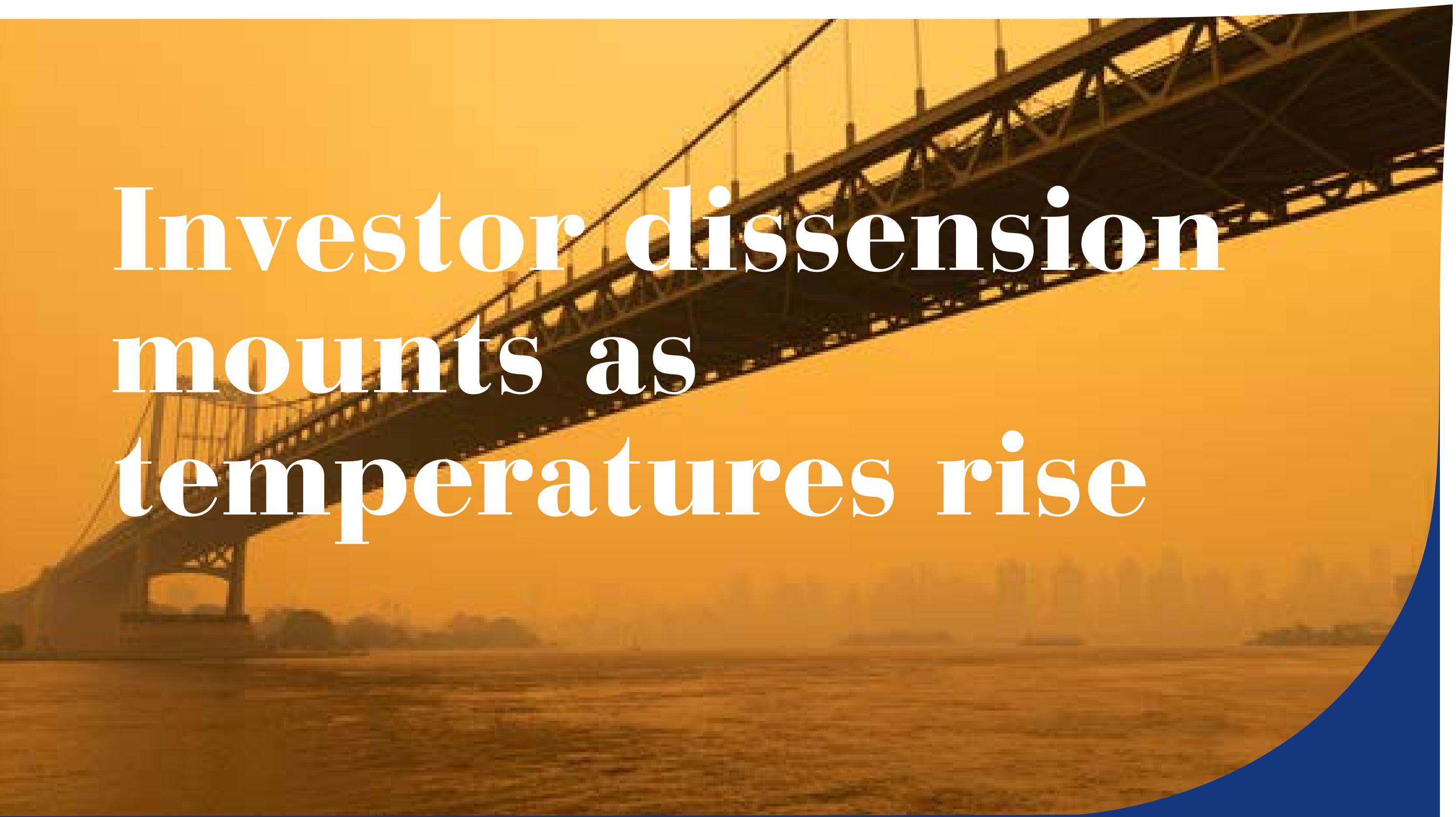

Investor dissension mounts as temperatures rise

The 2023 vote season was characterised by investor frustration over companies' inadequate responses to climate change, and stakeholder concerns about labour rights and pay as the cost of living crisis continued to bite. By Richard Adeniyi-Jones and Joanne Beatty.

Setting the scene

Shareholders continued to call for change at companies this year, bringing a raft of proposals in the US and Europe on collective bargaining rights, climate lobbying, child safety in the digital realm, animal welfare, racial equity and tax transparency. Executive compensation also came under scrutiny as the cost of living crisis continued.

