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</tbody>
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INTRODUCTION

This report summarizes the work of the Investors for Opioid Accountability (IOA) from July 1, 2017 to July 31, 2019. The IOA is a diverse global coalition of 57 members representing public, faith-based, labor, and sustainability funds, as well as investment managers, with $4 trillion in collective assets under management and advisement. The report covers the following topics:

- The Business Case for the IOA;
- IOA Engagement Strategy & Companies;
- Key Governance Proposals for Opioid Companies;
- Global Opioid Business Risks beyond the United States; and
- IOA Results by Company.

Coalition Highlights by the Numbers

- 57 members joined in fewer than two years.
- 52 shareholder resolutions on corporate governance filed at companies in the opioid supply chain.
- 22 resolutions voted at annual shareholder meetings.
- 7 resolutions approved by a majority of independent shareholder votes.¹

- 26 negotiated settlements on governance issues reached by companies and IOA members prior to a vote of shareholders.
- 4 negotiated settlements on governance issues reached by companies and IOA members following a vote of shareholders.
- 2 companies created a board level committee dedicated to oversight of opioids.
- 12 companies issued or committed to issue board risk reports.
- 10 companies adopted a misconduct clawback policy.
- 3 companies agreed to separate the Chairman from CEO position.
- 3 companies addressed executive compensation incentives by factoring in calculations of legal costs.
- 80 percent vote received for lobbying resolution filed by IOA member United Church Funds at Mallinckrodt, the highest lobbying proposal vote percentage to date, and the first time a company has come out in support of a lobbying shareholder resolution.

$4 trillion

Amount of assets under management and advisement held by IOA members
HISTORY OF THE IOA

Investors established the IOA in July 2017 out of heightened concern that the opioid crisis impacts the economy at a systemic level and poses risks to companies in the supply chain that impact long-term shareholder value. The IOA focused on three key parts of the opioid supply chain: manufacturers, distributors, and retail pharmacies. The catalyst for the IOA came from the successes of the Teamsters and state treasurers in consultation with Segal Marco Advisors with opioid distributors in early 2017 and a call to action from members of the Interfaith Center for Corporate Responsibility (ICCR), which has its own long-standing history of successful shareholder engagement at pharmaceutical companies.

The IOA is co-led by Mercy Investment Services (MIS) and the UAW Retiree Medical Benefits Trust (UAW Trust). When the IOA launched in 2017 its membership marked 30 members and $1.3 trillion in assets under management. By July 2019, the coalition grew to 57 members, with $4 trillion in assets under management and advisement. IOA members developed and informed strategy, lead and participated in dialogues with companies, and sponsored shareholder resolutions. Several international IOA members formed a subcommittee to address market specific concerns to opioid supply chain companies and spoke at numerous conferences on the subject.

FIGURE 1: Sector Composition of IOA Members

Members Represent A Diverse Cross Section Of Institutional Investors

- Asset Managers: 16%
- Labor Funds: 5%
- State Treasurers & Comptrollers: 7%
- Faith-based Investors: 26%
- Public Employee Retirement Systems: 37%
- VEBA/SRI: 9%
- 5% number of members that comprise the IOA
- 52% IOA success rate on negotiated settlements
While members of the IOA brought different experiences and perspectives on opioids, the scope of the coalition’s work derived from a collective investor view that opioid supply chain companies showed gaps in governance and oversight that left them vulnerable as the opioid crisis grew. This “lens” focused on the corporate governance, compliance and compensation incentive practices. The collective goal of the IOA’s work is to utilize governance tools to create sustainable business models equipped to navigate the firms through the opioid crisis, as well as hold boards accountable.

At the onset of our work, mounting legal and reputational risks were present. During the two years of the IOA’s work, over 2,000 counties, cities, and health plans filed lawsuits against opioid companies, the bulk of which have been consolidated in federal district court in Ohio. Thirty-six (36) state attorneys general offices filed their own complaints against opioid companies. Research firms MSCI and HSBC estimated significant legal liability exposure for these companies.²

Litigation briefs and company engagements have helped shape the IOA’s views on improving corporate governance practices to strengthen corporate culture, board accountability, compensation incentives, and risk mitigation. The IOA assessed each company and identified practices to strengthen governance through board oversight.

IOA shareholder resolutions requested that opioid supply chain companies:

1. Appoint an independent director to chair the board in lieu of the CEO;
2. Publicly report the board’s assessment of business risks stemming from the opioid business, and efforts undertaken to mitigate those risks;
3. Adopt clawback policies on executive pay in cases of misconduct;
4. Create appropriate incentives for executives to police compensation by revisiting the exclusion of legal costs from profit metrics used in incentive plans; and
5. Disclose corporate political spending and lobbying in a report on the firm’s website.
Aberdeen Standard
Adrian Dominican Sisters
Aegon Asset Management
Æquo Shareholder Engagement Services
American Federation of Teachers Pension Plan
Aquinas Association
Bailard, Inc.
Benedictine Coalition for Responsible Investment
BNP Paribas Asset Management
Bon Secours Mercy Health
Boston Common Asset Management
Bricklayers & Trowel Trades International Pension Funds
California State Teachers’ Retirement System
California State Treasurer’s Office
Calvert Research and Management
Catholic Health Initiatives
CTW Investment Group
City of Philadelphia Public Employees’ Retirement System
Congregation of St. Joseph

