

AFL-CIO KEY VOTES SURVEY



How Investment Managers Voted in the 2018 Proxy Season

AFL-CIO
815 16th Street, NW
Washington, DC 20006
invest@aficio.org
www.aficio.org

2018 AFL-CIO Key Votes Survey

INTRODUCTION

Once a year, every public corporation holds a shareholder meeting. Shareholders and senior management make critical decisions shaping each company's governance—decisions such as who will serve on the board of directors, how senior executives will be paid, and what general policies the shareholders will recommend to the company's board. The *Key Votes Survey* is a record of how investment managers, mutual funds and proxy voting consultants voted the shares they manage on behalf of pension funds on key issues at these meetings during the proxy season.

The AFL-CIO's *Key Votes Survey* is designed to help pension fund trustees fulfill their fiduciary duty to monitor the proxy voting performance of investment managers. Good corporate governance matters to shareholders and proxy voting is the most direct means for shareholders to exercise oversight in relation to the corporations they own.

In 1988, the U.S. Department of Labor advised pension fund trustees that under the Employee Retirement Income Security Act ("ERISA"), the voting rights attached to company stock are "plan assets" that must be managed according to ERISA fiduciary standards. The Department of Labor requires investment managers to "maintain accurate records as to proxy voting" and permit trustees to "review the actions taken in individual proxy voting situations."

Pension funds generally delegate the authority to vote their shares to investment managers, mutual funds, or

a specialized proxy voting consultant. Because proxies are a plan asset, ensuring that they are voted in the interests of beneficiaries is part of a trustee's fiduciary duty. The *Key Votes Survey* is intended to help trustees fulfill this duty by reviewing the voting records of these investment managers, mutual funds, and proxy voting consultants.

The proposals included in the *Key Votes Survey* are submitted by Taft-Hartley, union, and public employee pension funds as well as employee shareholders and other investors, and are consistent with the *AFL-CIO Proxy Voting Guidelines*. These proposals represent a worker-owner view of value that emphasizes management accountability and good corporate governance. A score representing the percentage of support and corresponding tier group categorization are assigned to each firm to assist trustees in evaluating the relative proxy voting performance of competing investment managers.

Survey Methodology

This year's *Key Votes Survey* includes the proxy voting records on selected votes at 29 companies. Proxy votes are obtained from investment managers and proxy voting consultants as well as from Form N-PX filings with the Securities and Exchange Commission.

Each investment manager, consultant, and mutual fund family in the *Key Votes Survey* has been given a percentage score that indicates the degree to which its voting record is consistent with the *AFL-CIO Proxy Voting Guidelines*. The percentage scores are computed by dividing the number of votes cast in

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accordance with the *AFL-CIO Proxy Voting Guidelines* by the total number of votes cast on proposals included in the survey.

Investment managers are asked to report the votes cast for which the investment manager has discretionary voting authority. Votes collected from Form N-PX filings reflect how a majority of each firm's mutual funds voted. When there are conflicting votes cast for various mutual funds in a fund family without a predominant vote direction, the vote is not included in the mutual fund family's percentage score.

Firms are listed alphabetically by name, and then by performance tier groups. Firms have been divided into tiers using the following criteria:

- “Top Tier” – Firms which voted on six or more proposals and scored 100 percent.
- “Middle Tier” – Firms which voted on six or more proposals and scored more than 50 percent but less than 100 percent.
- “Bottom Tier” – Firms which voted on six or more proposals and scored 50 percent and below.
- “Fewer Than Five Votes” – Firms which are considered to have an inadequate sample size on which to be ranked are not placed in any of the three tiers.
- “Taft-Hartley Client Votes” – Firms that have also provided their Taft-Hartley client voting records in addition to their firm's overall proxy votes for a majority of shares cast.

Proposals in Brief

Proposals selected for the *Key Votes Survey* generally fall into five broad categories: encouraging greater board independence, reining in excessive executive compensation, promoting sound corporate governance practices, increasing management accountability and advancing a worker-owner view of value. The *AFL-CIO Proxy Voting Guidelines* support independent boards of directors, measures to restrain excessive executive pay, reforms to increase management accountability, measures that encourage companies to respect human and labor rights, and mechanisms aimed at promoting sustainable business practices.

It is important to note, however, that these positions should not be applied mechanically. Measures to enhance management accountability, for instance, are more important at companies where management is entrenched and unresponsive. Similarly, measures to reform executive pay are more important at companies where executive pay is excessive. The list of proposals for the *Key Votes Survey* is assembled with attention to both the merits of the proposals and the context at particular companies. Below are descriptions of the types of shareholder proposals listed on the survey this year:

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Accounting for Litigation in Executive Pay

This proposal asks the board of directors to adopt a policy that requires that the financial performance metrics used to determine senior executive compensation include legal settlement costs. Such policies ensure that executives are financially accountable for corporate wrongdoing.