Meanwhile, as Europe braced for a summer of soaring temperatures, and smoke from Canadian wildfires choked New York, investor dissension mounted over what was seen as backtracking on climate commitments in some quarters. In the UK and France, fossil fuel shareholder meetings were targeted by climate activists, and institutional investors spoke out about their deepening concerns.

With voting season still underway in some Asian markets, this article focuses mainly on North America and Europe. We will spotlight some of the key trends from developed Asia and the emerging markets in our Q3 Public Engagement Report.

This year's voting season was marked by growing investor dissension in Europe as shareholders lost patience with company responses to the climate crisis. In the US, however, support for climate-related and social shareholder proposals fell to the lowest level in six years.[1]

In the first half of 2023 to 21 June, we made voting recommendations at over 9,032 meetings, versus 10,289 in H1 2022. We made at least one voting recommendation against management at 69% of meetings, versus 70% in H1 2022. Overall, we recommended votes on 2,151 shareholder resolutions in the first half of 2023, versus 2,424 over the same period in 2022. Some 571 of these were in the US, where we recommended against management on 368 proposals or 64%.

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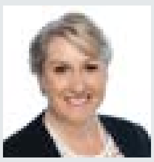

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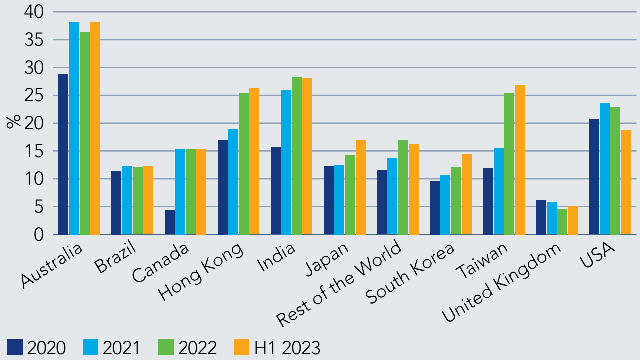
[1] Support for ESG Shareholder Proposals Plummets Amid GOP Backlash - Bloomberg

Percentage of proposals voted against management per key market



Source: EOS data

We recommended votes against the climate transition progress reports proposed by Shell and TotalEnergies again this year due to their failure to make sufficient progress.

In the US, total shareholder proposals jumped to a new record with social issues such as responsible tax, human and digital rights, and diversity, equity and inclusion (DEI), seeing the biggest increase. Proxy adviser ISS reported a 12% increase in the number of proposals from 2020 to 2023, with a total of 682 proposals submitted for Russell 3000 shareholder meetings in the year to 31 May.[2]

S&P 500 companies accounted for 90% of the US shareholder proposals filed. We also saw a wave of anti-ESG proposals aiming to discourage companies from implementing climate or social initiatives, although these continued to receive low levels of support. Some companies attracted large numbers of proposals, with 18 at Amazon and 13 at Alphabet, covering issues from climate and tax transparency to gender/racial equity pay gaps and digital rights.

However, the volume of environmental proposals in the US was down 5% from a peak last year.[3] Climate remained the most common issue, accounting for 13.3% of the total assessed by ISS, with investors seeking improved disclosure or calling for companies to set emissions reduction targets.

Climate change

We continued to follow our climate change vote policy to guide our recommendations. We consider recommending votes against directors at companies identified as laggards in managing climate-related risks, using region and sector-specific thresholds and various climate risk indicators. In the first half of 2023, we recommended voting against the re-election of directors or relevant proposals at 285 companies, up from 244 in H1 2022, due to concerns about insufficient management of climate-related risks.

In some cases, our engagement identified significant improvement to the climate strategy at laggard companies, and we recommended support for directors, while encouraging further progress to meet our minimum thresholds. For example, at ConocoPhillips we reinitiated support for the re-election of the public policy and sustainability committee chair as a result of the company joining the Oil and Gas Methane Partnership 2.0, and increasing the scope and ambition of its Scopes 1 and 2 emissions reduction targets.

At Woodside Energy we decided that escalation was required because it had failed to improve its climate strategy.

The Australian oil and gas company Woodside Energy is not captured by our climate risk indicators, but we assessed its climate strategy as having material weaknesses, such as the absence of a Scope 3 emissions reduction target. We decided that escalation was required because it had failed to improve its climate strategy, even though 49% of shareholders had voted against the management's climate plan in the 2022 say-on-climate vote. Therefore, we recommended a vote against the re-election of two directors on the sustainability committee. These directors subsequently attracted votes against of 35% and 13%.

