

# NORTHERN TRUST ASSET MANAGEMENT STEWARDSHIP PROCESS

We consider engagement to be an open dialogue with investee companies and other market participants to encourage adoption of practices consistent with sustainable long-term value creation. Northern Trust Asset Management’s investment analysts engage with hundreds of companies annually on a range of objectives across four principle themes shown in Table 1 below.

Instances of significant environmental, social or governance concerns or deficiencies in risk management and strategy guide our engagement decisions and objectives.

**Table 1. Northern Trust Asset Management Stewardship Themes and Priorities**

<b>ENVIRONMENT</b>		
<b>CLIMATE CHANGE</b> Greenhouse gas emissions reductions TCFD-based disclosure Strategic alignment to 2° or below	<b>NATURAL RESOURCE MANAGEMENT</b> Water scarcity, use and pollution Deforestation Sustainable food and agriculture	<b>WASTE, RECYCLING AND BIODIVERSITY</b> Pollution and waste management Recycling opportunities Biodiversity impacts
<b>SOCIAL</b>		
<b>HUMAN RIGHTS</b> Modern slavery Child labour Community rights	<b>HUMAN CAPITAL MANAGEMENT</b> Occupational health and safety Diversity and inclusion Recruitment and retention	<b>CONDUCT, CULTURE &amp; ETHICS</b> Fraud and bribery Employee engagement Product safety
<b>GOVERNANCE</b>		
<b>BOARD COMPOSITION AND EFFECTIVENESS</b> Independence Structure and attentiveness Diversity	<b>COMPENSATION SHAREHOLDER RIGHTS</b> Pay for performance alignment Disclosure	<b>SHAREHOLDER RIGHTS</b> Shareholder responsiveness Proxy access One share one vote
<b>RISK MANAGEMENT &amp; STRATEGY</b>		
<b>RISK MANAGEMENT</b> Financial prudence Enterprise risk management Independence of external auditor	<b>BUSINESS STRATEGY</b> Analysis of opportunities Scenario planning Business purpose and mission	

Our process for engaging with companies on long-term environmental, social or governance risks starts with the prioritization of key themes for which we see significant risks. Our stewardship team then researches companies, with support from third-party data providers, and narrows down the field of target companies. Finally, we conduct our engagements and review the outcomes of these engagements to determine whether any further actions are warranted. While it's always our hope that our dialogue with companies will instigate efforts towards improved sustainability, we must sometimes use our substantial proxy voting power to encourage change.

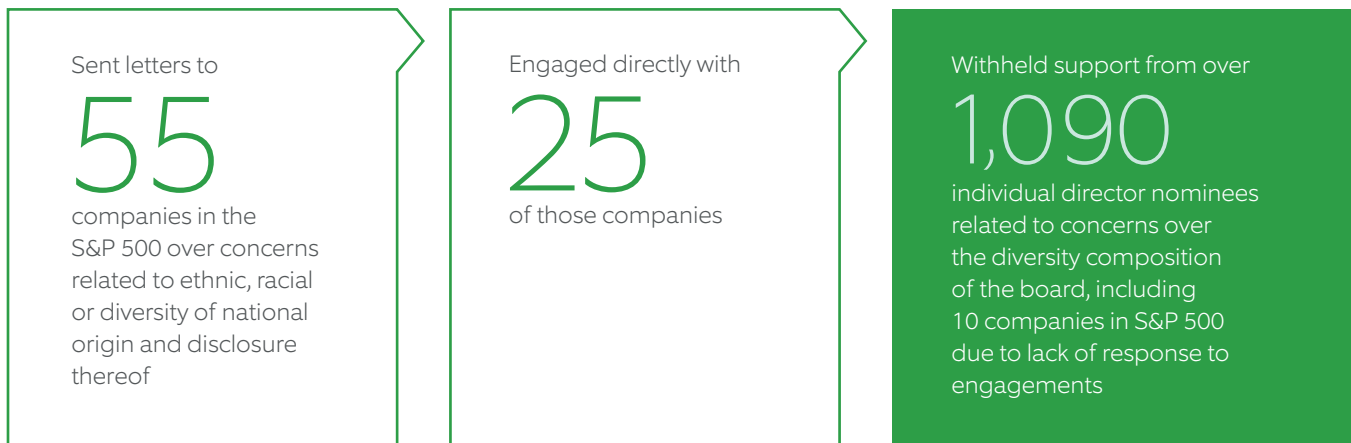
STEWARDSHIP PROCESS



EXAMPLES BY THEMES & PRIORITIES

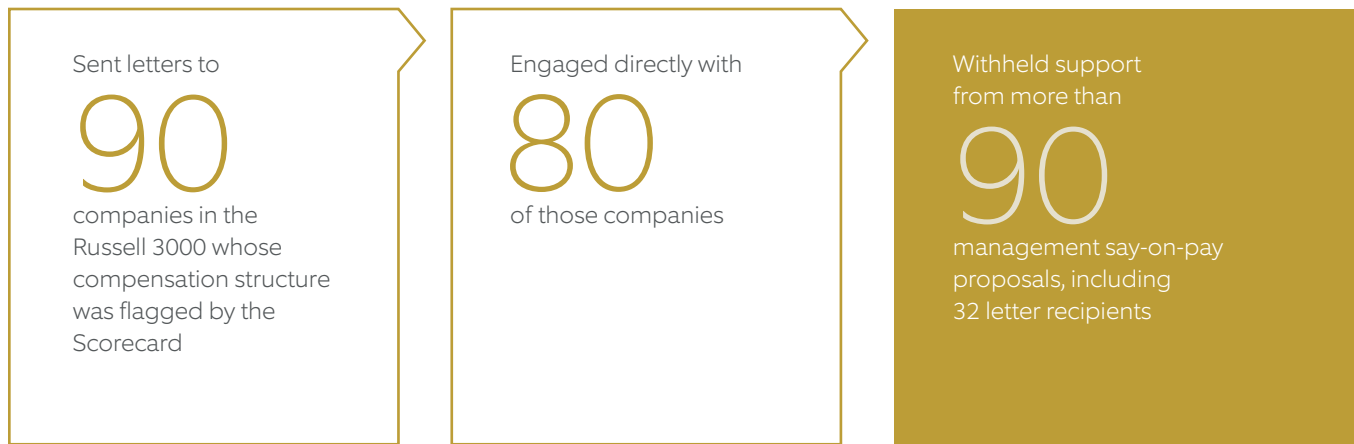
Board Diversity (2019)

