



Compensation
Advisory Partners

Alert // March 25, 2022

Big Three Institutional Investor Updates

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Blackrock, Vanguard, and State Street (the “Big Three”) are among the largest and most influential institutional investors in the world with current assets under management (AUM) of \$10.0, \$8.2, and \$4.1 trillion respectively. Given their size, they have ownership stakes in many U.S. publicly traded companies. As a result of their holdings, the Big Three have the power to influence proxy voting outcomes, and any policy update, should be closely monitored by companies.

For the 2022 proxy season, the Big Three released their proxy voting guidelines and engagement priorities. These updates are a way for the public, and companies to understand the Big Three’s positions and priorities for 2022.

In the following chart we summarize a variety of policy updates from the Big Three that focuses on executive compensation, Compensation Committee voting, human capital management, board composition and board of director overboarding.

2022 U.S. Proxy Voting Guidelines Key Updates

Focus Area	Updates
Executive Compensation	<p><u>Blackrock</u></p> <ul style="list-style-type: none"> Does not have position on whether companies should include Environmental, Social, & Governance (ESG) metrics in their compensation plans. However, if a company includes ESG metrics, the metrics must be aligned with the strategy and business model and incorporate the same rigors as other financial or operational targets. Expect performance-based compensation to include metrics that are “relevant to the business and stated strategy risk.” <p><u>Vanguard</u></p> <ul style="list-style-type: none"> No update for 2022. For full policy, please see the link provided at the end of this document. <p><u>State Street</u></p> <ul style="list-style-type: none"> No update for 2022. For full policy, please see the link provided at the end of this document.
Compensation Committee Voting	<p><u>Blackrock</u></p> <ul style="list-style-type: none"> Previously noted that they would consider voting against Compensation Committee members where a company has failed to align pay with performance. The new language states that they will vote against Compensation Committee members. <p><u>Vanguard</u></p> <ul style="list-style-type: none"> No update for 2022. Policy only applies if Vanguard votes against a company’s Say on Pay proposal for two consecutive years, in which Vanguard will vote against the Compensation Committee members. <p><u>State Street</u></p> <ul style="list-style-type: none"> As disclosed in 2021, for S&P 500 companies, may vote against the Chair of the Compensation Committee if the company does not disclose its Equal Employment Opportunity-1 (EEO-1) report.

Focus Area	Updates
Human Capital Management (HCM)	<p><u>BlackRock</u></p> <ul style="list-style-type: none"> • New section added in 2021. • In 2022 added that they expect companies to show, “a robust approach to HCM and provide shareholders with disclosures to understand how their approach aligns with their stated strategy and business model.” • Where a company’s practices do not appear aligned with long-term shareholders’ interests or where disclosures do not provide sufficient clarity on the board and management’s effectiveness in addressing HCM issues, Blackrock may vote against directors responsible for these decisions. <p><u>Vanguard</u></p> <ul style="list-style-type: none"> • No update for 2022. Expect boards to disclose relevant processes, programs and metrics used to measure a company’s diversity, equity and inclusion programs. <p><u>State Street</u></p> <ul style="list-style-type: none"> • Expectations for HCM disclosures include the following topics: <ul style="list-style-type: none"> › Board Oversight: Board oversees human capital-related risks and opportunities; › Strategy: How the company’s approach to HCM advances its overall long-term business strategy; › Compensation: How pay strategies help to attract and retain employees and incentivize contributions to an effective human capital strategy; › Voice: How concerns and ideas from employees are solicited and how the workforce is engaged; and › Diversity, Equity and Inclusion: How the organization advances diversity, equity and inclusion. • Expects companies to provide detailed public disclosure on these topics. • For companies not making progress in these areas, State Street may support shareholder proposals or vote against directors.