Say-on-climate votes

Companies continued to give investors the opportunity to vote on their climate transition plans – either for the first time, or by providing an annual update to already-approved plans. However, there was a marked reduction in the number versus 2022, according to EOS tracking data. Aside from the sizeable votes against at Woodside, we saw dissent at TotalEnergies, BP and Shell, where shareholders were concerned that the European oil majors were retreating from their climate commitments amid bumper profits.[4] Almost 10% of shareholders voted against BP chair Helge Lund while large investors publicly voiced their concerns ahead of Shell's meeting.[5] Climate protesters attempted to disrupt all three meetings.

We take a robust approach to assessing companies' climate transition plans. We consider the extent to which plans are substantially aligned with a global temperature rise of 1.5°C, and the action that companies are taking to deliver against these plans. This meant we recommended votes against the climate transition progress reports proposed by Shell and TotalEnergies again this year due to their failure to make

[2] U.S. Shareholder Proposals Jump to a New Record in 2023 - ISS Corporate Solutions
[3] U.S. Shareholder Proposals Jump to a New Record in 2023 - ISS Corporate Solutions
[4] https://www.theguardian.com/business/2023/apr/27/climate-protesters-disrupt-bp-shareholder-meeting-in-london
[5] https://www.theguardian.com/business/2023/may/09/shell-shareholders-chair-pirc-andrew-mackenzie-agm

sufficient progress in aligning with 1.5°C. Ultimately, some 20% of Shell's shareholders voted against the company's energy transition plan,[6] while at TotalEnergies, more than 30% of investors supported an advisory resolution filed by Dutch activist shareholder Follow This. It called on the company to update its climate targets in line with the Paris Agreement goals by 2030.[7]

Amidst the controversy surrounding UBS's acquisition of Credit Suisse, both banks offered shareholders a say-on-climate vote this year. We recommended support for the strategy at Credit Suisse, as this was substantially aligned with 1.5°C, and the company had demonstrated a commitment to making further progress. At UBS, however, we recommended a vote against the strategy as there were insufficient targets and policies in place to manage the risks related to thermal coal financing. This was of particular concern given the relatively high coal exposure embedded in Credit Suisse's balance sheet.

Other climate-related and environmental proposals

We also saw a range of other climate-related shareholder proposals, with the banking and energy sectors again in focus, although hard-to-abate sectors such as mining also came under scrutiny.

In Canada we saw proposals filed at the Royal Bank of Canada, Canadian Imperial Bank of Commerce, Toronto Dominion, the Bank of Montreal and the Bank of Nova Scotia. In the US, there were proposals at Goldman Sachs, State Street, JPMorgan Chase, Wells Fargo, Bank of America and Citigroup.

We tended to support proposals requesting additional disclosure or a shareholder vote on climate strategies, and encouraged companies to support proposals that were in line with their strategy. New York Community Bancorp received a shareholder proposal on climate lobbying and in a surprising move, management recommended support for it.

> **A proposal at mining company Glencore sought disclosure on the alignment of its thermal coal production and related capex with the Paris Agreement's 1.5°C goal.**

Increasingly, we also saw calls for companies to set and disclose new forms of targets or more detailed plans to support these. For Bank of America, we recommended support for a shareholder proposal seeking 2030 absolute greenhouse gas reduction targets for the company's energy sector lending and underwriting, aligned with the Paris Agreement. We also supported a proposal asking for a transition plan that describes how the bank will align its financing activities with its 2030 sectoral greenhouse gas reduction targets.

In the US and Canada, we also saw several anti-ESG shareholder proposals, such as calls for banks – including Bank of Montreal and Canadian Imperial Bank of Commerce - to continue supporting fossil fuel intensive sectors in North America. We recognise the concerns associated with transitioning from fossil fuel production, especially among communities with high levels of employment in these sectors. However, we engage for a just transition, which we believe is a more effective way of addressing these concerns. Consequently, we did not recommend support for these proposals.

At ExxonMobil, we recommended voting for shareholder proposals on methane emissions disclosure reliability, the adoption of a medium-term Scope 3 target and a report on the worst-case impacts of oil spills in Guyana. About 36% of shareholders supported the methane emissions proposal.[8]

At Chevron we supported similar proposals including one for a medium-term Scope 3 reduction target to improve the transparency of the company's climate strategy, and a proposal to disclose a recalculated emissions baseline to help investors assess how the company is meeting its targets.

In Japan, three of the largest banks attracted climate proposals – Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group faced calls for them to publish a transition plan to align their lending and investments with the Paris Agreement. We recommended support for all three.

Beyond the energy and banking sectors, a proposal at mining company Glencore sought disclosure on the alignment of its thermal coal production and related capital expenditure with the Paris Agreement's 1.5°C goal. We engaged intensively with the company on this resolution and ultimately decided that recommending support for the resolution was a necessary escalation to encourage improved climate risk management.

