



March 2022

2021 Parametric Stewardship Report



At Parametric we believe 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 good corporate governance practices that benefit shareholders while continuing to deliver strong returns for underlying strategies. As a fiduciary, our starting point is to encourage companies to provide greater transparency around 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.

In order to accomplish these goals, we engage with companies and vote at their shareholder meetings. Clients with approximately \$167 billion in equity assets as of June 30, 2021, trust Parametric to represent their interests through our investment stewardship activities. This report summarizes how Parametric engaged with companies in 2021 and voted on behalf of our clients for shareholder meetings that took place from July 1, 2020, through June 30, 2021.

Engagement

Parametric engages companies on behalf of clients who have a wide variety of missions and values. We focus on ESG issues where we believe we can make a positive impact on long-term financial performance and society at large. We reached out to 103 companies in 2021 and exchanged views on human trafficking issues, board diversity, and workforce disclosure. In many of these discussions, we requested that companies take specific actions to improve their practices.



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 reached out to 11 Russell 3000 companies that fail our proprietary human trafficking screen, seeking to address company-specific controversies such as child labor and dangerous work.

Our goal was to better understand company policies, procedures, resources, accountability, and reporting regarding human trafficking in company operations and 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 companies that responded were each at a different point in their journey, with some clearly more receptive to the exchange of ideas than others.

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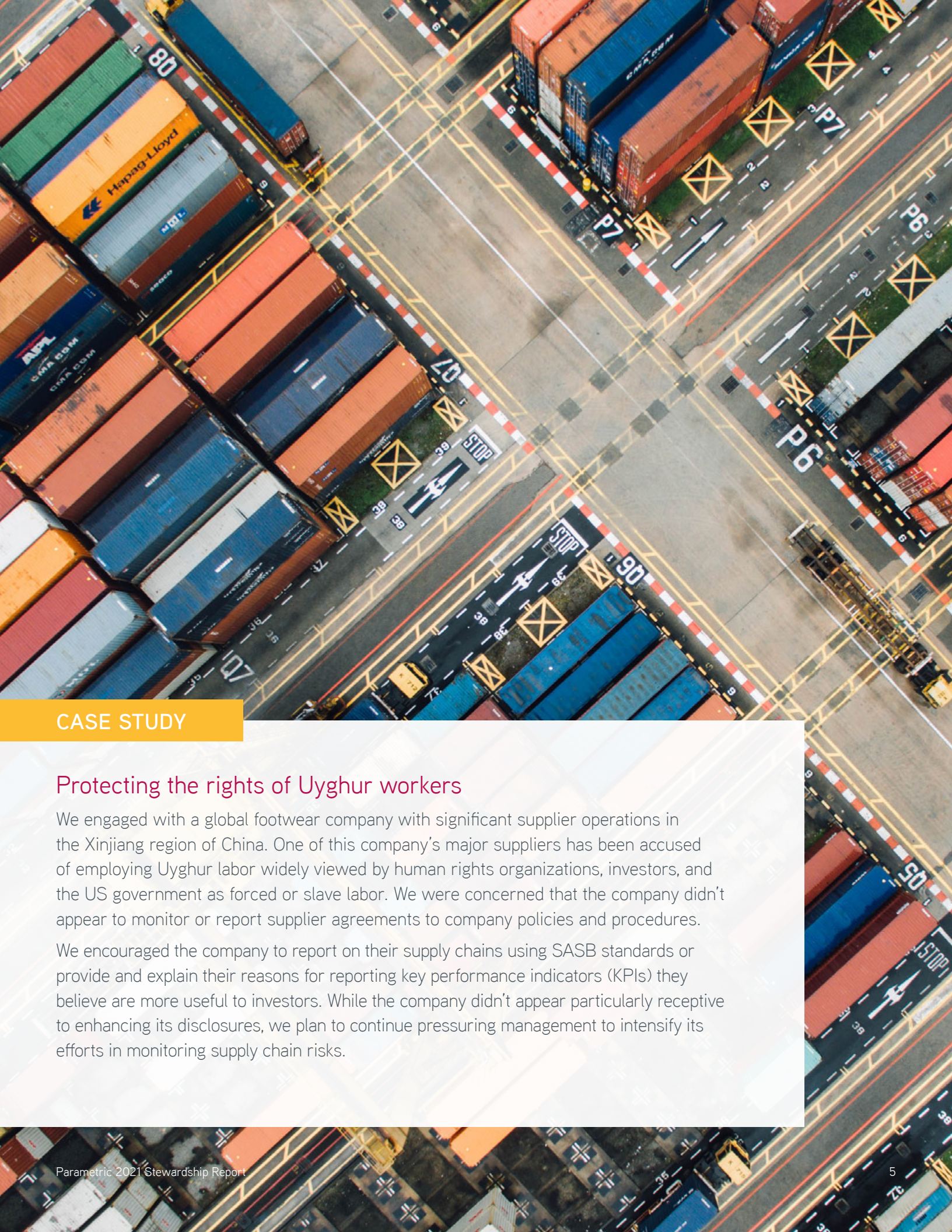


