

ESG Activism – The Activist ESG Playbook

Activism, Diagnostics & Vulnerability

September 2021

PRIVATE AND CONFIDENTIAL. This document is being sent to you for your information only as an investment banking client of Goldman Sachs and should not be forwarded outside of your organization. This document has been prepared by the Investment Banking Division and is not a product of the research department of Goldman Sachs. This document should not be used as a basis for trading in the securities or loans of the companies named herein or for any other investment decision. This document does not constitute an offer to sell the securities or loans of the companies named herein or a solicitation of proxies or votes and should not be construed as consisting of investment advice.

Topics	Key Observations
1 <i>Significant rebound in activism activity</i>	<ul style="list-style-type: none"> ■ Activism activity has recovered YTD since the pandemic lows ■ To date, the number of public campaigns is 20% higher than last year and back to pre-pandemic levels
2 <i>First timers and occasional activists are driving volumes</i>	<ul style="list-style-type: none"> ■ Activism by first timers and occasional activists has been on the uptick over the last several years across all industries, and represents ~70% of all campaigns YTD ■ Occasional activists are often frustrated institutional investors (including long only funds), who are no longer afraid to run campaigns in the public eye
3 <i>M&A Activism represents a key driver of dissident activity</i>	<ul style="list-style-type: none"> ■ M&A-focused campaigns represent almost 40% of activity YTD ■ Campaigns include portfolio simplification, WholeCo. sale, and contested M&A (deal break and “bumpitrag”)
4 <i>Bumpitrag campaigns are on the rise</i>	<ul style="list-style-type: none"> ■ Public campaigns to obtain a higher purchase price, after a sale transaction has been announced, are on the rise driven by: <ul style="list-style-type: none"> — Perception that buyers are being opportunistic on seller price weakness amidst COVID — Corporates and private equity appetite for assets to drive growth and deploy capital
5 <i>Environmental and social themes increasingly a factor in campaigns</i>	<ul style="list-style-type: none"> ■ Activists increasingly identifying environmental and social vulnerabilities as wedge issues in their campaigns ■ E&S activism, defined as campaigns centered around environmental and social themes, is accelerating

Sustainability Factors Increasingly Used in Activist Campaigns

What's Happening?

- Asset managers under pressure to act on ESG-related matters



BlackRock

STATE STREET GLOBAL ADVISORS

J.P.Morgan



"The asset management industry is a joke in respect to what they are actually doing [around climate change]. They talk but they don't actually do anything effective"

**Sir Chris Hohn, Nov-2020
TCI Fund Management**

- Increasingly influential role of largest asset managers, which now control over **40%** of fund industry U.S. equity assets¹
- Passive focus on ESG provides activists the opportunity to co-opt sustainability themes
- Increased shareholder support for E&S resolutions and more aggressive shift in voting patterns
 - Blackrock has supported **~89% of environmental proposals** during the 2021 proxy season (compared to 6% in 2020)
- ESG plays a new important role in assessment of activist campaigns (after financial performance)
 - 64%** of investors would consider weak governance practices the most important factor when deciding to support an activist, while **32%** consider ESG risks most important²

Source: Activist Insight, Proxy Insight, FactSet, Company filings, Public sources.

¹ Encompasses Blackrock, Vanguard, and State Street Global Advisors.

² In addition to poor financial performance; per Morrow Sodali Institutional Investor Survey 2020.

How is it Happening?

Launch of Sustainability Focused Funds

INCLUSIVE CAPITAL PARTNERS AUM (~\$1.2bn)

- Co-founded by Jeff Ubben
- Seeks long-term value through active partnership with companies

IMPACTIVE CAPITAL AUM (~\$400m)

- Founded by former partner at Blue Harbour
- Invests where material ESG changes can deliver superior long-term risk adjusted returns

ENGINE NO.1 AUM (~\$250m)

- Co-founded by former partner of JANA
- First campaign launched at ExxonMobil

Clearway Capital

- Launched by former partner at Shareholder Value Management

Traditional Activists Embedding ESG in Policies

Cevian Capital Requires ESG Targets in Management Compensation Plans

"Significant, measurable and transparent ESG targets should form part of senior management compensation plans for all European public companies. Therefore, Cevian Capital is today calling upon European public companies to start, or accelerate, the development of such ESG targets for integration into compensation plans to be put to shareholder vote at AGMs in 2022."

