Boston Trust Walden

Principled Investing.

ESG IMPACT REPORT

Second Quarter 2024

2024 PROXY SEASON

Each year at company annual meetings, shareholders have the opportunity to vote on matters related to company policies, practices, and performance. Among those items voted upon are shareholder proposals focused on environmental, social, and governance (ESG) issues.

While the absolute number of shareholder proposals filed during the 2024 proxy season continued to eclipse historical levels, a closer look reveals an increasingly dynamic landscape shaped by regulatory shifts, changing shareholder priorities, and the broader socio-political context.

As of June 1, 2024, nearly 380 ESG-related shareholder proposals had been voted on or were pending among US publicly traded companies — a 20% increase over the 316 proposals filed in 2022.[1]

One measure of a productive and constructive proxy season is the successful withdrawals of resolutions resulting from negotiated company commitments. This proxy season we saw a dramatic reduction in the number of proposals withdrawn for agreement, with just over 180 proposals withdrawn prior to the company's annual meeting — a 33% decline from the 275 withdrawn in 2022.[2] This shift over the past three years suggests investors may be facing greater challenges in negotiating with companies to withdraw proposals in return for company commitments to address the areas of concern.

The willingness of companies to reach withdrawal agreements may be influenced by a series of factors, from declining levels of voting support to increasing Securities and Exchange Commission (SEC) omissions, and the politicization of company action to address material ESG risks.

Over the last four years, average support for environmental and social shareholder proposals fell from a high-water mark of 31% in 2021 to 16% in 2024, with only five proposals receiving majority support this season.[3] The decline in support by the largest US asset managers has likely played a role in suppressing overall figures for the year in review. Also contributing to this decline are the more than 80 ESG counterproposals (i.e., proposals filed by proponents seeking actions antithetical to the objectives of traditional ESG-related resolutions) that received an average of only 2% shareholder support, bringing down the overall average.

Overall, the 2024 proxy season exemplifies the complex and evolving nature of corporate governance.

Further, we also witnessed a higher number of shareholder resolutions never making it to vote due to removal from the proxy statement. This season companies petitioned the SEC to omit nearly 260 proposals, a staggering 55% increase compared to the prior year.[4] What's more, these petitions were more likely to be granted, with the SEC approving approximately 68% of these requests — a notable increase from 56% in 2023.[5] Critics of the shareholder proposal process have taken aim in recent years at the SEC, claiming a dereliction of duty to police the process, despite the data (as noted above) suggesting otherwise.

The increasingly politicized environment — fueled by the continued rise in ESG counterproposals — also contributed to the changing tone of engagement between companies and investors utilizing the shareholder proposal process. In some cases, the filing of shareholder proposals became a battleground for broader political and ideological conflicts — with some companies less willing to address more divisive issues and others even challenging the legitimacy of this essential shareholder right. Yet, while some companies were seemingly hesitant to take public stances in an election year, many investors continued to seek greater transparency of corporate political influence. Notably, this season we witnessed outsized shareholder support (29%) for proposals seeking enhanced lobbying transparency relative to the season average across all ESG-related proposals.

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Proxy Season Trends in Focus

INCREASING DIVERSITY IN THE BOARDROOM

For more than 30 years, Boston Trust Walden has actively engaged companies, regulators, and policymakers to advance diversity within corporate boardrooms recognizing it as a measure of sound governance. While our efforts have made a meaningful difference, as long as those that self-identify as female and members of historically underrepresented groups remain absent from too many boardrooms and executive suites, our work will continue. In 2024, we took voting action against 25% of portfolio holdings due to insufficient board diversity, down from 30% in 2023 and 42% in 2022. Further, the persistence of our engagement is paying off. Of the 62 boards we opposed in 2022 and have continued to hold on behalf of clients, 33 (53%) now meet our board diversity guidelines.

