

INSIGHTIA

MONTHLY

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10 YEARS AFTER

The proxy contest at Canadian Pacific Railway reverberates to this day.

THE RACIAL AUDIT REVOLUTION

The first racial equity audit shareholder proposals of 2022 have won majority support.

GOVERNANCE

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THE RACIAL AUDIT REVOLUTION

A large crowd of diverse people, including men, women, and children of various ethnicities, are standing on a white background. They are arranged in a large, stylized number '100'. The '1' is on the left, the '0' is in the middle, and the second '0' is on the right. The people are densely packed within the shape of the number, with some individuals standing outside the main formation.

**THE FIRST
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REBECCA SHERRATT.**



Shareholder proposals requesting companies produce racial equity audits - analyses of their impact on nonwhite stakeholders and communities of color - have exceeded expectations since they were first filed by the Service Employees' International Union (SEIU) and SOC Investment Group at the start of the 2021 proxy season.

Nine racial audit proposals in 2021 won average support of 32.4% and all four attempts by companies to exclude the resolutions from their proxy statements were denied by the Securities and Exchange Commission (SEC).

Unsurprisingly, investors have embraced them once again for the current proxy season. Racial audit resolutions have been filed at more than 40 companies in the 2022 proxy season and are fast becoming a key part of the investor engagement toolkit.

So far this year, three out of the 10 racial equity/civil rights audit proposals subjected to a vote have won majority support from shareholders at Apple, Johnson & Johnson (J&J), and Maximus. A further six companies, including Amazon, BlackRock, and Tyson Foods, have agreed to commission independent racial audits of their operations in return for the withdrawal of proposals.

“RACIAL AUDIT RESOLUTIONS HAVE BEEN FILED AT MORE THAN 40 COMPANIES IN THE 2022 PROXY SEASON AND ARE FAST BECOMING A KEY PART OF THE INVESTOR ENGAGEMENT TOOLKIT.”

With investors also strengthening their policies surrounding board diversity and EEO-1 disclosure - a workforce composition report required of most U.S. listed companies - directors urgently need to adapt to new racial equity reporting expectations.

ADDRESSING INVESTOR APPETITES

In a period where shareholder engagements concerning diversity have expanded to cover a variety of initiatives, ranging from board composition, the recruitment and retention of diverse employees, and labor force reporting, the racial audit serves as an escalation of prior engagements, ensuring investors are provided with a comprehensive analysis of all aspects of a company's diversity, equity, and inclusion (DEI) efforts.

Recognizing the appetite from the investor community for enhanced transparency surrounding racial diversity, SEIU and SOC decided that filing racial audit proposals would provide shareholders with the much-needed assurance that companies were appropriately addressing racial equity.

The resulting audits, which involve objective investigations by a third-party into a company's policies and practices relating to DEI, are designed to inform investors about the social impacts of their investments, while also assisting companies in strengthening their efforts in fostering racial equity and inclusivity.

“Generally speaking, directors are well-qualified to advise on core business matters, but do not have civil rights expertise or a deep understanding of matters such as unintentional biases that may be influencing decision-making,” Kilian Moote, managing director at Georgeson, told Insightia in an interview. “These audits aim to have an independent assessment of companies' practices by individuals with civil rights or racial justice expertise.”

POSITIVE STEPS

After getting off to a strong start in 2021, shareholder proponents have refined the racial equity audit to make it more appealing to investors. Unlike the “say on climate” campaign, which slightly downplayed its ambitions in the U.S. after its debut season, racial equity audits are getting broader.

“It is really exciting to compare when we first filed these resolutions one year ago and the progress we have made so far,” Edgar Hernández, assistant director of strategic initiatives at SEIU told Insightia in an interview. “It is my firm belief that racial equity audit/civil rights audit resolutions are going to be a regular part of the shareholder toolkit, moving forward.”

While none of the racial equity audit proposals subject to a vote in 2021 passed, Hannah Orowitz, head of ESG at Georgeson, noted that these proposals have “already evolved this season, expanding from racial equity audits to civil rights proposals more broadly.” As these proposals broaden in scope, so does their appeal to investors.

The Interfaith Center for Corporate Responsibility's (ICCR) 2022 proxy resolutions and voting guide, published February, revealed that member filings of racial audit proposals more than tripled in 2022, compared to last season, with proposals more broadly connected to diversity the second most popular category, behind only climate change.



Racial audits are also winning the favor of leading investors. BlackRock and JP Morgan voted in favor of eight of the nine racial equity audits subject to a vote in 2021, according to Insightia’s *Voting* module, while State Street Global Advisors (SSGA) supported three proposals of this kind.

abrdn and Pensionskassernes Administration have similarly commended racial equity audits for not being unduly burdensome on management, with abrdn noting in a voting bulletin that racial audits help companies prove to investors the “positive steps” they are already taking to address racial equity while promoting enhanced transparency.