– 03 March 2021



Precedent E&S Activism Situations



Elliott's Sustainability Demands:







- Accelerate expansion of renewable footprint and decarbonization efforts



Impactive's Sustainability Demands:

- Implement energy-saving operational measures to increase efficiency and decrease costs

ESG related activism tends to follow a predictable pathway starting with shareholder proposals. Lack of engagement or progress on addressing key E&S issues can expose companies to withhold votes on directors or direct replacement campaigns

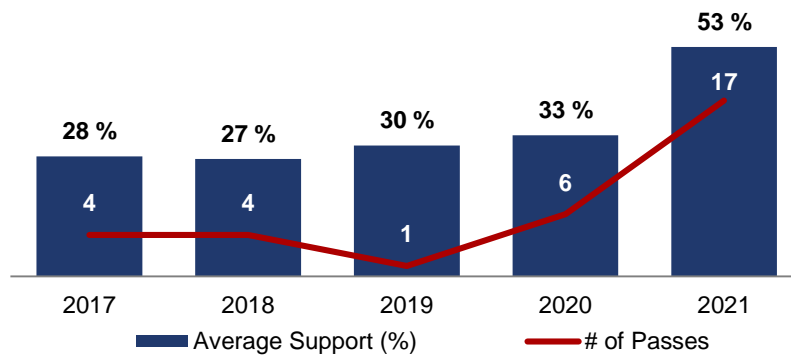
	1 Shareholder Proposals	2 Withhold Votes on Directors	3 Campaign to Replace Directors
Description	<ul style="list-style-type: none"> Submit proposals for inclusion in management proxy statements <ul style="list-style-type: none"> Company expected to address request if high shareholder support 	<ul style="list-style-type: none"> Campaign shareholder base to withhold vote support for specific directors for failure to address ESG issues 	<ul style="list-style-type: none"> Conduct proxy fight to nominate new director candidates to replace incumbents
Areas of Focus	<ul style="list-style-type: none"> Say on climate Emissions disclosures Racial equity & justice audits ESG-linked executive compensation 	<ul style="list-style-type: none"> Lack of disclosures on climate impact Slow progress or lack of commitment on climate or diversity & inclusion Lack of gender and increasingly racial diversity Governance issues Lack of engagement with shareholders 	<ul style="list-style-type: none"> Financial underperformance and problematic capital allocation framework linked to ESG strategy Board skills and expertise around ESG Lack of investor engagement ESG crisis
Selected Relevant Investors	<ul style="list-style-type: none"> Investor coalitions, ESG focused investors 	<ul style="list-style-type: none"> Index and pension funds and increasingly large institutions 	<ul style="list-style-type: none"> ESG activists “Traditional activists” 
Selected Situations			

Source: Activist Insight, Proxy Insight, Company filings, Public sources.

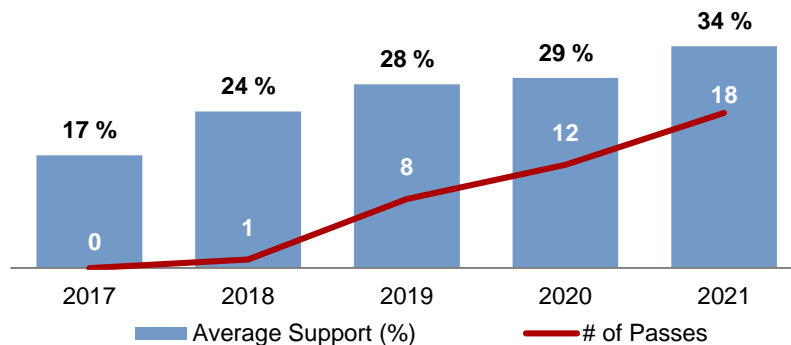
Increasing Support for E&S Proposals (1/2)

