



2024 Proxy Newsletter

SHAREHOLDER ENGAGEMENT AT RMCM



At Reynders, McVeigh Capital Management (RMCM), our investment discipline is based on identifying companies that exhibit both potential for financial returns and positive environmental, social, and governance footprints. We believe incorporating the latter mitigates risks and upholds the highest fiduciary standard for our clients. As proactive, long-term investors, we believe that it is our responsibility to leverage our voices by engaging with corporate leaders directly, voting our clients' proxies, submitting shareholder proposals, participating in industry peer groups and networks, and fostering dialogue with our community. We incorporate these communications into our proprietary data analytics tool, OWL Shares, to bring the findings back into our research and investment process. This both guides and sits alongside our fundamental analysis. 



2024 RCMC PROXY VOTING RESULTS

We vote on our clients’ behalf according to our Proxy Voting Guidelines, which are available upon request. Below is information on our proxy voting outcomes for the last proxy voting season from 7/1/2023–6/30/2024.¹

- **602** company proxy ballots were voted on, including client legacy holdings beyond the Approved Securities List (ASL).
- **6.6%** of all proposals we voted on were filed by shareholders, which was relatively flat from last year. We voted in favor of 70.7% of those shareholder proposals, which was against management 74.5% of the time. Our voting in favor of shareholder proposals and against management both decreased roughly 15% from last year, which is the direct result of more anti-ESG proposals being submitted.

ENVIRONMENTAL

Environmental proposals on our ballots were down slightly from 92 last season to 86 this season. We voted in favor of 74.4% of these environmental shareholder proposals. Our voting in favor was down 18% from last year, mainly due to anti-ESG questions in this category. Proposals that received the highest shareholder support were related to GHG targets and alignment with the Paris Agreement. We note that there was also an increase in questions related to virgin plastic usage.

ASL environmental shareholder resolution highlight: Tesla (TSLA)

Proposal regarding reporting on the impact of sea mining (DSM) on biodiversity — deep sea mining negatively affects sea floor life through dredging and releasing sediment laced with toxic metals that poison marine life.² Many EV manufacturers have pledged to keep their supply chains deep-sea mineral free, and Tesla has not. This resolution requested that Tesla report on the impact of DSM and take a position against it. *7.7% of total shareholders voted in favor (of which 11.4% were independent), including us.* This is the first year this resolution was voted on, and since it is over the 5% first year voting in favor threshold,³ it is likely that this will be resubmitted next year.

SOCIAL

Social proposals on our ballots were up slightly from 182 last year to 189 this year. We voted in favor of 64.5% of them, which decreased by 16.2% compared to last year. This again was related to the increase in anti-ESG proposal submissions. Social proposals with a focus on DEI were the most highly submitted anti-ESG category, which we will expand further on in our Strategic Priorities section.

ASL social resolution highlight: Canadian National Railway (CNI)

Proposal regarding paid sick leave — RCMC co-filed this shareholder resolution, requesting that the board of directors negotiate paid sick leave policies with all unions representing CNI’s U.S. workforce and that these policies ensure that employees can use these benefits without being subject to discipline. In Canada, the government has mandated that there is 10 days of paid sick leave for all federally regulated industries, which includes railways, but the same does not apply in the U.S.⁴ *9.9% of shareholders voted in favor of this proposal, including us.* This is the first year that this resolution was submitted and voted on at CNI, which is considered a success, and can be submitted next year since it is over the 5% first year voting in favor threshold. However, we do not plan on co-filing this resolution next year due to the nature of the union negotiation relationship and the progress that was made. Since our proposal, CNI has come to agreements with select unions, and there are significant tailwinds for these changes by the U.S. government.⁵

GOVERNANCE

Governance proposals on our ballots were relatively flat, down slightly from 134 last year to 132 this year. We voted in favor 72% of them, which means our voting in favor of governance related proposals was down 16.8% this year. Again, it directly correlated with an increase in anti-ESG proposals.