Connecticut State Treasurer’s Office
Daughters of Charity, Province of St. Louise
Dignity Health
Diocese of Springfield, IL
Domini Impact Investments
Dominican Sisters of Springfield, IL
Guidestone Financial Resources of the Southern Baptist Convention
Hermes Equity Ownership Services
Hexavest
Illinois State Treasurer’s Office
Interfaith Center on Corporate Responsibility
International Brotherhood of Teamsters
JLens Investor Network
Mercy Investment Services
NEI Investments
Neuberger Berman
New York State Common Retirement Fund
Northwest Coalition for Responsible Investment
OIP Trust / Missionary Oblates
Office of the New York City Comptroller

Pennsylvania State Treasurer’s Office
Region VI Coalition for Responsible Investment
Rhode Island State Treasurer’s Office
School Employees Retirement System of Ohio
Segal Marco Advisors
Seventh Generation Interfaith Coalition for Responsible Investment
SHARE
Sisters of St. Francis of Philadelphia
The Socially Responsive Investing Group of 1919 Investment Counsel
Socially Responsible Investment Coalition
Trinity Health
UAW Retiree Medical Benefits Trust
United Church Funds
Vermont State Treasurer’s Office
Walden Asset Management
Wespath Benefits and Investments
West Virginia State Treasurer’s Office
Zevin Asset Management, LLC
OPIOID BUSINESS RISKS: THE BUSINESS CASE FOR THE IOA

The Opioid Epidemic in the United States

The opioid epidemic is a public health crisis in North America and spreading globally. The U.S. Centers for Disease Control and Prevention (CDC) reported that in 2017 alone, opioid overdoses caused 47,600 deaths or 130 deaths per day in the United States. In Canada, 2017 saw approximately 4,000 opioid-related deaths, a 34 percent increase from the prior year. In England and Wales, opioids related deaths reached a record high of 4,359 in 2018.

In the United States, the economic and social effects of the opioid crisis have been profound. The late economist Alan Krueger estimated that nearly 50 percent of prime-age non-labor force men take pain medication on a daily basis, and nearly two-thirds of the 50 percent take prescription pain medication. A look at opioid prescriptions by county found a correlation between men’s labor force participation and total amounts of opioids prescribed during a 15-year period. The more opioids prescribed, the larger the drop in men’s participation in the workforce. Goldman Sachs attributed opioids as a driver of why many men of prime working age in the United States are unable or unwilling to find work.

Furthermore, the U.S. Council of Economic Advisers, in a November 2017 report, put the economic cost of the opioid crisis in a single year at $504 billion or 2.8 percent of GDP. The opioid crisis is also straining the foster care systems of nearly every U.S. state, and opioid-related costs consume an increasing share of public resources.

Business Risks of Companies in the Opioid Supply Chain: The Manufacturers, Distributors and Retail Pharmacies

Opioid manufacturers have come under scrutiny for their role in the crisis. Criticism has focused on promotional practices that downplayed the highly addictive nature of opioids and overstated opioids’ efficacy in treating chronic pain. In some cases, manufacturers reportedly encouraged off-label use by prescribers in an effort to raise sales, using lucrative “kick back” schemes for doctors. Manufacturers have faced investigation by federal regulatory agencies for failing to report to the Drug Enforcement Administration (DEA) suspicious spikes in sales to distributors.

“The opioid epidemic is intertwined with the story of declining prime-age participation, especially for men, and this reinforces our doubts about a rebound in the participation rate.”
— Said David Mericle, senior U.S. economist at Goldman Sachs according to CNBC.
Opioid distributors face allegations of failure to report suspicious orders to the DEA – a key compliance obligation. Three major distributors, AmerisourceBergen, Cardinal Health and McKesson, control over 85 percent of the market. Retail pharmacies face similar accusations arising from their role as both a distributor and dispenser of opioids.

Manufacturers, distributors, and retail pharmacies have come under legislative and regulatory scrutiny. A U.S. Senate committee report found five opioid manufacturers gave $9 million to 14 policy groups working to increase opioid usage.

**Legal Risks**

Manufacturers, distributors, and retail pharmacies are now defendants in numerous, legal actions. As noted above, 36 state attorneys general offices are investigating opioid companies. These same companies are defendants in lawsuits from counties, cities and employee benefit plans totaling more than 2,000 cases consolidated in a federal district court of Ohio. The recent wave of legal actions is not the first time some companies have dealt with such accusations. The DEA fined companies including Cardinal Health, McKesson and Walgreens Boots Alliance (Walgreens) for failing to report suspicious spikes in controlled substance sales or distribution.
**Market Risks**

The opioid litigation draws parallels to the tobacco master settlement, which cost tobacco firms in excess of two hundred billion dollars. Investors are already feeling the costs. Insys Therapeutics, accused of running a kickback scheme for doctors that prescribed their opioid products, filed for bankruptcy after the company struck a $225 million settlement with the Justice Department. In April 2019, Indivior PLC’s stock dropped 72 percent on the London Stock Exchange in reaction to an indictment by a federal grand jury in Virginia for fraud related to the marketing of its opioid addiction treatments. Endo International shares fell 8 percent after a 60 Minutes segment detailed data collected by opioid distributors on amounts and destinations of painkillers.

The opioid issue continues to be a key legislative focus, and a rare issue that garners bipartisan support. In the 115th Congress (2017-2018), there were 362 bills, resolutions, and amendments introduced for opioid legislation. Additionally, federal agencies increased activities related to opioids, updating their opioid enforcement, treatment and outreach activities. Congress continues to call for executives of companies involved in the opioid supply chain to testify, and the scrutiny will continue.