An Unprecedented Number of E&S Shareholder Proposals Passed in 2021 with Many Others Receiving Significant Support







Environmental Shareholder Proposals



Social Shareholder Proposals



Select Social Proposals Put to Vote in 2021

Company	Market Cap (\$bn) ²	Proposal	Mgmt. Rec	% Support / Result
 Wendy's	\$ 5.2	Report on Human Rights Risks in Operations and Supply Chain	FOR	94.3% / Pass
 IBM	126.9	Publish Annually a Report Assessing Diversity, Equity, and Inclusion Efforts	FOR	92.5% / Pass
 UNITED	18.8	Report on Political Contributions and Expenditures	AGT	67.5% / Pass
 Chevron	200.7	Report on Lobbying Payments and Policy	AGT	47.5% / Fail
 citi	152.3	Report on Racial Equity Audit	AGT	37.8% / Fail
 Cigna	85.9	Report on Gender Pay Gap	AGT	32.3% / Fail

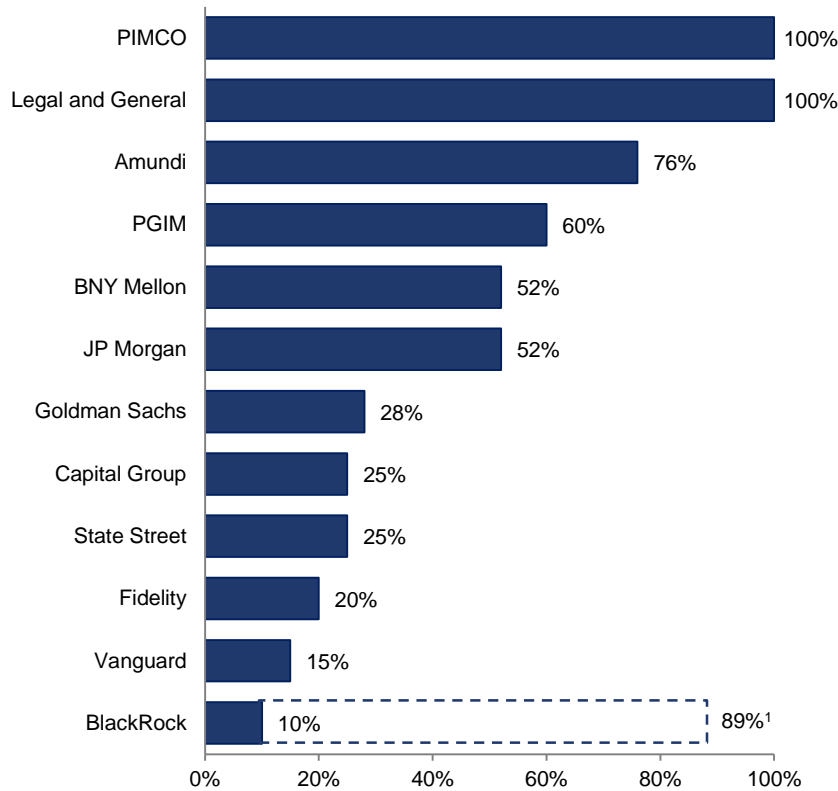
Source: ISS

Note: ¹ At companies included within the Russell 3000 index. Annual data reflects the period from July 1 of last year through June 30 of current year. E&S proposals included in the data sample exclude 'counter-proposals' seeking companies to discontinue corporate ESG efforts. ² Market cap at 2021 AGM.