Focus Area	Updates
Board Composition	<p data-bbox="651 195 902 222"><u>Racial/Ethnic Diversity</u></p> <p data-bbox="651 239 769 266"><u>BlackRock</u></p> <ul data-bbox="651 283 1500 564" style="list-style-type: none"> <li data-bbox="651 283 1446 338">• Boards should target 30% membership diversity and have at least one director who identifies from an underrepresented group. <li data-bbox="651 354 1500 409">• Blackrock may vote against the members of the Nominating / Governance Committee for an apparent lack of commitment to board effectiveness. <li data-bbox="651 426 1479 564">• Expects companies to disclose the aspects of diversity the company believes are relevant to its business and how the diversity characteristics of the board, in aggregate, are aligned with the company’s long-term strategy and business model and whether a diverse slate of nominees is considered for nomination. <p data-bbox="651 581 760 609"><u>Vanguard</u></p> <ul data-bbox="651 625 1495 1367" style="list-style-type: none"> <li data-bbox="651 625 1471 680">• Boards can inform shareholders of the board’s current composition and related strategy by disclosing: <ul data-bbox="678 697 1446 867" style="list-style-type: none"> <li data-bbox="678 697 1446 751">› Statements of the boards intended composition strategy, including year-over-year progress; <li data-bbox="678 768 1398 823">› Policies related to promoting progress toward increased board diversity; and <li data-bbox="678 840 1214 867">› Current attributes of the board’s composition. <li data-bbox="651 884 1479 959">• Policy clarifies that a board should represent diversity of personal characteristics inclusive of at least diversity in gender, race, and ethnicity on the board. <li data-bbox="651 976 1484 1052">• Policy also clarifies that boards should take action to reflect board composition that is appropriately representative, relative to their markets and to the needs of their long-term strategies. <li data-bbox="651 1068 1438 1144">• Board diversity disclosure should at least include the genders, races, ethnicities, tenures, skills and experience that are represented on the board. <li data-bbox="651 1161 1487 1257">• Disclosure of personal characteristics (such as race and ethnicity) should be on a self-identified basis and may occur at an aggregate level or at the director level. <li data-bbox="651 1274 1495 1367">• Vanguard will generally vote against the Nominating or Governance Chair if a company’s board is not making sufficient progress in its diversity composition and/or in addressing its board diversity-related disclosures. <p data-bbox="651 1383 781 1411"><u>State Street</u></p> <ul data-bbox="651 1428 1495 1650" style="list-style-type: none"> <li data-bbox="651 1428 1495 1482">• As disclosed in 2021, S&P 500 companies in 2022 should have a minimum of at least 1 director from an underrepresented community. <li data-bbox="651 1499 1430 1554">• State will vote against the Chair of the Nominating Committee if this requirement is not met. <li data-bbox="651 1570 1471 1650">• State Street may vote against the Chair of the Nominating Committee of an S&P 500 company if the company does not disclose the racial and ethnic composition of their boards.

Focus Area	Updates
Board Composition	<p data-bbox="651 195 846 222"><u>Gender Diversity</u></p> <p data-bbox="651 239 764 266">Blackrock</p> <ul data-bbox="651 283 1500 409" style="list-style-type: none"> • As noted above, boards should target 30% membership diversity and have at least two directors who identify as female. • Blackrock may vote against the members of the Nominating / Governance Committee for an apparent lack of commitment to board effectiveness. <p data-bbox="651 426 760 453">Vanguard</p> <ul data-bbox="651 470 1195 497" style="list-style-type: none"> • See policy under Racial/Ethnic Diversity above. <p data-bbox="651 514 781 541">State Street</p> <ul data-bbox="651 558 1495 852" style="list-style-type: none"> • For 2022, companies must have at least one female director on the board (prior policy only applied to major indices). • For 2023, any company in the Russell 3000 must have at least 30% female directors on the board. • State Street may vote against the Nominating Committee Chair if a company does not meet the requirements listed above. • State Street may vote against all the members of the Nominating Committee if a board does not meet the requirements outlined above for three years in a row.
Director Overboarding	<p data-bbox="651 903 764 930">Blackrock</p> <ul data-bbox="651 947 1446 1031" style="list-style-type: none"> • No update for 2022. Current policy is two public company boards for active executives. For non-executive directors the guideline is four boards. <p data-bbox="651 1047 760 1075">Vanguard</p> <ul data-bbox="651 1092 1495 1236" style="list-style-type: none"> • Two public company boards for a named executive officer (NEO). The two boards could comprise either the NEO’s “home board” plus one outside board or two outside boards if the NEO does not serve on their home board. For non-executive directors, there is no change to the current policy (4 public company boards). <p data-bbox="651 1253 781 1281">State Street</p> <ul data-bbox="651 1297 1500 1507" style="list-style-type: none"> • No update for 2022. Commencing in March 2022, two public company boards for an NEO, three public boards for a non-executive Board Chair or lead independent director and four public company boards for non-executive directors. • New for 2022, State Street would waive their policy if a company discloses its own director commitment policy in a publicly available manner (e.g., corporate governance guidelines, proxy statement, company website).

As summarized above, there has been a focus over the last few years on ESG, particularly on diversity among the board of directors and workforce, human capital management and climate change (not summarized above). The Big Three believes companies that focus on these issues will enhance a company’s ability to maximize long-term shareholder value.

This article highlights select changes and updates to the Big Three's voting policies. For full detail related to all the proxy voting guidelines, please visit:

Blackrock:

[BlackRock Investment Stewardship - Proxy Voting Guidelines for U.S. securities](#)

[BlackRock Investment Stewardship - Engagement Priorities](#)

Vanguard:

[Proxy voting policy for U.S. portfolio companies](#)

State Street:

[Proxy Voting and Engagement Guidelines - North America \(United States & Canada\)](#)

[CEO's Letter on Our 2022 Proxy Voting Agenda](#)

[Guidance on Diversity Disclosures and Practices](#)

[Guidance on Managing Director Time Commitments](#)

[Guidance on Human Capital Management Disclosures & Practices](#)



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Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.