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**Claims Related to Marketing and Sales Practices**

The sheer number of opioid drugs sold is alarming. The amount of opioids prescribed per person tripled between 1999 and 2015. In 2015, enough opioid pills were sold to medicate every American “around the clock for 3 weeks.” Just in West Virginia, manufacturers and drug distributors reportedly sold over 780 million pills over the course of six years, which translates into over 400 pills per person. Prescription opioids accounted for $10 billion per year in sales in 2016. DEA data reveal that 76 billion oxycodone and hydrocodone pills were manufactured and distributed across the United States from 2006 to 2012.

In light of the significant impact of the opioid epidemic, physicians and other prescribers are facing pressures to cut back on opioid prescriptions. In 2016, the Center for Disease Control (CDC) issued new guidelines for primary care physicians on the topic of using opioids to treat chronic pain. These new guidelines encourage the use of non-opioid pharmacologic therapies and disclosure to patients of the limitations and risks of opioids. Further, states have begun to adopt measures designed to reduce inappropriate opioid prescriptions, and prescription drug monitoring program (PDMP) databases are now authorized in 49 states, with 29 states requiring prescribers to check PDMP databases before prescribing certain controlled substances.
# IOA Engagement Strategy and Companies

## Focus Companies

The IOA’s initial list of companies in July 2017 included opioid distributors and manufacturers. The coalition also engaged with companies that manufactured overdose recovery and treatment drugs in the 2018 proxy season on drug pricing until research showed prices for the drugs stabilized. At the time of the engagement, only Mylan manufactured both opioids and overdose recovery and addiction treatment medicines. Additionally, in the second year the coalition expanded the focus list to include retail pharmacies.

![Image: IOA Focus Companies](image)

### FIGURE 3: IOA Focus Companies

<table>
<thead>
<tr>
<th>MANUFACTURERS</th>
<th>DISTRIBUTORS</th>
<th>RETAIL PHARMACIES</th>
<th>MANUFACTURERS OF DRUG TREATMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbott Labs</td>
<td>AmerisourceBergen</td>
<td>CVS Health</td>
<td>Alkermes</td>
</tr>
<tr>
<td>AbbVie</td>
<td>Cardinal Health</td>
<td>Rite Aid</td>
<td>Amphastar</td>
</tr>
<tr>
<td>Allergan</td>
<td>McKesson</td>
<td>Walgreens</td>
<td>Indivior</td>
</tr>
<tr>
<td>Assertio Therapeutics</td>
<td></td>
<td></td>
<td>Mylan</td>
</tr>
<tr>
<td>Endo International</td>
<td></td>
<td></td>
<td>Pfizer</td>
</tr>
<tr>
<td>Insys Therapeutics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mallinckrodt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mylan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teva</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**IOA Corporate Engagement Strategies**

The IOA engaged with each company by writing a letter to the board of directors requesting a meeting to discuss opioid business risks. Investor signatories to the letter as listed in Appendix 2 proposed a series of governance changes to each company based on the firm’s existing corporate governance and the IOA’s assessment of gaps in oversight. The CtW Investment Group was instrumental in compiling research on the companies’ particular corporate governance and drafting letters.

In addition to letters, the IOA utilized shareholder proposals to advance dialogue. Some were relatively new proposals within the governance community such as asking independent directors to investigate the compliance functions, compensation program and governance risks dating back to the height of the opioid crisis in 2012 and report findings to shareholders, or focusing on the incentives created by the executive compensation plan methodology.

In the two years of activity, the IOA:

- Engaged with 20 companies;
- Filed 52 shareholder resolutions and proposed four through dialogue;
- Settled 26 of the 52 resolutions before going to vote and three after the vote; and
- Achieved 52 percent settlement rate.

Allergan and Endo International adopted the IOA proposals without requiring the IOA to file proposals while other companies required two years of engagement. Additionally, many of these engagements will continue in the coming year. A list of the 22 shareholder resolutions that went to a vote is available in Appendix 3.

**FIGURE 4: IOA Engagement Summary**

Outcome of shareholder proposals submitted to opioid supply chain companies
KEY GOVERNANCE PROPOSALS FOR OPIOID SUPPLY CHAIN COMPANIES

The IOA focused on the following five corporate governance reforms through dialogue and shareholder resolutions:

- Independent Chair of the Board of Directors;
- Board Level Responsibility for Opioid Business Risk Oversight;
- Misconduct Clawback Policies including Disclosure of the Use of the Clawback;
- Avoid Excluding Legal Costs Related to Opioids from Incentive Pay; and
- Expanded Reporting on Corporate Political and Lobbying Expenditures.

**Independent Chair**

Investors rely on the Board to represent their interests. An independent chair, who has not previously served in management and who has no business or employment ties to the company, is critical. This ensures that difficult questions are asked of management, as necessary, and decisions are made in the long-term interests of the company and shareholders. When Chair and CEO roles are separate, Chairs retain the ability to set the agenda for board director meetings. In our view, this is one of the most important duties an Independent Chair assumes and not a duty a Lead Independent Director can deliver on when the roles are combined. The number of S&P 500 companies with combined Chair and CEO roles is now at an all-time low of 46 percent. 33

This board practice is of particular importance when a company is facing controversies that question management’s ability to navigate the company through the crisis. An independent chair can assist board members in obtaining independent sources of information and evaluations of the business strategy they might not have if the Chair is also the CEO. IOA members have made significant strides with opioid supply chain companies as shown in Figure 4. The Teamsters secured independent chair appointments at Cardinal Health and McKesson. AmerisourceBergen also committed to separate the roles in the future following the Teamster’s proposal.

