BNY MELLON | INVESTMENT MANAGEMENT

MELLON

PROXY VOTING REPORT

SEMI-ANNUAL 2022

GUIDING PRINCIPLES

Promote the accountability of a company's management to its board of directors, as well as the accountability of the board of directors to the company's shareholders

Align the interests of a company's management & board of directors with those of the company's stakeholders

Uphold the rights of a company's shareholders to effect change by voting on those matters submitted to shareholders for approval

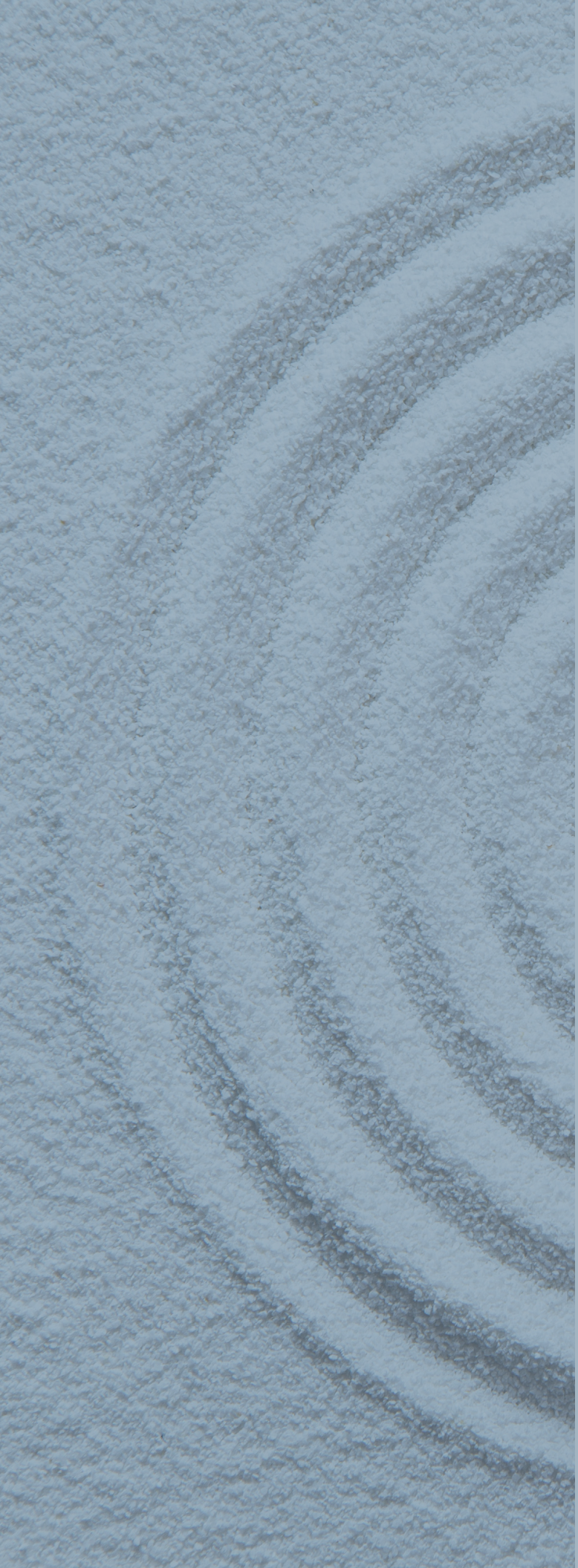
Promote transparency & disclosure of a company's business operations and financial activity

MELLON PROXY VOTING & GUIDING PRINCIPLES

The Mellon Proxy Committee is comprised of Mellon investment professionals and is responsible for all proxy voting decisions for the index division of Mellon Investments Corporation. An articulated philosophy, stated guidelines, and a well-defined proxy evaluation process supports and informs the voting decisions of the Proxy Committee. We are committed to transparency for our clients and update our proxy voting guidelines annually, which can be found on our website.

