Overview of Harvard University's Proxy Voting Guidelines for External Managers

At Harvard, a pair of committees together play a central role in the University's consideration of matters of shareholder responsibility. These are the Advisory Committee on Shareholder Responsibility (ACSR), an advisory body comprising faculty, students, and alumni, and the Corporation Committee on Shareholder Responsibility (CCSR), comprising members of the Harvard Corporation. Since 1972, the two committees have worked together to fulfill the University's responsibilities, as an investor, to vote Harvard's proxies related to social and environmental issues at companies in which the University directly holds shares. The ACSR has presented recommended positions to the CCSR, which has then voted on the proxies, as part of the University's fiduciary responsibilities. Each year, the University has published a report describing and explaining its votes on these proxies.

Most of Harvard's holdings in the U.S. public equity markets are now held through pooled investments and commingled funds typically managed by outside investment firms rather than through individual stocks directly owned in the University's name. As such, Harvard does not itself vote on shareholder resolutions related to those holdings. However, the University will continue to exercise its voice on shareholder resolutions facing companies in which Harvard maintains significant, if not direct, exposure, in part through a new set of guidelines on shareholder resolutions developed by the ACSR and CCSR and based on the University's proxy voting practices over the past several decades.

Harvard Management Company (HMC) will distribute these proxy voting guidelines to its external investment firms in the hopes that these guidelines provide helpful advice, based on an extensive body of precedent and thoughtful deliberation reflecting the views of a major institutional investor. The guidelines are not intended to be prescriptive, and HMC recognizes the external managers may not necessarily share Harvard's view on every issue. Nonetheless, HMC expects its external managers to have a robust approach to stewardship and to make informed voting decisions. As one of a number of relevant considerations in assessing overall performance, HMC will consider an external manager's stewardship practices in light of these guidelines. The University will also make the guidelines publicly available, so that other interested investors can make use of them as they see fit. We anticipate that the CCSR, with advice from the ACSR, will update and supplement these guidelines on an annual basis and will oversee HMC's implementation of these guidelines.

General Guidance on Harvard's Approach to Proxy Voting

In this document, we offer first an explanation of the general considerations that have informed the work of Harvard's two committees on shareholder responsibility and the voting of Harvard's proxies, and then a set of proxy guidelines on specific topics for HMC's investment partners.

We consider the relationship between the proponent's issue of concern and the targeted corporate policies and practices.

- The resolution should aim to address a company policy or ask for information or action in an area where the company's current practices or policies appear to be inadequate or where there are reasons to be concerned that board oversight has been insufficiently attentive.
- Resolutions should address an area of importance to the company's policies or practices and an area in which existing efforts or legal requirements are not already sufficient to address the areas of concern identified in the proposal.

We consider whether the topic and intent of the resolution are clearly focused, feasible, and appropriate.

- The resolution should be clear in its intent and directly related to feasible corporate actions or goals.
- The resolution should address legitimate interests related to shareholder value or to the significant impact of a company's actions on key stakeholders (such as employees, customers, and communities).

We consider whether the resolution is reasonable in terms of the expectations it places on the corporation.

- The resolution should not be overly prescriptive nor unduly impinge upon management discretion.
- Meeting the resolution's requirements should not place an unreasonable burden on the company, relative to the resolution's prospective benefits.
- The resolution should not require the company to disclose trade secrets or other confidential information, or otherwise risk placing the company at a competitive disadvantage within its industry.

We consider the resolution's bearing upon Harvard's interests as an institution of higher education and upon specific policies Harvard has adopted.

- We have been especially supportive of reasonable, well-constructed proposals that encourage company reporting or other efforts in an area where Harvard has established a policy, such as reduction of emissions that contribute to climate change or the advancement of equal opportunity employment.

In certain instances, Harvard may choose to abstain on a proposal. These abstentions may reflect support for the proposal's underlying intent, but concerns about its construction and feasibility. Alternatively, we may abstain because we lack sufficient information to form a confident judgment about the merits of the resolution.