Increasing Support for E&S Proposals (2/2)

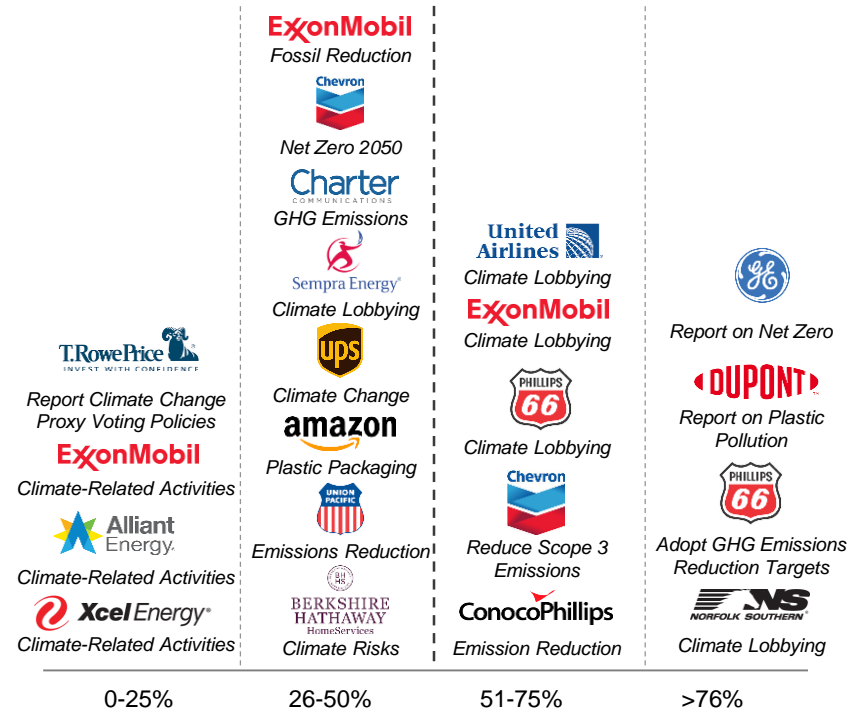
Large Institutional Investors Will Continue to Play a Key Role in Whether ESG Proposals Pass

Asset Manager Voting in Support of Climate Shareholder Proposals in 2020



Many Environmental Shareholder Proposals Received Significant Support

Shareholder Support for Environmental Proposals at S&P 500 Companies in 2021



"If a company does not provide adequate public disclosures for us to assess how material [climate] risks are addressed, we will conclude that those issues are not appropriately managed and mitigated...given the need for urgent action on many business relevant sustainability issues, we will be more likely to support a shareholder proposal without waiting to assess the effectiveness of engagement [in 2021]"

— BlackRock 2021 Stewardship Expectations

Source: Majorityaction, Morningstar and corporate disclosure, Proxy Insight. ¹ Per BlackRock Q1 2021 Investment Stewardship Q1 2021 Global Quarterly Report, BlackRock supported 89% of environment shareholder proposals in Q1 2021.

Recent ESG activism campaigns have found companies facing ESG attacks alongside economic / stock-performance attacks



Capital Allocation

Questions to consider:

- What is your capital allocation strategy?
- Should you return more capital to shareholders?
- Are you returning less capital than peers?



TSR

Questions to consider:

- How is your recent performance?
- How does your TSR/recent performance compare to your peers?
- Are there multiple business lines or a SOTP discount?



ESG

Questions to consider:

- Are you an ESG laggard?
- Do you have ESG disclosure in-line or better than peers?
- Are there governance-related issues (long-tenured directors, diversity, etc.)?
- Have you had any high profile ESG controversy or in a sector of focus (e.g. carbon intensive)?

Proactive Measures to Navigate the Changing ESG Landscape

Potential Practice	Overview
Active Board Oversight	<ul style="list-style-type: none"> Increasingly comprehensive set of investor expectations for Board Expected to build fluency on ESG issues and maintain ongoing engagement with experts and stakeholders Provide clear board-level oversight of ESG and integrate into business strategy
Enhance Disclosure	<ul style="list-style-type: none"> Track and disclose metrics that tie to widely-used frameworks (e.g. SASB, TCFD)¹ Provide forward-looking ESG disclosure Know your ESG scores, review ESG ratings reports, and if necessary, engage raters
Set ESG Progress Targets	<ul style="list-style-type: none"> Describe your strategy that sets forth short-, medium- and long-term ESG targets (e.g. carbon, water, waste, renewable energy, etc.) Ideally align target to externally recognized measurement initiatives (e.g. SBTi)²
Monitor and Communication with Shareholder Base	<ul style="list-style-type: none"> Continuously monitor investor activity and assess ongoing alignment with strategy Consistently communicate ESG strategy with investors
Align Executive Compensation with Sustainability	<ul style="list-style-type: none"> Link executive-level remuneration to ESG goals Disclose the rationale and method for incorporating ESG metrics

¹ Sustainability Accounting Standard Board, Taskforce on Climate Related Financial Disclosure. ² Science Based Target initiative.