CASE STUDY

Combating forced labor across supply chains

A global household products company has long used a large Southeast Asian palm oil supplier alleged to use child and forced labor. Though the company discloses its standards and frameworks to the SASB, the Carbon Disclosure Project (CDP), and the Task Force on Climate-Related Financial Disclosure (TCFD), these allegations warranted our outreach. We were concerned that supplier monitoring appears to be more reactive than proactive and that third-party supply chain audits necessary to validate company statements appear inadequate. We also found that worker-complaint mechanisms seem insufficient, such as online complaint forms that are only available in English.

We encouraged the company to expand their SASB reporting to include supply chain labor standards. The company now plans to offer worker-complaint mechanisms in local languages, and they agreed to hold further discussions on these issues of increased reporting.



CASE STUDY

Protecting the rights of Uyghur workers

We engaged with a global footwear company with significant supplier operations in the Xinjiang region of China. One of this company's major suppliers has been accused of employing Uyghur labor widely viewed by human rights organizations, investors, and the US government as forced or slave labor. We were concerned that the company didn't appear to monitor or report supplier agreements to company policies and procedures.

We encouraged the company to report on their supply chains using SASB standards or provide and explain their reasons for reporting key performance indicators (KPIs) they believe are more useful to investors. While the company didn't appear particularly receptive to enhancing its disclosures, we plan to continue pressuring management to intensify its efforts in monitoring supply chain risks.



Diversity, equity, and inclusion

Parametric and our clients care about effective corporate governance. We believe the skills required to lead companies successfully 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 kinds of characteristics, the absence of diverse representation may signal a need for improved recruitment and retention practices.

In 2020 Parametric wrote letters to the boards and nominating chairs of 144 Russell 3000 companies that had no women on their boards. We explained that we were voting against the chairs of the nominating committees due to a lack of board gender diversity. We used this issue as a launchpad in our company meetings to discuss broader board composition and workforce diversity topics, such as racial and ethnic diversity, pay equity, and the impacts of COVID-19 on women and minorities. This campaign benefitted from pressure by other investors, as well as society's rising focus on diversity. By June 30, 2021, 102 of these companies had at least one woman on their board. Furthermore, the average gender diversity of corporate directors in the index was 26%, a [notable increase](#) from 23% as of June 30, 2020.

We also looked into company diversity below the board level. The Equal Employment Opportunity Commission (EEOC) requires companies with at least 100 US employees to provide US-based employee data by job category, race, and gender on an annual basis. We believe this data is helpful to shareholders looking to measure, compare, and engage with companies on diversity. Because companies already compile and report EEO-1 data, public disclosure of the data is easy and inexpensive.

We continued our push for board diversity in 2021 by sending 42 letters to the remaining Russell 3000 companies that still didn't have at least one woman on their board. We encourage all boards to strive for gender parity and greater ethnic and racial diversity.

CASE STUDY

Holding boards accountable for low diversity

We engaged with a small technology company with no women on their board. We discussed corporate governance best practices and encouraged the company to eliminate their dual-class voting rights and classified board structure. We discussed NASDAQ's forthcoming board-diversity rule, which requires the company to explain their lack of diversity among board members. Our recommendation to disclose EEO-1 data was new to the company, which was open to doing so.