Proxy advisers, which play a crucial role in swaying investor votes, are also lending their support to racial equity audits. So far this year, Glass Lewis and Institutional Shareholder Services (ISS) have endorsed five and two of the 10 racial equity audits subject to a vote. In 2021, Glass Lewis and ISS endorsed seven and two racial audit proposals, respectively, according to synthetic recommendations.

That’s not to say that racial equity audits haven’t also faced their fair share of pushback. In an August 2021 letter to ISS, the Society for Corporate Governance argued it “would be inappropriate” for proxy advisers to adopt a global benchmark to generally support racial audit proposals, on the grounds that their “narrow focus on race does not address gender, sexual orientation, religion, and other types of diversity that may be important to companies, their investors, and other stakeholders.

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In a voting bulletin, BlackRock commended racial audit proposals for not being “overly prescriptive or unduly constraining for management,” yet serving as an effective way by which companies can strengthen their diversity initiatives through engagement with stakeholders.

PROXY ADVISER RECOMMENDATIONS FOR RACIAL EQUITY AUDITS

COMPANY	YEAR	GL SYNTHETIC RECOMMENDATION	ISS SYNTHETIC RECOMMENDATION
BANK OF AMERICA	2021	FOR	N/A
JOHNSON & JOHNSON	2021	FOR	N/A
CITIGROUP	2021	FOR	N/A
WELLS FARGO	2021	AGAINST	AGAINST
GOLDMAN SACHS	2021	FOR	N/A
JP MORGAN CHASE	2021	FOR	N/A
STATE STREET	2021	FOR	N/A
AMAZON.COM	2021	FOR	FOR
ORACLE	2021	FOR	FOR
APPLE	2022	FOR	FOR
WALT DISNEY CO.	2022	AGAINST	AGAINST
MAXIMUS	2022	FOR	FOR
LEVI STRAUSS	2022	AGAINST	N/A
SVB FINANCIAL	2022	FOR	FOR

SOURCE: INSIGHTIA / VOTING
Data as of April 28, 2022.



THE GROWING DIVERSITY DIALOGUE

The next step could be for investors to do something with the disclosures provided by racial audits and other initiatives.

Starting this year, SSGA will withhold support from the nominating committee chairs where an S&P 500 company does not have at least one director from an underrepresented community on its board or where a company fails to disclose its EEO-1 report, a form detailing demographic workforce data.

BlackRock also outlined in its 2022 proxy voting guidelines the expectation that U.S.-listed companies

should feature at least one director from an ethnically or racially diverse background. Companies in the S&P 500 Index will be looked to for “continued leadership” in this area, the fund manager warned.

As stricter diversity policies become the norm for fund managers, insight into a company’s DEI policies and practices will become a necessity. Lydia Kuykendal, director of shareholder advocacy at Mercy Investment Services, told Insightia that the success of racial audits in 2022 proves that investors “recognize that racial equity and justice cannot be achieved through a statement on a website – they must be integrated into [a company’s] business model.” [ia](#)

RACIAL AUDIT NO-ACTION LETTER OUTCOMES

COMPANY	SECTOR	MEETING DATE	RESOLUTION	NO-ACTION OUTCOME	DECISION DATE
JOHNSON & JOHNSON	HEALTHCARE	APR 22, 2021	REPORT ON CIVIL RIGHTS AUDIT	REJECTED	DEC 16, 2020
CITIGROUP	FINANCIAL SERVICES	APR 27, 2021	REPORT ON RACIAL EQUITY AUDIT	REJECTED	DEC 23, 2020
JP MORGAN CHASE	FINANCIAL SERVICES	MAY 18, 2021	REPORT ON RACIAL EQUITY AUDIT	REJECTED	JAN 11, 2021
WALT DISNEY CO.	CONSUMER CYCLICAL	MAR 09, 2022	REPORT ON WORKPLACE NON-DISCRIMINATION AUDIT	REJECTED	OCT 26, 2021
LEVI STRAUSS	CONSUMER CYCLICAL	APR 20, 2022	REPORT ON WORKPLACE NON-DISCRIMINATION AUDIT	REJECTED	DEC 10, 2021

SOURCE: INSIGHTIA / VOTING
Data as of April 20, 2022.



UNDERSTANDING CLIMATE-RELATED SHAREHOLDER PROPOSALS IN JAPAN

Hear from industry experts - ESG Seminar

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TUESDAY 31 MAY, 6 - 7PM JST/ 10 - 11AM BST/ 7 - 8 PM AEST