Activism & Shareholder Advisory Group

Senior Leadership



Avi Mehrotra
Global Head of ASA
212-902-2570
avinash.mehrotra@gs.com



Pam Codo-Lotti
Global COO of ASA
212-902-5873
pamela.codo@gs.com



Neil Rudisill
Vice President
212-902-8146
neil.rudisill@gs.com



Jillian Alsheimer
Vice President
212-902-3195
jillian.alsheimer@gs.com



Kevin Smith
Vice President, ESG Captain
212-357-9750
kevin.m.smith@gs.com



Anne Bizien
Head of ASA, EMEA
33-1-4212-1114
anne.bizien@gs.com

Goldman Sachs' Activism & Shareholder Advisory franchise has the deepest, most experienced bench on the Street:

- **#1** Defense advisor globally, in EMEA and in the US **by market cap defended**¹
- **#1** Defense advisor globally, in EMEA and in the US **by # of defense engagements**
- **#1** Defense advisor globally, in EMEA and in the US **by market cap defended >\$1bn**
- Acted as defense advisor against **all major dedicated activists**
- **Deep ESG insights and experience**, serving as dedicated ESG team within #1 M&A franchise
- **Nearly a dozen senior M&A execution leads** at the helm of regional practices with several more M&A experts in various industry groups
- **Team of dedicated data scientists** directly supporting the development of activism-specific analyses

Source: Bloomberg. ¹ Market Cap as at campaign initiation date.

