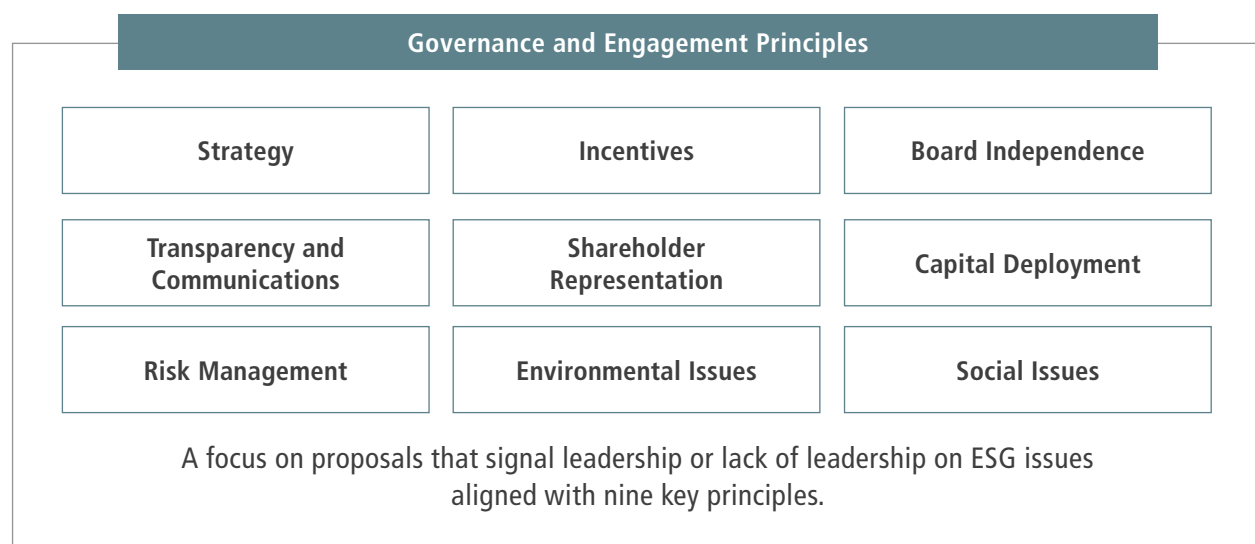


ESG INVESTING TEAM

The 2020 Proxy Season and *NB Votes*

Neuberger Berman's *Engagement Series* presents insights and case studies on our dialogue with companies, government entities and other securities issuers. In this column, the ESG Investing team reflects on this past proxy season and the firm's new practice of systematically announcing certain voting intentions in advance.

This year is the first in which our firm has systematically announced our voting intentions in advance of the annual general meetings (AGMs) of a select group of companies in which we invest on behalf of clients, in a program known as *NB Votes* (formerly known as the NB25+ Advance Vote Disclosure Initiative.) In order to allow for engagement with each company and robust debate internally on vote decisions, we chose to focus the Initiative on a minimum of 25 companies where our clients have significant economic exposure. We also sought to include a broad range of proposals in the Initiative with a balance of votes in support of and against the recommendations of management to enable us to share our analysis and expectations on a variety of matters. Each vote disclosed was categorized into one of our nine overarching key governance and engagement principles, as shown below. As of July 10, 2020, we have disclosed key votes at 29 of our portfolio companies, ranging from \$3 billion to \$650 billion in market capitalization.¹



¹ Source: FactSet, as of July 6, 2020.

While a handful of public pension plans and sovereign wealth funds announce their voting intentions ahead of general meetings, this is currently rare for global asset managers with greater than \$100 billion in assets under management. Such managers often represent relatively large ownership stakes in companies around the world, and thus possess considerable influence at general meetings. To enhance the level of transparency around proxy voting decisions, our aspiration is that our large asset manager peers will also begin to preannounce proxy votes systematically and openly. We hope this practice elevates the value of supporting long-term-oriented management teams who are creating sustainable value, while demonstrating the accountability that comes with failing to meet shareholder expectations.

Seeking Positive Real World Outcomes

The goal of *NB Votes* is to help generate positive real-world outcomes in three ways: through actions taken by the portfolio companies specifically included in *NB Votes*, through unprompted actions taken by other companies in the same sectors as those included in *NB Votes*, and through the broader elevation of nuanced judgment in proxy voting decision-making across the market as a whole.

