ESG 2023

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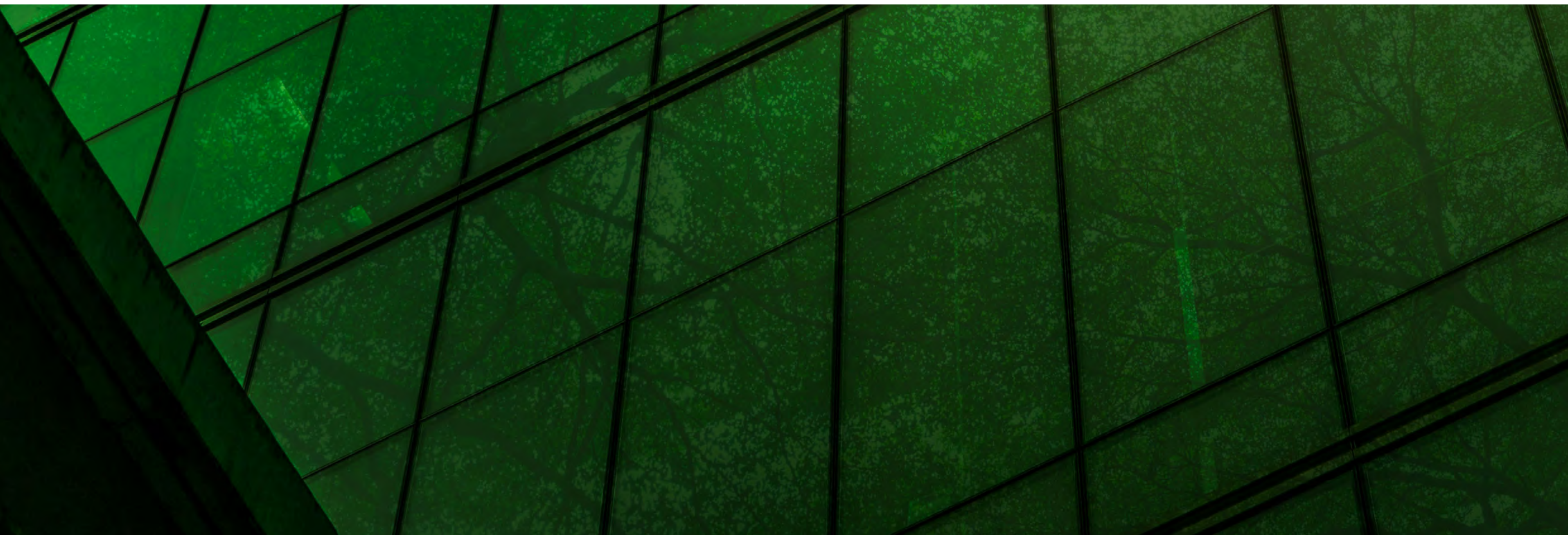
Vinson&Elkins



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Editor's foreword

> *"The direction of travel for ESG is likely to be more disclosure and greater uniformity."*

Josh Black
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ESG may no longer be a fresh new infatuation for financial markets but there could hardly be a more auspicious time for Insightia's first report dedicated solely to the topic.

Investors, issuers, and advisors alike must navigate global regulatory developments advancing at different paces, enhanced scrutiny of greenwashing, and the anti-ESG movement. As a result, understanding the ESG demands of different stakeholders requires a more nuanced take than ever before.

That is the motive behind the launch of Insightia's new *ESG* module, created in conjunction with our partners at Clarity AI. The new offering allows users to analyze quantitative ESG risk, policy, and controversy scores and will also highlight which companies are reporting Scope 1, 2, and 3 emissions.

Indeed, this report contains several insights powered by the ESG module. Most notably, the widespread adoption of Scope 3 reporting in the U.S., despite the absence of mandatory reporting rules. As many as 63% of the largest 500 U.S. companies already report these (the quality of the reporting is another story, and Clarity AI's "trusted reporting" designation can help identify companies that may benefit from greater transparency).

On an individual company level, we have provided total ESG scores as of May 31 for each issuer named in the report. Users of the *Insightia One* platform will have several further layers of data but here we are focused on broader conclusions, for instance, that while the U.S. is the world leader in governance risk scores, it lags behind other regions on environmental risks. Small wonder that ESG shareholder proposals continue to flood in.

Despite buoyant fossil fuel demand, supply chain issues, and higher interest rates, despite a notable decline in environmental and social demands by traditional financial activist investors, and despite an uptick in anti-ESG campaigns, this report shows that ESG is here to stay.

Indeed, the direction of travel for ESG is likely to be more disclosure and greater uniformity. Issuers would be well-served to get ahead of disclosure mandates by evaluating their ESG programs and discussing with their largest shareholders how their expectations are evolving.

Many proposals calling for more detailed ESG disclosures win support above thresholds that oblige companies to engage with their shareholders or allow proponents to resubmit year-after-year. That contrasts with proposals that impose restrictions on business activities, and have been shunned by some institutional investors (although not all).

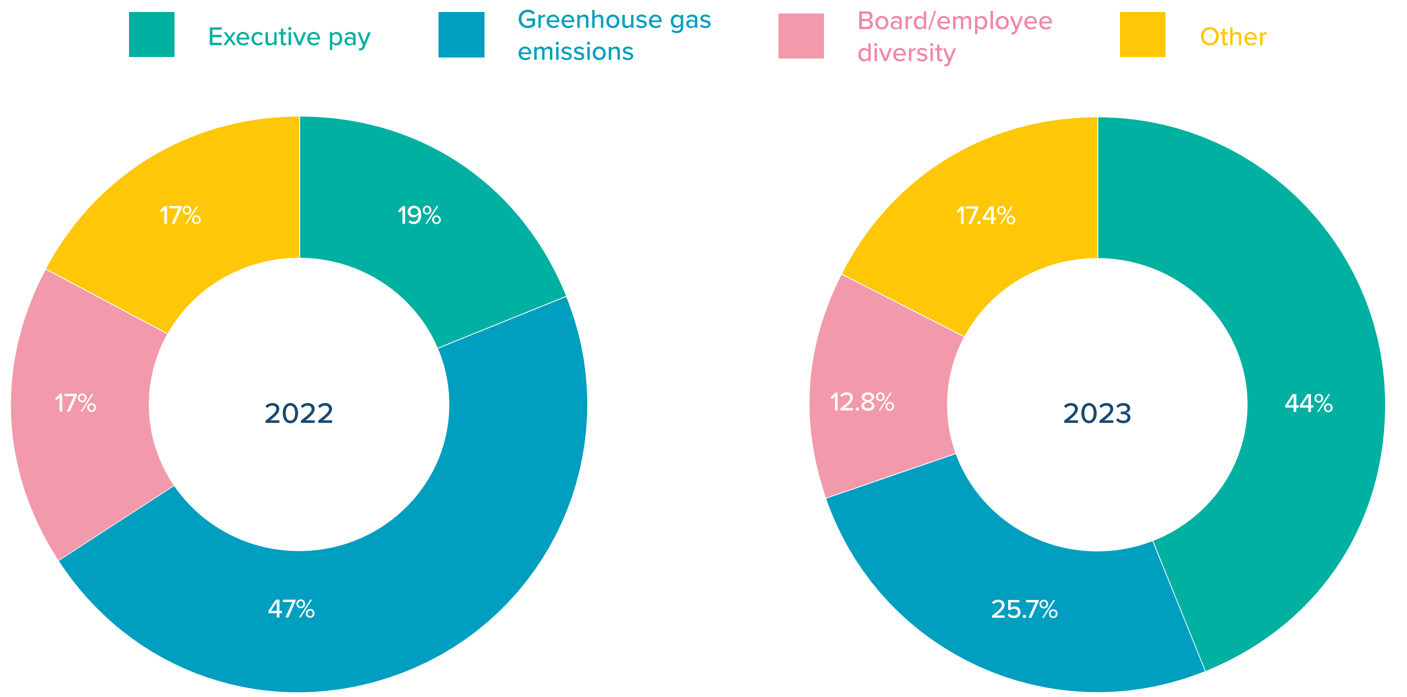
EU regulation of sustainability reporting will have a global impact and Asic-Pacific markets are following suit. The much-delayed climate change rule from the Securities and Exchange Commission (SEC) is nonetheless expected to land later this year and more investors are speaking up about biodiversity and the Taskforce for Nature-related Financial Disclosures (TNFD).

Luckily, we have expert advice from a number of different sources in this report. In particular, we are thankful to Vinson & Elkins, EY, Dr Robert Eccles, Clarity AI, and our friends at the Diligent Institute for sharing a number of valuable insights with us.

We hope you find this report to be a useful addition to the reporting on ESG shareholder engagement and regulation we've been providing through the Insightia One platform. It's an exciting time for our team and our clients with the addition of Compensation and ESG modules and we appreciate your feedback as we enhance our offerings. Thank you for your continued support, and we look forward to sharing more developments soon.

ESG trends at a glance

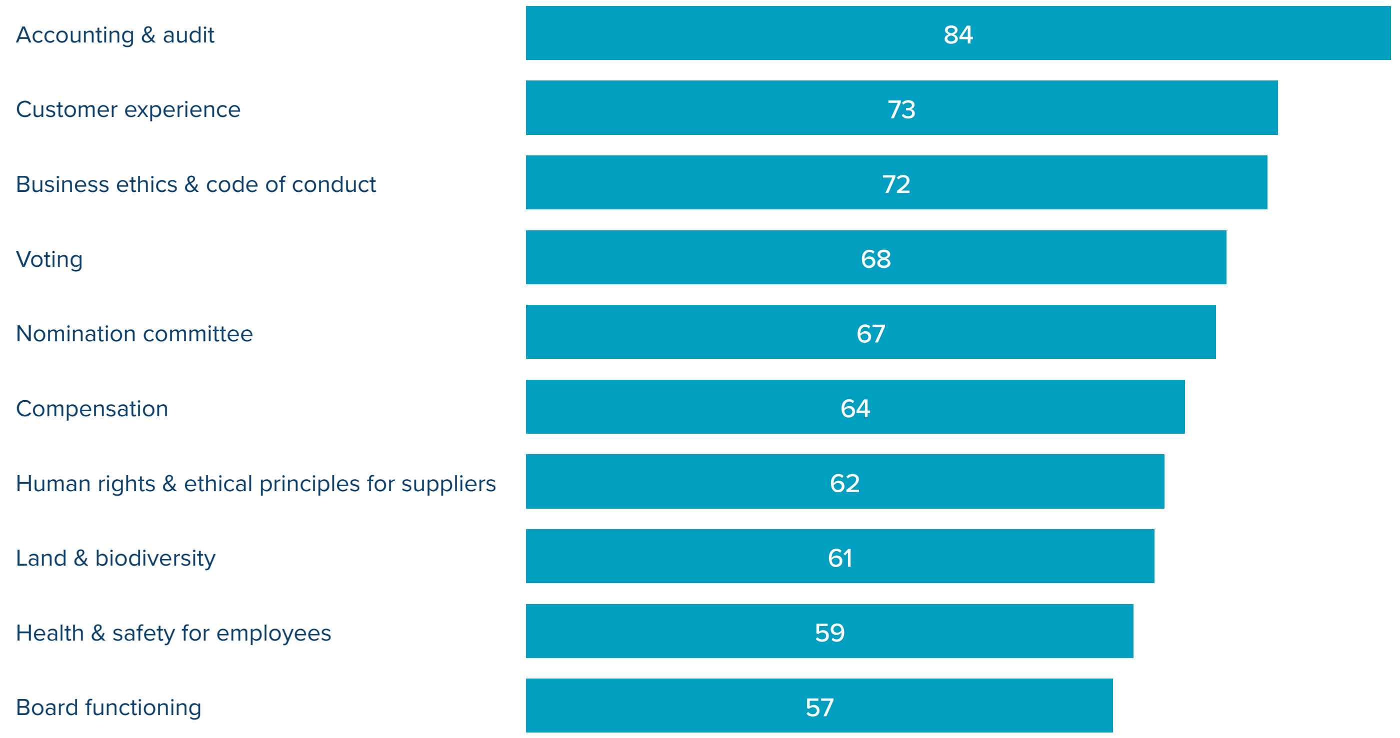
What do you think is the biggest ESG issue right now?