Amend Clawback Policy

This proposal urges the board of directors to amend the company's clawback policy to apply when senior executives are directly or indirectly responsible for conduct resulting in a material violation of law or for policies that result in reputational or financial harm to the company.

Board Diversity

These proposals urge the board of directors to publish a formal board diversity policy or to prepare a report on the steps the company is taking to foster greater racial and gender diversity on its board. A more diverse board of directors benefits the company and shareholders by assuring that a fuller range of perspectives are represented in board decision-making.

CEO Pay Target Amounts

This proposal urges the board of directors to take into consideration the pay grades and salary ranges of all company employees when setting target amounts for CEO compensation. Aligning CEO pay with the company's overall compensation philosophy can enhance employee morale and productivity.

Director "Withhold" Votes

The election of directors is an important mechanism for shareholders to hold boards accountable for corporate governance failures. Shareholder "vote no" campaigns seek to remove underperforming directors by voting to "withhold" support from an individual or group of directors. While these "withhold" votes are not binding under a plurality election system, voting "no" can persuade companies of the need to refresh their boards of directors.

Independent Board Chair

Independent board chair proposals seek to appoint an independent director as board chair. The primary purpose of the board of directors is to oversee management of the company. For this reason, an independent director who has not served as an executive of the company can best provide the necessary leadership and objectivity as the board chair.

Majority Vote Director Elections

A majority vote standard for uncontested director elections helps make directors more accountable to shareholders by giving shareholders a meaningful opportunity to vote against individual directors or the board as a whole. Under such policies, incumbent directors who do not receive a majority vote are required to tender their resignation from the board.

One Vote Per Share

Discrepancies in voting power among share classes can reduce management accountability by entrenching company insiders who hold preferential voting rights. This proposal asks the board of directors to give all shareholders equal voting power by eliminating dual-class voting structures.

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Proxy Access

Long-term shareholders gain a meaningful voice in electing directors when they have a means of having their nominees included on the proxy statement issued by a company. This proposal asks the board of directors to adopt a bylaw that grants proxy access rights in the nomination of directors to shareholders that has owned at least three percent of the outstanding stock for at least three years.

Report on Content Governance

This proposal asks for a report to shareholders that assesses the company's efficacy in content management enforcement. The report includes the risks that controversies relating to content management pose to the company, as well as the scope of content-related abuse on the platform.

Report on Cyber Security

This proposal requests a report on the practicality of incorporating data privacy metrics into performance evaluation measures for senior executives under the company's compensation plan.

Report on Drug Pricing

Rising prescription drug prices can cause reputational risks for pharmaceutical companies. This proposal requests an annual report from the Compensation Committee that discusses whether the company's executive compensation policies encourage executives to consider the risk of a public backlash when increasing drug prices.

Report on EEO Metrics

This proposal requests that the company prepare a diversity report that lists the numbers or percentages of employees in major EEOC-defined job categories according to their gender and race, and describes the company's policies or programs focused on increasing diversity in the workplace.

Report on Incentive Pay and Risk

This proposal requests that the company retain multiple independent experts to reform its executive compensation plan to include not just market considerations, but also attention to social responsibility. Factors that may be considered include CEO-to-worker pay ratio, the average employee pay, the minimum wage, and the unemployment rate.

Report on Lobbying

These proposals request that the company provide a report disclosing the company's policies and procedures for expenditures used for direct lobbying and grassroots lobbying communications. Such disclosure is necessary for a shareholder assessment of financial and reputational risks that may result from a company's lobbying.

Report on Plant Closures

This proposal requests that the board of directors create a committee to prepare a report regarding the impact on communities from the closure of its manufacturing facilities, and alternatives that can mitigate the impact of such closures in the future.

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Report on Political Contributions

This proposal asks the company to provide a report disclosing its policies and procedures for political contributions made with corporate funds. Such disclosure is necessary for a shareholder assessment of financial and reputational risks that may result from a company's political donations.

Report on Student Loan Risk

This proposal requests the board of directors to issue a report to investors that describes the governance measures, including monitoring and executive compensation metrics, taken to manage and monitor the financial and reputational risks of the student loan crisis as it pertains to the company's student loan business.

Report on Sustainability

This proposal requests that the company issue an annual sustainability report describing its short-term and long-term responses to environmental, social, and governance issues. Companies that are good employers, environmental stewards, and responsible corporate citizens are more likely to generate stronger financial returns and enjoy long-term success.

