



Racial equity on the shareholder ballot in 2023

Introduction

Because of the fundamental role corporate and financial sector actors play in our economy and society, we believe that institutional investors will either contribute positively or negatively to the effort to address racial equity. How investors allocate and steward financial capital are important drivers of corporate behaviour.

SHARE has been engaging with Canadian and US companies over the past eighteen months asking that they conduct racial equity audits to identify and address discriminatory practices in their business operations, policies, practices, and services. A Racial Equity Audit is an independent, objective, and holistic analysis of a company's policies, practices, products and services and efforts to combat systemic racism in order to end discrimination within, or exhibited by, the company with respect to its customers, suppliers, or other stakeholders.

In 2022, companies like JP Morgan Chase and Mondelez International agreed to conduct a third-party racial equity audit in response to our shareholder proposals.

In 2023, SHARE filed seven proposals on racial equity issues and engaged twelve companies directly on diversity, equity, and inclusion issues.

In addition to SHARE's own proposals, there were another thirty-two proposals on ballots at North American companies related to racial equity issues.¹ In this investor brief, we examine the results of those votes and what they tell us about the state of investor stewardship related to racial equity.

¹ Note that this number does not include the 17 anti-ESG proposals identified in Table 3, below.

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SHARE (Shareholder Association for Research and Education)

About SHARE: SHARE is an award-winning non-profit organization dedicated to mobilizing investor leadership for a sustainable, inclusive, and productive economy. We do this by supporting our investor network and amplifying their voices to improve corporate sustainability practices and implement better rules and regulations that govern capital markets. For more information on SHARE, visit www.share.ca

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Why are these votes important to shareholders?

Racial equity is not only a matter of justice. Its place on the ballot at corporate annual general meetings also relates to the compelling business case for corporate action to address justice, equity, diversity, and inclusion. Racial inequity is a global problem with broad economic repercussions threatening the long-term performance of diversified asset owners' portfolios.

Propelled by the global reckoning on racial justice in 2020, many companies in Canada and the U.S. pledged to contribute to the fight against systemic racism. These commitments generally took the form of a public statement and were accompanied by philanthropic donations and investments in internal or external initiatives aimed at closing disparities or supporting greater inclusion for racialized communities. Since that time, however, civil society organizations and investors alike have questioned the actual impact corporate efforts have had on addressing racism and have been promoting greater corporate transparency and accountability for racial equity.

Racial inequities and inequalities can negatively impact the long-term value of investee companies and universal asset owners' portfolios more broadly. While systemic racism is deeply rooted in historical and institutional practices perpetuating the unequal treatment and opportunities for racialized and Indigenous people, individual companies may play an important role in maintaining or exacerbating existing inequities.

Individually, a company's failure to address disparities in the workplace or those stemming from their services and products may generate material legal, regulatory, reputational, and financial risks including poor employee attraction and retention, erosion of consumer trust, or increased regulatory scrutiny. These may ultimately require a company to invest in even more costly corrective actions.

At a systemic level, racial inequity has added implications for the long-term performance of a diversified investor's portfolio. A 2019 report from McKinsey shows that the persistent racial wealth gap burdens the overall U.S. economy and estimates it may cost the U.S. economy 4 to 6 percent of the projected GDP, or US\$1 to 2 trillion by 2028.² A report from Citi GPS published in 2020 suggests that the racial wealth gap between Black and white Americans has cost the U.S. economy up to \$16 trillion over the past 20 years.³ Since GDP growth is a key driver of portfolio returns across asset classes, the economic cost of systemic racial inequalities may expose a universal asset owner to lower returns across portfolios.⁴

² <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap>

³ https://ir.citi.com/NvIUkIHPIlz14Hwd3oxqZBLMn1_XPqo5FrxsZD0x6hhil84ZxaxEujUWmak51UHvYk75VKeHCMi%3D

⁴ https://www.majorityaction.us/s/MA_EquityintheBoardroom_2022REPORT.pdf





What issues garnered the most support in 2023?

