PARAMETRIC

2022 Parametric Stewardship Report

At Parametric we believe that most capital markets are highly efficient, and risk control, diversification, and careful cost management can make or break investment success. This long-term view motivates our efforts to encourage corporate governance best practices that benefit shareholders while continuing to deliver strong returns for underlying strategies. As a fiduciary, we encourage companies to provide greater transparency on environmental, social, and governance (ESG) issues and to rectify clear lapses in board oversight, rather than seeking out or avoiding companies based on perceived mispricing.

To accomplish these goals, we directly and collectively engage with companies on select issues and vote at their shareholder meetings. Clients with approximately $147 billion in equity assets as of June 30, 2022, trust Parametric to represent their interests through our investment stewardship activities. This report summarizes how Parametric engaged with companies in 2022 and voted on behalf of our clients for shareholder meetings that took place from July 1, 2021, through June 30, 2022.

Engagement

Parametric engages companies on behalf of clients who have a wide variety of missions and values. We engage on ESG issues where we believe we can have a positive impact on long-term financial performance and society at large. We reached out to 151 companies in 2022 on four issues: **climate change**, **human trafficking**, **board diversity**, and **workforce diversity disclosure**. In many of the discussions that ensued, we described the broader corporate governance best practices embedded in our proxy voting guidelines and requested companies take specific actions to improve their practice.

Climate change

Parametric became a signatory of Climate Action 100+ (CA100+) in December 2021. We did this to expand and align our engagement activities with our strong climate proxy voting record, as well as to comprehensively address climate change as a financially material investment and existential societal issue. CA100+ signatories engage with more than 160 of the world's largest publicly traded greenhouse gas (GHG) emitters to reduce and report on their GHG emissions.

We joined several asset managers, owners, and climate expert signatories in their fifth year of working with one of 34 electric utility companies engaged by CA100+. The company is ranked in the top half of the 34 whose coal and gas production plans are aligned with the International Energy Agency's interim 2026 Net Zero assessment. The assessment requires companies to raise funds by 2026 to complete a portfolio of projects demonstrating technology that can contribute to net zero emissions by 2030. Unfortunately, the overall production of this electric utility and the other 33 isn't aligned with the assessment. The utility company still has more work to do to redirect its capital spending beyond coal and gas to lower-emission-generating technology.

Encouragingly, Parametric's last three engagement meetings included many executives from the companies we were engaging with, the CEO, and an independent board member, demonstrating the attention they're paying to GHG emissions and our engagement objectives.

Human trafficking

Human trafficking has become one of the most frequently used ESG screens among Parametric clients in recent years. Governments have paid increased attention to human trafficking, with California, the UK, and Australia passing laws requiring additional company and investor disclosure on the broader issue of modern slavery.

We began our human trafficking engagement in 2021 when we reached out to 11 Russell 3000 companies that failed our proprietary human trafficking screen, seeking to address child labor, dangerous work, and forced labor controversies. We expanded our engagement in 2022 to include MSCI EAFE companies that failed our screen.

Our goal in these engagements is to better understand company policies, procedures, resources, accountability, and reporting regarding human trafficking in company operations and their supply chains. We asked each company to report both qualitative and quantitative information on this issue, preferably using Sustainability Accounting Standards Board (SASB) standards, or to explain why reporting different information is more useful to investors. The 11 companies with whom we met were each at a different point in their journey, and all were receptive to discussing their efforts to address the issue.

Human trafficking has become one of the **most frequently used ESG screens** among Parametric clients in recent years.

CASE STUDY

Combating child labor in the cocoa supply chain

We engaged with five companies that manufacture confections made from cocoa sourced from family and third-party farms in some of the poorest areas of the world. Children regularly work on these farms rather than going to school, or if there is a school to attend, they often also perform substantial work after school. Poverty, lack of schools, and a different view of child labor result in the systemic problem of child labor on cocoa farms. All the companies we met with recognize the systemic issue of child labor in their supply chains, acknowledge that thousands of children farm cocoa that goes into their products, and have committed various levels of people, dollars, and programs to address this issue.