Harvard plans to continue developing and refining guidelines on specific proxy topics through the ongoing work of its shareholder responsibility committees. In this regard, Harvard welcomes observations and advice from its external investment managers.

CORPORATE POLITICAL SPENDING

Subtopic: *Lobbying and Political Spending*

Description: Resolutions that seek to increase a company's reporting and disclosure on political contributions, regarding (1) company policy and procedures governing direct contributions, direct lobbying, indirect lobbying, and grassroots lobbying communications, and (2) expenditures for direct contributions, direct and indirect lobbying, and grassroots lobbying communications.[1]

Topic background

The number of shareholder proposals addressing corporate political spending notably increased following the U.S. Supreme Court's 2010 decision in *Citizens United,* (which held that, under the First Amendment, the government may not limit corporate funding of independent political broadcasts in candidate elections). Recent shareholder proposals tend to reflect proponents' concerns about the role of corporate political spending on legislation and regulations, as well as concerns that political expenditures may expose companies to significant reputational risk, particularly if that spending supports political positions that do not align with a company's public position on an issue.

Considerations for voting

- We generally recommend support of well-constructed proposals requesting timely disclosure on corporate political spending. Such disclosures can have value to shareholders, helping them assess whether a corporation's use of assets is in shareholders' best interests and whether a company's political spending poses business risks.
- We are also informed by the Supreme Court's assumption – expressed in the *Citizens United* case – that shareholders should be informed about the political spending of their corporations. In considering such proposals, we recommend that attention be given to the scope and scale of a company's political spending relative to its peers, as well as the degree to which its policies and practices promote transparency about political spending (the CPA/Zicklin Index provides useful information).
- We note, as well, that current levels of company disclosure are uneven across different categories of lobbying and indirect expenditure, and that it can be burdensome for a shareholder to independently compile information on a company's political spending, since such information is dispersed across many sources, especially at state and local levels.
- We believe that companies can be helpful to shareholders with concerns about political spending by publishing such information so that shareholders may draw their own conclusions about matters such as reputational risk and the alignment of political spending with publicly stated corporate values. We also recognize that shareholders and other stakeholders may have

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[1] Proposals on lobbying disclosure may include definitions of indirect lobbying and grassroots lobbying communications in terms such as the following: "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which the company is a member. "Grassroots lobbying communications" are communications directed to the general public that refer to specific legislation or regulation, reflect a view on the legislation or regulation, and encourage the recipient of the communication to take action with respect to the legislation or regulation. For reference this language is drawn from Walden Asset Management's 2018 proposal to AT&T.

legitimate particular concerns about corporate engagement with organizations that draft model legislation.

- We generally do not recommend support of proposals that go beyond requests for greater transparency about amounts and recipients of corporate political expenditures and reach into areas such as cost/benefit analyses of such spending or analyses of congruency between a company's stated values and the policy positions of supported individuals or organizations. Such proposals may impose a substantial reporting burden on companies while offering little additional insight to shareholders. Moreover, it may be in a company's best interest to support politicians in multiple political parties, whether or not their positions directly align with the company's stated values. Similarly, lobbying organizations necessarily represent the views of many members, and it is unrealistic to expect perfect alignment between all of a company's values and all parts of a lobbying organization's agenda.

As noted above, better corporate disclosure and transparency about political spending may enable shareholders to draw their own conclusions about the potential benefits or risks associated with the specific relationships that are disclosed, as well as the alignment of these expenditures with corporate values.

Illustrative examples of votes:

1. Vote <u>in support</u> of resolutions requesting that a company disclose/report on payments used for (a) direct and indirect lobbying, or (b) grassroots lobbying communications
2. Vote <u>in support</u> of resolutions requesting that a company disclose memberships in and payments to any tax-exempt organization that lobbies on its behalf or writes and endorses model legislation.
3. Vote <u>in support</u> of resolutions requesting that a company disclose its policies and procedures governing lobbying, both direct and indirect, grassroots lobbying communications, and campaign spending.
4. Vote <u>in support</u> of resolutions requesting that a company disclose monetary and non-monetary contributions and expenditures, including the identity of the recipient(s).
5. Vote <u>against</u> resolutions requesting that a company undertake a cost/benefit analysis of political contributions and report the results to shareholders.
6. Vote <u>against</u> resolutions requesting that a company report on the "congruency" between its stated corporate values and the policy positions of candidates or organizations receiving contributions.