---

**FIGURE 5: Companies Advancing Independence in the Role of Board Chair**

- Separation of Chair & CEO
  - AmerisourceBergen
  - Cardinal Health
  - McKesson
  - Proposed by Teamsters

- Annual Review of Combined Chair & CEO
  - Johnson & Johnson
  - Proposed by Sisters of St. Francis & CT State Treasurer’s Office
Board Level Responsibility for Opioid Business Risk Oversight

Central to the IOA’s strategy to involve the board in opioid risk oversight is a shareholder resolution that asks independent directors to investigate and report to investors on how the board is assessing and managing legal, financial, and reputational risks related to its opioid business. The board or board committee charged with oversight responsibility should have access to independent legal and financial advisors, if needed. This report should:

- Analyze the company’s risk including current and future projections of opioid business volume, and how the company is involved in the marketing, distribution, or dispensing of these drugs;
- Clearly specify which independent board members or board committees are responsible for oversight;
- Articulate those public policies and/or guidelines guide the company’s opioid business and link these to the company’s policies and procedures;
- Discuss how the board receives and monitors information on opioid-related compliance procedures and company investments in anti-diversion measures;
- Review compensation arrangements for executives, as well as for distribution, sales and marketing (if applicable), and managerial workforce, including the presence or absence of negative discretion policies, clawbacks, and incentive metrics tied to promotion, sales, and compliance;
- Explain how the board monitors corporate political and lobbying expenditures including contributions and trade association activities related to opioid legislation or regulatory matters; and
- Describe how compliance is organized across the business enterprise.

The SEC ruled in favor of IOA investors when AmerisourceBergen sought to exclude this proposal from the 2018 proxy ballot and again with Walgreens for the 2019 proxy season.

The Illinois Treasury developed an extensive matrix to analyze each company’s oversight report; they also lend their assistance with the evaluating the oversight reports.

Some companies, including Cardinal Health and Assertio Therapeutics (Depomed) have established new board level committees with responsibility for overseeing opioid business risks. Cardinal’s charter for this new committee is detailed and prominently displayed on the company’s website.34 Others, such as McKesson have established stand-alone compliance committees to provide better oversight.35 In 2019, both CVS and Walgreens Boots Alliance published reports in which the companies noted that opioid risk oversight falls within the responsibility of several board committees as well as the full board.
Below is a chart that indicates the status of board risk reports.

**FIGURE 6: Board Risk Report Results**

<table>
<thead>
<tr>
<th>Company</th>
<th>Lead Filer</th>
<th>Filing</th>
<th>Report</th>
<th>Board Report Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allergan</td>
<td>Mercy Investment Services</td>
<td>No</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
<tr>
<td>AmerisourceBergen</td>
<td>Sisters of St. Francis of Philadelphia</td>
<td>Shareholder vote of 41%</td>
<td>Due Sept 2019</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>Assertio Therapeutics (Depomed)</td>
<td>Calvert Research and Management</td>
<td>Shareholder vote of 62%</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
<tr>
<td>Cardinal Health</td>
<td>Mercy Investment Services</td>
<td>Settled</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
<tr>
<td>CVS Health</td>
<td>Illinois State Treasurer’s Office</td>
<td>Settled</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
<tr>
<td>Endo International</td>
<td>Mercy Investment Services</td>
<td>No</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
<tr>
<td>Insys Therapeutics</td>
<td>New York State Common Retirement Fund</td>
<td>Settled</td>
<td>Due Dec 2019</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>Mallinckrodt</td>
<td>Mercy Investment Services</td>
<td>Settled in ’18  Shareholder vote of 79% in ’19</td>
<td>No</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>McKesson</td>
<td>Teamsters</td>
<td>Settled</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
<tr>
<td>Mylan</td>
<td>Mercy Investment Services</td>
<td>Settled</td>
<td>Due Sept 2019</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>Rite Aid</td>
<td>UAW Trust</td>
<td>Shareholder vote of 61%</td>
<td>Due Oct 2019</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>Teva Pharmaceutical</td>
<td>Mercy Investment Services</td>
<td>Settled</td>
<td>Due Fall 2019</td>
<td>1 2 3 4</td>
</tr>
<tr>
<td>Walgreens</td>
<td>Mercy Investment Services</td>
<td>Shareholder vote of 61%</td>
<td>Link here</td>
<td>1 2 3 4 NA</td>
</tr>
</tbody>
</table>

**Columns Legend—Description of Board Report Content based on Asks in Resolution**

Gray box indicates “yes;” white box indicates “no.”

1. The board committee with responsibility for oversight of opioid sales and/or distribution is identified.
2. Oversight efforts taken since 2012 to decrease risk exposure for the Company are described.
3. Oversight of sales and marketing activities for manufacturers is disclosed.
4. Anti-diversion for retailers or others is disclosed.
Misconduct Clawback

Clawback provisions can help set a “tone at the top” that emphasizes compliance and ensures that executives do not benefit financially from conduct that is harmful to the company and to shareholders. The company should adopt a clawback policy to (a) recover incentive compensation in the event of a violation of a company policy relating to noncompliance with a law or regulation that causes significant financial or reputational harm to a company, including supervisory failures, and (b) require disclosure to shareholders in the proxy statement about such recoveries.