*Results of polls presented to Insightia readers held on July 26, 2022 and April 24, 2023.

Top performing ESG categories for companies globally
by average total ESG score (%)

ESG Risk Scores rank issuers on a scale of 1 - 100, the higher the number denoting the better emissions-related disclosure the company provides compared to industry peers.



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Lowest performing ESG categories for companies globally
by average total ESG score (%)

ESG Risk Scores rank issuers on a scale of 1 - 100, the higher the number denoting the better emissions-related disclosure the company provides compared to industry peers.

*Excludes not available, not important, and limited information total ESG scores. *As of June 14, 2023.

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Source: Insightia / ESG

No. and average support for (%) climate change shareholder proposals globally by sector and calendar year

2020-2021

Sector	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Basic materials	10	55.5	88.9	53.3
Communication services	1	39	100	0
Consumer cyclical	7	40.6	83.3	42.9
Consumer defensive	3	57.5	66.7	66.7
Energy	17	41.8	86.7	64.7
Financial services	12	27.6	57.1	27.8
Funds	0	0	0	0
Healthcare	0	0	0	0
Industrials	15	58.6	100	80
Real estate	0	0	0	0
Technology	0	0	0	0
Utilities	5	10.2	33.3	16.7

Source: Insightia / Voting

2022-2023*

Sector	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Basic materials	6	25.3	66.7	40
Communication services	2	21.7	100	50
Consumer cyclical	10	32.2	75	50
Consumer defensive	7	46.2	100	71.4
Energy	28	27.1	72.7	19.5
Financial services	54	21.4	47.1	16.7
Funds	0	0	0	0
Healthcare	3	26	0	0
Industrials	17	32.5	88.9	55.6
Real estate	2	26.1	0	50
Technology	4	18.4	100	50
Utilities	15	21.5	42.9	25

*As of May 31, 2023

Source: Insightia / Voting

Proportion of US companies to voluntary disclose Scope 3 emissions

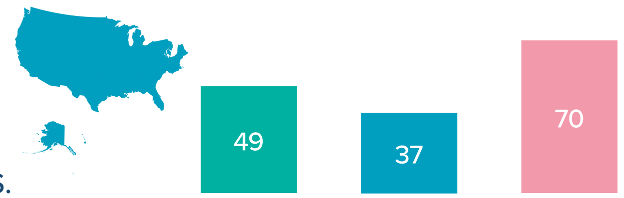
Top 500 and top 3000 U.S.-listed companies			
Companies reporting on Scope 3	% of reporting companies	Trusted reporting companies	Trust (%)*
315/500	63.0%	213	42.6%
528/3000	17.6%	312	10.4%

Powered by CLARITY AI

*"Trusted" refers to a company's reported Scope 3 emissions value having passed Clarity AI's reliability criteria.

Source: Diligent / Clarity AI

Breakdown of average total ESG scores on ESG categories (%) by company region and sector

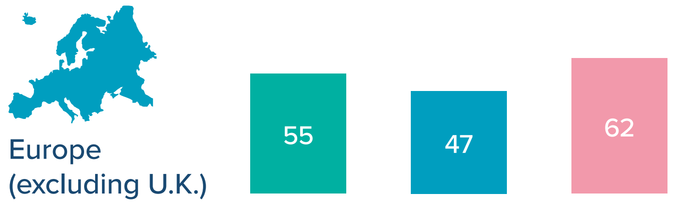


U.S.

Sector	Environmental	Social	Governance
Basic materials	51	50	76
Communication services	49	44	66
Consumer cyclical	52	34	75
Consumer defensive	57	35	77
Energy	51	54	71
Financial services	50	34	61
Funds	78	51	69
Healthcare	40	31	65
Industrials	51	41	75
Real estate	47	42	65
Technology	49	36	77
Utilities	56	42	81

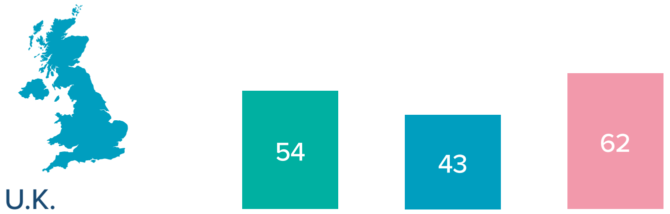
Canada

Sector	Environmental	Social	Governance
Basic materials	40	45	67
Communication services	58	50	71
Consumer cyclical	51	34	67
Consumer defensive	50	35	69
Energy	50	51	70
Financial services	54	38	64
Healthcare	32	29	60
Industrials	41	39	69
Real estate	35	34	64
Technology	41	31	69
Utilities	54	46	75



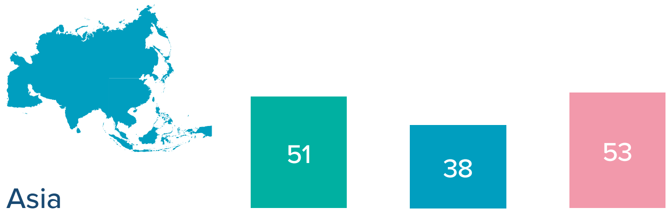
Europe (excluding U.K.)

Sector	Environmental	Social	Governance
Basic materials	53	56	64
Communication services	58	52	60
Consumer cyclical	58	45	62
Consumer defensive	60	51	58
Energy	50	56	63
Financial services	63	47	62
Funds	46	42	50
Healthcare	50	40	61
Industrials	54	48	61
Real estate	50	48	61
Technology	54	40	63
Utilities	55	49	62



U.K.

Sector	Environmental	Social	Governance
Basic materials	49	55	61
Communication services	62	48	64
Consumer cyclical	56	40	65
Consumer defensive	59	41	63
Energy	48	52	62
Financial services	63	43	62
Funds	43	66	58
Healthcare	44	31	58
Industrials	52	45	63
Real estate	53	48	60
Technology	49	34	62
Utilities	61	44	71



Asia

Sector	Environmental	Social	Governance
Basic materials	53	46	51
Communication services	47	40	55
Consumer cyclical	50	34	54
Consumer defensive	50	41	51
Energy	52	49	52
Financial services	53	38	53
Funds	53	48	58
Healthcare	50	33	54
Industrials	52	38	52
Real estate	50	44	52
Technology	50	33	57
Utilities	49	44	52

Australia

Sector	Environmental	Social	Governance
Basic materials	42	45	65
Communication services	50	51	65
Consumer cyclical	45	40	67
Consumer defensive	50	46	68
Energy	44	55	62
Financial services	59	43	64
Healthcare	40	36	65
Industrials	45	47	63
Real estate	45	41	60
Technology	43	44	70
Utilities	45	36	57

Other

Sector	Environmental	Social	Governance
Basic materials	48	53	59
Communication services	46	49	56
Consumer cyclical	45	39	61
Consumer defensive	50	47	55
Energy	50	54	61
Financial services	54	39	56
Healthcare	46	39	62
Industrials	47	46	59
Real estate	44	41	56
Technology	45	42	65
Utilities	52	47	65

Powered by CLARITY AI

*Excludes not available, not important, and limited information total ESG scores. *As of June 14, 2023.

Source: Insightia / ESG

Proportion of ESG activism demands where the activist was at least partially successful

Outcome	2019	2020	2021	2022	2023*
Environmental	9.56%	9.42%	13.59%	18.14%	21.16%
Activist withdrew demands	13.89%	5.48%	3.06%	5.68%	3.33%
At least partially successful	2.78%	12.33%	20.41%	16.48%	5.00%
Activist's objectives unsuccessful	83.33%	82.19%	76.53%	77.84%	91.67%
Social	21.91%	19.87%	19.42%	26.60%	28.57%
Activist withdrew demands	1.21%	1.95%	3.57%	3.10%	8.64%
At least partially successful	7.27%	9.09%	20.00%	13.95%	7.41%
Activist's objectives unsuccessful	91.52%	88.96%	76.43%	82.95%	83.95%
Governance	68.53%	70.71%	66.99%	55.26%	50.26%
Activist withdrew demands	6.20%	7.85%	8.70%	10.07%	5.96%
At least partially successful	27.91%	17.70%	22.57%	22.76%	18.60%
Activist's objectives unsuccessful	65.89%	74.45%	68.74%	67.16%	75.44%
Total	100%	100%	100%	100%	100%

*As of May 31

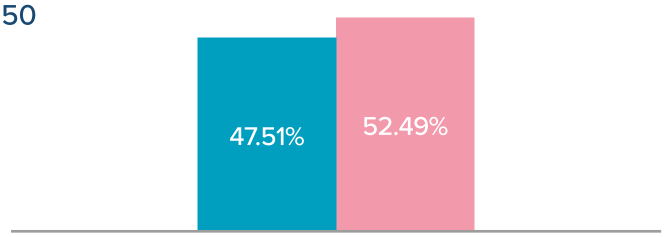
Source: Insightia / Activism

Gender diversity of director appointments by index

Male Female

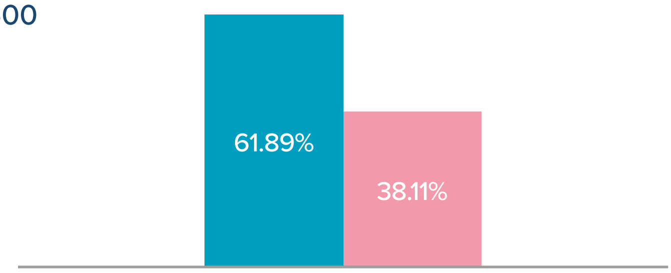
FTSE 350

	Male	Female	Total
Number of appointments	191	211	402



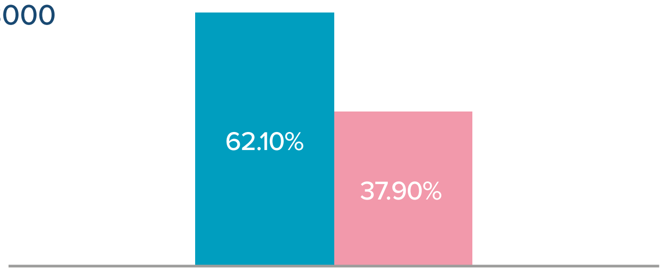
S&P 500

	Male	Female	Total
Number of appointments	294	181	475



Russell 3000

	Male	Female	Total
Number of appointments	1,627	993	2,620



Covers director appointments throughout 2022 and the first five months of 2023. *As of June 6, 2023.

Source: Insightia / Governance

The future of ESG reporting

An interview with Carmen Boulet, strategy director at Clarity AI, and Sam Austen, product manager, ESG and data intelligence, Diligent.

"Out of the organizations that are comprehensively reporting their Scope 3 data, 82% do not have Scope 3 emissions reduction targets."

Carmen Boulet
Strategy director
carmen.boulet@clarity.ai

Sam Austen
Product manager
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With new rules on ESG disclosure taking effect around the globe, how can companies be proactive about ensuring their ESG policies and practices stand up to scrutiny?

