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Wellington Management Stewardship Priorities

Key Takeaways

WELLINGTON MANAGEMENT®

Wellington Management (WM) is an investment management organization with over USD 1.4 trillion AUM (December 31, 2021). WM voted at 6685 general meetings in 68 markets in 2021, and an additional 850 meetings in Q1 2022. According to its proxy disclosures, WM voted **against** management on at least one resolution at 47% of the meetings in Q1 2022.

WM incorporates environmental, social, and corporate governance (ESG) factors in its investment decision making. For companies interested in engaging with WM, it is important to start by understanding the fund's current guidelines, most recent voting record, and past engagement activities. These insights can help companies better understand the investor's priorities, potential questions, and possible red flags prior to the engagement.

Wellington's Voting Guidelines

Environmental

- Recommends Task Force for Climate Related Financial Disclosure
- Vote against the re-election of the Chair of constituent companies of the MSCI World index or companies that are assessed by the Transition Pathway Initiative (TPI) that do not disclose Scope 1 and 2
- Supports proposals asking for improved disclosure on climate risk management and alignment with the Paris Agreement
- May vote against directors at companies where climate plans and disclosures meaningfully lag the above expectations

Social

- Supports enhanced disclosure on companies' approach to mitigating the risk of human rights violations
- Supports improved workforce diversity disclosure, for example EEO-1 reporting
- Vote against the nominating/governance committee chair of major index companies who fail to disclose their board's racial composition and if gender representation is below 20%

ESG Focus Areas

- **Building resiliency to physical climate risks**
- **Establishing targets to reduce emissions**
- **Encouraging diversity, equity, and inclusion practices**
- **Discouraging modern slavery in supply chains**
- **Discouraging director overboarding**
- **Encouraging board refreshment**

Reference: Wellington Management 2021 Sustainability Report, Proxy Voting Guidelines

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Key Takeaways (Contd.)

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Governance

- Supports removing existing supermajority vote requirements
- May withhold votes from directors who fail to implement shareholder proposals that have received majority support or implemented poison pills without shareholder approval
- Vote against over-boarded directors (defined as directors on five or more public company boards; and executives who serve on three or more public boards)
- May vote against the head of the nominating committee when companies fail to refresh directors every five years
- Supports the right to vote on compensation plans annually. Believes in pay-for-performance and encourages plan structures that align executive compensation with shareholder experience
- Supports board oversight of a company's political contributions and lobbying activities

Pre-IPO Engagement Case Study

ESG Concern Raised: Dual-class voting structure

A company in WM's portfolio had proposed adopting a dual-class voting structure as it prepared to go public. WM looked to engage with the company to advise on governance best-practice principles incorporating examples of positive change.

Engagement details

WM prefers one share = one vote because it believes shareholders' voting power should be reflected according to their economic stake in a company. While WM understands some founders want to maintain control during the pivotal early years as a public company, it noted the proposed voting structure would grant the founder/CEO 50 votes per share, outside of what WM believes are governance best practices. WM voiced its concerns that this move could have negative unintended consequences, including votes against the board's directors in the future or limiting access to capital, given that some asset owners decline to invest in companies with perceived bad governance.

Outcome

After sharing research on public companies with a 50:1 vote structure, the company decided to modify its proposal to a 10:1 voting structure with a six-year sunset provision.

Reference: Wellington Management 2021 Sustainability Report, Proxy Voting Guidelines

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Key Takeaways (Contd.)

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Q1 2022 ESG Voting Examples

Company	Issues	Outcome
Environmental		
CGI Inc.	Insufficient board oversight of environmental and social issues and multi-class share structure with unequal voting rights	Voted Against Director
Social		
Arrowhead Pharmaceuticals Inc.	Diversity concerns (gender)	Voted Against Nom. Committee Chair
Duckhorn Portfolio Inc. (IPO)	IPO governance concerns and diversity disclosure concerns	Voted Against the Nom./Gov. Committee Chair, Audit Committee Chair and Chairperson of the Board
Governance		
Pricesmart Inc.	Pay for performance misalignment and poorly structured pay plan	Voted Against Executive Compensation
Visa Inc.	Overboarded director	Voted Against Director
Zscaler Inc.	Pay for performance disconnect and additional concerning pay practices	Voted Against Executive Compensation

Reference: Wellington Management 2021 Sustainability Report, Proxy Voting Guidelines