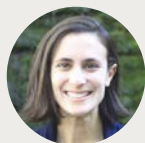




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GLOBAL ESG RESEARCH UPDATE

## Wellington joins Net Zero Asset Managers initiative

This December, we announced that Wellington Management has joined the Net Zero Asset Managers initiative as a founding member. Through this initiative, we commit to work in partnership with clients on their decarbonization goals and set an interim target for the proportion of assets to be managed in line with the attainment of net-zero emissions by 2050. This commitment is grounded in our belief — forged by extensive research — that climate change poses material risks for companies, economies, and society, and therefore, our clients’ investment portfolios.

In collaboration with Woodwell Climate Research Center, a leading climate-science think tank, we have been researching the physical effects of climate change on capital markets and are integrating those findings into our investment practices. This work has strengthened our conviction that climate science can inform our stewardship approach and enhance the investment decisions we make on behalf of our clients.

As the transition to a lower-carbon economy continues, we expect markets to begin repricing assets accordingly. This commitment therefore aligns with our stated objective and fiduciary duty to our clients: maximize long-term risk-adjusted returns. In fact, we believe this lens may help us identify companies poised to outperform in a lower-carbon economy and avoid those that present less credible transition strategies.

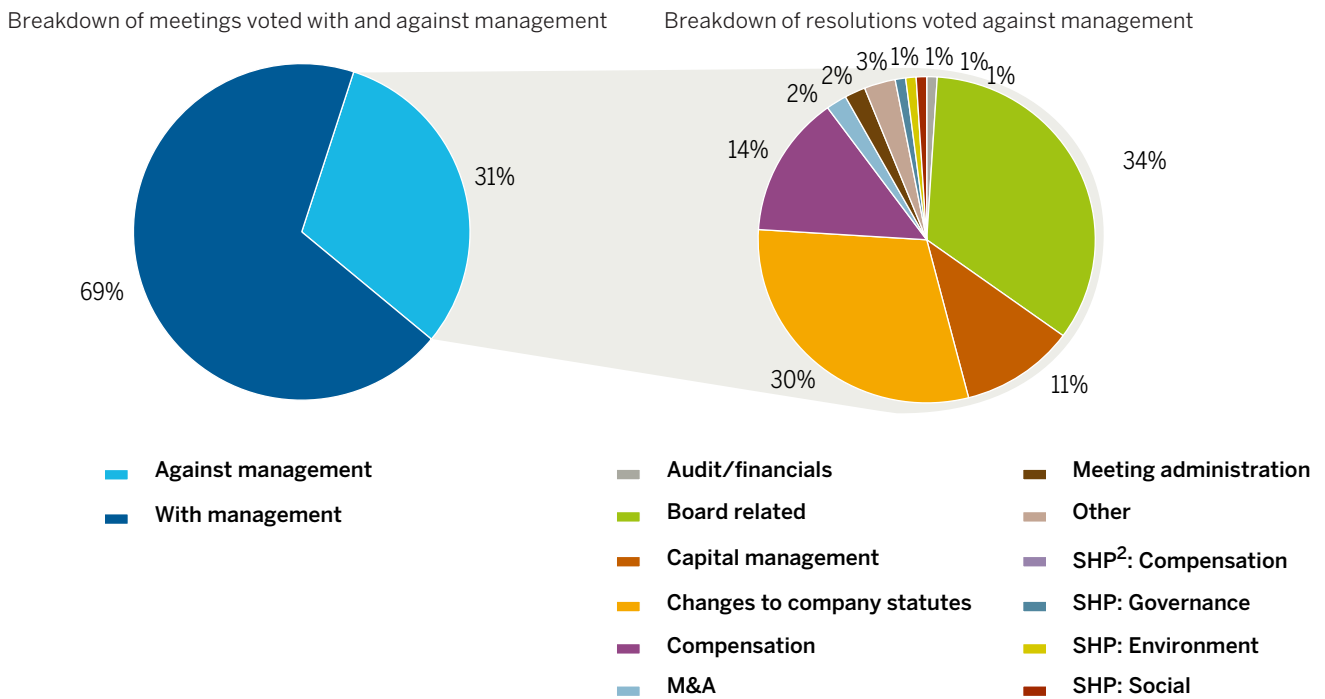
We strongly believe that engagement is a critical mechanism for helping companies appreciate the potential wide-ranging effects of the low-carbon transition on security valuations. Robust transition plans that result in global emissions reductions will help to avoid the worst effects of physical climate change in client portfolios. As a large active manager, we will work with companies to encourage net-zero commitments and monitor their implementation.

We also look forward to continuing to partner with clients and the broader investment community to share insights on the physical and transition risks of climate change, climate stewardship, and net-zero investing.