Carmen Boulet (CB): It is great to see all these regulations arising in almost every corner of the world. These disclosure requirements help level the field in terms of what information needs to be disclosed by companies and make sure that it is comparable. However, there are already more than 600 ESG reporting provisions and regulations globally, which can have the opposite effect and add more confusion in the market, especially as companies operate in multiple regions.

Transparency then becomes a key component, and that's what regulators are expecting. They are pushing for more transparency in the information and the methodologies used, so that stakeholders have the right inputs to assess a company and make better-informed decisions, driven by an increasing demand for sustainable investment, with global ESG assets expected to reach $50 trillion by 2025.

How can ESG scores and benchmarks help both issuers and their shareholders better understand how a company is performing in this realm?

Sam Austen (SA): Clients are increasingly looking at non-financial data as part of their analysis to identify risks and growth opportunities. As a result, ESG data is increasingly being sought after across different organizations to help inform strategy and risk. By being able to identify ESG risks, issuers and shareholders can take necessary actions to adjust their ESG strategy or increase accountability and transparency on an issue. Benchmarking against peers provides a useful pulse check on the company's relative performance in the market.

What best practices can companies adopt when setting Scope 3 emissions reduction targets?

CB: Scope 3 emissions are at the far end of the overarching concerns around sustainability data accuracy and completeness because they fall outside of the companies' operations. A recent analysis we conducted with organizations reporting to CDP showed that only 54% with material Scope 3 emissions disclose this information in a comprehensive manner. We also found that out of the organizations that are comprehensively reporting their Scope 3 data, 82% do not have Scope 3 emissions reduction targets.

So, this looks like a two-fold problem. On the one hand, the lack of "perfect" data cannot be used as an excuse not to act. Companies can either gather emissions data from their providers and control its quality or rely on estimates. The quality in any of these cases can be enhanced through advanced modeling capabilities to make sure they get a fair view of their Scope 3 emissions and can track progress over time. Reduction targets must be set based on the data available, as long as they are disclosed with full transparency so the market can understand their current position and assess the quality of the targets and how realistic they are. On the other hand, we believe regulations, especially for investors, are doing their part in adding more pressure on corporations to be accountable for their Scope 3 emissions and to ensure they play their part in addressing climate change.

Much discussion surrounding corporate ESG reporting tends to focus on environmental considerations. What social and governance topics should boards be paying particular attention to?

SA: Some of the social metrics explored in Insightia's *ESG* data solution include those relating to employees, such as labor rights, working conditions, and controversies involving their supply chain. The governance metrics covered by Clarity AI and Insightia's *Governance* module, such as having a separate CEO and chairman and board gender diversity, are also important considerations.

Insightia's ESG Risk Scores also incorporate governance metrics relating to sustainability, such as whether the company has a sustainability management team or has been subject to public affairs issues or incidents relating to negative lobbying and political contributions.

Are there any specific sectors/industries that would benefit from enhancing their ESG reporting or considering implementing additional ESG oversight measures?

CB: There is a growing demand for companies to report ESG information from all relevant stakeholders. On the one side, investors are integrating it into their financial decision-making, since ESG risk is increasingly considered alongside traditional financial risks and using it to build sustainable financial products to meet their clients' demands. Governments and regulators are requiring companies to report ESG data to foster transparency, understand externalities created by the corporate ecosystem, and promote specific goals. And then consumers want to understand the value companies are creating beyond traditional financial metrics.

It is, therefore, becoming increasingly important for companies to report this data to access financial markets, comply with regulations, and market their products to consumers. This applies to all sectors, but those most exposed to ESG-related factors are subject to higher scrutiny from stakeholders. Examples of these industries include but are not limited to: energy and utilities, construction materials, transportation (especially auto manufacturers), agriculture farming, and textiles.

Similarly, we see benefits in integrating ESG factors into governance, strategy, and decision-making across all sectors. However, those most exposed to ESG-related risks, and thus with a potentially higher impact on the environment and society, must take extra steps to make sure they mitigate risks and minimize negative impacts.

What steps can boards take to help future-proof their businesses when it comes to ESG?

CB: Incorporating ESG metrics into governance can provide a number of benefits for companies, including risk mitigation, opportunity identification, and stakeholder engagement. So having access to accurate and reliable data is a crucial step to future-proof businesses. Boards should make sure they have access to metrics that are relevant for their business goals, and to methodologies that make sense for them. Ultimately, it is about making decisions based on facts, that can also be communicated and explained to all stakeholders.

SA: We are really excited to announce the release of *Insightia One's ESG* module, which will bring together existing data from Insightia's *Activism* and *Governance* module, plus ESG risk scores from Clarity AI's proprietary model on over 300 metrics covering ESG issues. The module will allow users to assess the performance of a company in key areas of ESG risk, including emissions, labour rights, and ethics, assigning corporate ESG scores out of 100, with higher numbers reflecting fewer ESG-related risks. Combining this with data on ESG-oriented investor engagements from Insightia's *Activism* and *Voting* modules, as well as board composition information from Insightia's *Governance* module, users will have complete insight into a company's ESG universe.

"Boards should make sure they have access to metrics that are relevant for their business goals, and to methodologies that make sense for them."

Companies that prioritize ESG factors are more likely to create sustainable value for their stakeholders and increasingly there is a demand for non-financial measures to be used in determining a company's performance. We plan to add more features to the modules offering over the coming months, including an ESG score tool that will allow users to compare scores across sectors and custom peer groups.

ESG regulations go global

New regulations are set to make issuers accountable for their emissions reporting on an international scale, writes Rebecca Sherratt.

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The Securities and Exchange Commission (SEC) might be dragging its feet releasing its hotly anticipated climate rule, but many issuers are moving forward as if Scope 3 emissions reporting is already set to be a mandatory requirement, thanks to international policymaking.

Global regulators and reporting standards organizations are pushing for Scope 3 reporting and have their sights set on U.S. issuers, with Europe's Corporate Sustainability Reporting Directive (CSRD) being one such rule. The policy, effective January 5, mandates that U.S.-based companies that generate revenue of at least $167 million in the EU and have at least one branch in the EU exceeding $44.5 million in net revenue must report on sustainability policies and practices, including Scope 3 emissions.

The International Sustainability Standards Board (ISSB) also confirmed back in October that its new global standards, which are currently being finalized, will require disclosure of Scope 3 emissions, subject to one-year relief provisions to help companies get to grips with the requirements.

"Companies cannot claim that Scope 3 reporting is simply 'out of their hands,'" Kristin Hull, CEO at Nia Impact Capital, told Insightia. "The individuals and companies involved in your value chain are your responsibility and companies should have a thorough understanding of how this chain operates."

"Investors, regulators, and environmental activists have become increasingly concerned that it can become all too easy for companies to dress themselves up as conscious of environmental considerations without actually making a meaningful impact," Tom Matthews, London-based partner at White & Case, told Insightia.

> *"Companies cannot claim that Scope 3 reporting is simply 'out of their hands'."*

Stepping up to the plate

Given the number of regulators and policymakers looking to put Scope 3 reporting on the agenda for U.S. issuers, it's not surprising to see that companies are preparing for Scope 3 reporting, despite the SEC having yet to finalize its stance on emissions of this kind.

ESG reporting requirements

	Securities and Exchange Commission's (SEC) Climate Rule	Corporate Sustainability Reporting Directive (CSRD)
Region	U.S.	Europe
Status	Likely to be finalized in Q3 2023.	Made effective Q1 2023.
Reporting requirements	• Governance of climate-related risks and opportunities	• Sustainability policies and targets
	• Short-, medium-, and long-term material impacts of climate-related risks	• Incentive schemes and due diligence processes linked to sustainability and supply chains.
	• Scope 1 and 2 emissions	• Scope 1, 2, and 3 emissions
	• Scope 3 emissions where deemed "material"	
	• Reporting must be subject to a third-party audit	• Reporting must be subject to a third-party audit and made publicly available, starting in 2025
	• Applies to all U.S.-listed publicly traded companies	• Applies to companies that meet two of the following criteria: Have upwards of 250 employees, have balance sheets exceeding 20 million euros, and/or a net turnover of 40 million euros

According to Insightia's *ESG* module, powered by Clarity AI, 63% of the 500 largest U.S. public companies currently voluntarily reporting on Scope 3 emissions, which account for roughly 80% of their total carbon emissions.

44% and 17%, and 10% of the U.S. utilities, industrials, and energy sectors reports on these emissions, respectively.

Occidental Petroleum 67 was the first U.S. oil major to commit to net-zero Scope 3 emissions by 2050, back in 2020, annually reporting on progress made alongside setting short-, medium-, and long-term targets. More recently in February, fellow U.S. oil major Williams Co. 67 joined the United Nations' Oil and Gas Methane Partnership 2.0, aimed at enhancing its Scope 3 emissions reporting.

McKenzie Ursch, legal advisor at Follow This, told Insightia that "many oil majors at which we file [shareholder proposals] have already been reporting their Scope 3 emissions. Their Scope 3 emissions are much more significant and material to their business than companies in other sectors, where the concern is more tangential."

Should the SEC elect not to mandate Scope 3 reporting, it is "doubtful" that companies already providing this disclosure would backtrack, Ursch said.

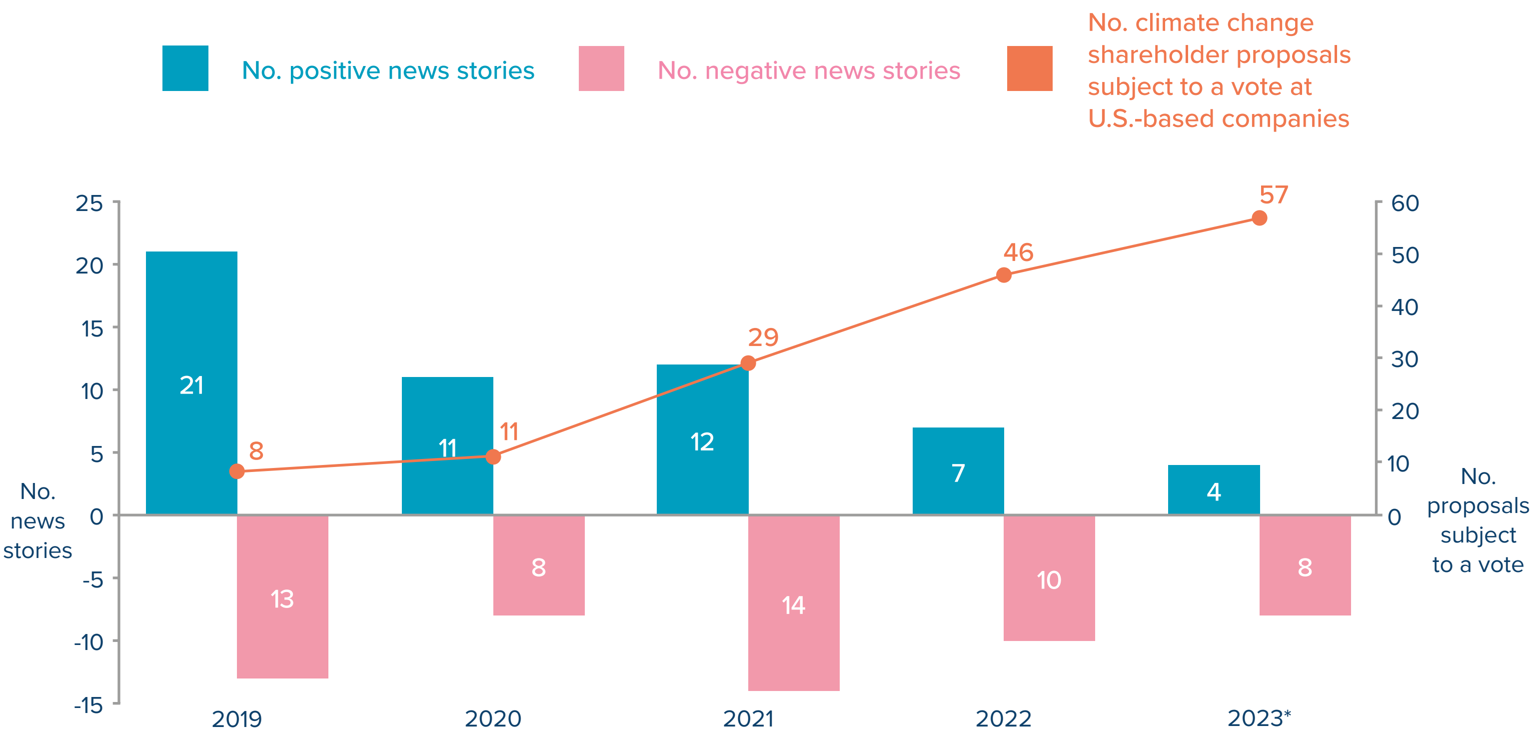
That's not to suggest that everyone is on board with the idea of Scope 3 emissions reporting. In a consultation letter to the SEC, Exxon Mobil 70 argued that mandatory Scope 3 reporting "may lead investors to make misguided investment decisions" due to such reporting lacking "rigor and reliability."