CASE STUDY

Making the case for EEO-1 data disclosure

We asked a large US clothing manufacturer to disclose EEO-1 data, as well as their pay equity review process and board diversity policies. We also suggested that the board's nominating committee adopt a Rooney Rule, which requires at least one candidate of an underrepresented gender, race, or ethnicity to be considered for every director position. Though we were the first investor to engage the company on EEO-1, they agreed to disclose the data because of the ease of reporting and our explanation of its importance to investors.





Regulatory and industry body advocacy

Climate risk reporting

We submitted a public comment [letter](#) to the Securities and Exchange Commission (SEC) on June 7, 2021, in support of mandatory climate change disclosures for public companies listed in the US. Given the systemic nature of climate risk, which varies substantially among industries and companies, investors require, consistent, comparable, and high-quality corporate disclosure. We urged the SEC to adopt mandatory disclosure standards, specifically incorporating those developed by SASB, as well as the TCFD's climate-reporting framework. These guidelines are globally recognized and have the potential to lead decision-useful corporate disclosures.

ESG disclosures

We wrote a public comment letter to the CFA Institute regarding its proposed ESG disclosure standards for investment products. Parametric uses Principles for Responsible Investment (PRI) reporting framework nomenclature to describe our investment products. We urged the CFA Institute to do the same when revising its draft ESG disclosure standards. We believe precise, standardized, and readable language is the best way for investors to compare ESG products.

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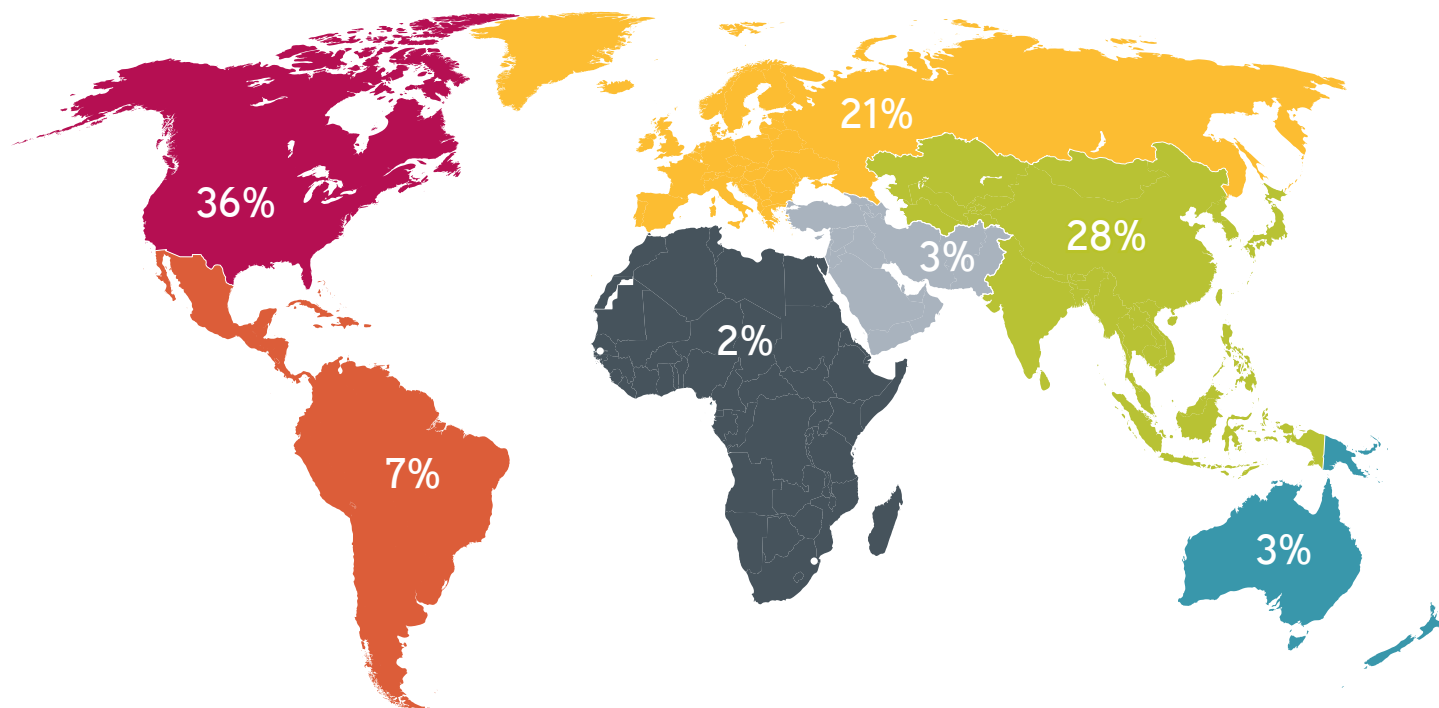
Proxy voting