As we finished the 2021 annual proxy review, we wanted to increase our transparency to our clients and, consequently, are moving to a semi-annual report for 2022. Publishing a semi-annual report allows our clients more immediate access to results and brings attention to the voting-heavy season of the proxy calendar in the first half of the year. Our second half to the 2022 report will focus on those company engagements that naturally arise from the issues generated from proxy voting in the first half of the year.

At Mellon, we have a fiduciary responsibility to our clients to ensure our proxy voting decisions are in their best long-term economic interest. As shareholders, we approach proxy voting with the same precision and engagement that we apply to our index investment activities. We understand that we owe each of our clients a duty of care with respect to voting proxies.



FOCUS

PROXY SEASON 2022

BY THE NUMBERS

JANUARY 1 – JUNE 30

800+

proposals submitted

506

proposals reviewed

50%+

made it onto company meeting agendas

What was the SEC change in guidance?

As expected, the first half of 2022 saw significantly more shareholder proposals due to the SEC's November 2021 issuance of Staff Legal Bulletin No. 14L (SLB 14L), which broadened the ability of shareholders to put forward proposals that raise issues of social or ethical concern. SLB 14L stated, "[S]staff will no longer focus on determining the nexus between a policy issue and the company, but will instead focus on the social policy significance of the issue that is the subject of the shareholder proposal. In making this determination, the staff will consider whether the proposal raises issues with a broad societal impact, such that they transcend the ordinary business of the company."[1] Under this approach, proposals that were previously viewed as excludable may no longer be viewed this way, which led to an uptick of shareholder proposals on company meeting agendas in 2022.

How was this year's outcome different than the same period in 2021?

From January 1, 2021, through June 30, 2021, we reviewed and voted on 399 shareholder proposals. During this same six-month period in 2022, we reviewed and voted on 506 shareholder proposals, an increase of 107 proposals. For context, there were over 800 proposals submitted in the first two quarters of 2022, meaning more than half made it onto company meeting agendas.

How did we manage the change in guidance?

Per our policy, we review each shareholder proposal that is a votable item on a portfolio company meeting agenda. We were aware of the possible uptick in shareholder proposals well ahead of the start of proxy season, so we planned our Committee's time accordingly. We devoted more time for discussion and held meetings twice a week from April through June to manage the increase in proposals.

Did this significant uptick in shareholder proposals change engagement season in the fall of this year?

Although the overall number of shareholder proposals voted on in 2022 increased, the average support for all shareholder proposals voted on decreased from the same period in 2021. Importantly, even if a proposal did not pass, votes with significant support (anything between 40% and 49%) signaled to a company that a good portion of their shareholder base has concerns around the specific topic. We expect an increase in company engagement this fall as we will be communicating with companies about their response to passed shareholder proposals as well as failed proposals with shareholder support above 40%.

How will the SEC's expected final rule on climate disclosure impact engagements going forward?

Once the rule is finalized, we plan to engage with our portfolio companies to understand exactly what is required and provide our viewpoint as an investor regarding best practices.

PROXY VOTING

DECISIONS & RATIONALE

Our Proxy Committee has designed voting guidelines to assist with voting decisions in an effort to maximize the economic value of the securities of companies held in client accounts over time. Generally, the Proxy Committee votes consistently on similar proxy proposals across all shareholder meetings. However, many proxy proposals are considered on a case-by-case basis in light of the particular facts and circumstances of the proposal. We aim to hold company leaders accountable, uphold the rights of shareholders, and promote sufficient disclosures.

GOVERNANCE

When we consider governance issues, we seek to promote structures that will align the interests of a company's management and board with those of the company's shareholders. In addition to tenure and relevant experience, we look for diversity of geography, thought, gender, race, and ethnicity when voting for the board of directors. We believe a diverse board that is not entrenched is often best equipped to provide new viewpoints and guidance. We also believe it is important to elect independent directors and separate the CEO and chairperson roles. These practices help alleviate conflicts of interest and enhance communication between leadership and shareholders.