Of the forty-one shareholder proposals that we identified as relating to racial equity issues (see Tables 1 and 2), fifteen requested that companies conduct third-party and independent racial equity audits.

Proposals requesting that companies conduct racial equity audits received an average support of 23% in 2023. In the U.S., the most supported racial equity audit proposal received 40% at American Water Works. In Canada, only two proposals were voted on this issue at the Royal Bank of Canada and the Bank of Montreal. The proposals respectively received 42% and 38% support from shareholders.

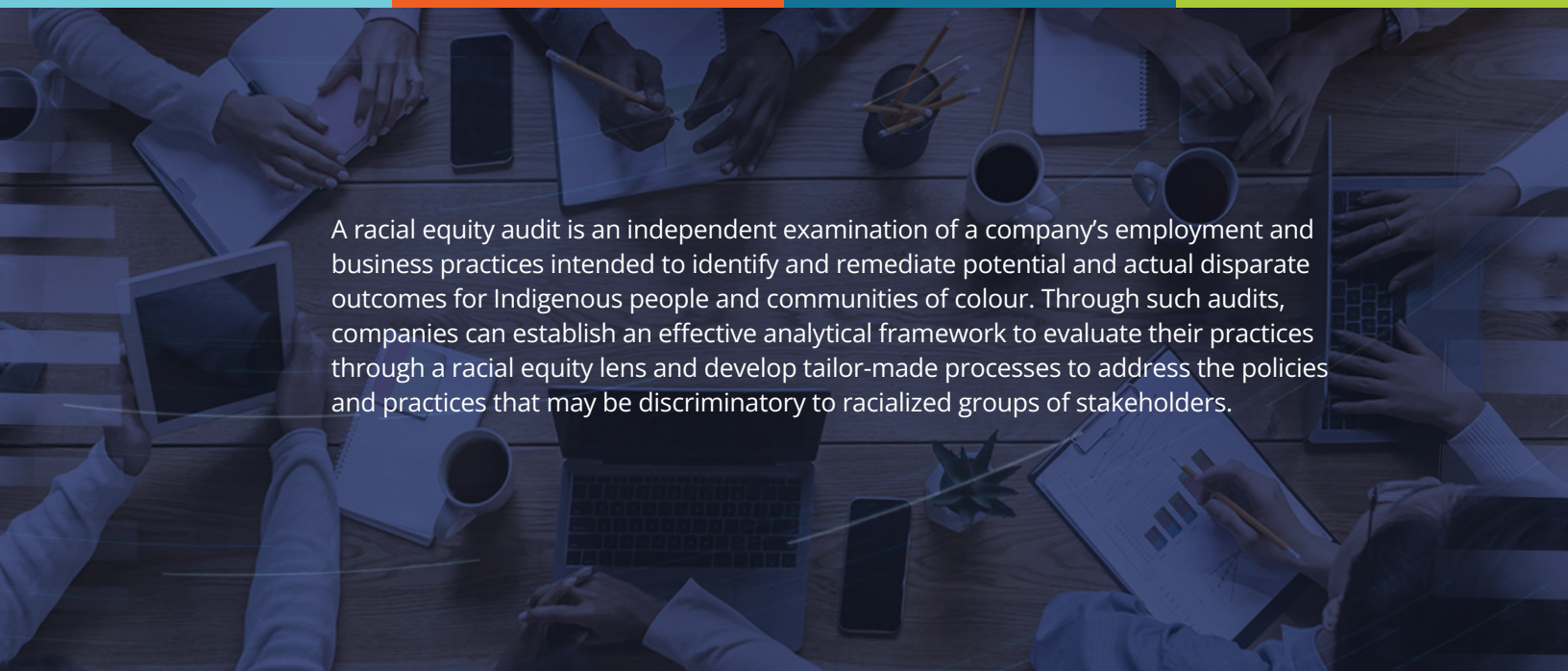
While proposals requesting racial equity audits received the most attention during the 2023 proxy season, other proposals addressing racial equity issues in the workplace were also on the ballot.