ASL governance resolution highlight: Microsoft (MSFT)

Proposal regarding tax transparency — requesting that the company provides a tax transparency report, including country-by-country reporting, in line with the Global Reporting Initiative (GRI) standards. MSFT is a very well governed company, but improvement is needed in disclosing their revenues and profits in non-U.S. markets and disaggregating foreign tax payments. According to the OECD, tax evasion by U.S. firms and individuals costs \$100B a year.⁶ We’re highlighting this resolution since RCMC also signed a petition with the FACT Coalition calling for the SEC to draft a rule requiring U.S. listed issuers to provide additional disclosure of basic tax and relevant financial information by country; *21.1% of shareholders voted in favor of this MSFT resolution, including us.* This is the second year of voting for this resolution, and since it was over the 15% voting requirement, we expect that it will be resubmitted next year.

OUR STRATEGIC PRIORITIES

At RCMC, we will continue to focus on the following areas this year due to materiality weighting across all sectors:

CORPORATE POLITICAL SPENDING

As the presidential election nears, it is more important than ever that we protect both the health of our democracy and our clients' assets from the consequences of corporate political spending. According to a recent Harvard survey of high-net wealth investors in the U.S., this sentiment is shared by investors — two out of three investors polled believe that it is inappropriate for companies to take a stance on political issues.⁷ Since the Supreme Court's Citizens United decision in 2010, research has shown that corporate political expenditures present material risks to companies. At Reynders, McVeigh, we believe that companies should not be in the business of donating to individual candidates or political parties. As such, we continued to vote for proposals asking for increased transparency regarding political spending and lobbying dollars, although we would like to see political giving by corporations ceasing all together. We have written to and requested dialogue with companies on our ASL where we would like more transparency of their political giving policies. A few of our holdings that have policies prohibiting political giving are Nvidia, Danaher, IBM, Veralto, Xylem, and Unilever, and we use them as positive examples in this space.

Political transparency voting results highlights from ASL

- 48.4% vote in favor of proposal regarding political contributions and expenditures at Crown Holdings
- 37.2% vote in favor of proposal regarding political contributions and expenditures at Stryker
- 11.8% vote in favor of proposal regarding report on political expenditures and values congruency at Home Depot

DIVERSITY, EQUITY, AND INCLUSION (DEI)

Racial inequity is a systemic risk.⁸ According to a study done by Citigroup, racial inequity has cost the U.S. economy \$16 trillion since 2000.⁹ One way to mitigate this risk is through transparency around corporations' workforce compositions, hiring and promotion practices, and pay equity levels. DEI programs that aim to tackle these programs have been under increasing scrutiny as lawmakers and business leaders alike seek to minimize the presence of its programming in the workplace. We see this regression in the Supreme Court's decision to end affirmative action in college admissions, as well as the decrease in DEI-related hiring, from 500 job postings in 2021 to just 272 in January of 2024.¹⁰ But the research is clear: Companies with diverse workforces perform better, leading to new ideas and innovation. Not only are they better equipped to creatively and effectively tackle some of the most complex problems facing workplaces today, but higher representation of BIPOC (Black, Indigenous, People of Color) in management is positively correlated with higher cash flow, net profit, and 3- to 5-year revenue.² This past proxy season, we continued to work toward greater corporate accountability by voting for resolutions and working with coalitions such as the Racial Justice Investing initiative that seek to improve practices and transparent reporting when it came to key diversity issues.

DEI voting results highlights from legacy holdings and 1 ASL

(Note: not many of our ASL names had pro-DEI resolutions being voted on this year, which we attribute to strength and leadership in this area)

- 27.6% vote in favor of DEI report at Cintas Corp
- 23.6% vote in favor of DEI report at Lilly (Eli) & Co
- 13.9% vote in favor of DEI report at Danaher

Note: DEI issues are a focus area of the anti-ESG movement, accounting for 66.3% of their submissions. There were only nine pro-DEI shareholder questions on our ballots versus 19 anti-DEI. The main topics within the anti-DEI resolutions were requests for civil rights and nondiscrimination audits regarding freedom of speech (political view discrimination) and compensation and health benefit gaps related to gender dysphoria care. None of these ballot questions received over 2.3% support and therefore will not be allowed to resubmit next year due to low support levels.

