

January 2021

2020 Parametric Stewardship Report

Clients with approximately \$109 billion in equity assets as of June 30, 2020, trust Parametric to represent their interests through our investment stewardship activities. As a fiduciary for these clients, Parametric implements its foundational investing principles: that most capital markets are highly efficient, and that 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.

Our starting point is to encourage companies to provide greater transparency around environmental, social, and governance (ESG) issues and rectify clear lapses in oversight, rather than seeking out or avoiding companies based on perceived mispricing. We believe this approach can help strengthen companies, protect shareholder capital, and benefit economies and communities.

In order to accomplish these goals, we engage with companies and vote at their shareholder meetings. We support qualified, independent boards that show accountability and responsiveness to prudent and relevant shareholder concerns. We believe targeted conversations can be a powerful way to promote good corporate governance practices and encourage companies to reduce ESG risks and improve disclosure.

This report summarizes how Parametric engaged with a select group of companies during the year and voted on behalf of our clients for all shareholder meetings that took place from July 1, 2019, through June 30, 2020.

Parametric

800 Fifth Avenue

Suite 2800

Seattle, WA 98104

T 206 694 5575

F 206 694 5581

www.parametricportfolio.com

Engagement

In order to encourage more diversity on US boards, we reached out to all companies our clients hold in the Russell 3000[®] with no women on their boards of directors. We wrote letters to the chairs of the boards and nominating committees of 144 companies explaining that we were voting against the nominating committee chairs because of a lack of gender diversity on their boards. We urged these companies to consider adding female directors and offered to discuss why we think board diversity is important. In response to our letter, some companies emphasized their commitment to add women to their all-male boards in the near future. We used board gender diversity 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.

Why do we care about 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 able-bodiedness 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, we believe the absence of diverse representation may signal a need for improved recruitment and retention practices.

While diversity can be evaluated through many lenses, we're starting the conversation with gender. Women are in the minority at leadership levels, yet they make up over half the general population and receive the majority of college and professional degrees. While we're initially focusing on gender balance on corporate boards and among executives, we also aim to learn how companies ensure parity in their work environments, particularly with regard to equal compensation and opportunities for advancement.

In recent years we've seen more women directors serving on the boards of US companies, but much progress remains to be made. Overall women now hold about 23% of board seats at companies listed on the Russell 3000, up from 17% in 2018. While 2019 marked the first year at least one woman served on the board of every company in the S&P 500[®], about 5% of companies in the Russell 3000 still have all-male boards. This is much better than three years ago, when 20% of Russell 3000 companies had all-male boards, but we'd like to see the number of all-male boards at zero. We encourage all boards to go beyond the minimum and reach for gender parity in the near future.

What did we engage about?

Board composition

Board diversity. Parametric has long believed that board diversity is key to good governance and necessary to drive gender, racial, and ethnic diversity throughout an organization. We escalated the issue in 2020 by starting to vote against the chairs of nominating committees at companies with all-male boards, sending letters explaining why we voted against them.

We found that the corporate directors and executives with whom we engaged were typically already convinced of the benefits of more gender, racial, and ethnic diversity on their board. Our engagement reinforced this existing positive perspective and emphasized an urgency for action. We also expressed our view that board diversity is the first step in the broader goal of creating a diverse and inclusive workforce at all levels of a company.

Rooney Rule. We recommended companies establish a formal Rooney Rule for board candidates. The Rooney Rule originated as an NFL policy for hiring head coaches, requiring at least one candidate for the position to be diverse. We believe companies would be better off by implementing a formal Rooney Rule, even if this rule would be nonconstraining, since it's a tangible demonstration of intent to increase diversity. We believe the Rooney Rule can help lagging companies increase gender and racial diversity.