The boards of Cardinal Health and McKesson are among those firms that adopted a robust clawback provision that includes disclosure of the use of a clawback. The SEC decided in favor of IOA investors and against AmerisourceBergen’s request to exclude this proposal from its 2018 proxy ballot. Additionally, the SEC decided in favor of IOA investors and against Johnson & Johnson’s request to exclude a 2019 resolution calling for clawback disclosure. IOA investors defeated a SEC “no-action” requested by Mylan, a company domiciled in the Netherlands and listed on the U.S. stock exchange. Mylan claimed the submitting shareholder did not meet Dutch law’s eligibility standards of three percent (3%) of outstanding shares, which it argued superseded US eligibility requirements of $2,000 of stock for at least one year. With the help of CalSTRS’ legal research, the UAW Trust argued that Dutch law could not supersede the SEC rules on eligibility. The SEC staff affirmed that the subject of the resolution should be voted on by investors that Mylan could not exclude the proposal from the ballot. In the proxy statement, Mylan included the proposal only as a discussion item. Investors could check a “Yes/No” box to inform the discussion. CtW Investment Group ran a “Vote No” campaign against members of Mylan's Nominating and Governance Committee in response to the company’s treatment of the resolution as a discussion item; thereby disenfranchising investors of their section 14(a) (8) rights. Investors rallied and a majority indicated support for the clawback policy. The proposal was presented on the floor of the annual meeting by the UAW Trust, Aegon Asset Management and Hermes Equity Ownership Services. Additionally, APG Funds, a Dutch pension fund, attended the meeting in support of the IOA proposal.

BlackRock recently announced its support of shareholder resolutions calling for the clawback of senior executive pay where “behavior caused direct financial harm to shareholders, reputational risk to the company, or resulted in a criminal investigation, even if such actions did not ultimately result in a material restatement of past results. This includes, but is not limited to, settlement agreements arising from such behavior and paid for directly by the company.”

36
Below is a chart with a status update on the clawback shareholder resolutions (Live links imbedded where policies are included in recent proxy statements).

**FIGURE 7: Clawback Results**

<table>
<thead>
<tr>
<th>Company</th>
<th>Lead Filer</th>
<th>Filing</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AbbVie</td>
<td>Office of the New York City Comptroller</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>AmerisourceBergen</td>
<td>CalSTRS</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Assertio Therapeutics</td>
<td>Office of the New York City Comptroller</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Assertio Therapeutics (Depomed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cardinal Health*</td>
<td>UAW Trust</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>CVS Health</td>
<td>Office of the New York City Comptroller</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Endo International</td>
<td>UAW Trust</td>
<td>No</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Insys Therapeutics</td>
<td>Office of the New York City Comptroller</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>Office of the New York City Comptroller</td>
<td>Voted</td>
<td>Received 46% votes “FOR” at 2019 Annual Meeting</td>
</tr>
<tr>
<td>Mallinckrodt</td>
<td>UAW Trust (2 filings) 1st on policy 2nd on disclosure</td>
<td>Settled in '18 Voted in '19</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>McKesson*</td>
<td>UAW Trust</td>
<td>Settled</td>
<td>Company enhanced clawback policy</td>
</tr>
<tr>
<td>Mylan</td>
<td>UAW Trust</td>
<td>Voted</td>
<td>Resolution received majority vote</td>
</tr>
<tr>
<td>Pfizer</td>
<td>Office of the New York City Comptroller</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Teva</td>
<td>UAW Trust</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
<tr>
<td>Walgreens</td>
<td>Teamster/Hermes</td>
<td>Settled</td>
<td>IOA settled with company on enhanced clawback policy</td>
</tr>
</tbody>
</table>

*UAW Trust negotiated settlement pre-IOA
Executive Compensation Incentives: Avoid Excluding Legal Costs Related to Opioids from Incentive Pay

Executives typically receive the smallest portion of their annual compensation in the form of a base salary. Incentive pay accounts for the bulk of executive pay and companies provide it through annual cash bonus plans and longer-term equity awards. Boards structure incentive pay to focus executives on particular goals, such as growing earnings per share (EPS). However, boards often calculate a goal such as EPS using a custom formula that bears little resemblance to the calculation under Generally Accepted Accounting Principles (GAAP). Companies refer to the custom formula in corporate filings as an adjusted GAAP metric. The IOA included this topic as part of the opioid effort because many opioid supply chain companies excluded legal and compliance costs in their adjusted GAAP metrics for executive incentive pay. Boards were therefore insulating executives from the financial penalty of opioid litigation at a time when investors felt the impact in their earnings, which have no such luxury of being adjusted.

The City of Philadelphia Public Employees Retirement System in consultation with Segal Marco Advisors submitted a proposal to seven opioid supply chain companies asking that they avoid excluding legal costs when determining executive incentive pay. Johnson & Johnson lost an effort with the SEC to keep the proposal off of its proxy ballot in 2018, but succeeded in 2019 as did AbbVie. Teva Pharmaceuticals was the first company to implement the proposal following an IOA engagement. The Company decided not to exclude any legal settlements in calculating its free cash flow for fiscal 2018 when determining executive incentive compensation. Teva committed to describe the factors and principles considered by the board in deciding whether to include or exclude litigation costs. The Company also committed to an explanation in the proxy statement should it choose to exclude those costs in future years.