### 4Q20 firmwide proxy-voting results

Proxy voting can be a powerful tool that we leverage when engaging with company management teams. Our team examines each proxy proposal and votes against issues that we believe would have a negative effect on shareholder rights or on the current or future market value of the company’s securities. **FIGURE 1** shows the breakdown of the past quarter’s global proxy voting.

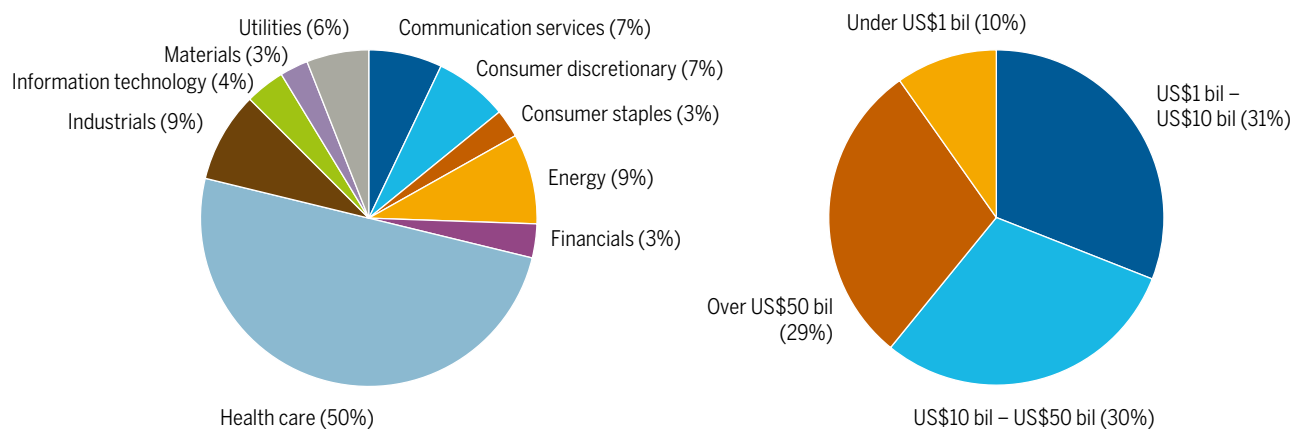
**FIGURE 1**  
**Wellington Management’s 4Q20 proxy-voting results<sup>1</sup>**



### 4Q20 ESG engagement activity

In the fourth quarter of 2020, our team engaged with 184 portfolio companies in 22 countries (**FIGURE 2**) on ESG topics ranging from board composition and executive compensation to climate resiliency and ESG decisions in the COVID-19 era. See the list of our engagement discussions for the quarter below.

**FIGURE 2**  
**Company engagements by Wellington Management’s ESG Research Team in 4Q20<sup>1</sup>**



<sup>1</sup>Figures may not sum to 100 due to rounding. | <sup>2</sup>Shareholder proposal | Source: Wellington Management

## 4Q20 ESG engagement activity by company

Company	E	S	G	Company	E	S	G	Company	E	S	G
<b>Communication services</b>				<b>Energy (continued)</b>				<b>Health care (continued)</b>			
Alphabet		●	●	EOG Resources	●	●		Bayer		●	
Altice Europe		●	●	Galp Energia SGPS	●		●	Biogen		●	●
Comcast	●	●	●	Gazprom PJSC	●	●		Biohaven Pharma			●
Deutsche Telekom		●	●	Hess	●	●		Black Diamond Therapeutics			●
Seek	●	●	●	LUKOIL PJSC	●	●		Bluebird Bio		●	●
TEGNA		●	●	Novatek PJSC	●		●	Bristol-Myers Squibb		●	●
Telecom Italia	●	●	●	Phillips 66	●		●	Calithera Bioscience			●
Verizon Communctns		●	●	Repsol	●		●	Centene		●	●
ViacomCBS	●	●	●	TC Energy	●		●	ChemoCentryx			●
Vodafone Group		●	●	TOTAL SE	●		●	Coherus Biosciences			●
WPP		●	●	<b>Financials</b>				Constellation Pharma			●
<b>Consumer discretionary</b>				Chubb		●	●	CVS Health		●	●
Aramark	●	●	●	Prudential Financial		●	●	Dicerna Pharma			●
Cie Generale des Eta	●	●	●	Travelers Cos	●	●		Dyne Therapeutics			●
Compass Group	●	●	●	UBS Group	●	●	●	Edwards Lifesciences		●	●
Dollar General		●		White Mountain Ins		●	●	Eli Lilly and		●	●
Foot Locker	●	●	●	<b>Health care</b>				FivePrime Therapeutics			●
Gentherm		●	●	89bio			●	Fresenius SE &		●	●
Honda Motor	●	●	●	Abbott Laboratories		●	●	G1 Therapeutics			●
Lear	●	●		AbbVie		●	●	Generation Bio			●
Lowe's Companies	●	●		Abcam		●	●	Genmab A/S		●	●
nyo Shokai		●	●	Adverum Biotech			●	Gilead Sciences		●	●
TJX Companies		●	●	ios Pharma			●	GlaxoSmithKline		●	●
Tractor Supply	●	●		Akebia Therapeutics			●	Global Blood Therapeutics			●
Yum China Holdings	●	●	●	Akero Thera			●	HCA Healthcare		●	
<b>Consumer staples</b>				Alcon		●	●	Heron Therapeutics I			●
Estee Lauder Cos	●	●	●	Aligos Thera			●	Homology Medicines			●
Kellogg	●	●		Alkermes			●	Humana		●	●
Procter & Gamble	●	●		ALX Oncol Hldgs			●	ImmunoGen			●
Sysco	●	●		Amgen		●	●	Incyte Corp		●	●
Walmart	●	●	●	Amneal Pharma			●	Ironwood Pharma			●
<b>Energy</b>				Anthem		●	●	Johnson & Johnson		●	●
Chevron	●	●	●	Apellis Pharma			●	KalVista Pharma			●
ConocoPhillips	●	●	●	AstraZeneca		●	●	Karyopharm Therapeutics			●
Diamondback Energy	●	●	●	Atreca			●	Madrigal Pharma			●