Parametric's proxy voting policy supports proposals aligned with long-term shareholder returns and corporate disclosures. We believe consistent, comparable, and high-quality corporate disclosure allows shareholders to make more informed investment decisions and enables companies to understand how their performance compares with that of their peers. We closely follow proxy voting trends and evolve our policy as academic and corporate governance institutions publish new and credible research. Our proxy voting policy reflects the [corporate governance principles](#) published on our website.

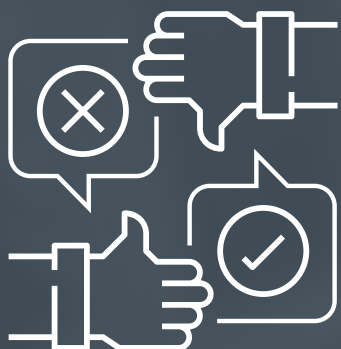
Parametric voted at 10,761 shareholder meetings in 86 countries. About one-third were for North American companies, one-quarter were for Asian companies, and one-fifth were for European companies.



Shareholder meetings by company location



Source: Parametric, 12/31/2021. For illustrative purposes only.



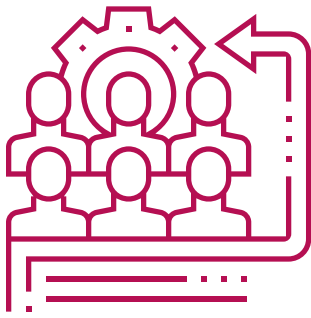
Management proposals

Parametric voted on 104,432 management proposals. The majority of these were director-related; one-quarter covered routine matters; and the remainder touched on compensation, capitalization, reorganization, and mergers. We supported management 79% of the time. Our support differed among regions, ranging from 66% at North American companies to 85% in Latin America, the Middle East, Africa, and Australasia.

Breakdown of proxy votes on 2021 management proposals

Region		Director-related	Routine business	Executive compensation	Capitalization	Reorganization and mergers	Total
North America	Proposals	22,884	3,523	4,045	214	561	31,227
	Votes against management	37%	15%	35%	9%	7%	34%
Asia	Proposals	13,174	6,402	1,147	2,681	2,251	25,655
	Votes against management	19%	10%	37%	12%	15%	16%
Europe	Proposals	14,145	9,636	3,855	3,837	732	32,205
	Votes against management	19%	7%	29%	21%	10%	16%
Other	Proposals	7,087	4,673	1,714	891	980	15,345
	Votes against management	18%	9%	22%	18%	8%	15%
Total	Proposals	57,290	24,234	10,761	7,623	4,524	104,432
	Votes against management	26%	9%	31%	17%	12%	21%

Source: Parametric, 12/31/2021. For illustrative purposes only.



Election of directors

We updated our proxy voting guidelines at the start of the 2021 proxy season to better address the substantial [demographic disconnect](#) between board representation and the US population. Only 30% of S&P 500® directors are women, and 21% are nonwhite. Though 2021 was a breakthrough year for Black directors, who were elected to one-third of all new S&P 500® director positions—up from 11% in 2020—other historically underrepresented groups saw little change. Native American and Hispanic/Latino directors have the [least representation](#) relative to their size in the US population, underrepresented by a factor of 17:1 and 4:1, respectively.

In accordance with our updated guidelines, we generally vote against the chairs of the nominating committees at US company boards that don't have any ethnic or racial diversity or at least 30% women. We voted against directors at 1,352 US companies in 2021 for these reasons. We encourage boards to strive for more gender and racial diversity and acknowledge that there are more forms of diversity boards should evaluate, including sexual orientation, able-bodiedness, age, and religion.

