Top Money Managers Update Proxy Voting Guidelines for 2022

BlackRock, State Street and Vanguard recently updated their proxy voting guidelines to reflect evolving priorities and challenges related to sustainability, diversity and inclusion, and human capital management. These money managers encourage major public companies to actively discuss these topics and expect S&P 500 companies to lead by example.

Highlighted below are the key 2022 proxy voting updates for BlackRock, State Street and Vanguard.

BlackRock

Sustainability Reporting: BlackRock asks companies to issue sustainability reports consistent with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). BlackRock's perspective on sustainability reporting recognizes that companies may use standards other than that of the Sustainability Accounting Standards Board, and continues to ask for metrics that are industry- or company-specific.

Climate risk: BlackRock continues to ask companies to disclose a net zero-aligned business plan that is consistent with their business model and sector. For 2022, BlackRock encourages companies to demonstrate that their plans are resilient under likely decarbonization pathways, and the global aspiration to limit warming to 1.5°C. BlackRock encourages companies to disclose how considerations related to having a reliable energy supply affect their plans.

ESG Performance Metrics: BlackRock believes that if ESG criteria are included in executive compensation programs, those metrics should be rigorous, aligned with a company's strategy and business model, and linked to company performance.

Board Diversity: Blackrock believes that U.S. corporate boards should aspire to 30% diversity of membership and encourages companies to have at least two directors on their respective boards who identify as female and at least one who identifies as a member of an underrepresented group. BlackRock looks to the largest companies (i.e., S&P 500) for leadership in this area.

State Street

- **Climate-Related Disclosure**. State Street expects companies in major U.S. indices to align with climate-related disclosures requested by TCFD, including whether those companies disclose: (1) board oversight of climate-related risks and opportunities; (2) total direct and indirect greenhouse gas (GHG) emissions; and (3) targets for reducing GHG emissions. Starting in 2022, State Street may vote against directors of S&P 500 companies that fail to meet disclosure expectations regarding board climate oversight and emissions reduction targets. In addition, this year, State Street will launch an engagement campaign targeting firms across applicable indices. In 2023, State Street will vote against directors at companies who fail to show progress on climate expectations.

- **Diversity Practices**: State Street now expects all companies to have at least one woman on their boards, whereas State Street's prior policy only applied to major indices in select markets. In 2023, State Street expects boards to be comprised of at least 30% women for companies in major indices in the U.S., Canada and select other countries. State Street also continues to encourage boards to have effective oversight of DE&I more broadly (beyond the board composition) and will "pursue a series of targeted engagements on the topic of racial and ethnic diversity" this year. In most cases, State Street will vote against the Chair (or members) of the Nominating Committee of those companies who are not making satisfactory progress toward racial and ethnic diversity.

- **Human Capital Management and Human Rights:** Citing the importance of effective human capital management on company performance, State Street expects companies to make thorough disclosure regarding compensation, workforce engagement, and long-term human capital strategy. With regard to human rights, State Street encourages companies to assess and disclose human rights-related risks and the potential effects on company operations/supply chains.

Vanguard

- **Director Over boarding:** Vanguard will "generally not support the re-election of any director who is a named executive officer (NEO) and sits on more than two public boards." Vanguard also asks that each company disclose its overboarding policy and how the board oversees implementation of this policy.

- **Climate Risk Oversight:** Vanguard will consider an accountability vote against a director or committee for governance or material risk oversight factors. In 2022, Vanguard expanded this policy by adding that the chair of the committee responsible for overseeing risk oversight factors (or the lead independent director and board chair) will be considered. The policy also includes material social and environmental risks such as climate change. Vanguard expects companies to disclose their respective climate risk strategy policies.

- **Virtual and Hybrid Shareholder Meetings:** Vanguard will generally support the use of virtual meetings if shareholder rights are not obstructed and the meeting is accessible. Vanguard expects companies to disclose meeting procedures prior to the meeting, ensure real-time video footage is available, and maintain a formal process for shareholders to submit questions.

- **Board Diversity:** For 2022, Vanguard clarified its expectations for disclosures on board diversity and qualifications. Specifically, Vanguard expects companies to inform shareholders about board composition and year-over-year progress toward board diversification. In addition, disclosures "should cover, at minimum, the genders, races, ethnicities, tenures, skills and experience that are represented on the board".

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