Case study #1: Accelerating board diversity

In our engagement with a small-cap technology company, we discussed firm-specific diversity issues as well as broader diversity trends, including pipeline issues and corporate governance best practices. The chair of the company's board sits on a number of private and public companies, including both small- and large-cap names, and provided a wide breadth of perspectives. The director pledged to use our letter as proof to fellow directors that investors are looking for better diversity practices in companies of all sizes. He explained that the company had been in the process of recruiting a woman to their board in early 2020 but had put the process on hold as it prioritized its response to the COVID-19 crisis. The chair emphasized that our engagement will speed up the process to finalize the recruitment of a woman director. We plan to monitor the company's diversity policy actions and board gender diversity.

Workforce diversity

EEO-1 disclosure. Parametric believes in the value of diversity at all seniority levels. Companies with more than 100 employees are already required to report certain demographic and job-level statistics about their workforce to the Department of Labor through the Employer Information Report EEO-1 (EEO-1). We therefore recommended that companies publicly disclose EEO-1 data to provide investors with more information about their workforce demographics. This would entail very little extra cost, given existing reporting requirements.

Pay equity and equal opportunity. Procedures ensuring pay equity can mitigate legal and reputational risk associated with lawsuits. We inquired how companies ensure pay equity and equal opportunity and asked about policies and practices that could help mitigate risks associated with shortfalls. Some companies highlighted existing procedures to compare wages among employees, slicing data by position, gender, and race. Others shared that they were in the process of implementing stronger internal controls along with additional investment in human resource management systems.

COVID-19. We discussed measures that companies are taking to help their workforces with disruptions related to the COVID-19 pandemic. We emphasized the larger economic impacts of COVID-19 on women and minorities noted by the Centers for Disease Control and the popular press, such as the disproportionate number of women forced to drop out of the workforce to take care of their families. Executives and directors admitted in a number of engagements that they hadn't explicitly considered these disparate impacts in their COVID-19 workplace responses.

Case study #2: Encouraging EEO-1 disclosure

We talked with the chief financial officer (CFO) at a small-cap construction company. In response to our letter, the CFO explained that the company is committing to add a woman to the board, which will be reflected in the 2021 proxy ballot. When we brought up the idea of implementing a formal Rooney Rule policy, the CFO stated that the board was discussing it. He shared that we were the first shareholders to ask about disclosing EEO-1 data publicly and promised to take that suggestion back to the board. We plan to monitor the company's diversity policy improvements.