We also recommended support for a proposal at the cement and aggregates company Martin Marietta asking for emissions reduction targets aligned with the Paris Agreement, and for another at the agrochemicals business Mosaic. This sought a report on how the company would reduce its significant Scope 3 emissions in line with limiting global warming to 1.5°C.

Berkshire Hathaway faced three climate-related shareholder proposals this year, which were defeated. We recommended support for all three, which sought reporting on: physical and transitional climate-related risks and opportunities at the parent company level, the audit committee's oversight of climate risks and opportunities in accordance with its charter, and if and how the company would measure, disclose and reduce greenhouse gas emissions.

[6] https://www.ft.com/content/56fdd2da-627e-452c-ade6-599b5218f383
[7] https://www.ft.com/content/bbea1142-0455-4c97-bb85-0fce37da9254
[8] https://www.ft.com/content/7faccadc-beef-4b10-be53-ae7aceaeafce

VOTING CASE STUDY

Volkswagen

Our engagement with Volkswagen has focused strongly on climate lobbying since the start of 2019. We have asked the German automotive company to align with the Institutional Investors Group on Climate Change investor expectations on climate change-related corporate lobbying[9] and the new Global Standard on Responsible Climate Lobbying.[10]

In our view, progress at the company has been slow. In 2022, we made a supporting statement for a shareholder resolution filed by seven European investors, urging the company to explain how its lobbying activities helped to address climate risks. We stated that since the start of our engagement with Volkswagen, nearly half of the European companies in scope for the Climate Action 100+ initiative had published at least one climate lobbying review, and the majority had committed to repeating this disclosure annually.

This shareholder proposal was rejected by the company, resubmitted in 2023, and again rejected. In February, we met with VW's public affairs department, which confirmed that the company was planning to publish a report before the 2023 AGM. However, in the run up to the meeting we did not see any detailed drafts or a public commitment to publish the report.

For this reason, as well as our concerns about the misalignment between the short- and medium-term emissions reduction targets and a 1.5°C trajectory, EOS recommended a vote against the discharge of the management board ahead of the AGM. Following our clients' effective voting deadline and only days before the annual meeting in May, Volkswagen published its first *Association Climate Review 2023*. We welcomed this as a step in the right direction following four years of engagement on this issue.

Lisa Lange
Sector lead: Transportation

Paris-aligned accounts

We continued to assess whether companies had sufficiently considered climate change in preparing and auditing their financial statements, and recommended votes accordingly. As part of our engagement activity with Climate Action 100+, this involved looking at companies where climate change presents material and foreseeable risks, and assessing the extent to which these are reflected in financial accounts. Insufficient disclosure of climate-related assumptions or detail in the financial notes, or insufficient evidence of progress on this topic, could result in escalated voting action. Conversely, where companies had made efforts to materially improve the alignment of their disclosures with investor expectations, we were able to recommend support.

At the 2022 AGM of building materials supplier CRH, we had recommended opposing the re-election of the audit committee chair, the ratification of the auditor, and the acceptance of the financial statements and statutory reports. This was due to several factors, such as uncertainty about how material climate risks were being considered in the accounts, how CRH's own climate targets were incorporated into its assessment of assets, liabilities and profitability, or what a 1.5°C pathway might mean for its financial position. However, this year we were able to recommend support for the audit committee chair and auditor, in recognition of the company's willingness to improve its disclosures and alignment, and its response to engagement on the topic.

We recommended voting against the financial statements of Airbus, due to an inadequate explanation of the conclusion that climate-related risks had an immaterial impact on the company accounts. We will continue to engage with Airbus and other companies where we recommended voting against the financial statements, such as ArcelorMittal and Anglo American, seeking improved disclosure.

[9] https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/
[10] https://climate-lobbying.com/

Climate questions for German giants

We attended two virtual annual meetings in Germany this year - Siemens Energy in February and BMW in May. As Climate Action 100+ lead for both companies, our speech and questions to the board focused on climate.

At Siemens Energy's annual shareholder meeting, we made a speech in German. We began by congratulating the company on its science-based 2030 targets and then asked for more clarity on Scope 3 emissions, the potential timing of its net-zero ambition and capex criteria ensuring 1.5°C alignment. We also asked the company for more transparency on climate lobbying, particularly how it is assessing lobbying carried out through third parties and ensuring that this is aligned with the Paris Agreement.

Although we welcomed the appointment of an independent chair for the audit committee, we said that the overall independence of this committee fell below our expectations. Finally, we challenged the company on remuneration, specifically the total shareholder return component in the long-term incentive plan, which vests at 100% of the median performance versus the index.