These twenty-six proposals were aimed at establishing more robust systems of accountability for workplace diversity, equity, and inclusion (DEI). Among these proposals, seven asked companies to provide a report on companies' efforts relating to DEI issues and received 25.3% support on average. One proposal achieved a majority vote, at Expeditors International of Washington.

Notably, another proposal filed by SHARE at CGI received 16% support but successfully achieved majority support from independent shareholders (62%).

There were ten proposals asking companies to disclose racial and gender pay metrics. These proposals tend to perform better than proposals asking for a broader DEI report as they received 33.8% shareholder support on average. A proposal at The Kroger Company achieved a majority vote with 52% shareholder support.

Other proposals included two proposals requesting a report on racism in company culture, four proposals looking at board diversity, and two proposals addressing Indigenous rights, including one asking Chubb Limited to report on the impact of its underwriting practices on Indigenous Peoples and one asking Citigroup to demonstrate the extent to which it respects Indigenous Peoples' rights in its existing and proposed general corporate and project financing.



A racial equity audit is an independent examination of a company's employment and business practices intended to identify and remediate potential and actual disparate outcomes for Indigenous people and communities of colour. Through such audits, companies can establish an effective analytical framework to evaluate their practices through a racial equity lens and develop tailor-made processes to address the policies and practices that may be discriminatory to racialized groups of stakeholders.



Other agreements

The list of proposals included in the tables below does not include all of the proposals that were filed by shareholders in 2023 but rather reflects those that went to a vote. It is common for shareholder proposals to be withdrawn before they are submitted to a vote. This generally results from productive discussions between the proponents and companies.

As an illustration, SHARE filed four shareholder proposals on racial equity audits in November 2022 in anticipation of a shareholder vote during the 2023 company annual meetings.

While the proposals at the Royal Bank of Canada and the Bank of Montreal went to vote, the other two proposals were withdrawn following meaningful commitments made by the National Bank of Canada and Canada Imperial Bank of Commerce.

Even though the proposals at the Royal Bank of Canada and the Bank of Montreal did not receive majority support from shareholders at their 2023 AGMs, both banks subsequently committed publicly to conduct such audits in alignment with the expectations set by SHARE.



“Anti-ESG” racial inequity proposals

Some shareholder proposals labeled as racial equity proposals were actually resolutions filed by organizations in the United States to block initiatives on racial equity (see Table 3, below). Seventeen of those were voted in 2023.

Sometimes this takes the form of an early filing of a proposal that sounds very similar to one filed by other shareholders, which blocks the ability of other shareholders to file at a particular company (“duplicative” proposals are not allowed, and the earliest filer is the one that gets to proceed).

In other instances, this takes the form of a legitimate proposal, but one aimed at pushing the board to discontinue equity programs at the company.

Thankfully, these proposals received exceptionally low votes as investors were, for the most part, able to distinguish them from other efforts.



Proxy advisory services and recommendations

The Canadian proxy advisory service GIR, using SHARE’s guidelines, voted in favour of 100% of the legitimate shareholder proposals at companies owned by their clients (table 1, below).

Of the two largest proxy advisory services, Institutional Shareholder Services (ISS) recommended votes for 56% of the proposals, and against 44%. Glass Lewis recommended votes for 41.5% and against the rest.