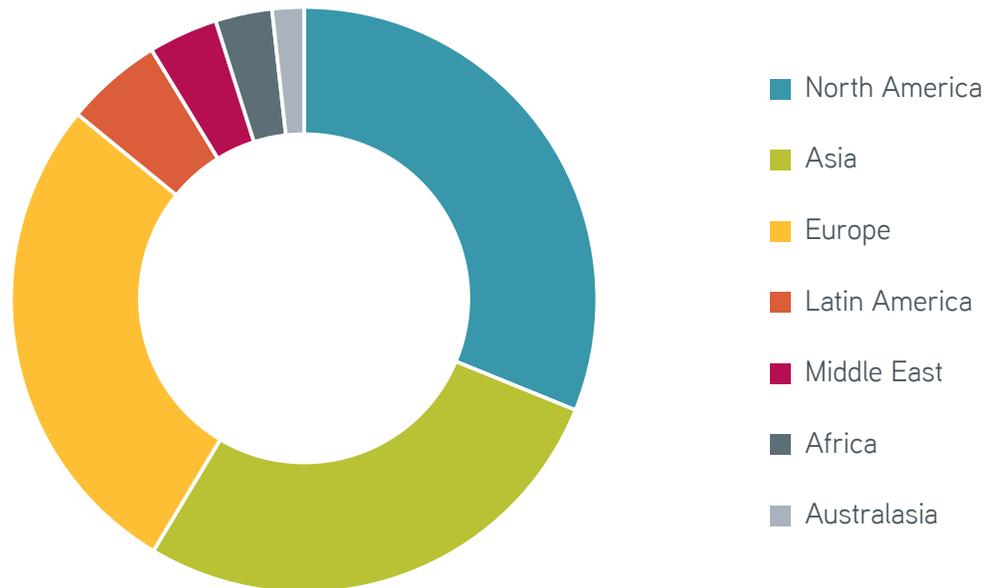
Proxy voting

Parametric’s proxy voting policy emphasizes long-term shareholder returns with a focus on disclosure. We closely follow proxy voting trends and evolve our policy as new research is published in academia and by corporate governance institutions. Our policy reflects the corporate governance principles published on our website.

Geography

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

Proposals by region

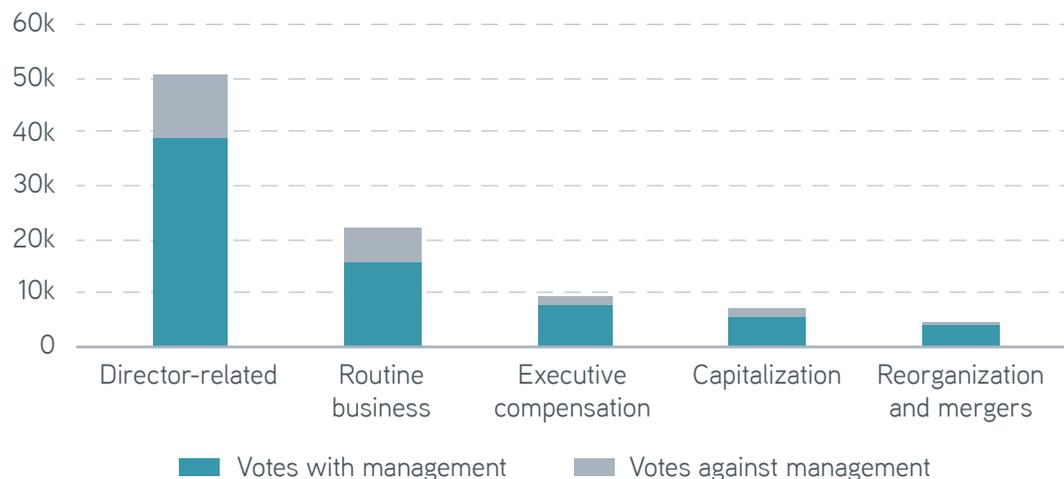


Source: Parametric, 6/30/2020

Management proposals

Of 93,651 management proposals, the vast majority were related to director elections (55%) or routine business (23%). Routine business captures a wide range of activities, including but not limited to ratification of auditors, approval of meeting minutes, and approval of dividends. The remaining 22% of management proposals covered executive compensation, capital management, and mergers.

Number of votes on management proposal by proposal type



Source: Parametric, 6/30/2020

Region	Proposal category	Director-related	Executive compensation	Routine business	Capitalization	Reorganization and mergers	Total
North America	Proposals	21,366	3,870	3,232	217	591	29,276
	Votes against management	34%	35%	59%	11%	7%	36%
Europe	Proposals	10,801	3,043	7,740	3,373	688	25,645
	Votes against management	17%	26%	8%	23%	9%	16%
Asia	Proposals	12,927	1,195	6,507	2,597	2,127	25,353
	Votes against management	17%	26%	8%	15%	16%	15%
Other	Proposals	5,817	1,227	4,567	870	896	13,377
	Votes against management	18%	23%	9%	16%	12%	15%
Total	Proposals	50,911	9,335	22,046	7,057	4,302	93,651
	Votes against management	24%	29%	16%	19%	13%	22%

Source: Parametric, 6/30/2020

Election of directors. Of 50,911 proposals related to director elections, Parametric voted against management's recommendation on 12,326 proposals (24%). We voted against directors when there was a minority of independent directors on the board or when there were nonindependent directors on the nominating, audit, or compensation committees. We voted against a number of directors that sat on more than five boards, since we were concerned that they would be spread too thin to work effectively, especially in periods of crisis. We also voted against the chairs of nominating committees at companies with all-male boards. We believe the independence, competence, and responsiveness of directors is critical to company oversight. Board composition is one of Parametric's key areas of focus in our investment stewardship practices.