At BMW, we delivered a speech posing questions to the supervisory board chair and CEO, covering the company's climate approach, remuneration, diversity, board independence and virtual meetings. We welcomed the CEO's commitment to achieving climate-neutrality by 2050 at the latest and then challenged him to demonstrate that BMW's climate targets, capital expenditure plans, accounting assumptions and lobbying activities are aligned with a 1.5°C trajectory.

On remuneration, we reiterated our expectation for BMW to introduce formal shareholding requirements for executives and to reduce the level of complexity in the pay scheme. We welcomed the company's statement that diversity increases resilience, which is the key to success. We asked about its efforts to increase female gender diversity on the management board, which has only one woman. To address this, the company is focusing on developing a pipeline of women in senior levels. Lack of progress towards having at least 30% women on the management board could warrant a recommendation to vote against the discharge of the supervisory board in the future.

We also challenged the company on audit committee independence and raised concerns around the potential erosion of shareholder rights in virtual-only AGMs, asking how the company would consider feedback from shareholders on the format. Attending these meetings gave us a good insight into how companies are implementing the new German legislation on holding virtual shareholder meetings.

Lisa Lange
Sector lead: Transportation

Biodiversity, deforestation and AMR

Biodiversity is also making its way on to AGM agendas. French real estate investment trust company Icade proposed a bundled say-on-climate and biodiversity resolution, which we recommended supporting. French law requires companies to disclose their risks and impacts on biodiversity, as well as climate change, and we expect to see more French companies integrating biodiversity into their AGMs.

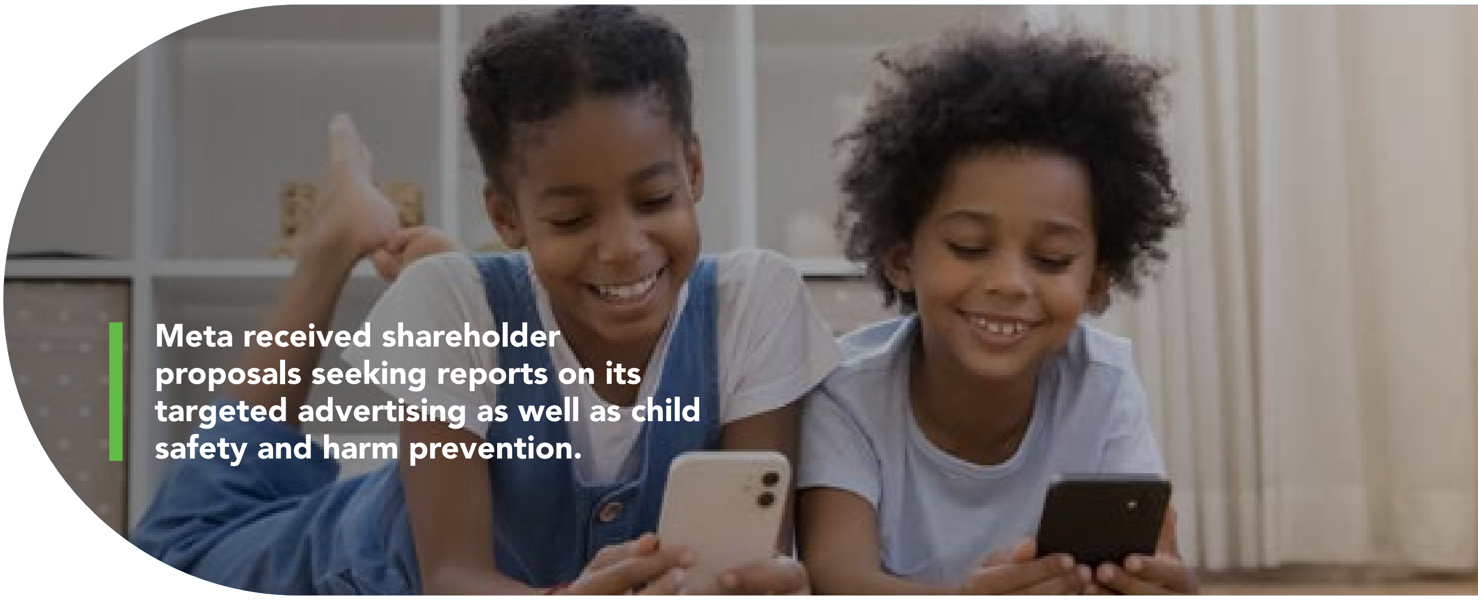
Our vote policy has included a deforestation dimension for several years, targeting those that are lagging on disclosure and risk management. So far this year, we have recommended votes against directors and other relevant resolutions at 28 companies due to deforestation concerns. This included a recommendation to oppose directors at Kikkoman, Uni-President Enterprises and Sun Life Financial.