Northern Trust Asset Management believes an effective board should be comprised of directors with a mix of skills and experience to affirm it has the necessary tools to perform its oversight function effectively; this includes diversity of background, experience, expertise, age, race, gender, ethnicity and culture. Northern Trust Asset Management will withhold support from the chair of the nominating committee, or in some instances, the highest tenured director on the nominating committee, when we believe the composition of the board does not reflect the diversity of the workforce and society. We apply this policy to director nominees at companies publicly listed in Australia, Canada, New Zealand, the United Kingdom and the United States.



### Executive Compensation (2019)

Northern Trust Asset Management believes compensation plans should be fair and designed to motivate executives and employees to achieve strong results for shareholders while mitigating the motivation to take excessive risks. Northern Trust Asset Management implements a proprietary scorecard to identify companies with problematic executive compensation practices. When necessary, we subsequently engage with the identified companies if we are concerned with features such as pay structure in relation to firm performance compared to its peers, problematic governance practices, and overall level of transparency and responsiveness to shareholder concerns.



### Greenhouse Gas Emissions Reduction Targets

Northern Trust Asset Management recognizes that climate-related transition risks will most likely manifest themselves in the form of regulatory constraints on greenhouse gas (GHG) emissions, and impediments to the production of energy and raw materials. Investment portfolios can be materially impacted by the effect of stranded assets. Northern Trust Asset Management votes case-by-case on proposals requesting the setting of GHG reduction goals from products and operations. Typically, these resolutions ask companies to set long-term, company-wide science-based targets. When examining companies on these matters, we typically look at their level of risk exposure relative to peers, decarbonization targets (whether they are company-wide or segment-by-segment) and how those targets are set, managed and overseen by the board. We also take into consideration the company's level and quality of communication and engagement with shareholders.

2018	2019
<ul style="list-style-type: none"><li>• Engaged with 11 companies in advance of their annual meeting on a GHG emissions related shareholder resolution</li><li>• Supported 12, or 60%, of shareholder resolutions related to GHG emissions, including 4 resolutions calling for the adoption of GHG emission reduction targets</li></ul>	<ul style="list-style-type: none"><li>• Engaged with 4 companies in advance of their annual meetings on a GHG emissions related shareholder resolution</li><li>• Supported 12, or 60%, of shareholder resolutions related to GHG emissions, including 2 resolutions calling for the adoption of GHG emission reduction targets</li></ul>

## CASE STUDIES

The case studies presented are intended to illustrate products and services available at Northern Trust. They do not necessarily represent experiences of other clients nor do they indicate future performance. Individual results may vary.

### **Success: Board Diversity at an Energy and Equipment Services Company**

In the fall of 2018, we engaged on the topic of board compensation with a U.S. energy and equipment services company that has a global operation and a market cap of over U.S. \$500m. In the spring of 2019, the company reached out to us to indicate that based on our discussions with them they had taken proactive action to increase overall diversity on the board, with a particular focus on adding geographic and technical skills that align to the long-term business strategy. They were happy to report that in 2019 they are adding a 'geographically diverse director' (meaning a non-US national) with energy experience in the Middle East and Latin America. They also enhanced their disclosure regarding talent and leadership development activities, safety standards and processes, in line with our dialogue on the need for better disclosures around material environmental and social factors.

### **Failure that Leads to Success: GHG Emissions Reduction Targets**

In the spring of 2018, we engaged with a U.S. technology and engineering company that provides global services to industrial, commercial and residential markets and has a market cap of over U.S. \$41 billion on its approach to managing scope 1 and scope 2 GHG emissions. At the time, a coalition of shareholders had submitted a precatory proposal requesting that the company adopt quantitative GHG emissions reduction goals and report to shareholders on the company's plan for achieving such goals. After listening to company arguments, we determined the company had the necessary technical capacity to monitor and measure GHG emissions in its manufacturing operations and could be doing more to manage its GHG emissions. Given the lack of commitment to pursue changes, we ultimately decided to vote against the management recommendation on the shareholder resolution. The shareholder proposal received at least 40% support overall. The company subsequently agreed to pursue the request of shareholders and, in 2019, announced a commitment to reduce its GHG emissions by 20% across over 200 of its global manufacturing facilities by the year 2028.

### **Failure and Ongoing Dialogue: Executive Compensation**

Since 2017, we have annually engaged with a U.S. construction company over a range of compensation concerns. The company provides diversified general contracting, construction management and design-build services to private customers and public agencies worldwide and has a market cap of over U.S. \$850m. In these discussions, we expressed concerns around the magnitude of pay, disclosures, the compensation committee composition, and other matters. The company was receptive to our advice, but not responsive to it (i.e., made no commitment to change), leading to us voting against the management say-on-pay resolution in 2019. We will continue to pursue a dialogue with the company until we are satisfied with the structure of its pay program.

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