CVS Health and Cardinal Health implemented a varied form of the proposal that sought disclosure on the breakdown of exclusions to determine if opioid litigation was a factor and to provide investors with an explanation when the board felt such an adjustment necessary.

The Council of Institutional Investors (CII) recently filed a petition for rulemaking on companies using non-GAAP metrics when calculating executive pay. CII points to research by Robert Pozen at MIT that showed, "in 2016, adjusted earnings of 28 companies in the S&P 500 showed substantial profits, even though their GAAP earnings were actually losses. Another 37 companies reported adjusted earnings that were more than 100% higher than their GAAP earnings. Of these 65 companies, 62 used adjusted earnings as compensation criteria in their CD&As." CII’s petition asks the SEC to require companies clearly explain their use of non-GAAP metrics and show how to reconcile these with the appropriate GAAP metrics.

<table>
<thead>
<tr>
<th>Company</th>
<th>Lead Filer</th>
<th>Filing Status</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>AmerisourceBergen</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>Voted</td>
<td>Shareholder vote of 11.6%</td>
</tr>
<tr>
<td>CVS Health Corporation</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>Settled</td>
<td>Settlement with CVS that reconciliation will identify amounts related to opioid litigation.</td>
</tr>
<tr>
<td>Cardinal Health</td>
<td>International Brotherhood of Teamsters General Fund</td>
<td>Settled</td>
<td>Settlement with Cardinal Health that reconciliation will identify amounts related to opioid litigation.</td>
</tr>
<tr>
<td>Pfizer Inc.</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>Settled</td>
<td>Settlement that Pfizer would provide increased disclosure on adjustments.</td>
</tr>
<tr>
<td>Teva Pharmaceutical</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>Settled</td>
<td>Settlement with Teva that it will not adjust out legal costs for a free cash flow incentive metric and will provide disclosure if it chooses to do so in the future.</td>
</tr>
<tr>
<td>Walgreens</td>
<td>City of Philadelphia Public Employees Retirement System</td>
<td>Voted</td>
<td>Shareholder vote of 5%</td>
</tr>
</tbody>
</table>
Report on Lobbying and Political Spending Activity

For some companies, the board risk report asked for in shareholder resolutions included board level oversight of political activity, including both political spending and lobbying activities, as part of the topics covered in the board report to investors. For others, resolutions called for enhanced transparency on political spending and/or lobbying activities.

Board oversight of lobbying and political spending safeguards corporate reputations and protects shareholder value. Compliant companies provide annual reporting on political contributions of all forms, including through trade associations and related groups.

The IOA questioned companies on payments to patient advocacy groups and medical professional organizations advocating for weaker regulation on opioids. In 2018, the IOA’s lobbying transparency resolution received support of 39 percent of shareholders at McKesson. All of the board risk reports currently disclosed include reference to board oversight of corporate political and lobbying expenditures. Figure 9 highlights the successes the IOA has had on lobbying and corporate political spending disclosures.

Figure 9: Lobbying & Corporate Political Spending Results

<table>
<thead>
<tr>
<th>Company</th>
<th>Lead Filer</th>
<th>Filing</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mallinckrodt</td>
<td>United Church Funds</td>
<td>Shareholder vote of 80%</td>
<td>Expanded lobbying disclosure (supported by management)</td>
</tr>
<tr>
<td></td>
<td>CalSTRS</td>
<td>Settled</td>
<td>Expanded political spending disclosure</td>
</tr>
<tr>
<td>McKesson</td>
<td>UAW Trust (2018)</td>
<td>Shareholder vote of 39%</td>
<td>Expanded lobbying disclosure</td>
</tr>
<tr>
<td>McKesson</td>
<td>SHARE (2019)</td>
<td>Shareholder vote of 46%</td>
<td>Expanded lobbying disclosure</td>
</tr>
<tr>
<td>Pfizer</td>
<td>Teamsters</td>
<td>Shareholder vote of 34%</td>
<td>Expanded lobbying disclosure</td>
</tr>
</tbody>
</table>

IOA engagement with Mallinckrodt began two years ago, and since then the IOA has met with the chairman of Mallinckrodt to discuss broad issues related to opioid business risks. For 2019, an IOA member, United Church Funds, filed a shareholder resolution at Mallinckrodt that called for expanded lobbying disclosure, and Mallinckrodt supported the resolution. Thus, the resolution received 80 percent of votes, and the first time a company has come out in support of a lobbying shareholder proposal. In 2017, engagement with McKesson began on corporate political lobbying transparency that now extends over the two year period of the IOA with different leadership on the resolution. The Mallinckrodt and McKesson resolutions were the first time the IOA ventured into asking the company to discuss its board oversight related to patient advocacy organizations that may be engaging in public policy activities that are antithetical to the company’s stated mission and to investor interests. Additionally, in 2017 the Teamsters filed a lobbying disclosure resolution at Pfizer. In 2019, SHARE filed a lobbying resolution at McKesson requesting a report disclosing McKesson’s lobbying activities. This resolution received 46 percent of votes.