ENVIRONMENTAL ISSUES

Subtopic: *Methane Emissions and Reduction*

Description: Resolutions that ask companies to report on the management of methane emissions and adopt targets for reducing such emissions.

Topic background

Methane is a potent greenhouse gas. On a 20-year timescale, methane is estimated to have more than eighty times the global warming potential of an equivalent amount of carbon dioxide.[1] Proponents of resolutions in this area express urgent concerns about methane's role in climate change, while also noting the business risks of fugitive methane emissions, which represent lost gas product that otherwise could have been brought to market. In addition, proponents say, these emissions may pose an increasing reputational risk to the natural gas industry, which has positioned itself as a cleaner alternative to other fossil fuels.

Considerations for voting

- Well-constructed proposals that request companies to report on methane emissions management, through means such as reporting on actual emissions and on goals to reduce them, provide shareholders with valuable information, not only about a potential material risk factor, but also through fugitive methane emissions recapture, about potential business benefits.
- A well-constructed proposal should seek to request reporting across all operations. Reduction targets should be either absolute or intensity-based and should aim for direct measurement when possible.
- The broader aim of measuring, managing, and reducing greenhouse gas emissions aligns with Harvard University's institutional efforts, as reflected in the University's "Climate Action Plan" and HMC's engagement with energy companies on methane emissions through the Principles for Responsible Investing (an organization dedicated to advancing the practice of responsible investing).

With regard to company concerns about reporting standards or burdens, recognized guidance for reporting on methane emissions is available from organizations such as the Task Force on Climate-related Financial Disclosures (TCFD), whose standards for reporting material information on methane emissions reflect substantial input from investors, NGOs, and industry experts.

Illustrative examples of votes:

1. Vote <u>in support</u> of resolutions requesting that a company report its policies and plans to measure, monitor, mitigate, and set quantitative targets for reducing methane emissions, including actions that go beyond regulatory requirements.
2. Vote <u>in support</u> of resolutions requesting that a company provide updates on establishing any methane reduction targets and progress towards such targets.
3. Vote <u>in support</u> of resolutions requesting that a company reduce or eliminate routine flaring.

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[1] Environmental Protection Agency, *Understanding Global Warming Potentials*, https://www.epa.gov/ghgemissions/understanding-global-warming-potentials

ENVIRONMENTAL ISSUES

Sub-topic: *Reporting on Climate Change*

Description: Resolutions that ask companies to report on business risks associated with climate change and the potential impacts of these risks upon their business activities, as well as plans to address such risks. Such resolutions may reference the goal (expressed in the Paris Agreement) of limiting global temperature rise to no more than two degrees Celsius.

Topic background
Shareholders in recent years have taken note of the near-universal scientific consensus that greenhouse gas emissions from human activity are driving an increase in average global temperatures and an associated increase in severe and damaging weather events. Shareholder proposals on climate change reporting reflect not only grave concern about the threat climate change poses to society, but also an understanding, from an investor perspective, that the effects of climate change, and of policies to address climate change, pose material financial risks for unprepared companies. Conversely, shareholders may view companies with robust climate change mitigation or adaptation strategies as positioned for longer-term competitive advantage. Some recent shareholder proposals regarding the business impacts and risks of climate change describe these risks in two keys ways. "Transition risk" refers to the business impact of policies and commercial technologies that will move the world economy toward reduced carbon fuel use and greenhouse gas emissions. As implemented by individual nations, policy-based goals such as those set forth in the Paris Agreement would affect supply and demand for carbon-based energy. Commercial advances include increasingly competitive renewable energy and energy efficient technologies with the potential to win broad acceptance in the market. "Physical climate risk" is the potential for increased frequency or scope of severe weather events, such as droughts, wildfires, storms, and flooding, and the effect of these events on a company's operations, infrastructure, or supply chain.