Executive compensation. The COVID-19 pandemic has had countless impacts, including shrinking the cash flows of many businesses, which made executive compensation a particularly sensitive topic this year. Of 9,335 executive compensation proposals, Parametric voted against management 2,739 times, or 29% of the time. Parametric generally supports executive compensation packages that are well disclosed, reasonably in line with peers, and reflect long-term strategic company goals. Parametric doesn't support compensation packages with single-trigger provisions, packages with unreasonable payouts in the event of firm ownership change, or plans that are overly dilutive.

Reorganization and mergers. Of 4,302 proposals for reorganizations and mergers, Parametric voted against management's recommendation on 565 or 13% of proposals. The number of reorganization and merger proposals was down about 17% from the same period last year, but our support percentage remained about the same. There was less M&A activity in 2020 due to various macroeconomic factors, including global trade tensions, political uncertainty, and COVID-19. Parametric supports mergers likely to increase long-term shareholder returns and considers multiple factors, including but not limited to the strategic rationale, the premium or discount being offered, and potential conflicts of interest.

Shareholder proposals

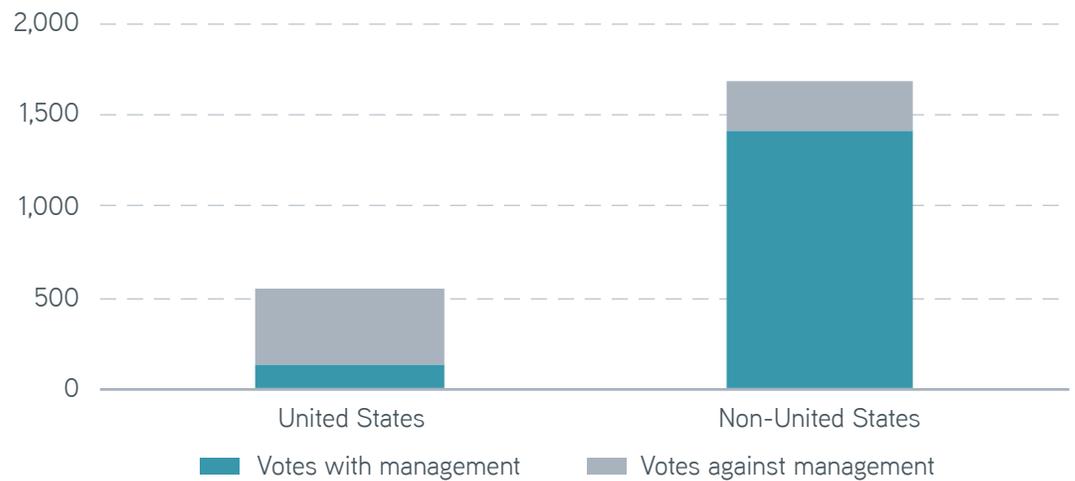
Parametric voted on 556 US and 1,688 non-US shareholder proposals. Nearly two-thirds of US shareholder proposals targeted S&P 500[®] companies. Over 90% of shareholder proposals related to governance, particularly in non-US markets, while only 10% of shareholder proposals fell into environmental or social categories. Parametric is supportive of proposals in all markets that ask for additional disclosures of material business risks while being mindful of the costs of additional reporting.