E = environmental, S = social, and G = corporate governance discussions. The companies shown comprise a complete list of all engagement meetings in which Wellington Management's ESG Research Team participated in 4Q20. These companies are not representative of all of the securities purchased, sold, or recommended for clients. It should not be assumed that an investment in the companies listed has or will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the companies shown. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities.

**4Q20 ESG engagement activity by company (continued)**

Company	E	S	G	Company	E	S	G	Company	E	S	G
<b>Health care (continued)</b>				<b>Industrials</b>				<b>Utilities (continued)</b>			
McKesson		●	●	Alstom	●	●	●	Eversource Energy	●	●	●
Medtronic		●	●	Boeing		●	●	National Grid	●	●	●
Merck		●	●	Cie de Saint-Gobain			●	NextEra Energy	●	●	●
Merna Therapeutics			●	Equifax		●	●	Sempra Energy	●		●
Myovant Sciences			●	Fortive			●	Suez	●		●
Nektar Therapeutics			●	General Dynamics		●	●				
Novartis		●	●	Huron Consulting Grp		●	●				
Novo Nordisk A/S		●	●	Kennametal		●	●				
Nurix Therapeutics			●	Northrop Grumman Crp		●					
Odonate Therapeutics			●	Sany Heavy Industry	●	●	●				
Oyster Point Pharma			●	Schneider Electric			●				
Pfizer		●	●	Thermon Group Hldgs			●				
PhaseBio Pharma			●	Uber Technologies	●	●	●				
Radius Health			●	Westinghouse Air	●		●				
RAPT Therapeutics			●	Wolters Kluwer			●				
Regeneron Pharma		●	●	<b>Information technology</b>							
Revance Therapeutics			●	BE Semiconductor NV			●				
Rhythm Pharma			●	Everbridge			●				
Rigel Pharma			●	Guidewire Software			●				
Roche Holding		●	●	Intuit	●	●	●				
Rocket Pharma			●	Itron	●	●	●				
Sage Therapeutics			●	PayPal Holdings		●	●				
Sanofi		●	●	Trade Desk			●				
Seagen Inc		●	●	<b>Materials</b>							
Syndax Pharma			●	Cabot	●		●				
TCR2 Therapeutics			●	Celanese	●	●	●				
TG Therapeutics			●	CF Industries Hldgs	●	●	●				
Theravance Biopharma			●	Element Solutions	●	●	●				
Thermo Fisher Scient		●	●	Gold Fields			●				
UCB		●	●	<b>Utilities</b>							
UnitedHealth Group		●	●	AES /The	●						
Vaxcyte			●	American Elec Power	●	●	●				
Vertex Pharma		●	●	Duke Energy	●	●	●				
Y-mAbs Therapeutics			●	Edison Intl	●	●	●				

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**In our view, the recent decision to increase equity as a percentage of its long-term incentive plan and remove above-market interests on deferred pay indicates Comcast's receptiveness to shareholder feedback and commitment to ensuring pay-for-performance alignment.**

## 4Q20 ESG engagement examples

### COMCAST

#### Overview

We spoke with the general counsel and chief legal officer to discuss board oversight of cybersecurity and data privacy risks, changes to executive compensation, and emissions-reduction targets.