When considering compensation practices, we are mindful that these proposals represent the conveyance of wealth from shareholders to management, and we strive to ensure these practices are designed to benefit shareholders.

ENVIRONMENTAL & SOCIAL

As long-term shareholders, we believe companies have a duty to consider their impact on the environment in terms of potential risks as well as emerging opportunities to create value. In general, we support proposals calling for increased disclosure surrounding emissions and waste reduction. We carefully consider supporting proposals requesting climate reduction targets for companies where it is material to their industry and they are lagging peers. We also consider if proposals have a specific, realistic time horizon, pragmatic cost impacts and alignment with broader business goals.

In addition, we believe human capital matters. A diverse work force, pay equity, and the health and safety of employees and customers enhance a company's ability to create long-term value. The Proxy Committee typically votes for proposals that support disclosing policies and implementing procedures that will help assess a company's commitment to the promotion and protection of human capital considerations or address areas of weakness that could impact operations.

HUMAN CAPITAL MANAGEMENT

APPLE INC.

In March 2022, we supported a shareholder proposal asking the board of directors to oversee a third-party audit analyzing the impact of Apple's policies and practices on the civil rights of company stakeholders, above and beyond legal and regulatory matters, and to provide recommendations for improving the company's civil rights impact. Apple has faced scrutiny in the past for its civil rights issues concerning workplace conditions and other employee concerns, which could cause significant human capital management issues and reputational damage to the company going forward. This proposal passed, and we will continue conversations with Apple as they structure their response to the proposal.

CHARTER COMMUNICATIONS, INC.

In April 2022, we supported a shareholder proposal that requested the board adopt a policy to annually disclose their consolidated Equal Employment Opportunity (EEO-1) Data Report. We request companies be transparent when disclosing human capital-related issues and believe that disclosure of this data annually will offer insight into diversity-related human capital risks at the company. The proposal did not pass, and we will continue to encourage Charter to report their EEO-1 data through engagement.

CLIMATE/ENVIRONMENT

COSTCO WHOLESALE CORPORATION

In January 2022, we supported a shareholder proposal that requested a report on green-house gas (GHG) emissions reduction targets. The company did not appear to provide board oversight of climate-related issues, nor did it maintain any type of current emissions reduction target or reporting in alignment with the Task Force on Climate-related Financial Disclosures (TCFD). Overall, we believe the company is lagging peers in this area. The company set time-bound goals for improving its climate-related reporting, while we prefer to see companies set GHG emissions reduction targets. The proposal passed with majority support.

ARCHER-DANIELS-MIDLAND COMPANY

In May 2022, we supported a shareholder proposal requesting a report explaining if and how the company is measuring its use of pesticides that cause harm to human health and the environment in its agricultural supply chains. Archer-Daniels-Midland does not currently provide targets on pesticide use when many of their peers do. In instances where supply chain concerns could pose a material risk to a company, we prefer that companies be as transparent as possible in disclosing their processes and data around managing this risk. The proposal did not pass, and we will continue to encourage Archer-Daniels-Midland to disclose more information on how the company is managing supply chain risks around this topic.

COMPENSATION

ACUITY BRANDS, INC.

In January 2022, we chose to vote against a say-on-pay proposal due to the board's failure to respond adequately to 2021's failed say-on-pay vote. Additionally, portions of the compensation structure were not within our voting guidelines, which included retesting opportunities in the equity plan—a practice that we discourage. We will continue to engage with Acuity Brands regarding their compensation structure and will vote accordingly in future periods.

HEWLETT PACKARD ENTERPRISE COMPANY

In April 2022, we voted against a say-on-pay proposal due to the structure of the long-term incentive plan, which was 50% performance-based equity and 50% time-based equity. For companies with a market cap of this size, we prefer to see the long-term incentive plan be at least two-third's performance-based. We will continue to engage with Hewlett Packard on this topic and urge them to move toward a more performance-based long-term equity plan.