Pillar	US shareholder proposals		Non-US shareholder proposals	
	Proposals	For %	Proposals	For %
Environmental	36	100%	95	40%
Social	70	84%	10	90%
Governance	450	85%	1,583	57%
Total	556	86%	1,688	56%

Source: Parametric, 6/30/2020

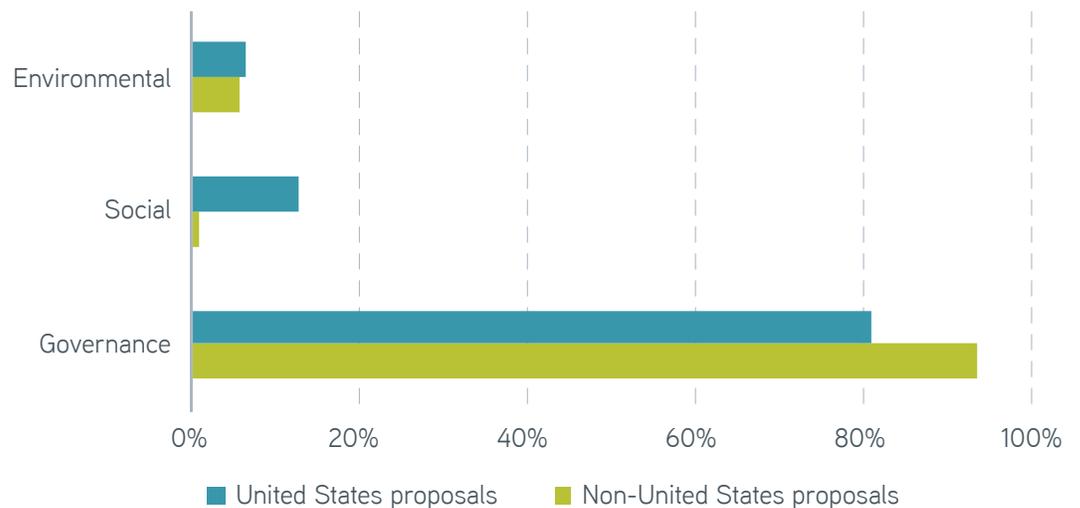
There are differences between shareholder proposals at US companies and those at non-US companies. Shareholder proposal topics outside the US are more likely to overlap with management proposals, frequently covering topics including auditor appointments, share issuance, and director elections. Another key difference between US and non-US shareholder and management proposals is the vote recommended by management. While management support of US shareholder proposals is exceedingly rare, it's more common outside the US, where 44% of 2020 shareholder proposals were supported by management. Non-US company shareholder proposals tend to focus on less controversial issues, such as director elections and compensation, than their US counterparts.

Number of votes on shareholder proposals



Source: Parametric, 6/30/2020

Shareholder proposals



Source: Parametric, 6/30/2020

Votes in focus

We review several shareholder proposals below that highlight important topics and illustrate how we vote shareholder proposals more broadly. Since Parametric focuses on long-term shareholder returns, we tend to support ESG proposals that benefit shareholders, particularly those requesting low-cost disclosures that facilitate comparison among companies.

Environmental

About one-third of the US environmental proposals we voted on were on topics related to climate change. Another third focused on the community impact of products and services, and the balance focused on other environmental and health topics.

Climate risk reporting. Climate change poses existential risks and unprecedented opportunities for business and society. Rising temperatures are driving increasingly common natural disasters, disrupting ecosystems and human health, and causing business losses that will continue to threaten assets, infrastructure, and society. Governments and the private sector are responding with actions to reduce global greenhouse gas (GHG) emissions, which will alter the face of economic sectors and regions for decades.

The Sustainability Accounting Standards Board identifies climate as a material financial risk in 70 of 77 industries, meaning few companies are immune to this issue. The pervasiveness of climate risks and opportunities indicates that the vast majority of companies should be evaluating and reporting on related physical, transition, and policy and legal risks to their businesses.

We supported all 11 shareholder proposals asking for reports detailing company plans to handle climate change and measurable steps being taken. While each company should choose their own strategy to tackle climate change, it's reasonable to ask for a report on these plans.