CEO COMPENSATION

CEO pay has skyrocketed over the last several decades, and this year's proxy season continued to draw attention to it. As You Sow, the nation's nonprofit leader in shareholder advocacy, has been reporting on this sharp increase since it became a requirement reporting by the SEC nearly a decade ago. According to their 2023 report, the average pay of S&P 500 CEOs rose 20.9% from the previous year's average, and the most overpaid CEOs saw a 30.6% increase in their salary.³ Not only does exorbitant CEO pay reflect a growing economic disparity between top corporate executives and ordinary workers, but As You Sow reported a strong correlation between overpaid CEOs and underperformance. At RCMC, we believe that these funds could also be put to better use by reinvesting in the company's research and development, mergers and acquisitions, paying higher wages to employees, paying down debt, or giving back to shareholders through dividends. This inequity is leading to dissent among workers and shareholders alike. We share their concern, resolving that excess pay represents a liability for our clients. We voted against 12 proposals that included inflated CEO pay that was over the median employee pay of 400 to 1: *Constellation Brands, Estee Lauder, Tilray Brands, Palo Alto Networks, AutoZone, Micron Technology, Walgreens Boots Alliance, TransDigm Group Inc, Broadcom, BorgWarner, Walmart, and ACM Research* (all of which were legacy holdings, non-ASL names).

CEO pay highlight from holdings: Tesla

This past June, shareholders voted in favor of a historic \$56B pay package for Tesla's CEO, Elon Musk.¹¹ This was a difficult decision to assess and vote on as shareholders as there were conflicting factors at play. We voted down the original pay package when shareholders first voted on it in 2018, which tied Musk's pay package to specific performance benchmarks. The compensation committee that designed this pay package was not independent, which can present a conflict of interest. However, other shareholders did approve this pay package in 2018, and Musk was able to accomplish those highly unexpected metrics outlined in the proposal, all while not taking a salary. While we believe that CEO remuneration should reflect performance, we are nevertheless concerned with the governance risk that exorbitant CEO pay presents as outlined in the section above. Due to these conflicting considerations, we chose to abstain from the 2024 vote with the expectation that there will be continued discussion, and we will reassess it as we receive additional information.



SHAREHOLDER ENGAGEMENT TRENDS OF NOTE

Some noteworthy trends from this proxy season include, but are not limited to:

GENERAL

Proposal Omission: The number of omitted proposals continued to rise this year, with approximately 50% more no action requests for the exclusion of shareholder proposals compared to last year. The number being granted by the SEC rose about 10%, at roughly 66%.¹² This reflects both the tightening regulatory requirements of the SEC and company disinterest in negotiating with shareholders before going to a vote, given the reality of decreasing support of shareholder proposals.

Anti-ESG Proposals: Despite the increasing presence of anti-ESG proposals, support for them is still weak. On average, anti-ESG proposals have 1.0% shareholder support.¹³ To be able to resubmit first time questions, there needs to be 5% support in favor, therefore, we do not anticipate seeing many repeat questions on the same companies from last year. 7.7% of the shareholder proposals that we voted on were submitted by anti-ESG groups, with the majority (66.3%) were under the social category, mainly related to anti-DEI. Although we recognize the organizations submitting anti-ESG proposals, we are still committed to remaining unbiased in our voting practices and take a fresh view when reading their submissions. The only anti-ESG shareholder proposals that we voted in favor of were regarding independent chairs and related to child labor in the supply chain.