Antimicrobial resistance (AMR) and animal welfare also featured on ballots this year. At fast food franchise McDonald's, we recommended support for shareholder proposals asking the company to adopt a policy to phase out the use of medically important antibiotics in its beef and pork supply chains, to comply with World Health Organization guidelines on their use in supply chains, to issue a transparency report on global public policy and political influence, and to report on animal welfare. We also recommended support for resolutions raising standards on AMR at meat producers Hormel Foods and Tyson Foods.

Social themes in focus

In the US, proposals on DEI and human rights, including digital rights and reproductive rights, grew in prevalence. These represented around 35% of total proposals, showing consistent year-on-year growth since 2020.[11]

[11] U.S. Shareholder Proposals Jump to a New Record in 2023 - ISS Corporate Solutions



Last year we wrote to tech and social media companies with our Digital Rights Principles and some of the financially material areas we had highlighted for the largest companies featured in shareholder proposals at this year's AGMs. For example, in our letter to Alphabet we had asked the company to enhance its child safety practices, conduct a civil rights audit that covers its workforce and racial bias in AI algorithms, and demonstrate compliance with its own content moderation policies. At this year's meeting, Alphabet received a shareholder proposal asking for a human rights assessment of targeted advertising policies and practices, and another on the alignment of YouTube policies with legislation.

Similarly, Meta received shareholder proposals seeking reports on its targeted advertising as well as child safety and harm prevention. Our voting recommendations on these proposals were informed by our Digital Rights Principles. The US Surgeon General's Advisory on Social Media and Youth Mental Health, which was issued just days before the Meta and Alphabet meetings, sharpened the spotlight on child and teen safety. These were the most supported proposals at Alphabet and Meta receiving 19% and 18%, and 17% and 16% support, respectively, aside from the one vote per share proposals that garnered 31% and 28% support. Both companies retain problematic dual class share structures.

Racial equity and civil rights

We were heartened to see companies such as Alphabet and Citigroup releasing meaningful third-party civil rights and racial equity audits, particularly after their boards opposed shareholder proposals calling for them in the 2021 and 2022 voting seasons, when we were among their earliest supporters. Gratifyingly, our goal of building traction and signalling mainstream investor support for a practice that helps boards steer favourable DEI outcomes in the workforce and society has been largely achieved. More work remains to be done, however, including around improving the quality of these audits.

For example, when supporting the proposal for a racial equity audit at Valero, we highlighted how its existing assessment did not assess the company's impacts on racial equity or identify improvement opportunities. Also, although we welcomed the strong employee-focused racial equity audit that Chevron conducted, we recommended supporting the proposal for an audit whose scope included environmental justice considerations for communities.

Several 2023 shareholder proposals appeared supportive of DEI on the surface, but were designed to derail DEI momentum. For example, we recommended opposing the proposal asking for a civil rights and non-discrimination audit at Apple, as it appeared the proponent's objectives were in direct opposition to the civil rights audit proposal we had supported in 2022, and which the company was now conducting. Similarly, we recommended opposing the proposal calling for an analysis of costs associated with DEI programmes at Amazon, due to questionable filer intent in opposing a scale-up of diversity and inclusion efforts, and lack of alignment with long-term shareholder value

Human rights and indigenous rights

In 2023 we applied our revised human rights voting policy. This identifies a watchlist of companies that have received low scores on credible third-party human rights benchmarks, or that have been involved in significant controversies. In this first year of applying the policy, unless we had notified the company previously, we generally highlighted our concern with a view to opposing next year if there was insufficient improvement. We issued these warnings to Lockheed Martin, Broadcom, Commerzbank and TotalEnergies, and recommended voting against directors at Tesla, Amazon and the Inner Mongolia Baotou Steel Union Company.

Three Canadian banks received shareholder proposals related to free, prior and informed consent (FPIC), an issue we had been planning to raise. Two of these - Bank of Montreal (BMO) and Toronto-Dominion Bank - reached successful agreements with the proponent via engagement, a positive step. At Royal Bank of Canada, having escalated this issue via a public statement at the meeting in prior years, we decided to support the shareholder proposal. The proponents, BC General Employees' Union and the Union of BC Indian Chiefs, presented this proposal in person. We will continue to engage all the banks on this issue, and may seek access to their 2024 meetings if substantial progress is not made.

Wider societal impacts

Last year, we saw tax transparency shareholder proposals at Amazon, Cisco and Microsoft. This was significant, as such proposals have historically been blocked from going to a vote. This year we saw increased focus on the topic.