We voted against management recommendations on 26% of proposals related to director elections, an increase from 24% in 2020. We believe independence, competence, and responsiveness of directors is critical to company oversight. We therefore voted against directors in cases where there was a minority of independent directors on the board or when nonindependent directors were on the nominating, audit, or compensation committees. We also voted against a number of directors who sat on an excessive number of boards, concerned that directors could be spread too thin to work effectively, particularly in periods of crisis. Board composition continues to be one of Parametric's key stewardship focus areas.

Though **2021 was a breakthrough year for Black directors**, other underrepresented groups saw little change.

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.

We voted against compensation proposals when we believed management granted **excessive equity to executives.**

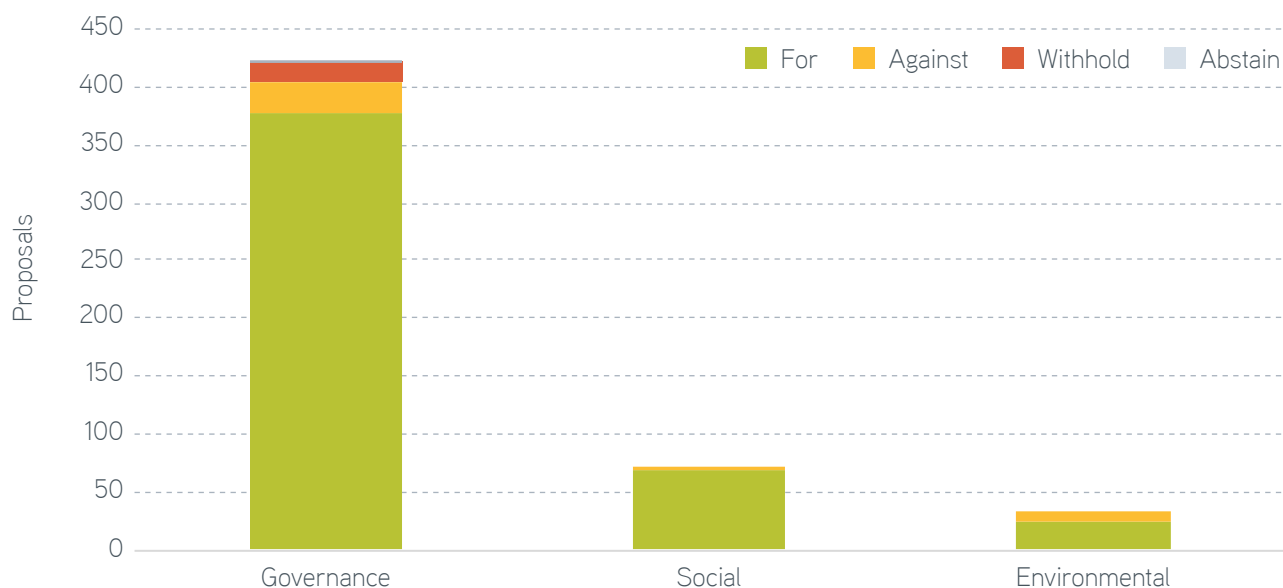


US shareholder proposals

Shareholder proposals in the US are a highly visible tool for shareholders to influence company behavior. We support shareholder proposals that ask for additional disclosure of key business risks while being mindful of reporting costs. We supported 90% of US shareholder proposals this year, up from 86% support in 2020.

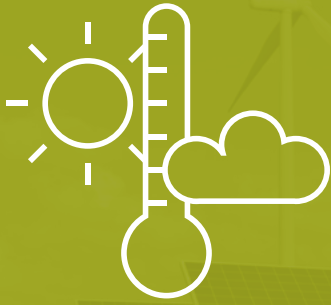
Investor support for shareholder proposals reached a [record-high average of 31%](#) in 2021, with 36 shareholder proposals receiving majority support, spread across many topics, companies, and sectors. As it happened, Parametric also voted in support of each of those 36 proposals.

US shareholder proposals by issue area



Source: Parametric, 12/31/2021. For illustrative purposes only.

Investor support for shareholder proposals reached a **record-high average of 31%** in 2021.



Environment

Climate change continues to be the most popular topic across environmental shareholder proposals. Climate change proposals have seen higher shareholder support that coincided with increased societal interest in climate due to recent heat waves, floods, and wildfires. Nine environmental shareholder proposals in the US received majority support this year, an increase from last year's record of five.

