BNY MELLON | INVESTMENT MANAGEMENT

MELLON

40 YEARS OF INDEXING

PROXY VOTING REPORT

FALL 2023

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.

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.

Our third semi-annual voting report covering January to June 2023 focuses on vote rationales, showcasing the variety of topics Mellon voted on during the 2023 proxy season. We voted approximately 10,200 meetings globally comprising over 107,000 proposals.

You can locate a summary of our proxy voting guidelines and previous versions of our voting reports on our website: www.mellon.com.

JANUARY 1 – JUNE 30, 2023

BY THE NUMBERS

107,528

proposals

105,194

management proposals

2,334

shareholder proposals

10,200

meetings

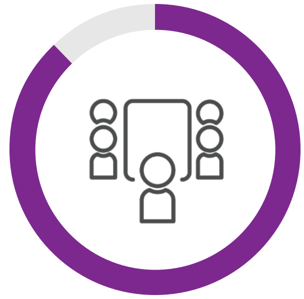
8,979

companies

63

countries

supported management on 86% of management proposals



supported management on 88% of director related proposals

opposed management on 21% of say-on-pay related proposals

supported 91% of governance related proposals

supported 61% of shareholder proposals

supported 83% of shareholder requests for independent chairperson

EXPECTATIONS

CYBERSECURITY DISCLOSURE RULES

The U.S. Securities and Exchange Commission (SEC) recently adopted rules on cybersecurity risk management, strategy, governance, and incident disclosure by public companies. How does this differ from companies' current disclosure practices?

Over the past decade, investors and other stakeholders alike have called on companies to voluntarily report on cybersecurity disclosures, including levels of board oversight, incident testing, and information on remediation plans and progress if a breach occurred. Many companies disclosed this information in their annual proxy statement, their environmental, social, and governance (ESG) report (or a similarly styled report), or both. The main difference is that this was not a required disclosure by the SEC.

Much of this voluntary disclosure came after high-profile incidents such as the Target Corporation data breach in 2013 and data breach at Equifax, Inc. in 2017.

What will companies now be required to report under the new regulations?

The new rules[1] require companies to report on Form 8-K any "cybersecurity incident they determine to be material and to describe the material aspects of the incident's nature, scope, and timing, as well as its material impact or reasonably likely material impact" on the company. The Form 8-K filing will generally be due four business days after the company determines that the incident is material. This will be effective the later of: December 18, 2023, or 90 days after Federal Register publication.

The new rules will add Item 106 to Regulation S-K, which will require companies to describe "their processes, if any, for assessing, identifying, and managing material risks from cybersecurity threats" and the material effects, or likely effects, of risks from such threats and previous incidents. Item 106 will also require companies to "describe the board of directors' oversight of risks from cybersecurity threats and management's role and expertise in assessing and managing" these risks. This will become effective December 15, 2023.

Smaller companies must comply with the incident disclosure requirement the later of June 15, 2024, or 270 days after Federal Register publication. The rules will also require comparable disclosures by foreign private issuers on Form 6-K for material cybersecurity incidents and on Form 20-F for cybersecurity risk management, strategy, and governance.

Will the new disclosure rules change how Mellon engages with companies on cybersecurity?

Mellon has consistently engaged with companies in all industries around their management of cybersecurity threats and prevention, including board oversight of the topic. We view cybersecurity to be an active and ongoing risk to all companies in all sectors.

The new disclosure rules will enable us to review the information in a consistent manner and track year-over-year improvements and enhancements. We will also be able to compare disclosures between industry peers, which will help us identify if there are any companies that are lagging. The disclosures will also provide us an opportunity to engage with different members of management and the board around the oversight of the prevention and reporting process.

JANUARY 1 – JUNE 30, 2023

PROXY VOTING
DECISIONS & RATIONALE

Our Proxy Committee has designed voting guidelines to assist with voting decisions to seek 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, considering 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 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. We carefully consider supporting proposals calling for increased disclosure surrounding emissions and waste reduction 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 that human capital matters. We encourage companies to have transparent disclosure related to workforce statistics, pay equity, and the health and safety of employees and customers to provide shareholders with a holistic view on how the company is managing their human capital risks. The Proxy Committee carefully considers supporting proposals that ask for improved transparency on human capital policies and procedures where it is deemed to be a material risk that could impact the long-term value of the company.