Strengthen Internal Controls to Support Ethical Business Practices and Ethical Corporate Culture

The IOA engaged companies in the broader context of compliance but did not formulate shareholder resolutions due to constraints around the SEC’s shareholder resolution process. A key aspect of this reform is the direct reporting to the board or designated board committee by the Chief Compliance Officer, and the establishment of such a position if one is lacking. Additionally, the IOA calls on boards to establish a business culture that prioritizes regulatory compliance and ethical business practices. This culture would require the board to strengthen its whistleblower protections and establish a zero tolerance policy for any acts of harassment, discrimination or retaliation against employees who report concerns about the company’s opioid related practices or who exercise rights protected under federal or state law. As such, investment in training and development and enhancing communication channels and employee engagement may foster a more open environment for employees to voice concerns without fear of retaliation.
OPIOID BUSINESS RISKS BEYOND THE UNITED STATES

Background
In July of 2018, NEI Investments, an IOA member, established an IOA subcommittee of global investors to explore opioid business risks outside the United States. Members of the subcommittee include: Aberdeen Standard, Aegon Asset Management, Æquo Shareholder Engagement Services, CtW Investment Group, Hermes Equity Ownership Services, Mercy Investment Services, NEI Investments, and UAW Trust. Concerns in other parts of the world about growing prescription rates of opioid painkillers are mounting. This means international opioid-related business risks for manufacturers and distributors are increasing. Class action lawsuits have been initiated in Canada, and governments in several countries around the world have announced action in order to “prevent a U.S.-like situation.” Concerning to investors is a trend of companies exiting the U.S. market en route to developing countries where there is an aging population, regulations are not as strict and there is no public “stigma” on opioid painkillers. Data on current and future plans of manufacturers in international markets is hard to come by. Figure 10 developed by NEI Investments shows the effects around the world.

Canada
- Largest prescription opioid consumer after U.S.
- Opioid-related death rate 12 per 100,000 population
- Provincial lawsuit targeting manufacturers, distributors, retailers
- Marketing and promotion now prohibited

Netherlands
- Media reports of “Silent Epidemics” of overprescription
- Dutch Ministry to avoid U.S. situation

Germany
- Largest consumer of prescription fentanyl (3x rate U.S.)

England and Scotland
- Opioid prescription doubled in 10 years
- U.K. “overdose capital of Europe”
- Doctors warn to prevent U.S. situation

Mexico
- Researchers warn of looming opioid crisis
- Pressure from pharmaceutical companies to make up for stricter regulations and dwindling market in the U.S.
- Purdue expanding in Latin America, Asia, Middle East, Africa

China, South East Asia
- Companies running training seminars on opiophobia
- Asia Pacific to witness fastest prescription growth

Australia
- Prescription opioids responsible for over 70% of drug deaths in 2017

Figure 10: Global View on Opioids
Key Findings of the IOA International Subcommittee on Opioid Business Risks

Canada

Canada is the second largest consumer per capita of prescription opioids in the world, after the United States, and challenged by its own national opioid crisis. The rate of opioid-related deaths in Canada was 12 per 100,000 population between January and September 2018. This death rate has been growing steadily since 2016.38

In June 2018, Health Canada, a governmental organization, recognized the role prescriptions may have played in contributing to the Canadian opioid crisis and that marketing and advertising could influence healthcare professionals. In response, Health Canada called on Canadian manufacturers and distributors of opioids to cease voluntarily all marketing and advertising of opioids to healthcare professionals.

In doing so, Health Canada held a public consultation on its intent to restrict marketing and advertising of opioids through formal measures. The IOA International Committee participated in this consultation, sharing the investor group’s perspective. A short summary of the IOA’s letter was included in Health Canada’s report on the results of the consultation.39

In March 2019, Health Canada announced that all advertising materials of Class B opioids provided to health care professionals is restricted only to statements authorized by Health Canada.

British Columbia, one of the Canadian provinces hit the hardest by the opioid crisis, has launched a class action lawsuit against over 40 companies involved in the manufacturing, distributing and wholesaling of opioids to recoup the costs associated with the crisis, based on similar legal action against tobacco companies. The government alleges companies downplayed the risks of their drugs when advertising to physicians, especially their addictive potential, thus contributing to the opioid crisis.

Europe

Germany is the largest consumer of prescription fentanyl.40 The consumption rate is three times that of the United States. The family owned private company Grunenthal developed Tapentadol, the opioid used in Johnson & Johnson’s manufacturing of Nucynta painkillers, the U.S. rights to which were sold to Assertio Therapeutics (Depomed), and then on to Collegium.

This web of ownership demonstrates the difficulty in tracking sales of opioid products, and while sales decline in the United States, growth may occur in Europe and other markets.

In the United Kingdom, opioid prescription rates have alarmingly doubled in the past 10 years.41 The United Kingdom has earned the reputation of Europe’s overdose capitol. Trends in opioid prescriptions are particularly alarming in lower income sections of the country.