Either way, U.S. companies still have some catching up to do to keep up with global ESG reporting requirements and could find themselves underprepared for greater pressure. According to Insightia's *ESG* module, which assigns corporate ESG scores out of 100, with higher numbers reflecting fewer ESG-related risks, the average U.S. issuer's environmental risk score is 47, compared to 55 and 51 for European and Asia companies, respectively.

"Proactively addressing Scope 3 emissions offers a wealth of benefits, it can help a company bring down costs and be more efficient," Hull said. "Addressing emissions also demonstrates to investors that a company is forward-thinking and looking to strengthen its market position."

US regulations-related news stories

Positive news stories in the U.S. concerning regulations have declined in number in recent years, while the number of negative regulation-related stories has remained steady, reflecting how the surge in ESG proposal filings brought on by regulatory amendments has fostered anti-ESG sentiment.



*As of May 31, 2023 Source: Diligent / Manzama

Proportion and no. of companies reporting on Scope 3 emissions in 2021 by region and sector

Region	Communication services		Consumer discretionary		Consumer staples		Energy		Financials		Healthcare		Industrials		Information technology		Materials		Real estate		Utilities		Total	
Asia-Pacific	4%	34	4%	107	5%	63	7%	27	7%	89	3%	36	5%	185	5%	142	5%	120	6%	54	13%	42	5%	899
EMEA	26%	80	27%	171	20%	81	24%	45	21%	211	18%	78	28%	278	19%	90	25%	105	14%	75	33%	47	23%	1,263
U.S.	10%	18	15%	62	24%	43	10%	22	7%	62	6%	36	18%	98	18%	85	25%	38	18%	35	44%	31	14%	530
Total	10%	132	9%	340	10%	187	12%	94	12%	362	6%	150	11%	561	9%	317	9%	263	10%	164	23%	120	10%	2,692

Powered by CLARITY AI

*Based on 27,259 global companies in Clarity AI's data universe.

Source: Diligent / Clarity AI

"Occidental Petroleum [67] was the first U.S. oil major to commit to net-zero Scope 3 emissions by 2050, back in 2020."

Driving down emissions

Emissions-intensive sectors continue to face pressure to address their environmental impacts, but support for sustainability proposals more broadly varies, writes Will Arnot.

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Shareholder proposals seeking enhanced climate reporting in emissions-intensive sectors continue to receive significant levels of support, while more prescriptive requests across other sectors are receiving modest backing from investors.

In the first five months of 2023, 32 proposals requesting U.S.-based companies issue a climate report went to a vote, compared to 16 one year prior, winning an average of 21.2% support. While common concerns being flagged this season relate to proposals being overly prescriptive, the majority of climate requests are continuing to receive sufficient support for resubmission, allowing investors to press on with long-term engagements.

“It is still early to make year over year comparisons, but there has already been a notable uptick in proposals on climate this year, driven in part by the proliferation of more specific demands,” Sheena VanLeuven, director at PJT Camberview, told Insightia in an interview. “The broad set of topics covered by these proposals remains generally the same – target setting, reporting on progress, Scope 3 disclosure, financing, and underwriting – but the proposals this year continue to grow more tailored both by industry and even company.”

The seven proposals seeking climate-related lobbying reporting at U.S.-listed companies have gathered 29.9% average support, providing opportunities for resubmission. Support exceeding 20% of votes cast also means Glass Lewis expects issuers to engage with investors in an attempt to address the request.

Proposals to have fared not so well this season include requests for environmental policymaking, which have averaged 15.4% average support, among U.S. issuers.

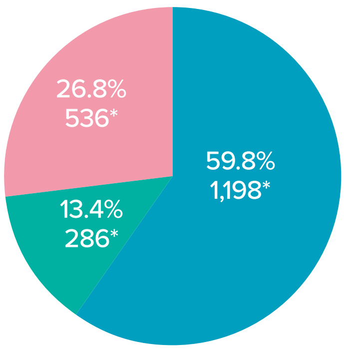
The mixed levels of investor support for environmental proposals comes as no surprise to McKenzie Ursch, legal adviser at Follow This, who cited the Russia-Ukraine war as a key contributor. As a result, Follow This changed its engagement strategy this year.

“This proxy season will create true clarity about which investors stand behind their climate commitments and which do not,” Ursch told Insightia. “This year, our proposals have focused only on the most essential emission reduction targets for oil majors, their Scope 3 emissions in the medium term. This means that investors will have to be clear if they support this goal or not.”

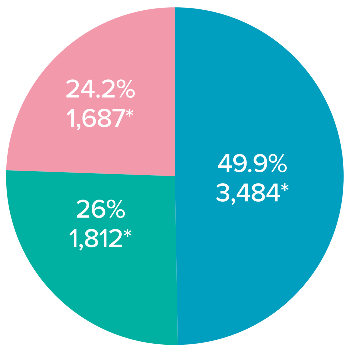
Global ESG-related news story sentiment in the past 12 months

Positive   Negative   Neutral

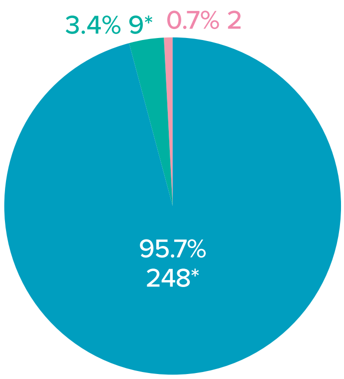
Global ESG-related news sentiment



Global climate-related news sentiment



Global emissions reduction-related news sentiment



*No. stories

Source: Diligent / Manzama

**Global ESG-related news stories from June 13, 2022 - June 13, 2023

> *“This proxy season will create true clarity about which investors stand behind their climate commitments and which do not.”*

Sectors under the microscope

Proposals that called for companies in the energy and industrials sectors to report on Scope 3 emissions derived from their value chains performed particularly well this season, likely due to emissions-intensive sectors facing increased pressure from ESG-focused regulators to enhance their climate-related reporting.

"More prescriptive asks, such as those to set specific targets or end fossil fuel financing, continue to get lower support, whereas reporting- and disclosure-focused proposals have sustained their higher support levels," VanLeuven said.

The highest-supported climate reporting proposal so far this year sought Scope 3 reporting at Coterra Energy 57. The proposal received 74.4% support, despite management claiming such reporting is subject to excessive "discrepancies." Similar proposals seeking Scope 3 reporting have won 33.1% and 37.8% support at Valero Energy 70 and Raytheon Technologies 68, respectively.

"We want to see companies recognizing that emissions form part of their business model and prove to investors that they are assessing these risks," Kristin Hull, CEO of Nia Impact Capital, told Insightia.

Fossil fuel financing also remains a hot topic, with investors eager to understand how the financial services sector is addressing climate risk. Proposals asking Wells Fargo 63 and Bank of America 69 to report on aligning their financing with Scope 1, 2, and 3 emissions reduction targets won 31.1% and 28.5% support, respectively.

> *"Fossil fuel financing also remains a hot topic, with investors eager to understand how the financial services sector is addressing climate risk."*

The success of emissions reporting proposals has been somewhat held back by hesitancy on the part of leading index funds to support mandatory Scope 3 emissions reporting. In March, BlackRock CEO Larry Fink's annual letter suggested that climate policymaking "is not the role of an asset manager."

Vanguard has been similarly cautious in navigating the growing ESG divide, exiting the Net Zero Asset Managers initiative in February over concerns that fund managers should not seek to "dictate company strategy." Regulatory developments in this space could well drive this initiative forward, regardless of the ambivalence of leading index funds.

State of Scope 3 reporting at companies facing environmental activism

Company	Company headquarters	Investor	Activist focus	Campaign start date	Campaign outcome	Scope 3 ESG Risk Score*
Toyota Motor Corp.	Japan	Storebrand Asset Management	Occasional	23-May	Ongoing	25
Santos	Australia	Snowcap	Primary focus	23-Mar	Ongoing	76
Woodside Energy Group	Australia	Health Employees Superannuation Trust Australia	Occasional	22-Sep	Ongoing	49
SK Kaken Co.	Japan	Asset Value Investors	Primary focus	22-May	Unsuccessful	70
ConocoPhillips	United States	Benta B.V.	Occasional	22-Mar	Unsuccessful	53
McDonald's Corp.	United States	Carl Icahn	Primary focus	22-Feb	Partially successful	4
Glencore	Switzerland	Bluebell Capital Partners	Primary focus	21-Nov	Unsuccessful	6
Exxon Mobil Corp.	United States	Engine No. 1	Primary focus	20-Dec	Partially successful	77

*All companies listed publicly disclose their Scope 3 emissions. ESG Risk Scores rank issuers on a scale of 1 - 100, the higher the number denoting the better emissions-related disclosure the company provides compared to industry peers.

Powered by CLARITY AI

Source: Insightia / Activism and ESG

Making board disclosure a peacetime priority

Providing quality intelligence on director qualifications and skillsets is essential to win the favor of investors, write Lawrence Elbaum and Patrick Gadson, partners, and Jon Solorzano, counsel, at Vinson & Elkins.

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Shareholder activism ranks among the toughest tests a company can face. Activists strike often and suddenly, with increasingly sophisticated tactics. A formidable campaign can sink a company's share price, damage its reputation, disrupt its day-to-day business, and undermine its long-term strategy.

Defending against activism begins well before an activist comes knocking, and enhancing board disclosure is a critical component of proactive peacetime preparation. Companies must think like activists, and ask of themselves the same fundamental question that an activist would: Why are our directors the right people to oversee the company?

No question, robust disclosure has long been a key principle of good governance. But with investors increasingly seeking better information about corporate boards — and with universal proxy cards putting individual directors in greater jeopardy — spelling out each director's value has never mattered more.

A thoughtful approach

Beyond the minimum required in regulatory filings, many companies disclose little about their directors, and the information they do disclose — primarily in stale professional biographies — seldom explains *why* their directors belong on their board. Fancy degrees and titles might make for a standout early-career résumé, but most investors see these items as little more than trivia.