We gathered information in 2021 and 2022 that enabled us to better understand the different approaches, resources, commitments, and reporting around child labor in the cocoa supply chain. Parametric plans to develop a list of best practices against which we'll measure these companies in 2023 at our next engagement meetings. Given the systemic nature of child labor, we expect that this engagement will last at least another five years. We hope that engagement from Parametric and others will accelerate and increase the effectiveness of the laggards and leaders alike in addressing child labor in their supply chains.

CASE STUDY

Protecting the rights of Uyghur and other supply chain workers

In 2021 we engaged with a global footwear company with significant supply chain operations in the Xinjiang region of China. A major supplier has been accused of employing Uyghur labor that is widely regarded by human rights organizations, investors, and the US government as being forced or slave labor.

The company was hesitant to acknowledge that more significant action was needed to effectively track, monitor, and report on its supply chain in our 2021 meeting. It demonstrated a significant turnaround in our 2022 meeting. Since 2021 the company has established a whistleblower program using third-party technology; filed their first UK Modern Slavery statement; indicated it'll likely report supply chain metrics in 2023 using SASB or GRI standards; established detailed policies and procedures to uncover forced labor in its supply chain; and hired an advisor to help the company better address forced labor risks. Though other investors likely engaged with the company on forced labor, we believe our engagement impacted the company's attention to this important issue.

Board diversity

Parametric and our clients care about effective corporate governance. We believe the skills required to successfully lead companies are distributed widely throughout the population. We don't believe characteristics such as skin color, gender, religious views, economic background, sexual orientation, or disability determine an individual's ability to lead a company. Although we understand diversity of thought and skill can't and shouldn't be measured by these types of characteristics, the absence of diverse board representation may signal a need for improved recruitment and retention practices.

Parametric wrote letters to the boards and nominating chairs of 144 Russell 3000 companies in 2020 that had no women on the board. We continued this initiative in 2021, writing letters to the 42 Russell 3000 companies that still had no women on their board. Our push for board diversity continued in 2022, when we sent letters to the remaining 27 companies from our original 2020 engagement that still didn't have women on their board. In each of these three years, we explained that we were voting against the chair of the nominating committee due to a lack of board gender diversity. Though the average Russell 3000 company board is composed of 28% women, up from 26% in 2021, more work clearly needs to be done in this area.[1]

During our engagement meetings we also asked companies to strive for greater board diversity in race, ethnicity, sexual orientation, age, religion, and able-bodiedness. Though board member data beyond gender is still evolving, there are indications that there is limited diversity in these categories among board members. For example, none of the more than 27,000 Russell 3000 directors publicly identify as transgender or nonbinary, while one to two million US adults identify as such.[2] We're optimistic that the recent NASDAQ comply-or-explain rule will likely drive further diverse board member recruiting and board diversity.

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1 50/50 Women on Boards. *Q2 2022 GDI Annual Report*. October 2022.

2 Jody L. Herman, Andrew R. Flores, Kathryn K. O'Neill, "How Many Adults and Youth Identify as Transgender in the United States?," Williams Institute, June 2022. Bianca D.M. Wilson and Ilan H. Meyer, "Nonbinary LGBTQ Adults in the United States," Williams Institute, June 2021.

Workforce diversity disclosure

Companies with at least 100 US employees are required to provide the Equal Employment Opportunity Commission (EEOC) with annual US-based employee data by job category, race, and gender, known altogether as EEO-1. Disclosure of this data better enables shareholders to measure, compare, and engage with companies on diversity. Because EEO-1 data is already reported annually to the EEOC, this data is relatively easy and inexpensive to report.

We continued our initial 2021 push in 2022 for workforce diversity disclosures by reaching out to 100 S&P 500® companies that don't disclose EEO-1 data. Our targeted conversations with a subset of these companies included EEO-1 disclosure; board diversity; corporate executive diversity; diversity, equity, and inclusion (DEI) programs; and pay equity. Through these conversations, we hope to influence companies to disclose EEO-1 data and increase board, corporate, and workforce diversity.

While current employee categories may not be ideal, standardized reporting allows for more accurate workforce diversity comparison among companies. We believe the disclosure of EEO-1 data is low-hanging fruit along a path to more decision-useful disclosures. There was a slow uptake when investors started asking for EEO-1 data in 2010. Now more than 50% of S&P 500® companies disclose this data, with more than 100 S&P 500® companies starting to disclose it in 2022.