Considerations for Voting

- While uncertainties surround the timing and impact of climate change on business activity, as well as the likely form of relevant policies and regulations, the scientific consensus about the progress of climate change strongly suggests that it is in shareholders' best interests to understand how companies view – and are planning for – the risks a changing climate poses for their business.
- Energy companies in particular face uncertainty surrounding the timing of any shift away from fossil fuels towards other energy sources and the impact such shifts may have on their businesses. Shareholders have reason to take seriously the prospect of reduced demand for carbon-emitting energy sources, to believe that it is prudent for companies to share information on their plans to adapt to an economy with reduced reliance on fossil fuels, and to better understand how companies are anticipating the physical risks of an altered climate and associated extreme weather events and other disruptions.
- We understand that shareholder interest should extend beyond the energy industry to many other industries, given the likely impacts of climate change on energy, infrastructure, and supply chains. For example:

    - Shareholders in insurance companies may seek information on planning regarding the cost of increased extreme weather events.
    - Shareholders in food and beverage companies may seek information on planning regarding agricultural supply chain disruptions.
    - Shareholders in companies with plants and equipment in areas vulnerable to flooding and wildfires may welcome information on plans to adapt or relocate such assets.
- Given the emergence of broadly recognized frameworks for reporting sustainability related disclosures such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), which have been shaped with input from industry experts and investors, reasonably constructed shareholder requests on climate change risk reporting should not pose an undue burden. In addition, reports based on such frameworks offer shareholders the opportunity to compare reporting among companies.
- Generally, we recommend supporting proposals that ask companies to report on climate-change-related business risks and upon plans to address those risks, and particularly encourage support of well-crafted proposals to companies that appear to be lagging behind their peers on climate change issues. Such proposals seem prudent and relevant to a valid shareholder interest in fully understanding the climate risks a company faces and its perspectives on managing them.
- At the same time, we have tended to oppose or abstain on proposals that encroach upon management's discretion to conduct ordinary business by imposing highly prescriptive requirements for policies or plans to address climate change.
- Similarly, we counsel caution with proposals that direct companies to take actions contrary to their core business focus and strategy, such as demanding that an energy company provide a capital distribution to compensate shareholders for assets such as oil reserves that may, in future, become "stranded" (lose their book value).

Illustrative examples of votes:

1. Vote <u>in support</u> of well-constructed resolutions requesting that a company report on risks posed by climate change. Examples of such resolutions might include those that request a company to:
    - Provide an assessment of long-term impacts of climate change policies, and the short- and long-term financial risks of a lower carbon economy.
    - Report on its understanding of the implications of aligning business operations with the two degree Celsius scenario[1] outlined in the Paris Agreement.
2. Vote <u>against</u> resolutions that direct companies to take actions contrary to their core business focus and strategy.

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[1] Requests for company scenario analysis have often aligned with a target global temperature rise below two degree Celsius (2°C) above pre-industrial levels, as outlined in the Paris Agreement. There are publically available resources on climate change scenarios, for example, from the International Energy Agency (IEA), the World Resource Institute (WRI), the Food and Agricultural Organization of the U.N.'s Modelling System for Agricultural Impacts of Climate Change (MOSAICC) and the Intergovernmental Panel on Climate Change (IPCC).

ENVIRONMENTAL ISSUES

Sub-topic: *Waste Reduction – Plastic and Polystyrene Packaging and Products*

Description: Resolutions that ask companies to report on their management of non-recyclable plastic and polystyrene waste, including policies and goals to reduce these forms of waste and impact analyses of the business risk and/or environmental impact of their continued use.