A more thoughtful, modern approach to disclosure centers on linking each board seat to the company's strategic direction. This means explaining the value that each director brings to the business (and its current and future strategy), and describing the knowledge, skills, and experience that qualify them to oversee management and protect investor interests.

A primary goal of this approach is to inspire investor confidence. For example, if a director has been on the board for a decade, but the company has since evolved or acquired an asset that reshaped the business, the company needs to show how that director — and the board broadly — remains fit for purpose.

Similarly, if a director has been a CEO elsewhere, the company needs to explain how that specific experience has prepared the director to navigate the risks and opportunities facing this company. Whatever directors' area of expertise, disclosure should focus less on who they are — and more on what they've done and why it matters.

A valuable tool for activist defense

No two activist campaigns will center on the same value-creation thesis. But they all face a common hurdle — convincing shareholders to vote for change — and the Securities and Exchange Commission's (SEC) universal proxy rules have made this hurdle easier to clear.

With activists now able to nominate their own director candidates on the same proxy card as management, proxy voters can vote for a combination of nominees from competing slates, rather than choose between one slate and another. For shareholders who might be reluctant to support a full activist slate, this à la carte choice makes voting for change more palatable, and makes robust disclosure even more valuable for keeping shareholders on management's side.

> *"Companies must think like activists, and ask of themselves the same fundamental question that an activist would: Why are our directors the right people to oversee the company?"*

Think about it: In the throes of a proxy battle, investors who are familiar with the strengths of the incumbent slate will be more likely to support it. Investors hearing about the board's strengths for the first time, by contrast, will be difficult to convince — and more open to change.

Robust disclosure can also dissuade activists from even waging a proxy battle. When companies can show that their board is effective, the case for new blood weakens, incentivizing activists to pursue other targets. As Ben Franklin famously advised, an ounce of prevention is worth a pound of cure.

An effective board is essential for companies to succeed. Investors know this as a rule, but they also know that not every company follows it. That's why it's so critical for companies to engage with their investors — through formal conversations if possible, and robust disclosure at a minimum. Companies that do will be well positioned to keep activists at bay, and to emerge victorious in any proxy battle they encounter.

ESG's role in value creation

An interview with Dr Robert Eccles, professor at Saïd Business School, University of Oxford.

"Issuers can't prevent themselves from being labelled as 'woke' but if they have been clear in identifying material ESG issues, then economic forces and the capital markets will override political rhetoric."

Dr Robert Eccles
Professor
robert.eccles@sbs.ox.ac.uk

Which specific types of ESG data should issuers prioritize disclosing?

Given the wealth of ESG-related data investors seek from companies, issuers would be wise to focus specifically on what regulators, such as the Securities and Exchange Commission (SEC), expect of them. Proactively preparing for the SEC Climate Rule, as well as paying heed to what the International Sustainability Standards Board (ISSB) is doing, will ensure issuers stay on top of evolving ESG reporting requirements.

How can companies stay out of the ESG culture wars while still being responsive to stakeholders?

It all comes down to transparency. Make sure you are transparent and clear about what your material risk factors are and how they are relevant to value creation. Issuers can't prevent themselves from being labelled as "woke" but if they have been clear in identifying material ESG issues and explained why these issues are important to value creation, then economic forces and the capital markets will override political rhetoric.

How should investors and supporters of ESG handle the anti-ESG movement?

ESG advocates need to separate the legitimate criticisms of ESG from the political rhetoric. Where ESG is being defined as a pernicious strategy, it is best to dismiss such claims. It is, however, important to take heed of the legitimate concerns, whether that relates to fund labelling or confounding ESG integration with impact, i.e., a fund that aims to make the world a better place. As with companies, authenticity is key to ESG.

The anti-ESG movement does voice some legitimate concerns because greenwashing has and still is taking place on both the corporate and investor side, claims have been overstated by both companies and investors, such as the likes of DWS (67) overstating its sustainability investment criteria, and issues like these should be addressed and discussed.

Much discussion surrounding corporate ESG reporting tends to focus on environmental considerations. What social and governance topics should boards consider?

While most governance topics are generally well defined, evergreen topics worth mentioning include board competence for a director's specific industry, as well as ensuring every director on a board has a certain amount of sustainability expertise. There is also still much debate concerning whether board CEOs and chairs should be combined or not.

In regard to social considerations, diversity, equality, and inclusion (DEI), income inequality, and human capital are topics being discussed a great deal. These issues will likely gain further prominence, now the ISSB has launched its latest consultation on related agenda priorities. The SEC will also catapult these topics into the spotlight with its upcoming rule on human capital disclosure.

What should boards be doing to make sure that they are sufficiently addressing material and relevant ESG factors?

Boards should know what management thinks the material issues are for value creation and what their relationship is with financial performance, such as whether the issue relates to revenue growth, cost reduction, customer satisfaction, etc.

Another thing boards would benefit from is distinguishing between the material risk factors which are largely related to operations and activities versus the positive and negative externalities being created by a company's products and services. Having such a distinction clear in your mind as a board member is very important.

Driving sustainable value

Clarity, transparency, and accountability are key considerations when establishing a corporate ESG strategy, writes Rodolfo Araujo, partner/principal at Ernst & Young LLP.

> *"ESG programs should not be reduced to policies and quantitative goals, rather, they should be considered strategically with a lens towards how ESG impacts a company's overall competitive position and shareholder value."*

Rodolfo Araujo
Partner/principal
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The transition into a more sustainable economy, like any significant change in society, offers risks and rewards to corporations and their investors. Over the upcoming decade, one could argue that this shift will offer as much potential for value creation and value destruction as the transition to the digital enterprise offered over the past decade.

According to the IEA's 2022 World Energy Outlook, meeting Paris Agreement goals will require investments in clean energy to double or even triple by 2030 from around $1.3 trillion per year in 2021, creating significant opportunities for companies prepared to address this growing demand and risks for carbon intensive energy suppliers. As a result, performance on ESG factors is increasingly used together with traditional financial indicators as a core component in assessing the fundamental performance and value of a corporation.

Despite the importance of sustainability to the future of an organization, leaders of small and large corporations alike still struggle to structure ESG strategies that ensure a positive impact to stakeholders while maximizing value to investors. To be prepared to have a more proactive approach to ESG, management needs to mature its ESG strategies and define a framework to evaluate investment decisions in sustainability.

Assessing a company's ESG maturity

Understanding a company's ESG maturity has become critical for corporations and investors. In the many ESG assessments we have carried out, companies and investors often try to evaluate maturity by assessing quantitative key performance indicators (KPIs) and goals and related policies. This approach, however, often fails to measure the connection between business strategy, company preparedness, and the ability to identify and manage ESG issues. As a result, these assessments fail to deliver a conclusive answer regarding a company's ability to face the transition to a more sustainable economy or to mitigate risks and take advantage of ESG-related opportunities.

ESG programs should not be reduced to policies and quantitative goals; rather, they should be considered strategically with a lens towards how ESG impacts a company's overall competitive position and shareholder value. Further, as societal demands and advancements in sustainability opportunities are rapidly evolving, management teams need to be nimble and stand ready to make strategic or tactical adjustments to their programs.

To fully evaluate a company's ESG maturity (i.e., ability of a company to manage its ESG priorities), the focus should be on identifying a sound ESG strategy, supported by the governance to manage the implementation of said strategy, and the quality of ESG data used by management to measure the evolution of such efforts – and inform the market about its achievements. Here's how we suggest companies and investors evaluate these three areas:

1. ESG strategy

Many companies have developed ESG programs without a clear connection with the overall corporate strategy. This approach is largely reactive in nature and tries to avoid positioning the company as a sustainability laggard. The drawback to this approach is that while it costs money to build, it does not fully protect against risks nor does it provide the company the opportunity to benefit from its sustainability efforts to the same extent, had it been fully integrated with the company's overall strategy and commercial approach.

Some questions that should be asked include whether management understands societal demands and demands from key stakeholders. Is the strategy sufficiently focused on key material risks and opportunities? It is also important to consider whether the ESG strategy reinforces commercial success and minimizes risks.

2. Strategy implementation

No effective ESG strategy can be based solely on top-down guidelines. Implementation is key, especially given the natural evolution of environmental and social issues. There is a clear need for governance around a company's ESG efforts and to have the appropriately trained people and processes in place to both address current issues and to quickly adapt to the new sustainability demands that are likely to be imposed in this rapidly evolving space.

It is important that boards consider how management can identify and evaluate ESG risks and opportunities, as well as who is responsible for related decision-making processes. Mechanisms by which such decisions are made and implemented must also be well understood.

3. Data quality

ESG data are more relevant than ever. Besides being core to the evolution of any ESG strategy, the pressure from regulators and stakeholders across the globe is putting companies at risk of legal action for misleading investors regarding their ESG efforts and risks. Further, increasing market expectations and reliance on robust, multiyear ESG data and KPIs also means valuations will be negatively impacted by nonexistent, de minimis, or questionable ESG data. These questions should be addressed: Do ESG KPIs align with the implementation of a company's ESG strategy? Are there internal controls in place to ensure data integrity? How are ESG data collected?

What's next? Do the math!

Ensuring ESG maturity is the first step in driving value through an ESG strategy. It means that a company is ready to make decisions and address its most material ESG issues. However, independent of maturity, no company has infinite resources to meet all of society's sustainability demands, especially given that these demands are always evolving. As such, leaders need to prioritize and evaluate how much a company should invest in moving the needle on these material issues. In our view, not dissimilar to all investment decisions, sustainability returns need to be quantified and understood. The goal is to fully understand the potential return on capital delivered by preventing risks from materializing or by taking advantage of the opportunities offered by the transition into a sustainable economy.

A mature ESG program should evaluate all investment decisions using the same approach used to make any other investment decision a company contemplates. This is a clear indicator of ESG effectiveness and would fast track buy-in for sustainability investments as it puts ESG decision making in line with general corporate governance across all key investment decisions.

Creating sustainable value

In the race toward a more sustainable economy, companies who position themselves early to meet the growing sustainability demands of the marketplace will underpin their success in the years to come.

> *"Ensuring ESG maturity is the first step in driving value through an ESG strategy."*

However, being a fast mover is not enough. Maximizing the value of sustainability investments requires a clear ESG strategy that aligns with a company's corporate strategy; the right people and processes in place to deliver on this strategy, and reliable data to both track the implementation of the ESG strategy and report improvements to stakeholders. Further, using ROIC methods to prioritize decisions is a critical step toward institutionalizing an ESG strategy into corporate strategy.

These elements are key to a company securing value creation through sustainability achievements and becoming successful in this new economic environment.

The views reflected in this article are the views of the author(s) and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization.

ESG proposals and withdrawals

Amid a surge in ESG proposal filings and against a backdrop of rising support, issuers are proactively enhancing their ESG commitments ahead of their annual meetings, writes Miles Rogerson.

ESG 2023

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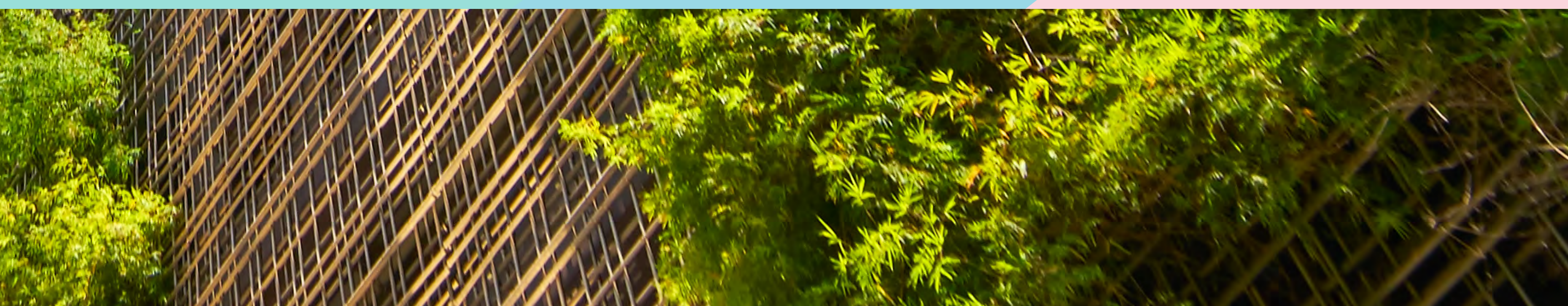


While climate change shareholder proposals rank among the most high-profile investor engagements, companies are proactively reaching withdrawal agreements with investors on ESG topics such as racial equity, healthcare, and pollution, more broadly.