Disclosure of this data better enables shareholders to **measure, compare, and engage with companies on diversity**.

CASE STUDY

Making the case for EEO-1 data disclosure

We engaged with a global medical device and software company to disclose EEO-1 data. The company hasn't disclosed EEO-1 data, in part because it believes such disclosure may make it appear too US-centric, a concern we've heard from other companies with significant non-US operations. The company was also hesitant to be an outlier in disclosing EEO-1 data and preferred to wait for industry peer disclosure. We encouraged the company to disclose EEO-1 data and track and disclose diversity metrics in other markets in which it operates, or clearly explain that the US data doesn't reflect its non-US operations, rather than not report on its US operations. We expect to engage with the company again in 2023 if it doesn't disclose EEO-1 data.

CASE STUDY

Leadership change is driving renewed DEI reporting focus

We engaged with a global manufacturing company to disclose EEO-1 data. After a 2021 CEO change, the company noted a renewed focus on DEI practices, including leadership diversity targets. It expects near-term progress as executive search firms continue to offer excellent prospects. We noted we're pleased with the company's substantial 2030 company-wide leadership diversity targets: at least 40% women and at least 30% racial or ethnic minorities. However, the company doesn't disclose EEO-1 data. The company noted issues in EEO-1 data, including imperfect job classifications, that have discouraged it from disclosing the data in the past. We stressed that EEO-1 data is a reasonable first step in workforce diversity disclosure and that companies are welcome to expand on their disclosures. We expect to engage with the company again in 2023 if it doesn't disclose EEO-1 data.

Climate-risk reporting

Parametric submitted our second public comment letter to the SEC in 2022 supporting mandatory climate change disclosures for US-listed companies. While our 2021 letter explained our reasons for believing that mandatory climate change reporting is essential, our 2022 letter addressed what we view as the most critical aspects of the SEC's draft reporting requirements.

In our 2022 letter, we support SEC recommendations that require companies to:

- Disclose emission offsets separately to distinguish between operational and financed reductions
- Perform eXtensible Business Reporting Language (XBRL) data tagging—the next document evolution from paper to PDF, HTML, and now XBRL—to make GHG emission dates more discoverable by investors
- Report using the most widely agreed-upon climate-reporting framework, Task Force on Climate-Related Financial Disclosures (TCFD)
- Align GHG emissions reporting to financial reporting so emissions can be directly linked to financial results

To strengthen the SEC's detailed proposal, our letter recommends that:

- All companies report GHG emissions, given the extent of climate risks among companies and industries
- The SEC work with other securities regulators to develop uniform global climate-reporting standards
- Emissions from prior years are restated for acquisitions and divestitures—similar to financial statement requirements—so that trends aren't obscured

