

### 2021 Proxy Season Highlights

**2021 has been a historic year for proxy voting and shareholder advocacy.** Thirty-one Environmental, Social, and Governance (ESG) related shareholder proposals received majority votes, shattering the impressive 2020 record of 18. These numbers reflect the increasing investor awareness of the importance of ESG issues. Of the nearly 100 ESG resolutions receiving majority support in the last decade, half have been in the last two years. These numbers do not include the many proposals withdrawn by shareholders after successful engagements with companies.

The Minnesota State Board of Investment (SBI), along with many other U.S. public pensions and institutional investors, plays an important role in encouraging improved environmental, social and governance practices that are material to the long-term sustainability of the world's largest corporations.

#### **New Directors Elected to ExxonMobil Board of Directors**

The 2021 board of director's election at ExxonMobil was one of the most significant ESG-related shareholder events in recent years. Three of four directors nominated by an Exxon shareholder, Engine No. 1, won seats on Exxon's 12 person board. Engine No. 1 offered the candidates (known as dissident directors) in opposition to candidates offered by Exxon's management.

The campaign in favor of these new directors focused on the poor performance of Exxon in recent years and the need for the company's business strategy to evolve in response to climate change and society's transition toward a lower-carbon economy. All the dissident directors have experience that will improve ExxonMobil's chances of succeeding with this effort.

#### **SBI's Role in the ExxonMobil Campaign**

- ❖ Large U.S. public pensions like the SBI, played a key role in electing these new directors beyond directly voting in favor of the dissident directors.
- ❖ The effort to elect shareholder nominated directors came after many years of engagement with Exxon by CalSTRS and groups like the Climate Action 100+, of which the SBI is a member.
- ❖ Last year, the SBI and some other groups voted against the entire board as part of this engagement.
- ❖ This year, the 3.5 million shares held by the SBI amounted to about 5% of the difference between the 3<sup>rd</sup> dissident director winning a seat and the closest management nominated candidate who did not win a seat.



## 2021 Proxy Season Highlights (Cont.)

Below are some additional highlights from 2021, as well as key metrics to measure the SBI's proxy voting activities.

### Governance

- **SBI Proxy Voting:** Over the course of FY 2021, the SBI voted ballots for 2,429 different company meetings on over 20,000 items. The majority of these votes were on director elections but also included 6,105 management proposals and 416 proposals submitted by shareholders.
- **Executive Compensation:** The SBI voted against approximately 70% of advisory votes on executive compensation due to lack of sufficient alignment or transparency with shareholders.
- **Other Corporation Governance Proposals:** The SBI voted for the vast majority of shareholder proposals related to corporate governance practices such as proxy access, independent chairman, declassification of boards, written consent, reports on political spending and majority voting.

Sixteen proposals related to governance issues that increase shareholder rights and information received majority shareholder support.

### Environmental

- **Climate Change Risk:** Compared to just two climate change risk related proposals receiving majority support in 2020, nine such proposals received majority votes in 2021. The SBI voted in favor of all nine. These proposals were at General Electric, Norfolk Southern, United Airlines, Exxon, Delta Air Lines, Chevron, ConocoPhillips, and two at Phillips 66.

Eleven climate change risk related proposals that the SBI supported did not receive majority support. Two of these proposals were at Exxon, the others were Chevron, Caterpillar, Sempra Energy, UPS, Union Pacific Corporation, Berkshire Hathaway, General Motors, Wal-Mart, and Xcel Energy.

- **Climate Change and Other Environmental Proposals:** The SBI also supported 11 other environmental and climate related proposals at DuPont, Alphabet, Amazon, T. Rowe, DTE Energy, Monster Beverages, Proctor & Gamble, Moody's, S&P Global, and two at Booking Holdings.

In total during 2021, the SBI voted for 31 proposals related to material environmental and climate change issues.

### Social

- **Diversity:** In 2021, the SBI voted for 14 Diversity or Gender/Racial Equality related proposals. Five of these proposals received more than 50% of the vote. These were for IBM, DuPont, American Express, and two at Union Pacific.
- **Racial Justice:** The SBI voted for a total of 14 proposals related to Racial Justice in 2021. Following the murder of George Floyd and other high profile events in 2020, customers, employees, and investors all increased their focus on racism and racial equity. To get a better understanding of the racial equity risks that companies might be facing, shareholders submitted proposals requesting Racial Equity Audits at 8 different companies. These proposals received more than 25% but less than 50% of votes at Amazon, JP Morgan, Abbott Labs, Citigroup, State Street, J&J, and Goldman Sachs.

## Coalition Highlight

### **Midwest Investors Diversity Initiative (MIDI)**

As part of the SBI's effort to promote greater diversity and inclusion on corporate boards and within the investment industry, the SBI is an active member of the Midwest Investors Diversity Initiative. Since the SBI joined this 16-member alliance in 2019, the SBI has contributed to efforts to increase board diversity at Midwest-based companies.

A recent [MIDI press release](#) highlights the success of the group since its formation in 2016.

At the 75 companies that have been engaged by members of the MIDI, 90 women and persons of color have received board appointments and 34 have adopted a diverse candidate search policy.

Additional information about MIDI can be found at: [Midwest Investors Diversity Initiative](#)



## Diversity Studies

As part of its ESG risk analysis, the SBI reviews research on how ESG factors impact risk and return in the investments made by the SBI. **Highlighted below are two studies on racial/gender diversity that the SBI reviewed and found to be very informative.**

Racial and gender diversity have repeatedly proven to have a strong correlation with profitability.

### **McKinsey & Company Study**

McKinsey & Company research has found that companies with high levels of ethnic diversity at the executive level outperformed those with low levels of diversity by 36% in terms of profitability.

[Diversity Wins: How Inclusion Matters](#)

### **Knight Foundation Study**

Specific to asset management companies, research conducted by the Bella Research Group on behalf of the Knight Foundation has found that there are fewer women and minority owned asset managers than would be expected given the financial returns generated by those firms for their clients.

[Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry](#)

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