Racial equity audit proposals, which seek third-party audits into corporate commitments related to diversity and civil rights, were first introduced in 2021 and have since gone on to rank the highest-ranking shareholder proposals in terms of voting support received.

The 21 racial audit proposals subject to a vote in North America so far this year have won 15.3% average support, compared to 30.6% a year prior. Two proposals this year have won upwards of 40% support, according to Insightia's *Voting* module.

One such proposal won 40.3% support at The Geo Group's 76 April 28 annual meeting, even after management recommended against the proposal for being "overly prescriptive."

Despite average support for racial audit proposals being on the decline, Marc Lindsay, managing partner and director of research at Sustainable Governance Partners, told Insightia that ESG engagements are still bearing fruit, with a larger proportion of diversity-related shareholder proposals being withdrawn in exchange for company commitments.

Edgar Hernandez, assistant director, department of strategic initiatives, at The Service Employees International Union (SEIU), also told Insightia in an interview that his "proudest moment" has been the wealth of companies in recent years that have agreed to commission racial audits.

"To date, we have come to an agreement at the following companies to conduct racial equity audits: State Street Global Advisors 68, Wells Fargo 63, Pfizer 59, Southern Co. 56, Invesco 63, TransUnion 66, and KeyCorp 60. BlackRock 56 also released its audit in April," Hernandez said. "I think these have been some of the most important but also some of the most productive pieces of work that I've had the good fortune of being a part of."

Industrial waste and plastic pollution proposals are another resolution type that performed well in previous years and have largely been withdrawn for corporate commitments this season. Kraft Heinz 62, Church & Dwight 59, and Keurig Dr Pepper 72 are just a handful of companies to recently strengthen their pollution commitments ahead of a shareholder vote, after proposals of this kind won 41.9% average support in 2022.

> *"ESG shareholder proposals are more than capable of winning majority support, with issuers now being more accepting of withdrawal agreements to appear to be proactively addressing ESG issues."*

Recent years have demonstrated how ESG shareholder proposals are more than capable of winning majority support, with issuers now being more accepting of withdrawal agreements to appear to be proactively addressing ESG issues.

Healthcare focus

Another notable trend this season is the rise in social shareholder proposals targeting the healthcare sector, with

Environmental and social no-action requests filed with the Securities and Exchange Commission (SEC) by outcome

Year	No. no-action outcomes	SEC accepts no-action	SEC rejects no-action	Proponent withdrew proposal	Reconsideration declined	Company accepts and proponent withdrew	No view
2019	123	50	30	38	4	1	0
2020	111	51	27	25	4	3	1
2021	138	41	53	44	0	0	0
2022	105	23	50	31	1	0	0
2023*	42	13	20	9	0	0	0

*As of May 31

Source: Insightia / Voting

issuers facing an abundance of new reporting requirements in response to COVID-19 and related governmental support.

The North American healthcare sector has been subject to 33 environmental and social shareholder proposals in 2023, almost triple the 12 subject to a vote two years prior.

“Pharmaceutical companies only served to benefit from COVID-19,” Megan Jones-Montiero, senior director, health equity, at the Interfaith Center for Corporate Responsibility (ICCR), told Insightia. “In response to COVID-19, we saw more public investment and governmental support for the development of vaccines and therapeutics than ever before, but U.S. taxpayers were underwriting this risk, not the companies themselves.”

Eleven proposals have been subject to a vote so far this year asking healthcare companies to report on alignment between their publicly stated policies on vaccine equity and their political spending, compared to nine two years prior.

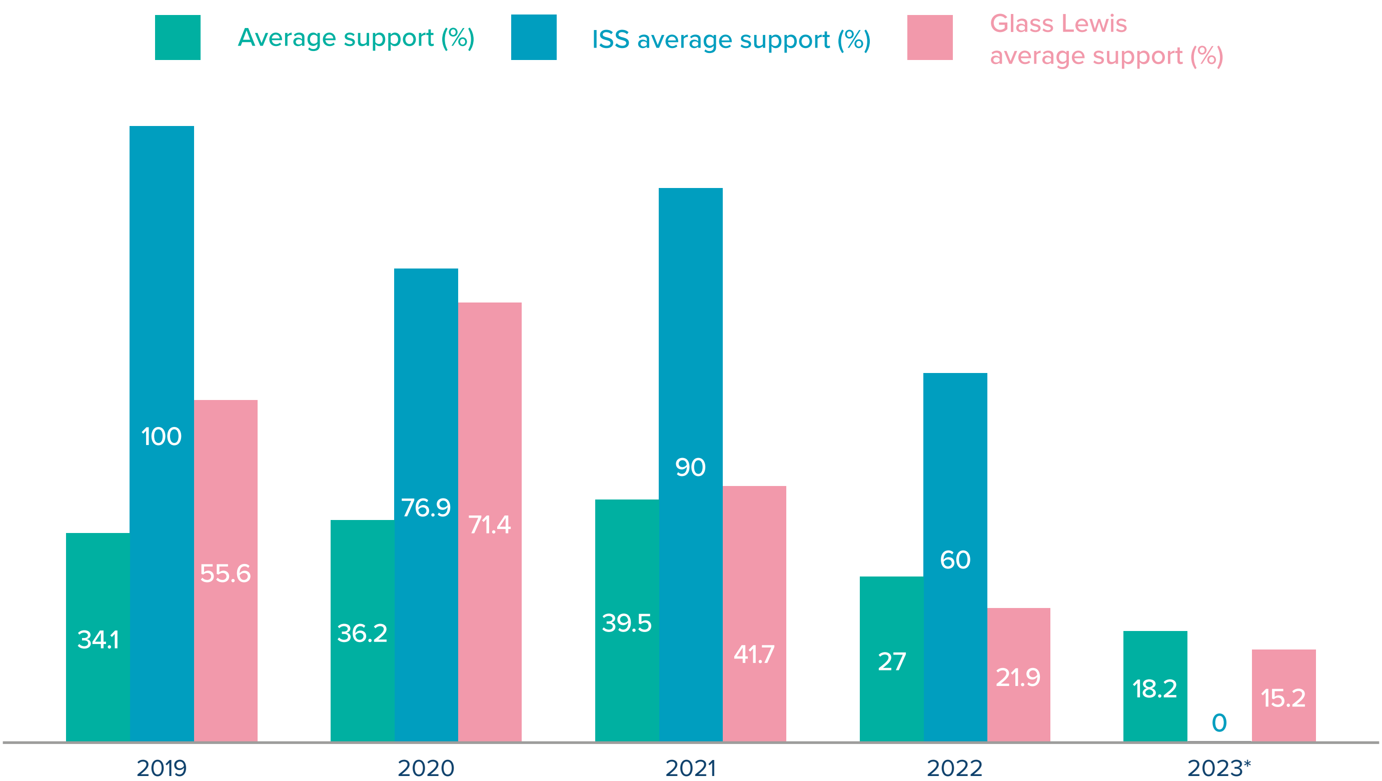
2023 also marks the first year that the healthcare sector faced proposals seeking reporting on primate importation and transportation, with two proposals of this kind winning an impressive 23.1% average support.

Pharmaceutical giant Eli Lilly and Co. 63 was the target of no less than seven environmental and social shareholder proposals at its May 1 annual meeting, with four of these proposals concerning lobbying disclosure, majority voting, and diversity reporting winning between 20% and 40% support.

“As societal demands and advancements are rapidly evolving, management teams need to be nimble and stand ready to make strategic or tactical adjustments to their [ESG] programs,” Rodolfo Araujo, partner/principal at EY Parthenon, told Insightia in an interview.

No. and average support for (%) environmental and social shareholder proposals in the U.S. healthcare sector

	2019	2020	2021	2022	2023*
No. meetings	8	12	10	15	20
No. proposal results	9	14	10	33	32



*As of May 31

*ISS 2023 recommendations will be available later in the year.

Source: Insightia / Voting

No. and average support for (%) ESG shareholder proposals by country

Proposal type: Environmental and social

2021

Country	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Australia	6	71.9	100	28.6
Canada	12	28.7	55.6	33.3
France	0	0	0	0
Japan	45	7.2	2	3.7
Switzerland	0	0	0	0
U.K.	3	21.7	0	0
U.S.	151	37.2	83.7	59

2022

Country	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Australia	4	9.4	40	0
Canada	29	18.1	27.3	20.7
France	0	0	0	0
Japan	59	8.6	12.9	6.8
Switzerland	3	37	100	33.3
U.K.	5	13.9	0	0
U.S.	270	27.1	67.7	39.8

2023*

Country	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Australia	0	0	0	0
Canada	32	20	100	18.8
France	4	22.6	0	0
Japan	1	16.8	0	100
Switzerland	3	24.9	0	33.3
U.K.	2	18.5	0	0
U.S.	199	19.7	50	26.5

Proposal type: General governance

2021

Country	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Australia	6	5.6	0	0
Canada	0	0	0	0
France	0	0	0	0
Japan	5	22.9	50	100
Switzerland	0	0	0	0
U.K.	0	0	0	0
U.S.	177	45.1	96	60.7

2022

Country	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Australia	4	63.6	0	0
Canada	0	0	0	0
France	1	100	0	0
Japan	6	10.3	0	16.7
Switzerland	0	0	0	0
U.K.	2	52.5	100	0
U.S.	157	39.8	89.4	63.9

2023*

Country	No. proposals with results	Average support for (%)	ISS support (%)	Glass Lewis support (%)
Australia	0	0	0	0
Canada	0	0	0	0
France	0	0	0	0
Japan	2	34.2	0	100
Switzerland	0	0	0	0
U.K.	0	0	0	0
U.S.	59	33.6	100	64.2