COMPENSATION

PROLOGIS, INC.

In May 2023, we voted against the Say-on-Pay proposal due to the structuring of the long-term incentive plan. Prologis utilizes multiple long-term incentive programs, which in some cases allow for more than one payout for achieving the same goals. We do not view multiple ongoing long-term incentive programs as best practice. Mellon will engage with Prologis to share our views and hear feedback received from other investors.

SIMON PROPERTY GROUP, INC.

In May 2023, we voted against the Say-on-Pay proposal due to the Compensation Committee's decision to award one-time, cash-based awards to the CEO and all named executive officers. Mellon will engage with Simon Property Group to request it move away from cash-based one-time awards in the future. Generally, we do not view one-time awards, specifically cash-based one-time awards, as best practice unless under extraordinary circumstances.

G-III APPAREL GROUP, LTD.

In June 2023, we voted against the Say-on-Pay proposal as we deemed the Compensation Committee's response to the failed 2022 Say-on-Pay vote as not adequately responsive. Although the company did disclose details around its shareholder outreach, we believe the lack of changes made to the program in response to investor feedback is a concerning practice. We will engage with the company going forward to understand the Compensation Committee's decision-making process.

AMERICAN EXPRESS COMPANY

In May 2023, we voted against a shareholder proposal requesting that the board seek shareholder approval of any senior manager's new or renewed severance package. We voted against the proposal as a severance plan is already in place that limits cash severance payments at a level under what is requested by the proposal.

GOVERNANCE

LENNAR CORPORATION

In April 2023, we supported a shareholder proposal requesting the board take the steps necessary to eventually enable all outstanding stock to have an equal one-vote per share. Mellon believes that shareholders should benefit from a one-vote per share capital structure in which voting interests are better aligned with economic interests. Mellon will continue to encourage Lennar to take these steps.

THE CIGNA GROUP

In April 2023, we supported a shareholder proposal requesting the board take the steps necessary to amend the appropriate company governing documents to give the owners of a combined 15% of outstanding common stock the power to call a special shareholder meeting. The Cigna Group's current shareholder meeting right is at a 25% threshold, which Mellon deems as too high for the market cap of the company. We believe the right to call a special meeting at a reasonable threshold is an important tool for shareholders and will continue to engage with Cigna about lowering their threshold.

PAYCOM SOFTWARE, INC.

In May 2023, we supported a shareholder proposal requesting the board amend the policies, articles of incorporation, and/or bylaws to provide that director nominees be elected by the affirmative vote of the majority of votes cast, with a plurality vote standard retained for contested director elections. Mellon favors a majority vote standard, with a plurality carveout for contested elections. We were encouraged that the proposal passed and will be monitoring the changes.

COLGATE-PALMOLIVE COMPANY

In May 2023, we voted against the chair of the Governance Committee as the board amended the company's bylaws to add a forum selection clause designating courts in the state of Delaware as the sole and exclusive forum for certain legal actions against the company. We generally believe that state-specific forum selection clauses are not in shareholders' best interest.

MOTOROLA SOLUTIONS, INC.

In May 2023, we voted against a director that we deemed to be overboarded, which we define as membership by a non-executive director on more than five public company boards. We believe that overboarded directors are potentially diminishing their responsibility to effectively serve the company. We will continue to encourage the company to monitor their director commitments in the future.

ENVIRONMENTAL & SOCIAL

THE BOEING COMPANY

In April 2023, we voted against a shareholder proposal requesting that the board annually conduct an evaluation and issue a report on how its direct and indirect lobbying activities align with the goals of the Paris Climate Agreement. We believe that the board has sufficiently disclosed information regarding this topic in its response to the Carbon Disclosure Project (CDP), where the company provides information concerning its lobbying efforts on policies, laws, and regulations that may impact climate.

WALMART INC.

In May 2023, we voted against a shareholder proposal requesting the company conduct a third-party, independent racial equity audit analyzing Walmart's adverse impacts on Black, Indigenous and People of Color (BIPOC) communities, and to provide recommendations for improving the company's racial equity impact. We did not support the proposal based on the company's current disclosures; we believe that Walmart is already making concerted efforts internally to address this topic.