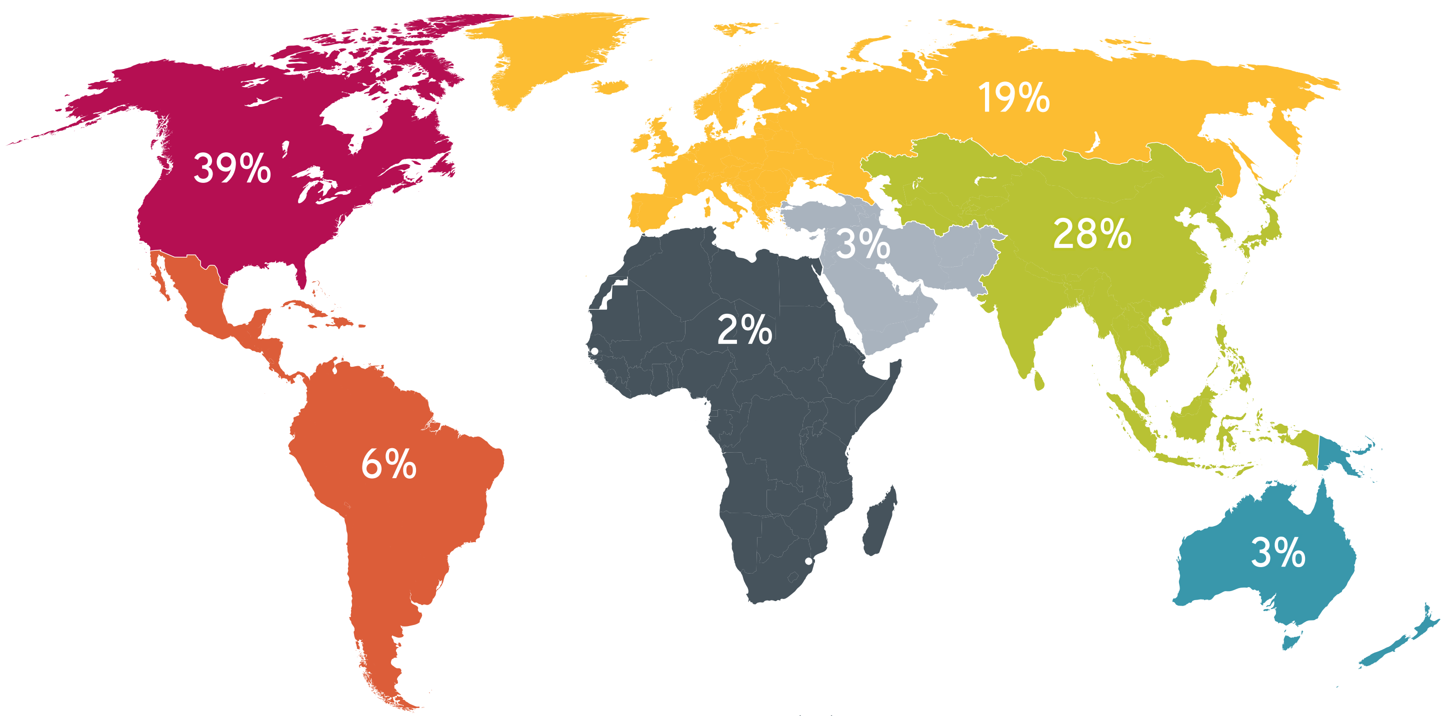
Proxy voting

Parametric's proxy voting policy supports proposals aligned with long-term shareholder returns and corporate disclosures. We believe that consistent, comparable, and quality corporate disclosure allows shareholders to make more informed investment decisions and enables companies to understand how their performance and corporate governance practices compare with that of their peers. We evolve our policy by considering credible new research published in academia and by corporate governance institutions, along with new shareholder proposal topics. Our proxy voting policy and guidelines reflect the Corporate Governance Principles published on our website.

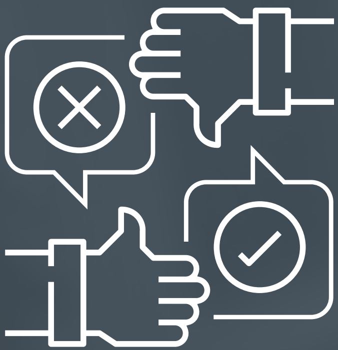
This section breaks down proxy voting by geography, global management proposals, US management proposals, US shareholder proposals, and non-US shareholder proposals.

Shareholder meetings by company location

Parametric voted at 10,438 shareholder meetings in 89 countries.



Source: Parametric, 6/30/2022.



Global management proposals

Parametric voted on 99,275 management proposals. The majority were director-related, one-quarter covered routine matters, and the remaining portion touched on compensation, capitalization, reorganization, and mergers. We supported management 76% of the time, but our support differed among regions, ranging from 62% for North American companies to 85% in Latin America, the Middle East, Africa, and Australasia.

Breakdown of proxy votes on 2022 management proposals

Region		Director-related	Routine business	Executive compensation	Capitalization	Reorganization and mergers	Total
North America	Proposals	24,181	3,651	4,089	222	727	32,870
	Votes against management	44%	8%	35%	15%	8%	38%
Asia	Proposals	12,091	8,232	3,297	3,396	601	27,617
	Votes against management	20%	7%	26%	20%	11%	17%
Europe	Proposals	12,077	6,402	1,224	2,183	2,581	24,467
	Votes against management	20%	9%	38%	16%	20%	18%
Other	Proposals	6,765	4,237	1,508	809	1,002	14,321
	Votes against management	19%	8%	19%	16%	8%	15%
Total	Proposals	55,114	22,522	10,118	6,610	4,911	99,275
	Votes against management	30%	8%	30%	18%	15%	24%

Source: Parametric, 6/30/2022.