*ISS 2023 recommendations will be available later in the year. *As of May 31

Source: Insightia / Voting

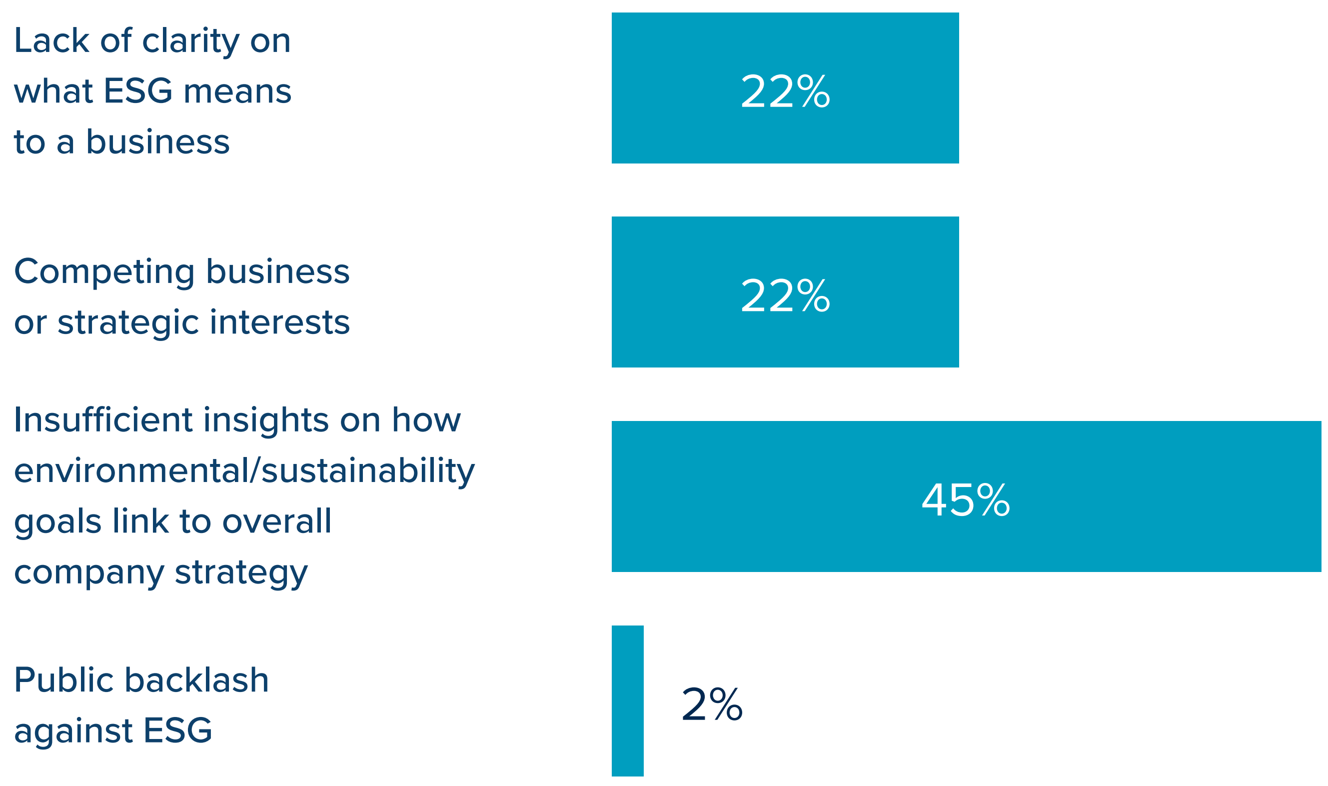
How are boards thinking about ESG?

Insights from Diligent Institute's recent report *'Sustainability in the Spotlight'*, produced in association with Spencer Stuart.

In the last year, we've seen watershed moments in the world of ESG. In Europe, the rollout of the Corporate Sustainability Reporting Directive (CSRD) added pressure on companies to tighten and enhance their approach to sustainability, without relying on the blanket term "ESG." Meanwhile in the U.S., high-profile and divisive political backlash has made some companies and leaders fearful to even use the term. This begs the question, has ESG lost momentum, or just popularity?

The latest edition of Diligent Institute's ESG report sets out to understand how boards are thinking and managing ESG issues, as well as the actions boards are taking in light of regulatory developments, the biggest obstacles in ESG reporting, and regional distinctions.

The biggest obstacles to ESG integration center on strategy



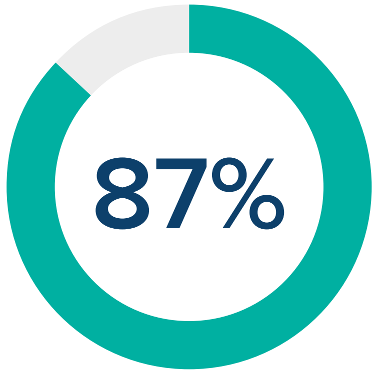
Boards are proactively enhancing their ESG reporting to address stakeholder demand

Source: Diligent Institute and Spencer Stuart surveyed 992 board members from April 13 - May 3, 2023, spanning public/listed, pre-IPO and other private companies across industries. U.S.-based companies account for 44% of respondents, while 34% represent companies based in the European Union or the U.K. (hereafter referred to as "Europe") and the remainder represent companies based elsewhere across the globe.

Diligent Institute report survey results

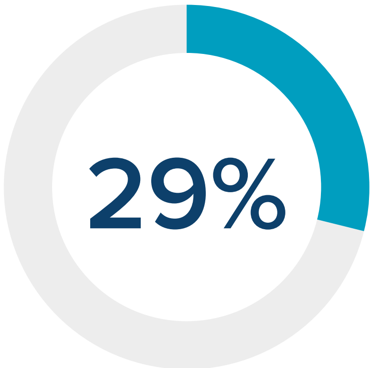
Environmental and social concerns are being given equal weighting

of respondents have incorporated environmental goals or metrics into one or more areas of their business.

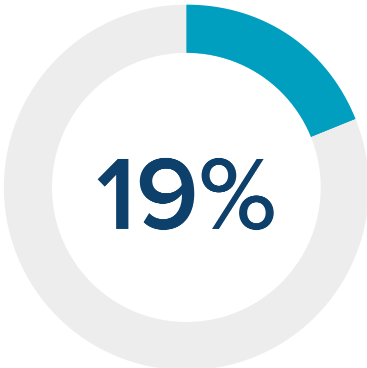


have done the same for social goals and metrics.

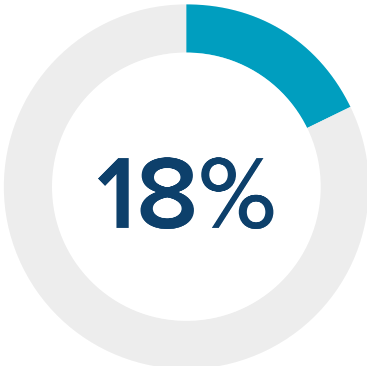
In the next five years, companies expect to expand their ESG oversight



of respondents predict their company will place a more concerted effort on ESG initiatives.



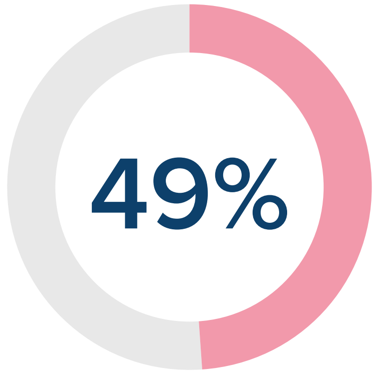
predict a continuation of the current strategy.



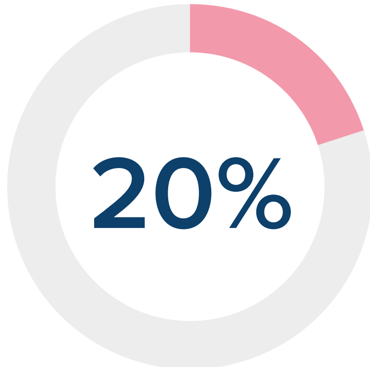
predict stronger linkage between ESG initiatives and business impact.

Increased board oversight of ESG

Our full board has primary oversight of ESG issues on a broad scale



2023 response



2019 response

Source: Diligent Institute and Spencer Stuart surveyed 992 board members from April 13 - May 3, 2023, spanning public/listed, pre-IPO and other private companies across industries. U.S.-based companies account for 44% of respondents, while 34% represent companies based in the European Union or the U.K. (hereafter referred to as "Europe") and the remainder represent companies based elsewhere across the globe.

ESG in executive pay

Despite the regulatory incentives to link pay to ESG, investor support is down as stock market losses refocus investors on the bottom line, writes Jason Booth.

ESG 2023

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As recently as last year, both financial and ESG-savvy activists were on the same page when it came to linking executive pay to ESG issues. Engine No. 1 secured three board seats in a campaign taking aim at Exxon Mobil's 70 climate credentials and executive pay in 2021, while last year saw Legion Partners take aim at Guess 74 founder Paul Marciano for being awarded millions in bonuses, despite facing multiple sexual harassment lawsuits.

Year-to-date, 56 U.S.-listed companies have faced public activist demands related to remuneration, up from 43 at the same time in 2022, and 32 the year before that. Yet financial demands from primary- and partially-focused activists are down 50% year-to-date. While 2022 saw dedicated financial activists like Carl Icahn, Legion Partners, and even Starboard Value combine pay and ESG issues in their campaigns, none have done so this year.

Drowning out ESG noise

Where activist hedge funds have referenced executive pay, it is usually following Icahn's lead of portraying management as unaligned with employees. In early May, 180 Degree Capital complained in a public letter about the "obscene compensation" that the board of Comscore 52 "has taken for themselves from the employees of the company, against the backdrop of a decaying stock price."

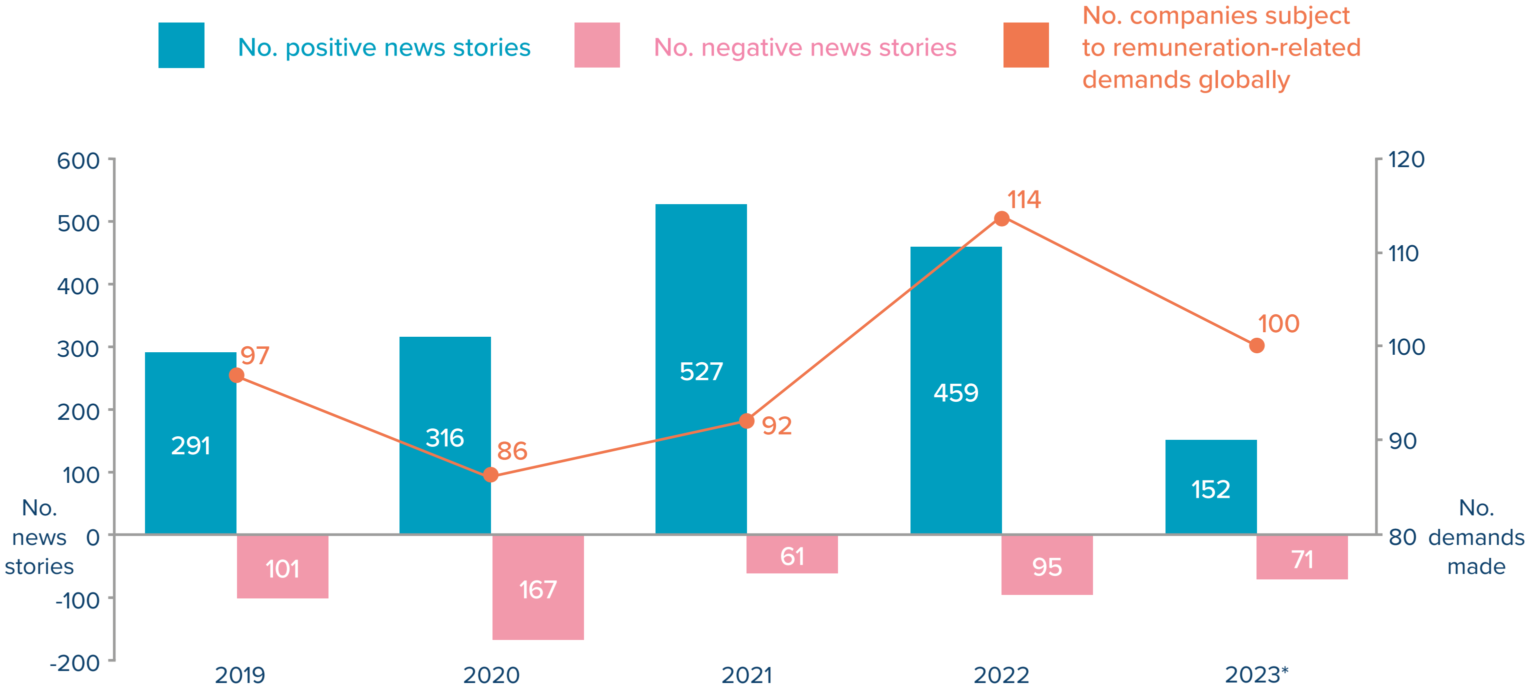
Yet ESG metrics in compensation are increasingly the norm. According to Diligent's 2022 report 'ESG and Executive Compensation,' 68% of 365 issuers surveyed in continental Europe and the U.K. in 2020 had at least one ESG metric in their incentive plans. 100 (29%) FTSE 350 companies declared that they included at least one ESG metric in their executive compensation plans in 2019. This figure rose to 114 (33%) in 2021. And laggards face being targeted by activists of all stripes, including nonprofit groups.