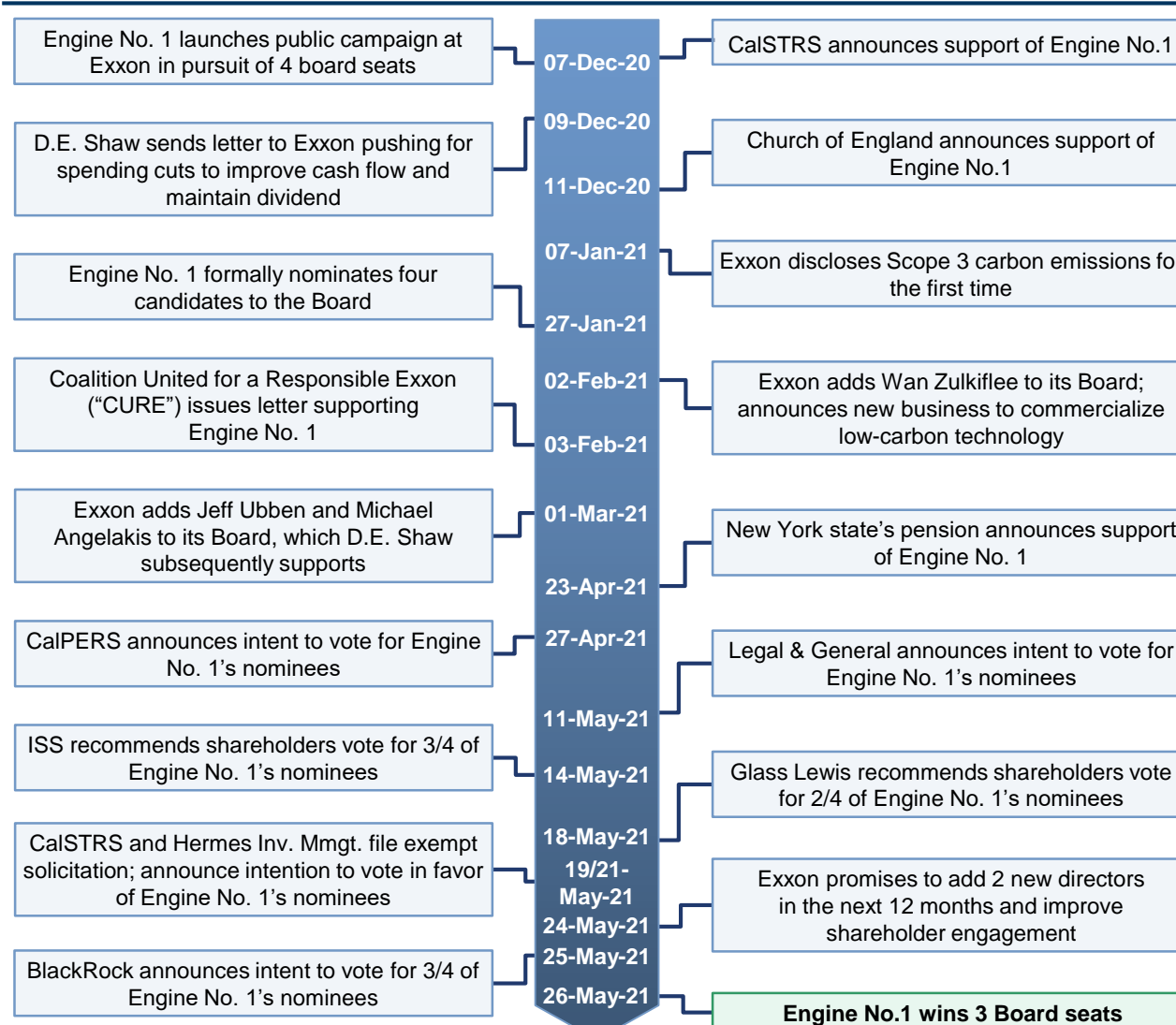
Appendix A: Additional Materials

Overview of Exxon's Proxy Fight with Engine No. 1

First attack on a mega-cap company where ESG is a core component of the thesis



Timeline of Events



Engine No 1's Ownership:

- ~0.9mm shares (0.02%)
- Cost basis of \$41.98 / share¹

Engine No. 1's Key Focus Areas:

- Board refreshment - 4 nominees with diversified energy experience
- Reduce capital expenditures, particularly in oil & gas
- Investment in high-growth renewable energy
- Realignment of management incentives

Why Was Exxon Vulnerable?²

- Poor total shareholder return (L3Y TSR (33.9%)) compared to peers
- Lack of transparency on climate and broader ESG strategy and metrics
- Capital allocation strategy generating low return and exacerbating poor environmental performance
- Heavy capital expenditures and high debt
- Large concentration of ESG/governance-focused investors (~32% OS)
- Despite high retail concentration (~50%), retail vote was not enough to win, which demonstrates increased retail sensitivity to ESG issues

Source: Public sources

¹ Cost basis represents a 41% discount to the 52-week high (\$70.90) as of 30-Dec-2020. ² GS IBD analysis based on public information.

Applicability to Exxon's Recent Fight

Engine No. 1's ESG activism campaign partnered ESG attacks alongside economic / stock-performance attacks



Capital Allocation

- What is your capital allocation strategy?
- Should you return more capital to shareholders?
- Are you returning less capital than peers?

Exxon's Positioning

- Significant degradation in corporate returns
- Debt funded dividend
- Limited allocation of capital to energy transition vs. European peers



TSR

- How is your recent performance?
- How does your TSR/recent performance compare to your peers?
- Are there multiple business lines or a SOTP discount?

Exxon's Positioning

- Poor share price performance vs. Super Major peers
- Energy transition focused equities have strong performance vs. broader market



ESG

- Do you have ESG actions and disclosure in-line or better than peers?
- Are there governance-related issues?
- Have you had any high profile ESG controversy or in a sector of focus (e.g. carbon intensive)?

Exxon's Positioning

- Perception in market of meaningful laggard to European peers
- Largest global footprint creates perception that pace of transition needs to be fastest to keep up

Source: GS IBD analysis based on public information.