US election of directors

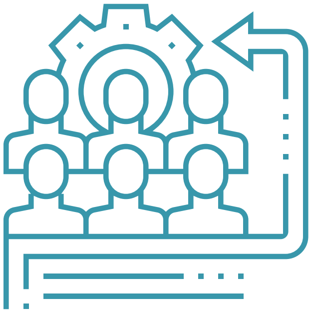
Director elections are the most common vote taken at corporate board meetings, accounting for more than half of all votes. We voted against management recommendations on 16,728 (30%) director elections in 2022, an increase from 2021 (26%) and 2020 (24%). Our voting guidelines—which emphasize director independence, competence, and responsiveness—largely drove our against and withheld votes.

Independence and overboarding

We consider directors to be non-independent if they've been on the board for more than 10 years or if they have certain relationships with the company. We vote against non-independent directors who sit on key board committees: audit, compensation, corporate governance, and nominating committees.

We also vote against directors who we believe may be unable to dedicate adequate time to the board, also known as overboarding, which we define as directors who serve on more than four boards and CEOs who serve on more than two boards.

Director elections are the most common vote taken at corporate board meetings, accounting **for more than half of all votes**.



Board diversity

We updated our policy in 2022 to withhold votes from the entire nominating committee at US company boards with insufficient gender and racial diversity. We define boards with fewer than 30% women and no ethnic or racial minority representation as being insufficiently diverse. This is an update from our 2021 voting policy, when we voted against only the chair of the nominating committee when the company board lacked sufficient diversity. We also encourage boards to strive for gender parity and racial equality. We ask them to acknowledge that there are more forms of diversity that boards should evaluate, including sexual orientation, able-bodiedness, age, and religion.

Since our board diversity policy update in 2021, when we withheld votes for the chair of the nominating committee at US companies with insufficient gender and racial diversity, US corporate board diversity has improved only marginally:

- Women represent 32% of S&P 500® directors versus 51% of the population
- Women of color represent 8% of S&P 500® directors versus 20% of the population
- People of color represent 22% of S&P 500® directors versus 42% of the population
- Native Americans represent 0.15% of S&P 500® directors versus 1.3% in the US population
- Hispanics/Latinos represent 5% of S&P 500® directors versus 18.5% in the US population[3]

3 Spencer Stewart, 2022 S&P 500® *Board Diversity Snapshot*, June 2022.

> We define boards with fewer than 30% women and no ethnic or racial minority representation as **being insufficiently diverse**.

Workforce diversity disclosure

We believe US companies should disclose EEO-1 workforce diversity data. EEO-1 data is easy and inexpensive to disclose given it's already collected and filed with the federal government. We started voting against the chairs of the boards at S&P 500® companies that don't disclose EEO-1 data in 2022, which resulted in votes against 200 directors. This policy change is aligned with the 2021 initiation of our EEO-1 data disclosure engagement initiative.

Executive compensation

Executive compensation continues to be a sensitive topic for investors and other stakeholders, particularly as the COVID-19 pandemic has disproportionately impacted lower-earning employees. Parametric voted against management's recommendations on 31% of compensation proposals, an increase from 29% last year. The most common reason we voted against compensation proposals was when we believed management granted excessive equity to executives. We also voted against executive compensation proposals due to a lack of disclosure around plan specifics, adverse incentives for plan administrators, or a lack of alignment with shareholder interests. Overall we support compensation plans that align the interests of executives with those of shareholders over the long term.

US shareholder proposals

Shareholder proposals in the US are a highly visible tool used to influence company behavior. We generally support shareholder proposals that request additional information on key business risks while being mindful of reporting costs. We consider climate change, human capital, and select social issues to be key business risks.

We supported 88% of 627 US shareholder proposals in 2022, in line with our level of support in 2021. The number of shareholder proposals increased 19% in 2022 as more proposals were filed and the proposal omission rate (the rate at which the SEC allows companies to omit a shareholder proposal from being presented on the ballot) decreased, in part due to a more shareholder-friendly SEC.[4] Average investor support for shareholder proposals decreased from 31% in 2021 to 27% in 2022.[5] Even with this decrease in average support, a historic 39 shareholder proposals received majority support, spread across many topics, companies, and sectors. Parametric voted in support of all 39 of these proposals.

