AT S&P 500 COMPANIES (CONTD.)

Company	Proposal Number	Proposal Text	% in Favor
HCA Healthcare, Inc.	5	Regarding lobbying disclosure	22.6
HCA Healthcare, Inc.	4	Political Spending Disclosure	31.7
Johnson & Johnson	12	Disclose lobbying activities and alignment with public policy positions and statements (third party)	43.3
Meta Platforms, Inc.	13	Shareholder proposal regarding report on lobbying	20.6
Microsoft Corporation	9	Disclose lobbying activities and alignment with public policy positions and statements	38
Netflix, Inc.	8	Stockholder proposal: lobbying activity report	60.4
Nike, Inc.	4	Shareholder proposal regarding political contributions disclosure	30.5
Omnicom Group Inc.	4	Shareholder proposal regarding political spending disclosure	29.3
The Boeing Company	5	Additional Report on Lobbying Activities	40.5
The Charles Schwab Corporation	8	Stockholder proposal regarding lobbying activities and expenditures	34.7
The Home Depot, Inc.	7	Shareholder proposal regarding political contributions congruency analysis	36.9
The Travelers Companies, Inc.	4	Shareholder proposal relating to lobbying	52.7
The Walt Disney Company	4	Lobbying Disclosure	34.3
Twitter	8	Stockholder proposal regarding electoral spending report	53.4
United Airlines Holdings, Inc.	4	Stockholder proposal regarding lobbying policies and activities	36.8
United Parcel Service, Inc.	4	Requesting the Board Prepare an Annual Report on Lobbying Activities	29.6
UnitedHealth Group Incorporated	5	Shareholder proposal regarding political contributions congruency report	38.2

APPENDIX F:
HUMAN CAPITAL MANAGEMENT PROPOSALS AT S&P 500 COMPANIES

Company	Proposal Number	Proposal Text	% in Favor
Activision Blizzard, Inc.	5	Shareholder proposal regarding the preparation of a report about the Company's efforts to prevent abuse, harassment, and discrimination	67.4
Amazon.com, Inc.	10	Shareholder proposal requesting additional reporting on risks associated with the use of certain contract clauses	24.9
Amazon.com, Inc.	17	Shareholder proposal requesting additional reporting on gender/ racial pay	28.8
Amazon.com, Inc.	13	Shareholder proposal requesting additional reporting on freedom of association	38.9
Amazon.com, Inc.	16	Shareholder proposal requesting a report on warehouse working conditions	44
Apple Computer, Inc.	8	Pay Equity	33.6
Apple Computer, Inc.	7	Report on Forced Labor	33.7
Apple Computer, Inc.	10	Report on Concealment Clauses	50
Berkshire Hathaway Inc.	5	Report quantitative data on workforce composition, and recruitment, retention, and promotion rates of employees by gender, race, and ethnicity	25.9
Charter Communications, Inc.	7	Proposal Regarding EEO-1 Reports	45.5
Chipotle Mexican Grill, Inc.	7	Shareholder proposal to publish quantitative workforce data	21.5
Cigna Corporation	5	Gender pay gap report	32.9
Comcast Corp.	7	Shareholder proposal to conduct and publicly release the results of an independent investigation into the effectiveness of sexual harassment policies	22.3
CVS Health Corp	7	Stockholder proposal requesting paid sick leave for all employees	26.2
Digital Realty Trust Inc.	4	Stockholder proposal regarding reporting on concealment clauses	45.6
International Business Machines Corp.	6	Requesting a Public Report on the Use of Concealment Clauses	64.7
Kroger Co.	6	Shareholder Proposal — Report on Protection of Farmworkers	20.9
Kroger Co.	8	Shareholder Proposal — Report on Workforce Strategy	29.5

APPENDIX F:
HUMAN CAPITAL MANAGEMENT PROPOSALS AT S&P 500 COMPANIES (CONTD.)

Company	Propsoal Number	Propsoal Text	% in Favor
Lowe's Companies Inc.	7	Shareholder Proposal – Report on risks of state policies restricting reproductive health care	32.2
Lowe's Companies Inc.	9	Shareholder Proposal – Report on risks from worker misclassification by certain company vendors	35.7
Lowe's Companies Inc.	5	Shareholder Proposal – Report on racial and gender pay gaps	58
Microsoft Corporation	5	Report on median pay gaps across race and gender	40
Microsoft Corporation	6	Report on effectiveness of workplace sexual harassment policies	78
Nike, Inc.	5	Shareholder proposal regarding a human rights impact assessment	27.7
Nike, Inc.	7	Shareholder proposal regarding diversity and inclusion efforts reporting	35.6
Starbucks Corp.	5	Regarding annual reports regarding the prevention of harassment and discrimination in the workplace	32.1
Tesla, Inc	9	Regarding additional reporting on human rights	25.8
Tesla, Inc	8	Regarding assigning responsibility for strategic oversight of human capital management to an independent board-level committee	33.8
Tesla, Inc	7	Regarding reporting on employee arbitration	46.4
Tesla, Inc	6	Regarding additional reporting on diversity and inclusion efforts	56.9
The Walt Disney Company	7	Pay Equity Report	59.6
TJX Companies, Inc.	5	Shareholder proposal for a report on effectiveness of social compliance efforts in TJX's supply chain	24.6
TJX Companies, Inc.	7	Shareholder proposal for a report on risk due to restrictions on reproductive rights	30.2
TJX Companies, Inc.	6	Shareholder proposal for report on risk to TJX from supplier misclassification of supplier's employees	31.8
TJX Companies, Inc.	8	Shareholder proposal to adopt a paid sick leave policy for all Associates	33.8
Twitter	5	Stockholder proposal regarding a report on risks of the use of concealment clauses	68.9
United Parcel Service, Inc.	9	Requesting the Board Prepare an Annual Report on Diversity and Inclusion	36.8

APPENDIX G:
ONLINE SAFETY, ARTIFICIAL INTELLIGENCE, OR SURVEILLANCE PROPOSALS AT TECH COMPANIES IN THE S&P 500

Company	Propsoal Number	Propsoal Text	% in Favor
Alphabet Inc.	14	Stockholder proposal regarding a report on data collection, privacy, and security	12.2
Alphabet Inc.	15	Stockholder proposal regarding algorithm disclosures	19.6
Alphabet Inc.	16	Stockholder proposal regarding misinformation and disinformation	23.1
Amazon.com, Inc.	6	Shareholder proposal requesting a report on customer due diligence	40.3
Amazon.com, Inc.	19	Shareholder proposal requesting a report on customer use of certain technologies	40.7
Meta Platforms, Inc.	11	Shareholder proposal regarding child sexual exploitation online	17.3
Meta Platforms, Inc.	8	Shareholder proposal regarding report on community standards enforcement	19.2
Meta Platforms, Inc.	10	Shareholder proposal regarding human rights impact assessment	23.8

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