Holding Boards Accountable

We hope that making our votes public will accelerate our engagement efforts with companies where we feel more action is needed, and help management teams drive positive change. This year, we held boards accountable on areas requiring improvement, and worked with them to help strengthen their relevant policies and practices. For example, at Boeing, we voted against the historical chair of the audit committee due to concerns over the depth of oversight in the committee's Enterprise Risk Management framework. We also took voting action against a director at Lennar Corporation, where we voted against the reelection of the compensation committee chair as a result of the committee's failure to address our concerns over a pay-for-performance disconnect for multiple years. While the director reelection proposals at both companies were passed, support was significantly lower than the average director election approval rate of 95% for Russell 3000 constituents in 2019.² Importantly, we were effective in signaling our concerns and were able to focus our engagements on specific issues of risk management, oversight and compensation with these companies. Moreover, in light of our votes and engagement, both companies have expressed willingness to work to address the areas of concern and have requested continued engagement in the future. Through this process, our intention is to help drive positive outcomes at many of our portfolio companies.

Communicating Expectations

One of the key objectives of the Initiative is also to encourage companies not directly included in the Initiative, but perhaps in the same sector or facing similar issues as those that are, to improve their practices. We know from academic research, including work by Harvard Business School's Mike Toffel, that support from institutional investors for shareholder proposals leads other companies in the same sectors to proactively take actions aligned with the spirit of those proposals, even if they themselves have not been the recipients of similar requests.³ Through *NB Votes*, we seek to accelerate this process. Companies in a given sector will be able to see our public disclosure of the issues we supported or opposed, our expectations of companies on various issues, and our logic as to why certain companies either succeeded or failed in meeting those expectations.

Voting Positions: Examples

The principles above were on display in a range of our actions this past proxy season. For example, on the topic of executive compensation, we supported an executive compensation proposal at CSX Corporation that attracted 75% support from shareholders. Although some raised concerns over the severance package paid to the chief financial officer upon his termination, after thorough analysis and engagement with the company, we determined that the package was appropriate given his significant contribution in the transition to a refreshed management team. The board provided substantial disclosure on the package, allowing shareholders to evaluate the link between executive compensation and performance. Furthermore, we believe the package had an appropriate structure, and utilized health and safety metrics tailored to the business to appropriately measure performance. On an executive compensation proposal at Lennar Corporation, we chose to vote against it due to what in our view was the misalignment between pay and performance resulting from consecutive years of sizable compensation awards without commensurate performance.

² Source: Kumar, Rajeev, "Director Election Analysis: Trends and Observations in Recent Results," Georgeson, March 11, 2020.

³ See for example: Flammer, Caroline, Toffel, Michael W., Viswanathan, Kala, "Shareholder Activism and Firms' Voluntary Disclosure of Climate Change Risk," Working Paper, Harvard Business School, October 2019, and Reid, Erin M. and Toffel, Michael W., "Responding to Public and Private Politics: Corporate Disclosure of Climate Change Strategies", Working Paper, Harvard Business School, June 2019.

When evaluating shareholder proposals requesting reporting on gender and racial diversity, a company's current disclosures on its workforce composition and related initiatives are an important component of our analysis. This analysis led to our support of a shareholder proposal to enhance diversity reporting by Marriott International. Although the company has taken various steps to promote diversity this year, we supported the proposal to signal our expectation of further disclosures and the need to better understand the company's workforce demographics and approach to human capital management.

On the topic of climate change risk reporting, we did not support a shareholder proposal asking for additional disclosure on greenhouse gas (GHG) reduction targets at Royal Dutch Shell. We believe that the company has sufficiently addressed the issue through existing GHG reduction goals, including a net zero goal for Scope 1, 2 and 3 emissions by 2050, as well as interim targets that go beyond those set by peer companies. In contrast, we supported shareholder proposals at Exxon and Chevron calling for more disclosure of potential climate change risks to physical assets on the Gulf Coast, given the limited existing disclosure around the results of physical risk modeling on company assets and facilities. Companies like Exxon and Chevron can look to our vote disclosure to better understand our decision-making in calibrating what high-quality disclosure looks like.

Nuanced Judgment

We believe *NB Votes* could help offset the perception among some commentators that asset managers may formulaically "robo-vote" based solely on the views of a proxy advisor. We also believe it can contribute to improvement in the functioning and credibility of the proxy voting system as a whole. Through the Initiative, we have shown the nuanced judgment required to evaluate (and differentiate) similar-looking management and shareholder proposals. For example, on the topic of gender pay equity reporting, we disclosed our support for management in opposing a shareholder proposal at Adobe, but took the opposite position and supported the same proposal at Cigna because of differences in the quality of current disclosures and performance on gender pay parity. Adobe has demonstrated its commitment to pay parity by articulating its process and continuously improving its disclosure, including announcing an ethnic pay parity initiative in 2016 and its achievement of global gender pay parity in 2018.