We therefore supported the proposal at Union Pacific requesting a report on how the company plans to align operations with the goals of the Paris Agreement. We also supported the GHG emissions shareholder proposal at Bloomin' Brands, which asks for a report on efforts to reduce GHG emissions and the adoption of a nondeforestation policy. This report would provide new and useful information to shareholder on mitigation efforts of environmental risks.

Community impact reporting. We believe companies should manage risks associated with their community impacts. We supported all 10 shareholder proposals that asked a company to report on community-related risks, including a proposal at Pepsi that asks for a report on the public health impact of their products. This proposal comes after renewed interest in the health impact of high-sugar beverages and specific taxes on sugary beverages in parts of the US. This report would allow shareholders to better assess the long-term risks and public health impacts of Pepsi products.

Social

About one-third of social proposals in the reporting period related to diversity. One-quarter of proposals related to human rights, and the remaining proposals were spread across other topics.

Human rights. There has been heightened concern worldwide regarding human capital risks. Human trafficking and modern slavery reporting regulations in Europe and Australia, as well as broad US concern, have made human rights risk reporting an important topic for many investors. While company managements typically don't intentionally choose to use forced or coerced labor in their supply chains, failure to establish adequate safeguards and policies may leave a company vulnerable to unmanaged risks. Parametric supported all 14 shareholder proposals to report on human rights risks or improve human rights standards or policies, including the proposal at Skechers asking to adopt a human rights policy.

Earnings gap. We encourage companies to disclose the median earnings of male and female employees. While some companies already disclose the pay gap for male and female employees with similar jobs, this metric fails to capture the effect of discriminatory promotional practices or structural biases. We supported all 14 shareholder proposals on this topic, including the proposal at Wells Fargo requesting a report on the median pay gap based on gender, race, and ethnicity.

Diversity. We supported all nine shareholder proposals on board and employee diversity that explicitly discussed race and gender inclusion. This included the proposal at Berkshire Hathaway, which requested a report on the steps the board is taking to enhance diversity on the board and in management, mentioning the Rooney Rule as a diversity policy option.

Governance

Governance shareholder proposals focused on shareholder director nominations, board charter and bylaw amendments, written consent, political contributions and lobbying, and requirements for independent board chairs.

Supermajority vote requirement. Parametric expects companies to be responsive to shareholders. We supported all 12 shareholder proposals to replace the supermajority vote requirement with a simple majority, including the proposal at Marriott International. This proposal, like its predecessors in 2018 and 2019, earned majority support from shareholders but didn't meet the supermajority requirement to pass.

Advisory votes on political contributions. Political contributions can yield strategic benefits for a company, but these benefits should be weighed against any legal or reputational risks. We supported all 56 shareholder political contributions and political lobbying proposals. This includes the proposal at Boeing requesting a report on lobbying activities and lobbying-related oversight and policies. This is the seventh consecutive year that Boeing has had this proposal on the ballot.

About

Parametric Portfolio Associates® LLC (“Parametric”), headquartered in Seattle, is registered as an investment advisor with the US Securities and Exchange Commission under the Investment Advisers Act of 1940. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed income, alternative, and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay, and centralized portfolio management. Parametric is a wholly owned subsidiary of Eaton Vance Corp. and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York City, and Westport, Connecticut.

Disclosures

This material may not be reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties. This information is intended solely to report on investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Past performance is not indicative of future results. The views and strategies described may not be suitable for all investors. Investing entails risks, and there can be no assurance that Parametric will achieve profits or avoid incurring losses.

Parametric does not provide legal, tax, or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein.

All contents ©2021 Parametric Portfolio Associates® LLC. All rights reserved. Parametric Portfolio Associates® is a trademark registered in the US Patent and Trademark Office and certain foreign jurisdictions.

Parametric is headquartered at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies or to request a copy of Parametric’s Form ADV, please contact us at 206 694 5575 or visit www.parametricportfolio.com.