SPECIFIC

Lobbying Alignment: This was a top focus for shareholder proposals this year. These proposals primarily seek reporting on state and federal lobbying, payments to trade associations, and support of tax-exempt organizations that write model legislation.¹⁴ At Reynders, McVeigh, we understand lobbying is needed in certain industries. However, we do believe that these practices should be transparently reported on and aligned with their stated goals. A clear example where we see misalignment is if companies have stated environmental commitments, but then are members of lobbying groups that are litigating against climate rules, known as climate obstruction.¹⁵ *We co-filed shareholder resolutions with IBM and Wells Fargo for additional lobbying disclosure. IBM received 37.3% shareholder support, and Wells Fargo received 35.4% voting in favor.*¹⁶

Artificial Intelligence (AI): New “breakthrough” issue area AI made a lot of noise this proxy season, with proposals seeking to tackle data privacy, systemic discrimination, and mis- and dis-information. Misinformation and disinformation are the biggest short-term risks to our global economy according to the World Economic Forum’s 2024 Global Risks Report.¹⁷ Ballot questions related to this received strong shows of support with companies like Netflix (42% support) and Apple (37.5% support).¹⁸

Board Skills Disclosure and Diversity: There was an increase in skill disclosure of 16% since last year, with 67% of Russell 1000 companies now reporting.¹⁹ We vote in favor of skills disclosure as it provides transparency to shareholders for the board’s capabilities, identify skill gaps and diversity, and improve overall performance and succession planning. This is required reporting in many countries around the world, we applaud companies that are proactive with this reporting. Gender diversity on Russell 3000 boards surpassed a key threshold of 30%²⁰ for the first time. However, the pace of first time held board seats has slowed and women of color still are only holding 8% of these positions. Based off research from the organization 50/50 Women on Boards, we are aiming for board diversity closer to 50% for gender and 20% for women of color.²¹

GHG Disclosures Proposals: These received more support for smaller companies this year, as most larger companies have already begun to adopt these practices.²²

POLICY HIGHLIGHT

- The SEC adopted rules to enhance and standardize climate-related risk disclosures in May,²³ which ended up being paused a month later due to being sued by 25 states and other entities.²⁴ California is combatting this by signing a bill into law obligating companies that do business with their state to disclose their value chain emissions and climate-related risks, beginning in 2026.²⁵
- The SEC adopted a new cybersecurity disclosure rule that requires companies to report material cybersecurity incidents due to the increase of cybersecurity attacks and magnitude.²⁶ Board oversight appears to be present in this area (74% of Russell 3000 companies) according to a recent report from Glass Lewis.²⁷
- The FTC issued a nationwide rule banning noncompete clauses to promote competition and protect worker freedom.²⁸ This was later stalled due to a recent court ruling by a district judge in Texas, due to the FTC not having statutory authority. The FTC is considering an appeal,²⁹ and can still address noncompete issues on a case-by-case basis.
- The Supreme Court overturned the Chevron Doctrine, which limits the power of federal agencies.³⁰ Effects of this will be seen in making it more difficult for federal agencies to issue regulations. Please see [ICCR's letter](#) for additional information.
- *Julianna vs. United States:* An interesting, ongoing case from 2016 that argues the government’s failure to take more measures to prevent climate change has violated the constitutional rights of younger generations to life, liberty and property. This was the first case in this country to frame climate change around constitutional rights.³¹ There have since been others, including one successful case in Montana.³²



CLOSING REMARK

With a close eye on material issues that advance our investment philosophy, our team had an active voice on items that enable progress and represent our clients' values. We continue to use all the tools in our toolbox (direct dialogue, proxy voting, etc.) to encourage companies to be transparent and accountable, while mitigating risk and maximizing opportunity.