#### Key discussion topics

##### Board oversight/risk management

We engaged on board oversight of cybersecurity and data privacy risk. We were pleased to learn that the board receives a detailed annual report on data privacy and that the chief compliance officer attends every governance meeting. Additionally, we applaud Comcast's decision to apply California's notably strict state privacy law as a baseline across its US domestic operations. During the engagement, we learned that the company intends to align its disclosure on cybersecurity and data privacy more closely with the SASB framework but has declined to disclose specific metrics.

##### Executive compensation

In our view, the recent decisions to increase equity as a percentage of its long-term incentive plan and remove above-market interests on deferred pay indicate Comcast's receptiveness to shareholder feedback and commitment to ensuring pay-for-performance alignment.

##### Emissions-reduction targets

We learned that setting emissions-reduction targets remains an ongoing challenge for Comcast. Its three subsidiaries have distinct and varied environmental profiles, making it difficult to strategize reductions for aggregate Scope 3 emissions. Targets are still under discussion, and the company intends to set viable reduction targets within the next two years. We explained our preference for science-based targets, and shared our concern that the company may fail to meet shareholder expectations without a credible decarbonization strategy.

##### Conclusion/follow-up

Our positive view of governance and board oversight of the material risks discussed is supported by strong director engagement and risk management. We will continue to monitor the company's developing decarbonization efforts and intention to set emissions-reduction targets.



**We believe these changes will help create a culture built on operational excellence and trust, ultimately leading to more engaged employees.**

## NOVARTIS

### Overview

We met with Novartis' board chair to discuss the company's recent focus on reputation and culture, which has evolved meaningfully over the past several years. Strong financial performance remains Novartis' ultimate goal, and its ESG strategy underpins this effort. We have seen positive governance changes, productive relationships between management and the board, and clear oversight of material ESG issues.

### Key discussion topics

#### Organizational culture

We discussed the evolution of the company's strategy away from a narrow focus on execution, and toward a broader strategy that includes innovation, cultural improvements, and building societal trust. The company's recognition that a strong company culture leads to better top- and bottom-line performance aligns with our view as shareholders. Inclusion of cultural metrics in annual bonuses demonstrates the company's commitment.

In addition, the CEO's ESG objectives now include advancing equitable drug pricing and improving access for developing countries. To us, this signals Novartis' recognition of the role it plays in society and the responsibility it carries. We believe these changes will help create a culture built on operational excellence and trust, ultimately leading to more engaged employees.

#### Board composition

We were pleased to learn that the company is adopting new board policies to align with evolving standards for governance best practices. These changes include enhancing board-refreshment practices, which should bring new perspectives, and appointing a lead independent director. While Novartis already has an independent board and chair, we believe these initiatives demonstrate receptivity to shareholder feedback.

#### Conclusion/follow-up

Novartis demonstrated thoughtful and genuine efforts toward achieving positive ESG outcomes. We view the new CEO's appointment as instrumental in this evolution. We were pleasantly surprised by the chair's honesty regarding management. The chair and CEO appear to have a constructive relationship, and an experienced board seems to effectively guide and challenge the management team. These dynamics support our belief that a strong 'G' pillar is fundamental for attaining successful 'E' and 'S' outcomes, which together can potentially improve financial performance.



We reiterated the importance of providing transparency and qualitative discussion of survey results, and of communicating decisions or changes made in response.

## KENNAMETAL

### Overview

An ESG analyst and an equity analyst hosted a meeting with Kennametal's compensation committee chair to better understand the rationale behind adjustments made to the annual incentive plan in light of COVID-19. Changes perceived to benefit executives will be under increased scrutiny during the 2021 proxy season, particularly for companies that have furloughed or laid off workers during the pandemic. We also discussed a recent employee engagement survey.

### Key discussion topics

#### Executive compensation

We inquired about changes made to executive compensation, specifically the removal of the financial precondition, a modest shift from performance-based to time-based awards in the long-term incentive plan (LTIP), and increased weighting of individual performance. We learned that the changes reflect the unfortunate timing of Kennametal's fiscal year-end in June, which fell at the height of economic uncertainty and complicated target setting. Kennametal explained that the shift toward time-based awards in the LTIP is temporary and that the increased weighting given to individual performance is driven by the board's desire to incorporate measurable ESG goals into the annual incentive plan.

#### Employee engagement

We view the board's decision to conduct an employee engagement survey during the pandemic favourably. The high participation rate indicates an engaged workforce and could give the board greater insight on employee concerns. We reiterated the importance of providing transparency and qualitative discussion of survey results, and of communicating decisions or changes made in response.

#### Conclusion/follow-up

The engagement alleviated our apprehension that executive compensation adjustments could be viewed negatively. We believe the board is committed to maintaining the integrity of its pay-for-performance structure and appreciates that equitable pay and burden sharing are essential for a healthy corporate culture. We were pleased to learn that full pay was reinstated for employees as of December and that the company's 401k match had continued throughout the year. ■



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