Tables of results

Table 1: Votes by GIR using SHARE Guidelines

Companies	Meeting date	Proposal	Voting Result	GIR Vote cast	ISS Vote	GL Vote
Amazon.Com Inc.	May 24, 2023	Report on Racial and Gender Pay Gaps	29.2%	For	For	Against
American Water Works	May 10, 2023	Independent Racial Equity Audit	40.0%	For	For	Against
Apple Inc.	March 10, 2023	Report on Median Racial & Gender Pay Gaps	33.8%	For	For	Against
At&T	May 18, 2023	Independent Racial Equity Audit	21.5%	For	Against	For
Bank of America Corp	April 25, 2023	Racial Equity Audit	15.2%	For	Against	For
Bank of Montreal	April 18, 2023	Independent Racial Equity Audit	38.1%	For	Against	For
Berkshire Hathaway Inc	May 6, 2023	Reporting on the effectiveness of the Corporation's diversity, equity, and inclusion efforts.	20.9%	For	For	For
Caesar's Entertainment Inc.	June 13, 2023	Disclose Board Skills and Diversity Matrix	19%	For	For	For
CGI Inc	February 1, 2023	Report on Workforce Racial Equity	15.9%	For	Against	For
Charles Schwab Corp	May 18, 2023	Median Gender and Racial Pay Equity Report	24.7%	For	For	Against
Chevron Corporation	May 31, 2023	Independent Racial Equity Audit	9.8%	For	Against	Against
Chubb Limited	May 17, 2023	Impact of underwriting on Indigenous Peoples (Human Rights Risks and underwriting Process)	16.5%	For	Against	Against
Citigroup	May 31, 2023	Respect for Rights of Indigenous Peoples	31.5%	For	For	Against
Comcast Corporation	June 7, 2023	Independent Racial Equity Audit	10.8%	For	Against	For
Coca-Cola Company	April 25, 2023	Report on Third-Party Civil Rights Audit	16.5%	For	Against	Against
Danaher	May 9, 2023	Diversity and Inclusion report	16.1%	For	Against	Against
Eli Lilly And Company	May 1, 2023	Diversity and Inclusion report	27.1%	For	For	Against
Expeditors International of Washington	May 2, 2023	Diversity and Inclusion report	57.3%	For	For	Against
Goldman Sachs Group	April 26, 2023	Independent Racial Equity Audit	11.6%	For	Against	Against
Goldman Sachs Group	April 26, 2023	Report on Median Racial & Gender Pay Gaps	31.4%	For	For	Against
Intuitive Surgical	April 27, 2023	Report on Median Racial & Gender Pay Gaps	35.3%	For	For	Against
Marriot International	May 12, 2023	Report on Gender/Racial Pay Gap	23.9%	For	For	Against
NextEra Energy	May 18, 2023	Disclose Board Skills and Diversity Matrix	48.9%	For	For	For
Royal Bank of Canada	April 5, 2023	Racial Equity Audit	42.2%	For	For	For
Tesla, Inc.	Aug 04, 2022	Stockholder annual reporting on Board diversity	9.7%	For	Against	Against
The Kroger Co.	June 22, 2023	Gender and Racial Pay Gap	51.9%	For	For	For
United Parcel Service, Inc.	May 4, 2023	Diversity and Inclusion Report	25.0%	For	For	For
UnitedHealth Grp Inc	June 5, 2023	Third-Party Racial Equity Audit	20.6%	For	Against	For
Valero Energy Corp	May 9, 2023	Racial Equity Audit	11.9%	For	Against	Against
Walmart	Ma 31, 2023	Racial Equity Audit	18.2%	For	For	For

Table 2: Other key DEI votes - companies not held by GIR clients

Companies	Meeting date	Proposal	Voting Result	ISS Vote	GL Vote
AO Smith Corp	April 11, 2023	Report on Whether Company Policies Reinforce Racism in Company Culture	9.0%	Against	Against
Block	June 13, 2023	Diversity and Inclusion Report	14.9%	For	Against
Boeing Company	April 18, 2023	Median Gender and Racial Pay Equity Report	47.4%	For	For
DexCom Inc	May 18, 2023	Report on Median Gender/Racial Pay Gap	35.9%	For	Against
Digital Realty Trust	June 8, 2023	Report on Whether Company Policies Reinforce Racism in Company Culture	12.8%	Against	Against
Equifax	May 4, 2023	Racial Equity Audit	30.8%	Against	For
Kellogg	April 28, 2023	Gender and Racial Pay Gap	24.0%	For	Against
Las Vegas Sands Corp	May 11, 2023	Disclose Board Skills and Diversity Matrix	18.4%	For	For
Mohawk Industries	May 24, 2023	Racial Equity Audit	20.7%	For	Against
Travelers Companies Inc	May 24, 2023	Racial Equity Audit	35.3%	For	For
Travelers Companies Inc	May 24, 2023	Report on risks related to police violations of civil rights and liberties	10.6%	Against	Against