RMCM INDUSTRY PEER GROUPS



Racial Justice Investing

- ¹ Please note that in former reports, we provided voting results based on the calendar year. We updated these dates to better reflect Annual General Meeting seasons and trends of the current shareholder engagement season.
- ² 2024 Shareholder Impact Review — As You Sow
- ³ SEC.gov | SEC Adopts Amendments to Modernize Shareholder Proposal Rule
- ⁴ VCIM_Shareholder_Engagement_Report_2024_FNL.pdf
- ⁵ US urges freight railroads to guarantee paid sick leave for all | Reuters
- ⁶ OECD Web Archive
- ⁷ Despite Anti-ESG Attacks, New Study Shows Investors See Climate as Critical to Business Performance - SPONSOR CONTENT FROM MASLANSKY+PARTNERS (hbr.org)
- ⁸ TIIP Releases New Report About Racial Inequity as a Systemic Risk to Investment and How Investors Can Take Action - Surdna Foundation
- ⁹ GPS (citi.com)
- ¹⁰ <https://www.marketwatch.com/story/companies-are-pulling-back-on-dei-what-will-be-lost-in-the-process-c2232e89>
- ¹¹ Elon Musk wins Tesla shareholder approval for \$56 billion pay package | Reuters
- ¹² Shareholder Proposal No-Action Requests in the 2024 Proxy Season: A Surge in Requests and Better Results for Companies | Insights | Skadden, Arps, Slate, Meagher & Flom LLP
- ¹³ <https://www.asyousow.org/video-gallery/webinar-2024-proxy-preview-review>
- ¹⁴ Shareholders pushing US companies on climate, political lobbying in 2024 | S&P Global Market Intelligence (spglobal.com)
- ¹⁵ Colorado Battles Hotel, Restaurant Industry Trade Groups Over Climate Rules - Bloomberg
- ¹⁶ Index (glasslewis.com)
- ¹⁷ Global Risks Report 2024 | World Economic Forum | World Economic Forum (weforum.org)
- ¹⁸ Index (glasslewis.com)
- ¹⁹ Board Skills Matrix: An Essential Tool - BoardOutlook
- ²⁰ How gender-equal are the world's boardrooms? | World Economic Forum (weforum.org)
- ²¹ [5050wob.com/wp-content/uploads/pdf/2024-annual-gender-diversity-index-report.pdf?utm_source=50%2F50+Women+on+Boards&utm_campaign=b72ab1ddc2-EMAIL_CAMPAIGN_2024_09_16_08_25&utm_medium=email&utm_term=0_b72ab1ddc2-%5BLIST_EMAIL_ID%5D&mc_cid=b72ab1ddc2&mc_eid=d48d5fd4f9#new_tab](https://www.5050wob.com/wp-content/uploads/pdf/2024-annual-gender-diversity-index-report.pdf?utm_source=50%2F50+Women+on+Boards&utm_campaign=b72ab1ddc2-EMAIL_CAMPAIGN_2024_09_16_08_25&utm_medium=email&utm_term=0_b72ab1ddc2-%5BLIST_EMAIL_ID%5D&mc_cid=b72ab1ddc2&mc_eid=d48d5fd4f9#new_tab)
- ²² Six Early Takeaways from the 2024 Proxy Season (harvard.edu)
- ²³ SEC.gov | SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors
- ²⁴ The SEC's climate rule pause: What happens next? (kpmg.com)
- ²⁵ California Governor Signs Climate Disclosure Bill into Law with 2026 Start Date Intact - ESG Today
- ²⁶ The SEC's new cybersecurity disclosure rules decoded: what they mean for investors | Reuters
- ²⁷ Glass Lewis 2024 US Proxy Season Review Executive Summary Executive Summary.pdf (hubspotusercontent-na1.net)
- ²⁸ FTC Announces Rule Banning Noncompetes | Federal Trade Commission
- ²⁹ FTC Noncompete Rule Is Set Aside, But Appeal Is Expected and States May Act (harvard.edu)
- ³⁰ U.S. Supreme Court Strikes Down Chevron Doctrine—What You Need to Know | White & Case LLP (whitecase.com)
- ³¹ *Juliana v. United States*: No ordinary climate lawsuit (corporateknights.com)
- ³² In a landmark climate change trial, a Montana judge sides with youth activists: NPR

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