ESG COUNTERPROPOSALS CONTINUE TO UNDERPERFORM

As noted above, we continue to observe a dramatic increase in shareholder proposals that run counter to the advancement of policies and initiatives to effectively manage ESG risks and opportunities, with more than 80 going to vote during the 2024 season compared to just 33 in 2022.[6] The shareholders filing these proposals attempt to refute the widely recognized reality that sustainability risks and opportunities can, and do, impact long-term shareholder value. These actors seek to politicize corporate involvement in climate change mitigation efforts, diversity, equity, and inclusion practices, and other socially responsible activities. While these proponents contribute to the "proposal fatigue" cited by many companies, SEC rules rightly allow for an open and democratic exchange of ideas within the market — and the market has spoken. In 2024, these proposals received an average of only 2% support from shareholders, highlighting the limited traction of these perspectives among investors.[7]

THE RISE OF ARTIFICIAL INTELLIGENCE

One of the most notable trends this season was the introduction of proposals at technology leaders focused on the ethical considerations and governance of artificial intelligence (AI) in corporate products and operations. Attempts to challenge these proposals at the SEC on the grounds of addressing "ordinary business" were rejected by the regulator, and many received significant shareholder support. For example, a proposal at Apple asked the company to provide greater transparency regarding the use of AI within its operations as well as any ethical guidelines it has adopted. While several of Apple's peers publicly committed to adopt AI safeguards developed by the Biden Administration to better manage the risks and opportunities of the emerging technology, Apple's participation was notably absent. Boston Trust Walden joined more than 37% of Apple shareholders in supporting this resolution — a significant result for a first-time proposal.

BOSTON TRUST WALDEN SHAREHOLDER RESOLUTIONS

At Boston Trust Walden, we engage companies to strengthen business systems and decision-making practices, but often that change can take time. This is why our team views active ownership on a multiyear time horizon and leverages a multifaceted approach. While direct engagement is our first step, we employ shareholder resolutions when our attempts at engagement via dialogue are unproductive.

The goal of our engagement efforts is to observe measurable improvement in a company's ESG policies, practices, or performance. While a resolution can be a valuable tool, a successful company engagement may mean our shareholder resolution never makes it to the annual meeting but is instead withdrawn because the company agrees to take meaningful action. Moreover, a successful and constructive engagement may mean we avoid filing a resolution.

During the 2024 proxy season, Boston Trust Walden led five shareholder resolutions, three of which were withdrawn based on negotiated corporate commitments. We withdrew our proposal at **Valmont Industries** after the company agreed to annually disclose workforce demographic data from its EEO-1 report. Our resolution with **Chemed Corporation** was withdrawn following the company's commitment to publish an inaugural sustainability report aligned with the SASB Standards[8] for its industry. Finally, we withdrew our resolution at **Comfort Systems** after it agreed to establish its first set of greenhouse gas (GHG) emissions reduction goals and to publish a corresponding transition plan detailing its strategy for achieving these targets.

Both resolutions that went to vote outperformed the average level of support across all ESG-related proposals. Our proposal at **Texas Roadhouse** seeking greater evidence of climate risk management efforts received support from nearly 28% of shareholders. Our resolution with **Expeditors International of Washington** seeking the establishment of GHG emissions reduction targets and a corresponding transition plan received support from 22% of shares cast.

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HOW BOSTON TRUST WALDEN VOTED *for the year ended June 30, 2024*

During the 2024 proxy season, Boston Trust Walden voted against management recommendations on at least one ballot item at 62% of company meetings. Of the 148 shareholder proposals observed at portfolio companies, we supported nearly 58%, reflecting our process to carefully consider individual proposals and evaluate the merit of each request in addressing significant ESG risks and opportunities and fostering the creation of long-term shareholder value. For more details on how Boston Trust Walden voted proxies on behalf of our clients, please visit https://www.bostontrustwalden.com/2024-proxy/

ENDNOTES

[1] Welsh, Heidi. "Long-term Pro- and Anti-ESG Shareholder Proposal Trends." Sustainable Investments Institute. June 4, 2024.

[2] Ibid.

[3] Welsh, Heidi. Sustainable Investments Institute Engagement Monitor Search. June 27, 2024. Sustainable Investments Institute. https://siinstitute.org/

[4] Lewis, Sanford. "SEC No Action Statistics to May 1, 2024." The Harvard Law School Forum on Corporate Governance.

[5] Ibid.

[6] Welsh, Heidi. Sustainable Investments Institute Engagement Monitor Search. June 27, 2024. Sustainable Investments Institute. https://siinstitute.org/

[7] Ibid.

[8] The SASB Standards enable organizations to provide industry-based disclosures about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium, or long term. Global investors recognize SASB Standards as essential requirements for companies seeking to make consistent and comparable sustainability disclosures. (Source: https://sasb.ifrs.org/standards/)