Topic background

The evidence of the harmful impact on the environment of the enormous quantities of discarded plastic waste, especially to ocean and marine life, is increasing, as is public awareness and concern about these harms. Important sources of plastic and polystyrene waste include both packaging and disposable products, such as utensils and straws, packaging, and polystyrene food and beverage containers, and also pre-production plastic feedstocks in the form of pellets, granules, and powders. Once discarded, significant quantities of these non-biodegradable materials enter seas and oceans, where they are ingested by marine creatures at every level in the food chain, a phenomenon which not only endangers the well-being of these creatures, but also introduces toxins into the food chain and, therefore, into human diets. Non-recyclable, non-biodegradable plastic and polystyrene waste is generated in significant quantity in a number of industries, including food services, manufacturing, consumer goods, and shipping.

Considerations for voting

As a major institution with its own environmental footprint to manage, Harvard believes that it has an "accountability to the future" regarding the environment and that that responsibility should be met not only through research and teaching, but through its campus-wide initiatives to reduce waste, energy use, and materials use. [1] Given these principles, we share in the increasing concern regarding the grave threats to marine life and ocean terrestrial environments posed by non-recyclable, non-biodegradable plastic and polystyrene waste and believe it is in an organization's best interest to seek to reduce its generation of waste in these forms.

- Well-constructed proposals seeking reports on the management of these wastes and/or analyses of their environmental impacts or business risks can usefully focus management's attention on the issue of plastic waste while potentially yielding information of value to shareholders.
- Some leading companies see a reputational and competitive advantage in publicly setting ambitious goals for plastic and polystyrene waste reduction, including Procter & Gamble and Colgate-Palmolive, which have pledged to use 100 percent recyclable packaging in most or all of their product lines by 2020.
- Such proposals are consistent with Harvard University's institutional goal of reducing waste, which includes a shift to compostable straws and disposable food containers.

Illustrative examples of votes:

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[1] Harvard University has committed to many waste reduction initiatives, including composting and reusable container programs by Dining Services. For further information, see https://green.harvard.edu/commitment.

1. Vote <u>in support</u> of resolutions requesting that a company report to shareholders on efforts to manage and reduce the environmental impact of discarded non-recyclable, non-biodegradable packaging and related consumer-oriented materials, including plastic straws, polystyrene products, other non-recyclable products or packaging, through means such as sustainable packaging initiatives.
2. Vote <u>in support</u> of resolutions requesting that a company report on efforts to manage and reduce the environmental impact of non-biodegradable pre-production plastics, such as pellets, granules, and powders, that persist in the environment.

These reports may also include the company's assessment of the potential environmental impacts (such as adverse health effects) of its plastic waste on marine life and human health.

EXECUTIVE COMPENSATION

Sub-topic: *Vesting Equity for Government Service*

Description: Resolutions that ask companies to report on or end the practice of ensuring equity vesting for senior executives who leave their firm for a government position.

Topic background

Equity vesting for employees who leave their firm for a government position, sometimes referred to as a "government service golden parachute," is intended to encourage government service by employees with valuable industry expertise by seeking to give them rough parity in equity vesting with those who leave for positions elsewhere in industry. Equity-based awards often include stock options, restricted stock, and other stock awards granted under an equity incentive plan. Government service may include positions in a federal, state, local, supranational or international organization. In addition to government positions, some current company policies also apply to those entering the education or nonprofit sector. Proponents of shareholders resolutions are concerned that encouraging industry experts to enter government service may lead to conflicts of interest and biased judgments on industry issues.