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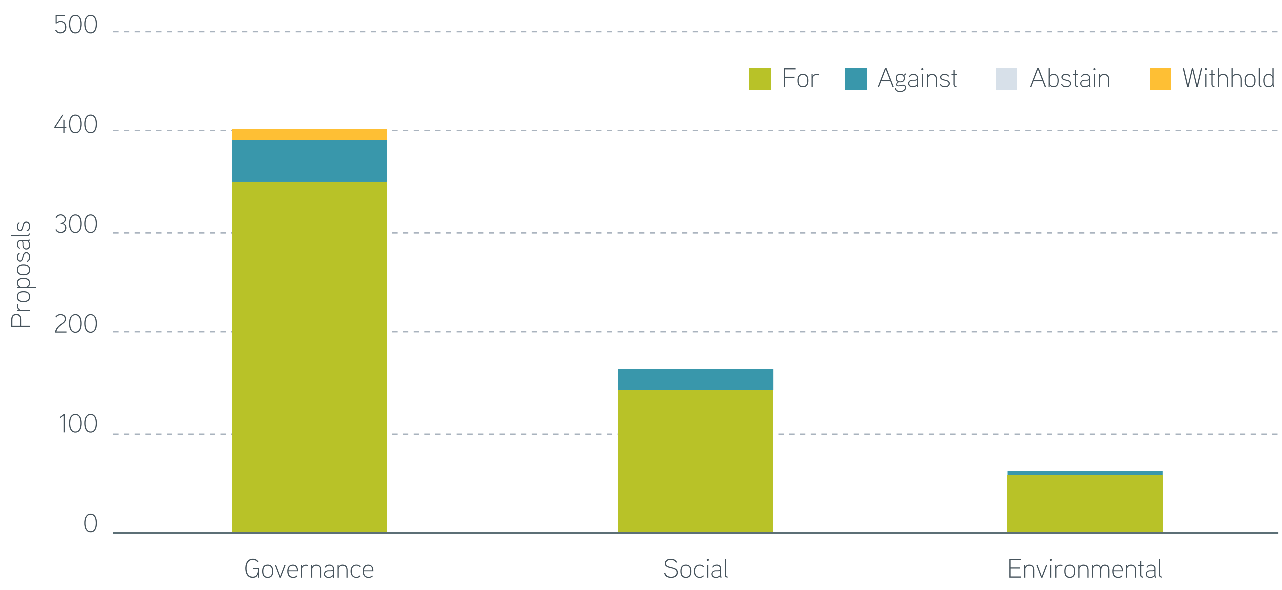
4 Brigid Rosati, Kilian Moote, Rajeev Kumar, and Michael Maiolo, *A Look Back at the 2022 Proxy Season*, Georgeson LLC, October 2022; and ISS Governance Research and Voting, October 2022.

5 Sustainable Investment Institute Engagement Monitor, July 2022.

US shareholder proposals by issue area



Source: Parametric, 6/30/2022.

Environment

Climate change continues to be the most popular topic among environmental shareholder proposals, representing about 75% of all US environmental shareholder proposals. Climate change proposals have also seen higher shareholder support in recent years, coinciding with increased heat waves, floods, and wildfires. Sixteen environmental shareholder proposals in the US received majority support this year, an increase from last year's record of nine.

Climate change

Climate change is a systemic risk that's financially material to companies in nearly every industry.[6] Managing climate risks and opportunities is therefore critical to the long-term sustainability of many businesses. Twenty-two US companies faced shareholder proposals in 2022 that asked the company to adopt or report on GHG emissions reduction targets that are science-based and aligned with the Paris Agreement. We believe adopting and reporting on GHG emissions targets will help these companies manage climate change risks and opportunities, so we supported all 22 proposals.

Fossil fuel financing and underwriting

2022 saw an unprecedented increase in proposals requesting financial and insurance institutions to report on their fossil fuel financing and underwriting activities. These proposals generally targeted members of the Net-Zero Banking Alliance, the United Nations Net Zero Insurance Alliance, and similar organizations whose fossil fuel financing or underwriting isn't aligned with their Net Zero commitments. Parametric supported all 12 climate financing and underwriting proposals, including voting with the majority on proposals at two major insurance companies.

