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'Hero pay' proxy vote shows how ESG issues have evolved

By: William Hsu | May 6, 2021

Washington - This proxy voting season, the first to be fully conducted since the COVID-19 pandemic impacted nearly every country across the globe, has seen a number of shareholder resolutions examining how companies responded over the past 12 months, and whether they are prepared for a similar crisis or disruptive event to occur in the future.

One shareholder proposal vote we will be watching closely will occur at the May 6 annual meeting of Loblaw Companies Limited (Loblaw), a Canadian food and pharmacy company. The shareholder resolution asks the company to examine its capital and risk management practices during the pandemic, in particular, its decision to abandon pay increases for employees at the same time it was buying back hundreds of millions of dollars in stock. Calvert will vote in favor of this proposal, which would examine how the company balanced the interests of Loblaw's stakeholders and how it monitored and assessed actions that could cause the company undue reputational risk.

How we made the decision

Calvert's voting decisions are based on the proxy voting guidelines published on our website. However, new issues arise every year that don't fit neatly into the existing guidelines. As issues evolve, our engagement team uses the Calvert Principles for Responsible Investment and other relevant documents to formulate a voting decision that best reflects our mindset around the resolution.

In March 2020, Loblaw began paying its approximately 200,000 employees an extra \$2 per hour for their work during the pandemic, often referred to as "hero pay." This increase was terminated in June 2020, during a similar time frame when the company was engaging in hundreds of millions of dollars worth of stock repurchases. A resolution proposed by the British Columbia Government and Service Employees' Union General Fund and the British Columbia Government and Service Employees' Union Defence Fund asks the company to produce a report examining capital and risk management practices during the pandemic, in terms of balancing the interests of Loblaw's stakeholders and monitoring and assessing actions that could cause Loblaw undue reputational risk. Specifically, the request is for the report to include the company's rationale for repurchasing so much stock while ending hero pay to frontline employees after three months without the board or the Risk and Compliance Committee deliberating on the decision to end hero pay.

Calvert has never voted on issues related to such "hero pay" since it is a new practice that arose out of the pandemic. However, under the section titled, "Labor Relationships and Vendor Standards," our Proxy Voting Guidelines state that, "Companies that provide fair labor standards, equitable compensation and decent working conditions may experience improved productivity and worker engagement. Conversely, companies that violate core human rights may face legal and reputational risk, as well as risk of a disengaged and unproductive workforce."

While ceasing to pay hero pay may not necessarily qualify as a violation of core human rights, the company has faced significant reputational risks in response to its actions. For example, Canada's House of Commons Standing Committee on Industry, Science and Technology asked Loblaw to testify about its decision to terminate hero pay. It runs the risk of facing additional scrutiny following the vote should it decide to be less than transparent about the issue.

In addition, based off Loblaw's description of the roles and responsibilities of its Risk and Compliance Committee and the fact that the committee has been very instrumental in other areas of the company's pandemic response, it seems like it would have been good practice to have this committee weigh in on the decision to cease hero pay.

Bottom line: In cases where new or niche issues arise and we don't have any preexisting language in our Proxy Voting Guidelines that addresses them - such as the topics of "hero pay" or shareholder input on a company's capital allocation decisions - our engagement team carefully examines adjacent issues in the guidelines against the specific concerns that are pertinent to the vote in order to determine how we respond in a way that is consistent with the Calvert Principles.

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- Alimentation Couche-Tard Inc. Class B
- Axfood AB
- BIM Biresik Magazalar A.S.
- Casey's General Stores, Inc.
- Dairy Farm International Holdings Limited
- Empire Co. Ltd. Class A
- Etablissements Franz Colruyt N.V.
- George Weston Limited
- Grocery Outlet Holding Corp.
- ICA Gruppen AB
- J Sainsbury plc
- Jeronimo Martins, SGPS S.A.
- Kesko Oyj Class B
- Koninklijke Ahold Delhaize N.V.
- Kroger Co.
- Loblaw Companies Limited
- Metro Inc.
- President Chain Store Corporation
- Sprouts Farmers Markets, Inc.
- Tesco PLC
- Wm Morrison Supermarkets plc
- Woolworths Group Ltd



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