Deforestation

Deforestation has substantial negative impacts on climate change, biodiversity, and agricultural supply chains, lowering naturally sequestered carbon and increasing carbon emissions. Parametric supported deforestation proposals at three companies that asked for an assessment of how and when these companies will reduce their deforestation impact. All three received majority support. A similar shareholder deforestation proposal at one of these companies failed to attract majority support last year.

Carbon emissions

Investors have been raising the pressure on large greenhouse gas (GHG) emitters that haven't disclosed net-zero emissions plans aligned with the Paris Agreement. These plans target net-zero GHG emissions by 2050 or earlier to keep global warming to a maximum of 2°C above preindustrial levels. Proposals at two fossil fuel companies requested additional information on how the companies are reducing their carbon footprint in alignment with the Paris Agreement. We supported these along with the majority of shareholders. We believe this additional disclosure will help stakeholders track company and industry progress towards net-zero emissions.

We also supported a shareholder proposal at another fossil fuel company that asked for Scope 3 emission targets. Lower Scope 3 emissions—those generated by a company's suppliers and their customers when using their products—are necessary to achieve net-zero emissions and manage long-term risks. We see the proposal as reasonable, since it allows the company to determine appropriate targets and timing.

Investors have been **raising the pressure** on large emitters that haven't disclosed net-zero plans.



Social

The corporate world has seen a resurgence in public pressure concerning equity, accountability, and human rights. These themes, already present in shareholder resolutions over the past decade, have seen rising support over the past year. Like last year, we supported the vast majority of shareholder proposals on social topics, and we used our votes to push for better management of risks associated with board and workforce diversity.

Board diversity

While much progress has been made on board diversity, there's still work to be done. Proposals at three companies asked for reporting on efforts to increase board diversity. These proposals suggested implementing the Rooney Rule for board and executive positions; disclosing the gender, racial, and ethnic composition of the boards; and disclosing the company's diversity initiatives. We supported all three proposals, along with a majority of shareholders.

Diversity, equity, and inclusion (DEI)

In the aftermath of the murder of George Floyd in May 2020, citizens, investors, and employees put more pressure on companies to bolster existing DEI efforts. Proposals at eight companies—three of which earned majority support—asked for reports on the effectiveness of the companies' DEI programs and the metrics used to define success. We believe in the business case for diversity, and we favor greater transparency into how companies are diversifying their workforces and embedding DEI into recruitment, promotion, and retention. Our support of these proposals is in line with our work engaging companies on DEI issues, as well as Parametric's own DEI commitments.

In the aftermath of the murder of George Floyd, investors put more pressure on companies to **bolster DEI efforts.**



EEO-1

EEO-1 reports provide valuable quantitative data on company gender, ethnic, and racial diversity, yet fewer than a quarter of S&P 500® companies currently disclose this information to the public. We believe all companies with US operations should disclose EEO-1 data, allowing investors to use these low-cost standardized reports to compare diversity among companies. This year we supported all three proposals that asked companies to disclose their consolidated EEO-1 reports, two of which received majority support.

Racial equity audits

Shareholders filed resolutions at six major financial institutions requesting racial equity audits. Discriminatory practices when providing savings accounts, mortgage loans, and financial advice have contributed to inequality in wealth distribution. Racial equity audits highlight company contributions to these practices and outline steps to address them. These reports are intended to demonstrate a bank's progress on DEI issues and its ability to mitigate risks associated with poor DEI practices. Parametric supported all six of these shareholder resolutions.

Discriminatory banking practices have
contributed to inequality in wealth distribution.



Governance

Governance continues to be a focal point for shareholders, with 80% of all US shareholder proposals related to this theme. These proposals cover a number of areas, including shareholder director nominations, board charter and bylaw amendments, written consent, political contributions and lobbying, and requirements for independent board chairs.

Proxy contest

Effective management of climate change risks and opportunities is particularly critical to the long-term sustainability of oil and gas companies. Regulatory changes and the global transition to a low-carbon economy pose substantial cash-flow and asset-valuation risks to the sector's current business, as well as opportunities. Parametric voted for the three dissident directors who won seats on one major energy company's board through the proxy contest. This was the first time any company director lost a board seat specifically due to climate concerns. We believe these new directors are well suited to help the company navigate the transition to a low-carbon economy.