Environmental risks

Parametric voted for all seven proposals requesting reports on sustainable packaging or plastics use in 2022. Proposals at a major fast-food chain, which requested that the company provide a report on how sustainable packaging can help the company's sustainability efforts, received majority support. Another proposal at an energy company requested a report on switching to recycled material instead of single-use plastics. We supported these seven proposals because improved sustainable packaging and plastic-related policies will help companies manage reputational and regulatory risks associated with plastics and packaging.

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6 SASB, *Climate Risk Technical Bulletin*, May 2022.

Social

Racial justice, human rights, and gender equality continue to be major US shareholder proposal themes, while COVID-19 vaccine proposals—an emerging theme—saw an increase from last year. Parametric supported the vast majority of social shareholder proposals, excluding a small number of anti-ESG proposals that advocated against company DEI plans. We believe managing social risks and opportunities is critical to the long-term sustainability of companies.

Racial justice

Twenty-six proposals requested that companies commission and publish a third-party civil rights or racial equity audit, a major increase from six proposals in 2021. These proposals requested reports on the potentially adverse effects of existing company policies and procedures on stakeholders, plus recommendations on how to improve companies' civil rights impacts. Parametric supported all 26 of these racial justice proposals, including eight that received majority support.

Human rights

Parametric supported 90% of the 21 human rights shareholder proposals submitted in 2022. Proposals we voted for typically requested reports on human rights due diligence or the human rights impact of products, services, or operations. We voted against two human rights proposals that targeted stakeholders outside of company supply chains, since this was outside of company control. We supported one proposal at a civilian firearms manufacturer that received majority support, which requested a third-party human rights impact assessment on company policies, practices, and products above and beyond legal and regulatory requirements.

We believe managing social risks and opportunities is critical to the **long-term sustainability of companies**.

Mandatory arbitration

Mandatory arbitration, which requires employees to arbitrate with their company outside of the court system, has become increasingly prevalent over the past three decades. More than half of the US workforce is subject to mandatory arbitration agreements, which are commonly associated with dampening accountability of company management on gender- and race-based harassment.[7] We supported all 10 proposals asking for more information on the risks associated with the use of mandatory arbitration and other concealment clauses, such as non-disclosure agreements, that can facilitate a company culture that prioritizes silence over accountability.

COVID-19 vaccines

Pharmaceutical companies have saved millions of lives with the rapid development and deployment of COVID-19 vaccines, whose patents, production, and distribution are closely held in major industrialized countries such as the US. Increased vaccine availability for people worldwide would significantly decrease the human and economic cost of the pandemic, including reducing the virus's ability to mutate into new variants. Parametric supported all six proposals requesting reports on the impacts of transferring vaccine intellectual property to less-wealthy countries in order to increase vaccine availability worldwide. We supported these proposals because minimizing the cost of the pandemic broadly benefits equity markets.

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7 Alexander Colvin, "The Growing Use of Mandatory Arbitration," Economic Policy Institute, September 2017.

Increased vaccine availability for people worldwide would **significantly decrease** the human and economic cost of the pandemic.

Governance

About two-thirds of all US shareholder proposals we voted on cover corporate governance topics, which include shareholder director nominations, board charter and bylaw amendments, written consent, political contributions and lobbying, and requirements for independent board chairs. We supported proposals that follow corporate governance best practices and improve the transparency and accountability of company governance.

Shareholder rights

Almost half of all US governance proposals we voted cover shareholder rights. Common proposals included lowering the ownership requirement to call special meetings, submitting change-in-control agreements to a shareholder vote, and reducing supermajority vote requirements to a simple majority. We're supportive of governance proposals broadly, but we didn't support proposals that were overly prescriptive or not aligned with corporate governance best practices. We supported 91% of shareholder rights proposals.