STRYKER CORPORATION

In May 2023, we supported a shareholder proposal requesting the company provide a report, updated semiannually, disclosing its political activities and expenditures. Stryker is lagging peers in disclosing this information and is in the bottom tier of the 2022 CPA-Zicklin Index of Corporate Political Disclosure and Accountability. Based on this information, we believe supporting a precatory proposal to increase disclosure in this area was warranted. We will continue to encourage Stryker to expand its disclosures through engagement with the company.

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 to seek 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.

MORNINGSTAR, INC.

We met with representatives from Morningstar, Inc. (MORN) in March 2023, including the Director of Investor Relations and the Deputy Chief Legal Counsel and Corporate Secretary.

COMPENSATION

At the 2022 shareholder meeting, we supported the Say-on-Pay proposal. Mellon prefers to see a majority performance-based long-term incentive plan (LTIP) structure, and we note that Morningstar has been increasing its performance-based aspect of the LTIP in 2022 and 2023. We also continue to monitor the legacy arrangement with CEO Kapoor, which provides for annual equity grants.

BOARD GOVERNANCE

Mellon didn't support a number of directors due to pledging concerns. When reviewing share pledging considerations, Mellon looks for a structured and transparent approach around the company's pledging policy. Mellon reviews a number of items when looking at share pledging, including the percentage of common shares outstanding and the number of days it takes to unwind pledged shares based on average daily trading volume. The company stated in August 2023 that it will disclose new guidelines regarding restrictions on pledging from their audit committee.

BOARD REFRESHMENT

We reviewed our board tenure policy with the company, in which we take an average tenure approach, and any board with an average tenure of 12 years or higher is reviewed with greater scrutiny. If a director owns more than 1% of outstanding shares, that director's tenure is removed from the average calculation. The company's current average board tenure is at nine years, when the founder's tenure is subtracted. Morningstar stated that it has onboarded four new directors in the previous five years. We recommended that the company enhance its disclosures by providing board skills utilizing a matrix with skillset definitions.

HUMAN CAPITAL MANAGEMENT

We inquired about the company's practices in recruiting a workforce that exhibits diversity of background and skillsets. Morningstar informed us that there would be enhanced disclosure in its 2023 sustainability report. The company inquired as to how Mellon assesses recruitment practices. We stated focus on the transparency of the disclosure versus requiring the company to apply specific processes.

OGE ENERGY CORP.

We met with representatives from OGE Energy Corp. (OGE) in March 2023, including members of Investor Relations and the General Counsel's office.

BOARD GOVERNANCE

OGE reviewed with Mellon its addition of a new board member who joined in January 2023, who OGE believes will be a great addition due to her skillset and her grasp on OGE's community perception in the local area where OGE primarily operates. Mellon suggested incorporating a definition section into the board skills matrix, making it clear how the company views each skill and to prevent misinterpretation. OGE inquired about Mellon's thoughts on labeling board members as experts in key areas, such as human resources or technology. We noted that we are not prescriptive in regard to the skills matrix.

GOVERNANCE

Mellon informed the company that for a company of its size, we would prefer to have the right to call a special meeting at a 25% threshold, and inquired as to whether this is something the board may be considering for the future. The company stated that it has discussed this, but due to the challenges around its 80% vote standard for bylaw and charter amendments, it would be difficult to reach the required number of votes.

COMPENSATION

Beginning this year, OGE added an environmental compliance goal into its compensation program, which includes a safety component, and revolves around the number of events and severity of events, including spills, notices, and violations. OGE believes these are events in which every employee has a role to play. The company noted that it has good outcomes in these areas but wants to be diligent on environmental compliance, nonetheless. Mellon stated that the inclusion of ESG metrics was clearly intentional and aligned with critical organizational goals, which illustrates a well thought out process and implementation of the program.

HUMAN CAPITAL MANAGEMENT

Mellon inquired as to how OGE markets member resource groups (MRGs) to field-level employees. OGE described that each group is member-led, originated by employees. They post information on an intranet site, and most of the events are around volunteerism. Every employee receives two days for volunteerism annually and recently, OGE collaborated with another group on river cleanup efforts. It is planning on starting two new MRGs in the near future. The company stated that MRGs are allowing individuals to explore new leadership opportunities, which is a positive outcome of the program. Mellon views groups such as MRGs to be beneficial to the employee attraction and retention process.

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.

Endnotes

[1] SEC Adopts Rules on Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure by Public Companies, Press Release, https://www.sec.gov/news/press-release/2023-139.

Disclosure

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