> *"While 2022 saw dedicated financial activists like Icahn, Legion Partners, and even Starboard Value combine pay and ESG issues in their campaigns, none have done so this year."*

Ira Kay, founder of compensation advisory firm Pay Governance, is not surprised that the link between ESG and pay remains low.

"One of the reasons the U.S. economy has outperformed Japan and Europe is because of our executive pay model," Kay says. "Companies are setting reasonably challenging goals, they're beating them, and their stock prices are going up. I don't know what else somebody would want."

Global financial performance-related news stories



*As of May 31, 2023 Source: Diligent / Manzama and Insightia / Activism

In fact, Kay said he has seen at least two cases of activist shareholders, once on the board, compelling companies to remove or adjust ESG from compensation metrics.

"I don't think that companies are going to walk away from the issue, but they might be quieter about it." said Heidi Walsh, executive director at the Sustainable Investments Institute. "In terms of corporate raiders stripping out everything except profit, what else is new?"

Mixed results

With financial activists stepping back from making compensation-related demands, it's not surprising that shareholder proposals on the topic are getting less support from institutional investors. Just two of the 63 remuneration-related demands made at U.S.-based companies so far this year has been at least partially successful, compared to 11 throughout 2022.

Out of 411 S&P 500 "say on pay" proposals to go to a vote in the first five months of 2023, only nine (or 2.3%) have failed, compared to 19 (4%) in the same period a year prior.

According to Insightia's *Activism* module, the only remuneration proposal to receive majority support so far this year has been John Chevedden's request for Expeditors International of Washington 73 to draft a policy related to excessive termination pay. The resolution received 67.3% support, despite facing opposition from management.

The success of remuneration-related proposals often depends on their simplicity and how they are structured, Rodolfo Araujo, principal/partner at EY Parthenon, told Insightia. "Issues specifically linked to a well-established governance practice, like asking for votes on compensation to be held annually, is something that you're going to have a high support for from shareholders. Other issues, like the inclusion of key performance indicators related to climate change, are a bit more challenging for shareholders to support and are analyzed case-by-case."

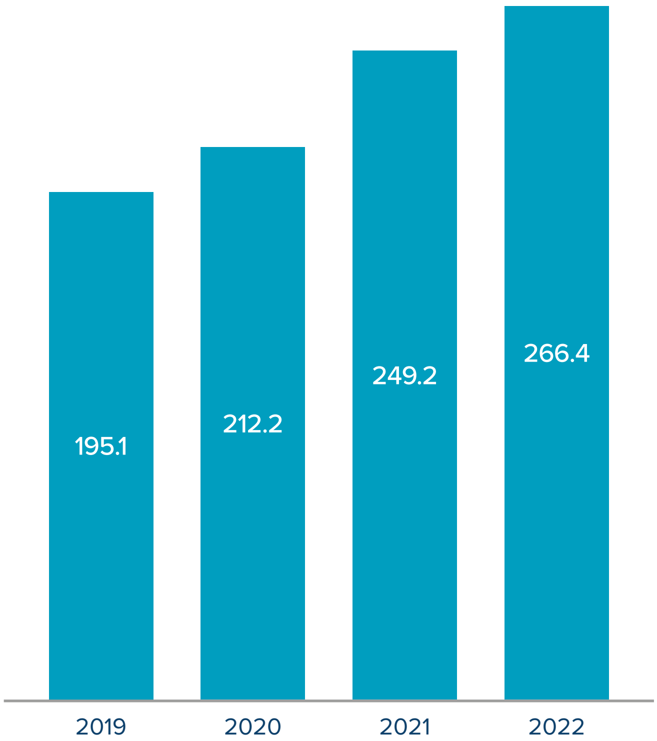
No. and success rate of campaigns featuring remuneration demands launched by primary- and partial-focused activists

No. campaigns					
Success	2019	2020	2021	2022	2023*
U.S.	6 (42.86%)	6 (60%)	9 (64.29%)	15 (62.50%)	7 (53.85%)
Activist's objectives partially successful	3 (50%)	5 (83.33%)	6 (66.67%)	11 (73.33%)	6 (85.71%)
Activist's objectives successful	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
No	3 (50%)	1 (16.67%)	3 (33.33%)	4 (26.67%)	1 (14.29%)
U.K.	3 (21.43%)	1 (10%)	1 (7.14%)	3 (12.50%)	0 (0%)
Activist's objectives partially successful	1 (33.33%)	1 (100%)	1 (100%)	1 (33.33%)	0 (0%)
Activist's objectives successful	1 (33.33%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
No	1 (33.33%)	0 (0%)	0 (0%)	2 (66.67%)	0 (0%)
Asia	5 (35.71%)	2 (20%)	3 (21.43%)	6 (25%)	6 (46.15%)
Activist's objectives partially successful	1 (20%)	1 (50%)	0 (0%)	2 (33.33%)	1 (16.67%)
No	4 (80%)	1 (50%)	3 (100%)	4 (66.67%)	5 (83.33%)
Other	0 (0%)	1 (10%)	1 (7.14%)	0 (0%)	0 (0%)
Activist's objectives partially successful	0 (0%)	1 (100%)	0 (0%)	0 (0%)	0 (0%)
Activist's objectives successful	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
No	0 (0%)	0 (0%)	1 (100%)	0 (0%)	0 (0%)
Total	14 (100%)	10 (100%)	14 (100%)	24 (100%)	13 (100%)

*As of May 31

Source: Insightia / Activism

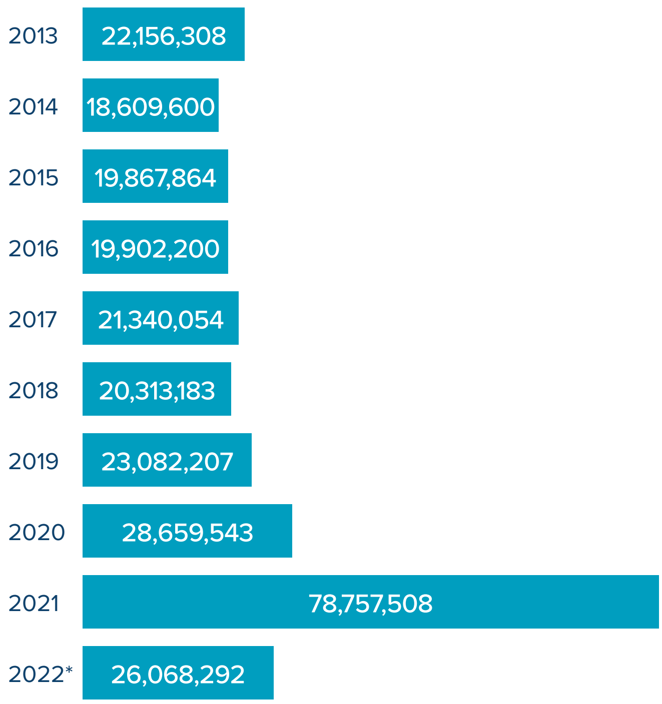
Average S&P 500 CEO pay ratio



Source: Insightia / Compensation

S&P 500 CEO average total realized pay ($)

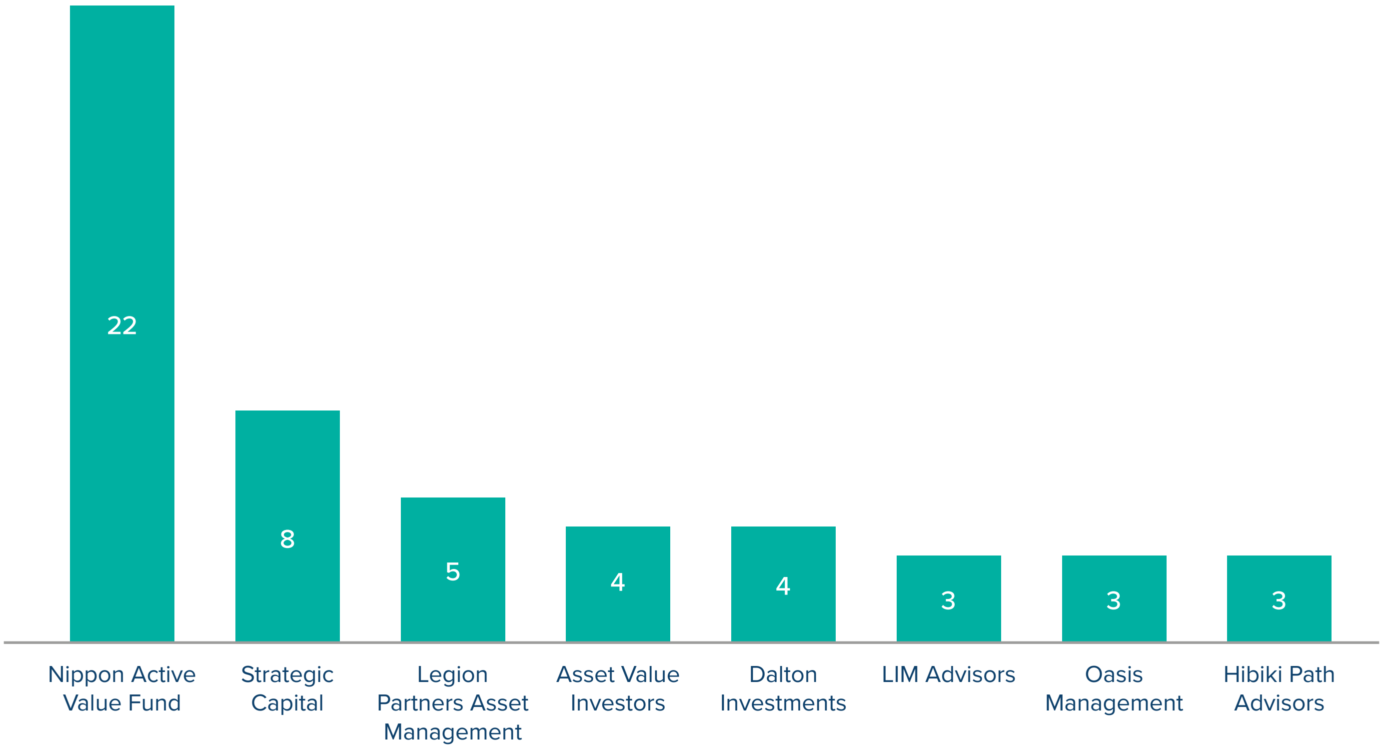
CEO realized pay surged in 2021, in part due to significant retention bonuses and vesting of pandemic-era awards.



*As of May 31. *Disclosures not yet complete.

Source: Diligent / Compensation and Governance Intel

Top primary- and partial-focus activists globally by no. remuneration-related demands made in 2021, 2022, and 2023* combined



*As of May 31

Source: Insightia / Activism