GOVERNANCE

DAILY JOURNAL CORPORATION

In February 2022, we voted against members of the Audit Committee for failure to ensure successful, timely remediation of material weaknesses that have been occurring since 2017. We hold the audit committee responsible for oversight of material weaknesses in a company's financial reporting, as we depend on this information to be accurate.

D.R. HORTON, INC.

In January 2022, we chose to vote against the chair of the nominating and governance committee due the total aggregate board tenure reaching our threshold. We believe the nominating and governance chairperson is responsible for ensuring a well-balanced board, which includes balanced tenure.

ABBOTT LABORATORIES

In April 2022, we supported a shareholder proposal asking the board to amend the governing documents to reduce the ownership threshold required for shareholders to call a special meeting from 20% to 10%. For a company with a market-cap size like Abbott, we prefer to see this percentage around 10%. Although the proposal did not pass, it did receive more than 45% support. We believe the right to call a special meeting is an important tool for shareholders and will continue to engage with Abbott about lowering their ownership threshold.

PACCAR INC.

In April 2022, we voted against the chair of the audit committee as the board did not include ratification of the auditor as a votable agenda item. We believe shareholders should be afforded the ability to review and ratify a company's auditor to ensure transparency on all levels.

ENGAGEMENT

PRECISION WITH PURPOSE

Corporate engagement is an integral component of the value we aim to offer our clients. In our view, responsible, engaged stewardship involves structured, purposeful discussions with companies and issuers on behalf of investors in order to protect and enhance long-term shareholder value. Our stewardship activities can include, but are not limited to, issuer engagement, voting at shareholder meetings, filing shareholder resolutions and proposals, direct roles on investee boards and board committees, negotiation with and monitoring of the stewardship actions of suppliers in the investment chain, policymaker engagement, engagement with standard setters, contributions to public goods (e.g., research) and public discourse (e.g., media) that support stewardship. Mellon Proxy Committee members recognize the significance of their role and the ensuing impact. Our meetings with executive management teams help us appreciate the complexities of each company. A deeper understanding of a company's business practices enables us to convey our expectations more effectively, voice our concerns, and suggest improvements.

The Proxy Committee partners with Mellon's senior professionals and the BNY Mellon Proxy Voting and Governance Research (PVGR) team to widen the scope of discussion topics with management teams, allowing for the proactive examination of company-specific matters beyond compensation. Whether the concern is sustainability targets, board diversity or compensation, our clients' best interests remain our top priority. Now, more than ever, we must hold boards and management teams accountable to ensure their strength, purpose, and resilience.

GENERAL MOTORS COMPANY

We met with representatives of General Motors (GM) in February 2022, including the Chief Executive Officer and the Lead Director. We have engaged with General Motors annually over the past eight years, with a continued focus on business strategy and human capital management.

COMPENSATION

Consistent with the board's strategy, the compensation committee decided to modify the long-term incentive plan by including electric vehicle (EV) measures, which is consistent with management's strategy. Twenty percent of the long-term incentive plan will be tied to EV goals, with forty percent linked to financial measures, and forty percent tied to shareholder return. GM believes this strategy is consistent with its longer-term business goals. The short-term plan encompasses strategic and financial goals, which include goals tied to environmental and social measures.

HUMAN CAPITAL MANAGEMENT

Talent is extremely important at GM, and significant time and energy has been put into creating an inclusive environment at all levels. Attracting talent is always a focus, but retention is an equally important focus. Compensation and recognition of employees is an important aspect of retention. GM hires a third party to conduct a census every two years to get feedback from employees on inclusion and engagement. Additional employee training structures are being put in place across the company, as well as a senior executive who is dedicated to understanding and identifying what training is most important for a transitioning workforce.

SUSTAINABILITY

The GM board views ESG matters as fundamental and integral to their strategy. There is a clear designation of roles for ESG oversight, and the board must monitor ESG concerns with specific responsibilities assigned to each committee. For example, the audit committee oversees the safeguards on all aspects of ESG, and the compensation committee continues to review how they could incorporate ESG-related metrics into the compensation program.