Amazon and Microsoft again faced shareholder proposals seeking a tax transparency report prepared in consideration of the indicators and guidelines of the Global Reporting Initiative (GRI) tax standard. Oxfam America, with supporting investors, filed similar tax transparency proposals at ExxonMobil, Chevon and ConocoPhillips asking for a GRI tax standard report. These sought, among other disclosures, detailed country-by-country reporting to prevent tax avoidance. In Canada, the BC General Employees' Union submitted a tax transparency proposal at Brookfield Corporation. We recommended support for all six tax-related shareholder proposals.

As the cost of living crisis continued to bite, we saw more shareholder proposals around labour and collective bargaining rights. At Starbucks, we recommended support for a resolution asking for an independent review of the coffee chain's stated commitment to workers' freedom of association and collective bargaining rights. We had concerns about the magnitude of the accusations that the company had interfered with its employees' right to organise or join unions in the US. The proposal passed.[12] At Amazon, which has attracted criticism about its approach to workers trying to unionise, we also recommended support for a proposal seeking additional reporting on freedom of association. This failed.[13]

Diversity and inclusion

Our diversity and inclusion voting policies encourage greater representation of women and ethnic minorities on boards and in leadership teams. Globally, we opposed 2,426 responsible director proposals due to concerns about insufficient diversity.

In Europe, we support a goal of 50% overall board diversity, including gender (with at least 40% representation of the minority gender, including those who identify as non-binary), race and ethnicity, and other diversity traits such as LGBTQ+ and disability. Where best practice or listing rule obligations exist in a country, we expect companies to adhere to these at a minimum. We continue to push for greater gender diversity on boards and in leadership teams and oppose companies that do not meet our minimum expectations. This included at SBB, Revenio and PolyPeptide Group.

While board gender diversity was below our threshold for LyondellBasell this year, the company has a commitment to increase gender diversity on the board by a third by 2023 and is in the process of evaluating diverse candidates to fill a vacancy after the 2023 meeting. Our concerns were also mitigated by strong overall board diversity and over 30% gender diversity on the executive committee.

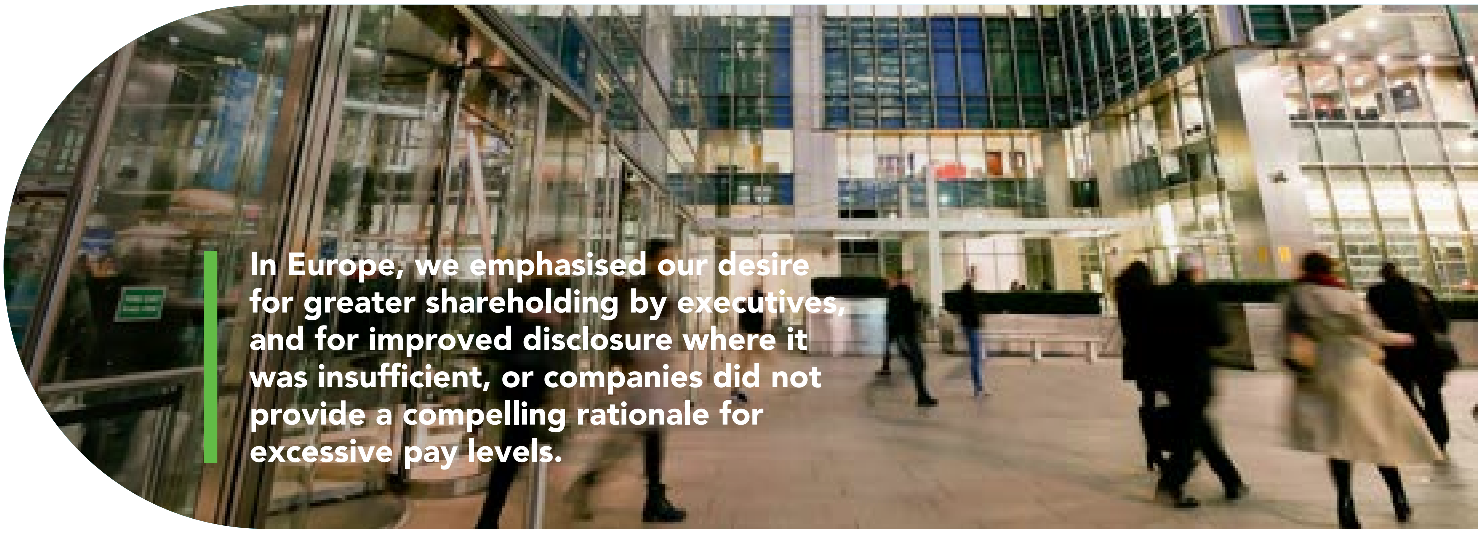
In the US, ideally, we want to see companies strive for 50% overall board diversity including LGBTQ+ and disability. We are seeing this level of diverse representation in companies such as 3M, Apple, Chevron and Mastercard. In line with our expectations of a minimum of 40% board diversity including gender, race and ethnicity, we recommended opposing 1,000 responsible directors for low board diversity. Notable examples included Berkshire Hathaway, Caesars Entertainment, Kinder Morgan, Netflix, Phillip Morris International, TransDigm, Tesla and Walmart. At Nasdaq and TSX-listed companies, we also opposed responsible directors where executive teams fell short of at least 30% representation of women or the minority gender, including those who identify as non-binary.