Considerations for voting:

- Proponents' concerns about the potential for conflicts of interest and industry bias in public service merit careful consideration at this time.
- At the same time, these concerns should be weighed against the benefits of industry expertise in complex areas and in light of a considerable body of government policy and regulation about conflicts of interest. In many cases "golden parachute" provisions encourage public service by individuals who might bring strong managerial or technical skills to government, while also ensuring some degree of vesting parity between employees who move to a competitor and those who enter government service. Harvard University, and, in particular, its professional schools in law, medicine, government, business, education, and public health, supports the value of multisectoral experience and encourages its graduates to prepare for multisectoral careers.
- To date, at companies with such "golden parachute" provisions, only small numbers of executives are eligible for – or tend to avail themselves of – government service opportunities and, therefore, these vesting equity provisions.
- There are also concerns that proposals in this form overreach the bounds of shareholder engagement by concerning themselves closely with detailed company policy on executive compensation.
- In view of existing regulations for federal employees regarding conflicts of interest, proposals seeking to end vesting equity for government service may be viewed as duplicative and likely to be ineffective in addressing proponents' concerns.
- However, proposals seeking reporting on the provision of vesting equity for executives who have left a company for government service might be viewed as helpful in enabling shareholders to understand vesting practices and the movement of senior executives between business and government.

Illustrative examples of votes:

1. Vote <u>in favor</u> of proposals requesting reports regarding the provision of vesting equity to executives who leave a company for government service.

2. Vote <u>against</u> resolutions requesting that a company adopt a policy of prohibiting vesting of equity-based awards for senior executives due to a voluntary resignation to enter government service (a “Government Service Golden Parachute”).

   For purposes of this recommendation, “equity-based awards” include stock options, restricted stock and other stock awards granted under an equity incentive plan. “Government service” includes employment with an U.S. federal, state, local, government, any supranational or international organization, any self-regulatory organization, or any agency or instrumentality of any such government or organization, or any electoral campaign for public office.

HUMAN RIGHTS

Sub-topic: *Anti-genocide Policies*

Description: Resolutions related to this topic may ask a company to report on the alignment of stated corporate values with investments or business activities in countries with regimes tied to genocide or crimes against humanity. Proposals may also ask companies to institute (or evaluate the feasibility of instituting) procedures for avoiding business relations with governments that are implicated in genocide or crimes against humanity or with companies whose business activities materially support such regimes.

Topic background

These proposals originate from shareholder concerns about business operations or investments in countries whose governments either promote, or appear to be complicit in, genocide or crimes against humanity. For example, in the past, shareholder resolutions targeted organizations which maintained investments in PetroChina, a company that, in partnership with governments in Sudan and South Sudan, continues to operate oil production facilities in those countries. Civil wars between the two regions and, since South Sudan's independence, within them have resulted in well-publicized human rights abuses, including genocidal activities in the Darfur region.[1] More recently, resolutions have been prompted by corporate activity in Myanmar, where the government has conducted a harsh military offensive against the Rohingya people, driving hundreds of thousands from their homes. Proponents of these proposals believe that companies that continue to operate directly (or indirectly through investments) in enterprises in such countries may be perpetuating significant human rights issues by providing financial support to the implicated regimes. In addition, by associating themselves with these regimes, these companies may incur significant reputational risk.

Considerations for voting

- Given the grave ethical and reputational consequences for entities implicated in the support of genocide, proposals requesting reports on investments, or on policies on business activities in countries with regimes implicated in genocide, or requesting information on the feasibility of instituting such policies, are clearly in shareholder's best interests.
    - Such reports might usefully serve to inform shareholders of a company's exposure to reputational risk without intruding upon the management of the company.
    - In addition, these reports may help inform shareholders about the alignment between a company's stated corporate values, its adherence to the principles of any recognized human rights policies it endorses, and its business activities.
    - Finally, such reporting may help direct management's attention to these issues.
- In considering such proxies, we recommend careful attention to each company's current human rights policies, its position on recognized global human rights standards such as the UN Declaration on Human Rights, and its record of performance in regard to issues surrounding activities in regions where human rights abuses exist.

[1] In 2005 Harvard University instructed Harvard Management Company to divest the University's endowment from holdings in PetroChina Company Limited and Sinopec Corporation. For more information see CCSR Statement on PetroChina and CCSR Statement on Sinopec.