CONSOLIDATED EDISON, INC.

We met with representatives of Consolidated Edison, Inc. (Con Edison) in March 2022, including the Chief Financial Officer, Corporate Secretary, Treasurer and the VP for Environment, Health & Safety.

HUMAN CAPITAL MANAGEMENT

With an enhanced focus on diversity, equity, and inclusion (DEI), Con Edison enacted a 14-Point DEI action plan, which is supported by their newly created diversity and inclusion (D&I) Task Force. Their recruitment team worked with partners to provide more career fairs and career counselling to over 300 employment seekers through eight partners. They also partnered with Non-traditional Employment for Women (NEW) and Nassau County Community College's Utility Readiness for Gaining Employment to assist women in obtaining more jobs in the male-dominated industry.

Con Edison has provided a breakdown of the share of promotion for people of color (POC) and women since 2009 and disclose diversity aspects of their total workforce in terms of management, union, POC, women, general managers, etc.

SUSTAINABILITY

Con Edison reports their sustainability efforts under the Sustainability Accounting Standards Board (SASB) framework, the Carbon Disclosure Project (CDP) framework and the Task Force on Climate-related Financial Disclosures (TCFD) framework. Year-over-year scope 1, 2 and 3 emissions have been consistently reported over the past 15 years. Con Edison has stated their goal publicly of achieving 100% clean electricity by 2040 and 70% renewable electricity by 2030. There is also a focus on electric vehicles (EV) as Con Edison launched a program in 2020 to provide widespread and visible charging stations across a diverse set of locations in their service areas. They also launched a pilot incentive program to support electrification of larger fleet vehicles (e.g., school buses, transit buses, delivery trucks). Con Edison has an internal goal of 100% small vehicle fleet EV adoption by 2040.

HASBRO, INC.

In February 2022, we met with representatives of Hasbro, Inc., including the Chief Purpose Officer, VP of Investor Relations and the SVP of Total Rewards.

COMPENSATION

Having recently lost their CEO to cancer, Hasbro was undertaking how best to structure their CEO pay disclosure, making clear which portion of the compensation was disbursed to the interim CEO and which portion was slated for the newly appointed CEO who started at the end of February 2022. Due to the CEO transition period, the long-term incentive plan was temporarily moving to a fifty percent performance, fifty percent time-based structure. This will only be in place for one year, at which point the long-term incentive plan will transition back to being 100% performance based. Additionally, Hasbro added a DEI modifier into their annual incentive plan and will monitor how the inclusion of this metric develops over time.

GOVERNANCE

Hasbro does not currently offer shareholders the right to call a special meeting. The ability to call a special meeting is an important shareholder right and we discussed what thresholds we would like to see adopted at Hasbro and encouraged them to adopt this right in the future.

SUSTAINABILITY

Hasbro currently publishes stand-alone reports on a variety of sustainability topics, versus one comprehensive report annually. They are currently re-evaluating if a full report on an annual basis is something their investors and other stakeholders would value. Hasbro recently signed a commitment to the Science Based Targets initiative (SBTi) and will be providing more information on their targets and goals going forward. Hasbro also continues to make progress on their plastics journey, which aims to remove plastic from all packaging.

ABOUT MELLON

Mellon is a global leader in index management. Our dedication to precision and partnership goes beyond the benchmark. From 1983 to today, partnership with clients and precise execution drives our business. Mellon provides solutions to the world's most sophisticated investors designed to meet their unique challenges, proving that index investing requires an active mindset.

www.mellon.com

ENDNOTE

[1] Shareholder Proposals: Staff Legal Bulletin No. 14L (CF). November 3, 2021. U.S. Securities and Exchange Commission. Accessed at https://www.sec.gov/corpfin/staff-legal-bulletin-14l-shareholder-proposals#_ftn4 on August 17, 2022.

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For more market perspectives and insights from our teams, please visit www.mellon.com.