Nuanced judgment is also important when evaluating proposals in different markets. Proxy proposals vary significantly by market due to regulation, and in response, we draw on both our global and local resources to address key issues. In Japan, for example, after a productive engagement with Okinawa Cellular, we decided to support management's decision to adjust capital management policies in order to reduce cash build-up. While capital deployment proposals are not common in the U.S., they are in Japan. Our local team was essential in understanding the nuances of Japan-specific proposals and engaging with our portfolio companies to communicate our expectations. As a global asset manager, we hope to share more expectations for companies in international markets as we expand this Initiative in the coming years.

Governance and Resilience in the Wake of COVID-19

We are committed to the ongoing monitoring of how companies behave and respond during this unprecedented time. While the global pandemic has exposed the vulnerabilities of our health care system, it has also shed light on the importance of material ESG topics as companies navigate through the crisis. For example, Thermo Fisher Scientific (TMO) immediately took action when the pandemic hit, assisting the National Institute of Health in developing a molecular test using TMO's polymerase chain reaction kits, supplying those on the front lines with protective equipment, and is now playing an ongoing role in the development of treatment and vaccines. TMO also committed to prioritizing the safety of its workforce, and implemented robust business continuity plans, from comprehensive site preparedness to employee training and communication.⁴ Recognizing the board's exemplary leadership during a time of crisis, we disclosed our votes in their favor to signal our support of their continued efforts to protect employees, customers and communities. We expect company decisions in response to the crisis will continue to play a key role in our voting choices in the coming years and intend to share our thinking through this Initiative.

Next Steps

We hope that other large asset managers will also provide systematic advance vote disclosure multiple days in advance of company meetings for the 2021 season—not just in order to help companies better understand what they should be aiming for, but because we believe *NB Votes* has made us better investors. Publicly disclosing voting positions in advance of company meetings requires more

⁴ Source: Thermo Fisher Scientific.

extensive debate on those positions internally and raises the level of engagement with portfolio companies—something that we believe all investors can benefit from. We look forward to continuing the Initiative in 2021 and intend to expand it with a particular focus on progress and responsiveness by boards and management teams.

NB Votes: Voting Positions and Shareholder Support

Company	Principles	Proposal	NB	Shareholder Support %
Thermo Fisher Scientific Inc.	Strategy	Election of Directors	For	~95%
Sherwin Williams	Incentives	Advisory Vote on Executive Compensation	For	95%
Univar Solutions		Advisory Vote on Executive Compensation	Against	81%
CSX Corp.		Advisory Vote on Executive Compensation	For	75%
Rollins, Inc.	Board Independence	Elect Henry B. Tippie	Against	88%
Cognex Corp.		Elect Patrick A. Alias	Against	78%
Starwood Property Trust, Inc.		Elect Strauss Zelnick	For	86%
Bristol-Myers Squibb Co.		Elect Michael W. Bonney	Against	Not Disclosed
Lennar		Elect Scott D. Stowell	Against	64%
SK Kaken Co.		Election of Directors (Top Management)	Against	~85%
Stanley Black & Decker	Shareholder Representation	Shareholder Proposal Regarding Right to Act by Written Consent	Against	51%
Raytheon Technologies		Shareholder Proposal Regarding Simple Majority Vote	For	94%
HCA Healthcare, Inc.		Adoption of Right to Call Special Meetings	For	99%
CVS Health Corp.		Shareholder Proposal Regarding Reducing Ownership Threshold Required to Act by Written Consent	Against	16%
Home Depot		Shareholder Proposal Regarding Reducing Ownership Threshold Required to Act by Written Consent	Against	19%
Facebook		Shareholder Proposal Regarding Recapitalization	For	27%
Netflix, Inc.		Election of Directors	Against	~60%
Americold Realty Trust		Elect Mark R. Patterson	For	86%
IHS Markit	Capital Deployment	Advisory Vote on Executive Compensation	For	97%
Ricoh Company		Elect Hidetaka Matsuishi	For	99%
Okinawa Cellular Telephone Company		Allocation of Profits/Dividends	For	99%
General Electric	Transparency and Communication	Ratification of Auditor	Against	89%
Boeing Co.	Risk Management	Elect Lawrence W. Kellner	Against	74%
Royal Dutch Shell	Environmental	Shareholder Proposal Regarding GHG Reduction Targets	Against	14%
Chevron Corp.		Shareholder Proposal Regarding Report on Risks of Gulf Coast Petrochemical Investments	For	46%
Exxon Mobil Corp.		Shareholder Proposal Regarding Report on Risks of Gulf Coast Petrochemical Investments	For	24%
Adobe Systems	Social	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Against	12%
Cigna		Shareholder Proposal Regarding Median Gender Pay Equity Report	For	21%
Marriott International, Inc.		Shareholder Proposal Regarding Diversity Reporting	For	30%

Source: Neuberger Berman, as of July 10, 2020.

For more details on our engagement and proxy voting, visit nb.com/engagement.

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