Executive pay and auditor tenure

For executive remuneration, we emphasised the need for better disclosure where this was lacking, while scrutinising pay levels where there appeared to be a disconnect between pay and the broader stakeholder experience. This was against a background of persistently high inflation in developed markets, which is squeezing household budgets. The complexity of pay packages presented shareholders with multiple challenges, and some structures required significant analysis. Unfortunately, despite the hardship experienced by many workers, some companies proposed hefty executive pay-outs this time.

In the US, ideally, we want to see companies strive for overall board diversity including LGBTQ+ and disability. **50%**

[12] https://edition.cnn.com/2023/03/30/business/starbucks-shareholder-proposal-unions/index.html
[13] https://news.bloomberglaw.com/esg/amazon-shareholders-vote-against-union-rights-climate-proposals



In North America, we continued to oppose the majority (52%) of say-on-pay proposals. This was on the basis that practices across the region remained materially misaligned with our principles, particularly on quantum, variable pay ratio, and severance. We recommended voting against executive pay and the compensation committee chair at several technology and media companies, notably Alphabet, Netflix and Meta. Last year some 73% of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns this year. Against the backdrop of a Hollywood writers' strike, Netflix shareholders again withheld support for the sizable packages awarded to the content streamer's executives.[14]

Last year some **73%** of shareholders rejected the pay proposal at Netflix and we were disappointed that the company had not done more to address shareholder concerns this year.

We also recommended opposing pay at Amazon, Comcast, Lockheed Martin, DuPont de Nemours, Walmart, ExxonMobil, Chevron, JPMorgan Chase, TransDigm and many more. This was mainly for excessive quantum, without adequate disclosure of the additional value created for long-term shareholders when paying the CEO significantly above the labour-market median.

In Europe, we emphasised our desire for greater shareholding by executives, and for improved disclosure where it was insufficient, or companies did not provide a compelling rationale for excessive pay levels. At Barclays, we recommended voting against the remuneration report over concerns that the extent of the downward discretion applied by the remuneration committee was not commensurate with the scale of the control failings, fines, losses and reputational damage resulting from the over-selling of securities. In addition, we felt that downward discretion should have been applied to adjust for the windfall gains, which had inflated executive pay awards in 2022.

At UniCredit,[15] the proposed remuneration policy attracted considerable coverage. Following extensive engagement with the company and internal discussion, we recommended supporting pay, by exception to our policy. We considered various mitigating factors, which led to a finely balanced decision to support. These included the fact that the package is structured so that total pay is the same at target as in the current policy, the introduction of higher minimum shareholding requirements, and because performance targets under the variable pay are materially more stretching.

At Nestlé we continued to oppose the CEO's remuneration package, which includes a total shareholder return metric that vests partially for below-median performance and at the maximum for median performance. Our opposition was compounded by the large overall package and high variable pay opportunity. We would expect to see more transparency on targets and performance for the bonus scheme, particularly as this scheme is material in size. The company provided more disclosure than previously and acknowledged our feedback.

We continued to apply pressure on North American companies with long-tenured auditors as we believe that independence, and potentially audit quality, are at risk when the same external audit provider has been maintained for too long. Our toughened stance this year for companies with external auditor relationships extending beyond a century led us to recommend votes against the auditor and audit committee chair for Goodyear, United States Steel, Dow, Sherwin-Williams, Deere & Co, Coca-Cola, and Johnson & Johnson, among others.

We welcomed the fact that pharmaceutical company Lonza sought shareholder approval for the appointment of a new audit firm. This is not a mandatory requirement in Switzerland, and due to our concerns about audit firm tenure, we had recommended voting against its re-election at the two previous AGMs.

[14] https://www.reuters.com/technology/netflix-shareholders-withhold-support-executive-pay-package-2023-06-02/
[15] https://www.reuters.com/business/finance/unicredit-shareholders-gather-vote-ceos-new-pay-scheme-2023-03-31/

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