Table 3: Anti-ESG votes related to racial equity measures

Companies	Meeting date	Proposal	Voting Result	GIR Vote cast	ISS Vote	GL Vote
Amazon.Com Inc.	May 24, 2023	Shareholder proposal requesting an analysis of costs associated with diversity, equity, and inclusion programs	0.8%	Against	Against	Against
Apple Inc.	March 10, 2023	A shareholder proposal entitled "Civil Rights and Non-Discrimination Audit Proposal"	1.4%	Against	Against	Against
Blackrock Inc	May 23, 2023	Civil Rights Audit	1.1%	Against	Against	Against
Bristol-Myers Squibb	May 2, 2023	Commission a Civil Rights and Non-Discrimination Audit	1.6%	Against	Against	Against
Capital One Financial	May 4, 2023	Report on Board oversight of Discrimination	0.9%	Not held	Against	Against
Caterpillar Inc.	June 14, 2023	Civil Rights Audit	1.7%	Against	Against	Against
Charles Schwab Corp	May 18, 2023	Report on Board oversight of Discrimination	1.0%	Against	Against	Against
Kellogg	April 28, 2023	Civil Rights Audit	2.0%	Not held	Against	Against
Kraft Heinz	May 4, 2023	Civil Rights Audit	1.0%	Against	Against	Against
Mastercard Inc.	June 27, 2023	Consideration of a stockholder proposal requesting a report on the cost-benefit analysis of diversity and inclusion efforts	0.5%	Against	Against	Against
McDonald's	May 25, 2023	Civil Rights Audit	2.4%	Against	Against	Against
Microsoft Corp	December 13, 2022	Report on Cost/Benefit Analysis of Diversity and Inclusion	1.3%	Against	Against	Against
PayPal	May 24, 2023	Report on Board oversight of Discrimination	1.2%	Against	Against	Against
The Home Depot, Inc	May 18, 2023	Rescind 2022 Racial Equity Audit Proposal	0.9%	Against	Against	Against
The Kroger Co.	June 22, 2023	Omitting the Viewpoint and Ideological Diversity from EEO policy	1.9%	Against	Against	Against
United Parcel Service, Inc.	May 4, 2023	Civil Rights Audit	5.6%	Against	Against	Against
Walmart	May 31, 2023	Racial and Gender Layoff Diversity Report	1.5%	Against	Against	Against

Next steps

SHARE's engagement service is continuing to engage with companies and file additional proposals on the issues at hand. If you are interested in participating in our program, please get in touch.

In addition to direct engagement, SHARE:

- Has established an 'Investors for Racial Equity Community of Practice' in which a group of asset owners are meeting regularly to establish best practices in investment and oversight of investment managers to advance racial equity outcomes;
- Has produced an asset manager oversight questionnaire which asset owners can use to facilitate deeper and more effective discussions with asset managers, including identifying opportunities and gaps in how their investment managers addresses racial equity issues both within their organizations and as part of their stewardship practices; and
- alongside our many network partners, is advocating regularly for improvements to corporate disclosure rules to provide better data for racial equity performance by Canadian and US issuers.

GIR, a proxy voting advisory service (partly owned by SHARE) is available to assist with shareholder voting, evaluated using SHARE's unique proxy voting guidelines that include a strong racial equity focus. <https://www.gir-canada.com/en/>

For more information on how SHARE can help your organization address racial equity in its investment practice, please contact us at the address below.



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