Political donations and lobbying

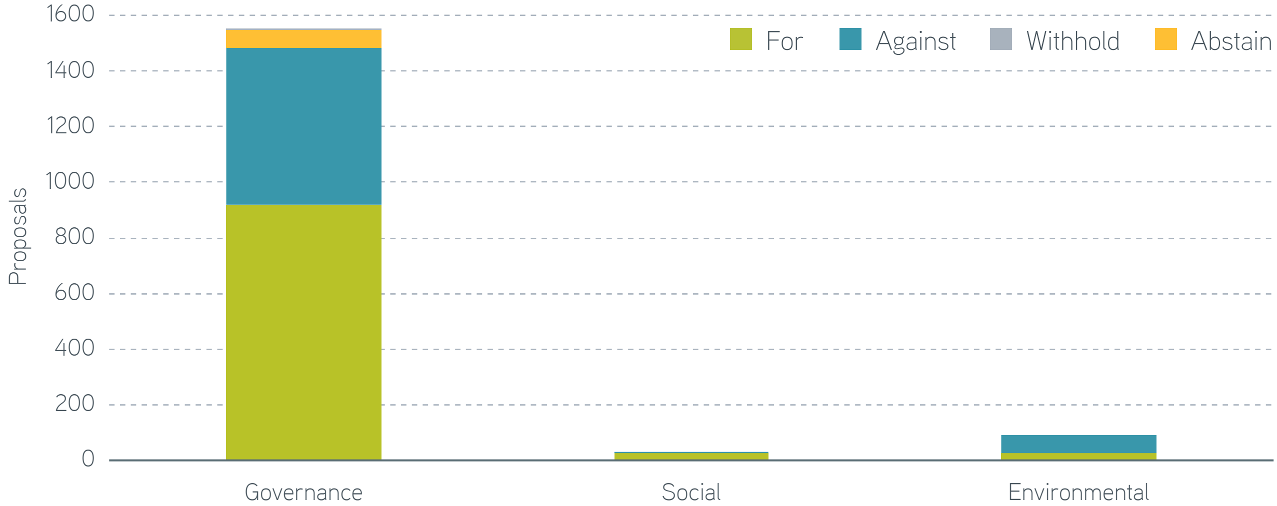
Parametric supported 96% of proposals asking for political donation or lobbying disclosures. We supported all six proposals that received majority support, four of which requested a report on lobbying and two of which requested a report on election spending. We supported these proposals because we believe poor disclosure of political contributions can lead to reputational risks.

> We supported proposals that follow corporate governance best practices and **improve the transparency and accountability** of company governance.

Non-US shareholder proposals

Shareholder proposals outside of the US are filed by different types of investors than in the US and typically cover less controversial topics. For example, while management only supported 10% of US shareholder proposals, management supported 40% of non-US market shareholder proposals. Additionally, some proposals outside of the US are binding and mandate company action, which warrants extra caution when supporting these proposals. Shareholder proposals outside the US are also skewed toward governance topics with a particular focus on directors. In fact, 90% of all non-US shareholder proposals addressed governance topics, and 40% of all proposals were on director elections. Parametric supported 55% of non-US shareholder proposals.

Non-US shareholder proposals by issue area



Source: Parametric, 6/30/2022.

Conclusion

In 2022, Parametric voted in 10,438 shareholder meetings and expanded our engagements to 151 companies through four engagement programs:

- Climate change
- Human trafficking
- Board diversity
- Workforce diversity disclosure

In 2023, we will continue to engage with companies on key issues to encourage better corporate governance and sustainable business practices that benefit shareholders. We believe a combination of proxy voting and targeted direct and collective shareholder engagement can help strengthen companies, protect shareholder capital, and benefit economies and communities.

Contact us

For more information regarding responsible investing, please contact your Parametric representative.

parametricportfolio.com

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An environmental, social, and governance (ESG) or responsible investing strategy limits the types and number of investment opportunities available to the investor, and as a result, the investor's portfolio may underperform other investment strategies that do not have an ESG focus. The ESG investment strategy may result in investments in securities or industry sectors that underperform the market as a whole or underperform other strategies that apply ESG standards. An issuer's ESG performance or the investment advisor's assessment of such performance may change over time, which could cause the investor to temporarily hold securities that do not comply with the investor's responsible investment criteria. In evaluating an investment, the investment advisor is dependent upon information and data that may be incomplete, inaccurate, or unavailable, which could adversely affect the analysis of the ESG factors relevant to a particular investment. Successful application of the investor's responsible investment strategy will depend on the investment advisor's skill in properly identifying and analyzing material ESG issues.

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