Simple Majority Voting

This proposal seeks to remove supermajority voting requirements to change the company's bylaws and articles of incorporation. Such requirements can insulate corporate insiders from the views of public shareholders.

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List of Votes Included in the 2018 AFL-CIO Key Votes Survey

Shareholder Proposals: "FOR" are consistent with the AFL-CIO Proxy Voting Guidelines

Company	Ticker	Proposal Subject	Item #	Meeting Date
3M	MMM	CEO Pay Target Amounts	5	5/8/2018
Alphabet	GOOGL	One Vote Per Share	4	6/6/2018
Amgen	AMGN	Report on Drug Pricing	4	5/22/2018
Boeing	BA	Independent Board Chair	6	4/30/2018
Bristol-Myers Squibb	BMJ	Report on Drug Pricing	4	5/1/2018
Charles Schwab	SCHW	Report on EEO metrics	6	5/15/2018
Charter Communications	CHTR	Proxy Access	3	4/24/2018
Citigroup	C	Report on Lobbying	7	4/24/2018
Discovery	DISCA	Board Diversity	4	5/10/2018
Eli Lilly	LLY	Report on Drug Pricing	10	5/7/2018
Equifax	EFX	Report on Political Contributions	4	5/3/2018
Exxon Mobil	XOM	Report on Lobbying	7	5/30/2018
Facebook	FB	Report on Content Governance	8	5/31/2018
First Hawaiian	FHB	Board Diversity	6	4/25/2018
Hasbro	HAS	Amend Clawback Policy	4	5/17/2018
Home Depot	HD	Report on EEO metrics	5	5/17/2018
Hospitality Properties Trust	HPT	Proxy Access	4	6/14/2018
Host Hotels & Resorts	HST	Report on Sustainability	3	5/17/2018
Johnson & Johnson	JNJ	Accounting for Litigation in Executive Pay	4	4/26/2018
Marriott International	MAR	Simple Majority Voting	6	5/4/2018
Mondelēz International	MDLZ	Report on Plant Closings	5	5/16/2018
Navient	NAVI	Report on Student Loan Risk	4	5/24/2018
Netflix	NFLX	Majority Vote Director Elections	9	6/6/2018
TJX Companies	TJX	Amend Clawback Policy	5	6/5/2018
Verizon Communications	VZ	Report on Cyber Security	7	5/3/2018
Wal-Mart	WMT	Independent Board Chair	4	5/30/2018
Wells Fargo	WFC	Report on Incentive Pay and Risk	6	4/24/2018
XPO Logistics	XPO	Report on Sustainability	5	5/17/2018

Management Proposals: "Withhold" votes are consistent with the AFL-CIO Proxy Voting Guidelines

Company	Ticker	Proposal Subject	Item #	Meeting Date
Douglas Emmett	DEI	Director Thomas O'Hern	1-08	5/31/2018

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Alphabetical Listing of Investment Manager Statistics

AFL-CIO Equity Index Fund	14 out of 14 = 100%
AllianceBernstein	22 out of 29 = 75.8%
Amalgamated Bank	29 out of 29 = 100%
ASB Capital Management	4 out of 4 = 100%
Atlanta Capital Management	5 out of 8 = 62.5%
BlackRock Advisors	9 out of 29 = 31%
BNY Investment Advisors	4 out of 17 = 23.5%
Boston Partners Global Investors	6 out of 18 = 33.3%
Boston Trust/Walden Asset Management	9 out of 12 = 75%
Calvert	27 out of 28 = 96.4%
Capital Research and Management	7 out of 25 = 28%
Charles Schwab Investment Management	15 out of 28 = 53.5%
Chartwell Investment Partners	14 out of 14 = 100%
Comerica Bank	29 out of 29 = 100%
Dimensional Fund Advisors	9 out of 29 = 31%
Domini Social Investments	8 out of 8 = 100%
Eaton Vance Management	22 out of 28 = 78.5%
Fidelity	11 out of 29 = 37.9%
Fiduciary Management	1 out of 1 = 100%
Goldman Sachs Asset Management	11 out of 26 = 42.3%
Great Lakes Advisors	23 out of 24 = 95.8%
HGK Asset Management	9 out of 9 = 100%
IBEW NECA Equity Index Fund	14 out of 14 = 100%
Intech Investment Management	21 out of 27 = 77.7%
INVESCO Institutional	9 out of 26 = 34.6%
JP Morgan Asset Management	7 out of 29 = 24.1%
Lazard Asset Management	18 out of 23 = 78.2%
Loomis, Sayles & Company	7 out of 17 = 41.1%
Lord Abbett	7 out of 22 = 31.8%
M. D. Sass Associates	2 out of 2 = 100%
Mackay Shields	22 out of 28 = 78.5%
McMorgan & Company	18 out of 18 = 100%
Morgan Stanley Investment Management	20 out of 28 = 71.4%
Northern Trust Global Investments	10 out of 26 = 38.4%
Nuveen Asset Management	22 out of 28 = 78.5%
OakBrook Investments	19 out of 25 = 76%
Pillar Pacific Capital Management	13 out of 13 = 100%
ProxyVote Plus	29 out of 29 = 100%
Prudential Financial	12 out of 26 = 46.1%
Putnam Investment Management	6 out of 23 = 26%
QMA	16 out of 29 = 55.1%
Quest Investment Management	16 out of 16 = 100%
RBC Global Asset Management	22 out of 26 = 84.6%