- It should be noted that investment banking firms which manage not only their own investments, but clients' holdings as well, may be limited in their ability to address client holdings in companies with ties to problematic regimes.
- Proposals which appear to prescribe the policy and procedural steps management might take to address the risk of investing in businesses, or conducting business, in regions with human rights abuses may be viewed as overly intrusive. However, consideration of these more prescriptive proposals might benefit from close attention to the specifics of a company's activities in regions of concern.

Illustrative examples of votes:

1. Vote in support of resolutions requesting that a company report on the feasibility of adopting a policy of not doing business with governments that are complicit in genocide and/or crimes against humanity as defined by the U.S. Department of State or the appropriate international body.
2. Vote in support of resolutions requesting that a company perform an analysis and report on how the company's published corporate values align with its policies regarding investments in companies tied to genocide or crimes against humanity.
3. Vote in support of resolutions requesting that a company perform an analysis of and report on how the company's published corporate values align with its policies regarding business arrangements with CNPC[2] or PetroChina.

[2] China National Petroleum Corporation (CNPC) is the parent company of PetroChina.

LABOR STANDARDS AND EMPLOYMENT POLICIES

Sub-topic: *Report on Gender-, Race-, and/or Ethnicity-based Pay Disparities*

Description: Resolutions that ask companies to report on gender-, race-, and/or ethnicity-based pay inequities and on policies and goals to reduce such pay gaps.

Topic background

The "pay gap" refers to documented differences – not only on average across the board, but also in comparable positions within specific industries – between the wages and salaries earned by men and women, in the case of a gender-based gap, or between wages and salaries earned by individuals of different race or ethnicity, in the case of a race- or ethnicity-based gap. Such gaps are found in many industries; particular attention has been focused in recent years on pay disparities in the technology and financial sectors.

Looking beyond the fundamental inequity inherent in such pay gaps, the pay gap has significant implications on social well-being for women, for minorities, and for families. For example, families of women whose earnings are the major or sole source of financial support – over 40 percent of all families in the United States – are less financially secure than families principally supported by men. Analysts see not only social harm from pay gaps, but also significant potential benefits for individuals and economies were the gaps to be reduced or eliminated. Few companies currently publish data on earnings by gender or by race/ethnicity. Some major firms in the financial sector and beyond have articulated commitments to ensuring earnings equity for men and women and/or across different racial/ethnic groups and have launched programs, typically under the diversity, equity, and inclusion umbrella, to address equity issues, including earnings disparities. These firms are in the minority, however.

Considerations for voting

- Given the widely prevalent and well-documented phenomenon of gender-, race-, and ethnicity-based pay gaps, well-constructed proposals requesting companies to report on their understanding of pay equity (and inequity) among their employees and on their policies and goals for addressing any gaps merit careful consideration.
- Although companies may face possible reputational or competitive risks when reporting on such gaps, on balance it seems reasonable to assume that a company's reputation – and attractiveness as an employer – will be enhanced through the demonstration of careful attention to pay equity.
- Reasonable, well-constructed proposals requesting reports on pay equity and on policies and goals to reduce pay gaps are seen as unlikely to impose an undue reporting burden, given that companies already possess the relevant data.
- Proposals in a form that specifically request a demonstration of the *absence* of a pay gap should prompt questions about their appropriateness and feasibility. In advancing such proposals to companies in industries with well-documented pay gaps, proponents likely know their targeted companies cannot demonstrate the absence of a pay gap. It is more appropriate, and more useful to shareholders, to request information on the current status of pay equity for women and minorities than to ask for a demonstration of something the proponent knows is not the case.

Illustrative examples of votes

1. Vote in support of resolutions requesting that a company analyze and prepare a report on gender-based, race-based, and/or ethnicity-based pay gaps.
2. Vote in support of resolutions requesting that a company prepare a report on the company's policies and goals to reduce such pay gaps.
3. Vote to abstain on resolutions that request company reports indicating an absence of pay gaps.

For purposes of these recommendations, the "gender pay gap" is defined as the difference between male and female earnings expressed as a percentage of male earnings according to the Organization for Economic Cooperation and Development.