Shareholder rights

Almost one-third of all US shareholder proposals on governance topics addressed shareholder rights, including proposals providing the right to act by written consent and lowering the ownership threshold for calling special meetings. Strong shareholder rights are key to keeping directors accountable to shareholders. We supported shareholder rights proposals 97% of the time.

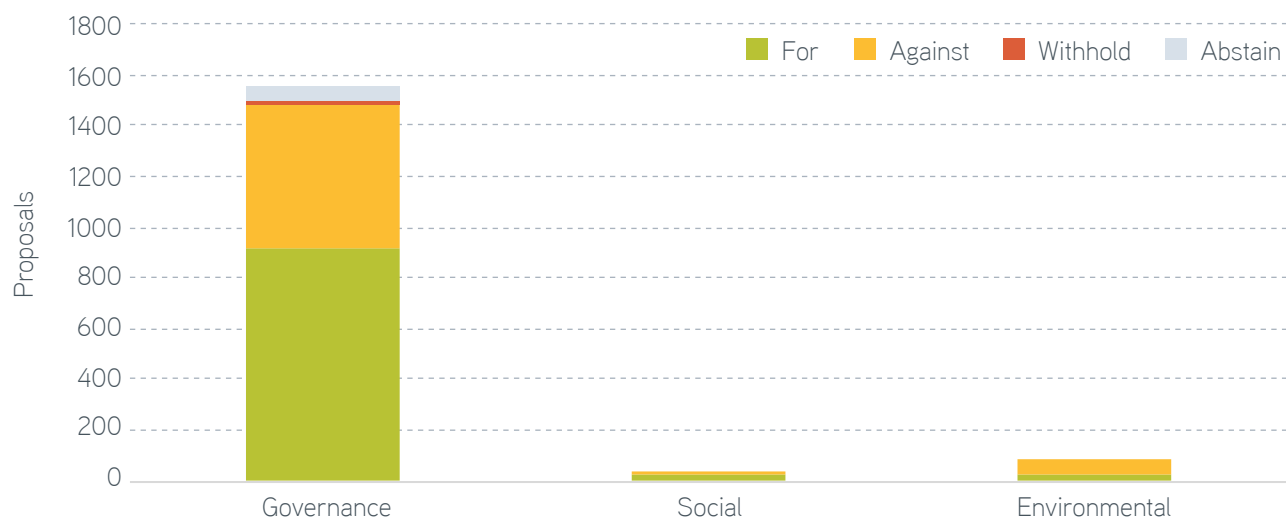
Political donations and lobbying

Proposals asking for political donation or lobbying disclosure remain among the most prolific and widely supported shareholder proposals. The January 6, 2021, riots at the US Capitol heightened attention to these proposals and brought the time-tested corporate approach of donating to "both sides of the aisle" into the limelight, resulting in many companies permanently or temporarily halting political donations. Parametric supported all 47 of this year's political donation and lobbying proposals, 14 of which received majority support. These proposals asked for additional reporting on lobbying payments, lobbying policy, and political contributions. We supported these proposals because we believe poor disclosure of political contributions can lead to reputational risks.

Non-US shareholder proposals

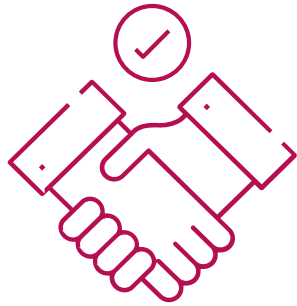
Different types of investors file shareholder proposals outside the US, which typically cover less controversial topics. For example, while it's rare for management to support a shareholder proposal at a US company, management at non-US companies supported shareholder proposals 41% of the time. Shareholder proposals outside the US are also skewed towards governance topics, with a particular focus on directors. In fact, 93% of all non-US shareholder proposals addressed governance topics, and 70% of all proposals addressed issues related to the board of directors. Overall we supported 58% of non-US shareholder proposals.

Non-US shareholder proposals by issue area



Source: Parametric, 12/31/2021. For illustrative purposes only.





Conclusion

We plan to continue refining our active ownership practices in 2022 to encourage better corporate governance and sustainable business practices that benefit shareholders. We support qualified, independent boards that demonstrate accountability and responsiveness to prudent and relevant shareholder concerns. 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.

About

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