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Alphabetical Listing of Investment Manager Statistics

Renaissance Investment Management	8 out of 15 = 53.3%
Rothschild Asset Management	11 out of 13 = 84.6%
Segal Marco Advisors	29 out of 29 = 100%
Sierra Investment Partners	7 out of 7 = 100%
Snow Capital Management	5 out of 11 = 45.4%
Stacey Braun Associates	12 out of 12 = 100%
State Street Global Advisors	11 out of 29 = 37.9%
StoneRidge Investment Partners	5 out of 8 = 62.5%
Systematic Financial Management	7 out of 7 = 100%
T. Rowe Price	9 out of 29 = 31%
TCW	3 out of 18 = 16.6%
Trillium Asset Management	17 out of 17 = 100%
Vanguard Group	8 out of 29 = 27.5%
Voya Investment Management	6 out of 29 = 20.6%
Wedge Capital Management	13 out of 24 = 54.1%
Wells Fargo Funds Management	20 out of 28 = 71.4%
William Blair Investment Management	21 out of 27 = 77.7%
Winslow Capital Management	5 out of 6 = 83.3%
Ziegler Capital Management	15 out of 18 = 83.3%

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Tier Group Listing of Investment Manager Statistics

Top Tier

AFL-CIO Equity Index Fund	14 out of 14 = 100%
Amalgamated Bank	29 out of 29 = 100%
Chartwell Investment Partners	14 out of 14 = 100%
Comerica Bank	29 out of 29 = 100%
Domini Social Investments	8 out of 8 = 100%
HGK Asset Management	9 out of 9 = 100%
IBEW NECA Equity Index Fund	14 out of 14 = 100%
McMorgan & Company	18 out of 18 = 100%
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Quest Investment Management	16 out of 16 = 100%
Segal Marco Advisors	29 out of 29 = 100%
Sierra Investment Partners	7 out of 7 = 100%
Stacey Braun Associates	12 out of 12 = 100%
Systematic Financial Management	7 out of 7 = 100%
Trillium Asset Management	17 out of 17 = 100%

Middle Tier

AllianceBernstein	22 out of 29 = 75.8%
Atlanta Capital Management	5 out of 8 = 62.5%
Boston Trust/Walden Asset Management	9 out of 12 = 75%
Calvert	27 out of 28 = 96.4%
Charles Schwab Investment Management	15 out of 28 = 53.5%
Eaton Vance Management	22 out of 28 = 78.5%
Great Lakes Advisors	23 out of 24 = 95.8%
Intech Investment Management	21 out of 27 = 77.7%
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Tier Group Listing of Investment Manager Statistics

Bottom Tier

BlackRock Advisors	9 out of 29 = 31%
BNY Investment Advisors	4 out of 17 = 23.5%
Boston Partners Global Investors	6 out of 18 = 33.3%
Capital Research and Management	7 out of 25 = 28%
Dimensional Fund Advisors	9 out of 29 = 31%
Fidelity	11 out of 29 = 37.9%
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TCW	3 out of 18 = 16.6%
Vanguard Group	8 out of 29 = 27.5%
Voya Investment Management	6 out of 29 = 20.6%

Fewer Than Five Votes

ASB Capital Management	4 out of 4 = 100%
Fiduciary Management	1 out of 1 = 100%
M. D. Sass Associates	2 out of 2 = 100%

Taft-Hartley Client Votes

AllianceBernstein	16 out of 17 = 94.1%
Intech Investment Management	21 out of 21 = 100%
OakBrook Investments	18 out of 18 = 100%
Renaissance Investment Management	5 out of 5 = 100%
Rothschild Asset Management	6 out of 7 = 85.7%
Snow Capital Management	1 out of 1 = 100%
StoneRidge Investment Partners	6 out of 6 = 100%
Systematic Financial Management	7 out of 7 = 100%
TCW	3 out of 3 = 100%

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