Media in the Netherlands report a “silent opioid epidemic” due to over-prescription. The Dutch ministry of Health has announced it is attempting to prevent “a U.S.-like situation.”42

Mexico

Researchers have warned of a looming opioid crisis in Mexico because the population is aging and recent changes in legislation ease access to opioid medication. While identifying trends is difficult given the lack of reporting, at least one manufacturer appears to be developing new markets for opioids. Purdue Pharma is expanding in Latin America, Asia, Middle East and Africa.43
## APPENDIX 1

**Governance Impacts of IOA Work**

### AbbVie
- NY City settled on misconduct clawback

### Allergan
- MIS settled with Company on board risk report released February 2019

### AmerisourceBergen
- CalSTRS settled with Company and withdraws misconduct clawback disclosure
- Sisters of St. Francis settled on board risk report due to be released September 2019
- Teamsters settled with board risk report company to separate chair and CEO roles

### Assertio Therapeutics
- NY City settled on misconduct clawback
- Calvert settled on board risk report

### Cardinal Health
- MIS settled on board risk report
- UAW Trust settled on Board agreed to misconduct clawback
- Agreed to separate roles of CEO and chairman, as proposed by Teamsters
- Teamsters settled with Company on exclusion of legal costs

### CVS Health
- IL Treasurer settled with Company on board risk report
- NY City settled with CVS on clawback disclosure
- City of Philadelphia settled with CVS on exclusion of legal costs

### Endo International
- UAW Trust settled on misconduct clawback
- IOA settled with Company to expand political spending reporting
- MIS settled on board risk report

### Insys Therapeutics
- NY City settled on misconduct clawback
- NY State settled on board risk report due out December 2019

### Johnson & Johnson
- Sisters of St. Francis settled on Indep. Chair annual review of combined roles

### Mallinckrodt
- UAW Trust settled on misconduct clawback policy
- CalSTRS settled with Company to expand political spending reporting
- Company supported United Church Funds lobbying proposal and agreed to produce a lobbying report

### McKesson
- Teamsters settled on separation of chair & CEO
- Creation of Compliance Committee
- Undertook independent review of opioid business practices and issued public report at request of Teamsters
- NY State settled with Company to continued reporting on anti-diversion efforts
- UAW Trust co-filed and obtained misconduct clawback

### Mylan
- MIS settled with Company to publish board risk report due in September 2019

### Pfizer
- NY City settled on clawback disclosure
- City of Philadelphia settled with Company on exclusion of legal costs

### Teva Pharmaceutical Industries
- MIS settled with Company to publish board risk report due in September 2019
- UAW Trust/CT Treasurer settled on clawback disclosure
- City of Philadelphia settled with Company on exclusion of legal costs

### Walgreens
- Teamsters/Hermes settled with Company on misconduct clawback to be included in 2020 proxy statement
- MIS settled on the board risk report
APPENDIX 2

List of Signatories to Engagement Letters to Opioid Supply Chain Companies

We would like to acknowledge the following IOA member funds who signed letters to the focus companies over the past two years.

Adrian Dominican Sisters
Aegon Asset Management
Benedictine Coalition for Responsible Investment
Bon Secours Mercy Health
Boston Common Asset Management
California State Teachers’ Retirement System
Calvert Research and Management
Catholic Health Initiatives
Congregation of St. Joseph
Connecticut State Treasurer’s Office
CTW Investment Group
Daughters of Charity, Province of St. Louise
Dignity Health
Diocese of Springfield, IL
Domini Impact Investments
Dominican Sisters of Springfield, IL
Hermes Equity Ownership Services
Illinois State Treasurer’s Office
International Brotherhood of Teamsters
JLens Investor Network

Mercy Investment Services
NEI Investments
Northwest Coalition for Responsible Investment
Office of the New York City Comptroller
OIP Trust / Missionary Oblates
Pennsylvania State Treasurer’s Office
Region VI Coalition for Responsible Investment
Rhode Island State Treasurer’s Office
School Employees Retirement System of Ohio
Segal Marco Advisors
Seventh Generation Interfaith Coalition for Responsible Investment
Sisters of St. Francis of Philadelphia
Socially Responsible Investment Coalition
The Socially Responsive Investing Group of 1919
Investment Counsel
Trinity Health
UAW Retiree Medical Benefits Trust
United Church Funds
Walden Asset Management
Zevin Asset Management, LLC
## APPENDIX 3

IOA Shareholder Resolutions Voted

<table>
<thead>
<tr>
<th>Year</th>
<th>Company Name</th>
<th>Issue</th>
<th>Lead Filer</th>
<th>Co-Filers</th>
<th>Vote Result</th>
<th>Exempt Solicitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>AmerisourceBergen</td>
<td>Board Risk Report</td>
<td>Sisters of St. Francis Trinity Health, Jlens Investor Network and</td>
<td>Missionary Oblates OIP Investment Trust</td>
<td>41%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>AmerisourceBergen</td>
<td>Misconduct Clawback</td>
<td>UAW Retiree Medical Benefits Trust</td>
<td>Connecticut Retirement Plans and Trust Funds</td>
<td>34%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>AmerisourceBergen</td>
<td>Independent Chair</td>
<td>Teamsters</td>
<td>-</td>
<td>33%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>Assertio Therapeutics</td>
<td>Board Risk Report</td>
<td>Calvert Research and Management</td>
<td>UAW Retiree Medical Benefits Trust</td>
<td>62%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>Cardinal Health</td>
<td>Exclusion of Legal Costs</td>
<td>Teamsters</td>
<td>Rhode Island State Treasurer's Office</td>
<td>17%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>McKesson</td>
<td>Accelerated vesting</td>
<td>Teamsters</td>
<td>-</td>
<td>34%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>McKesson</td>
<td>Exclusion of Legal Costs</td>
<td>AFL-CIO</td>
<td>As You Sow, the Oregon Department of State Lands, and the Oregon Public Employees Retirement System.</td>
<td>7%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>McKesson</td>
<td>Lobbying</td>
<td>UAW Trust</td>
<td>Rhode Island Employees’ Retirement Systems Pooled Trust, United Church Funds and Trinity Health.</td>
<td>39%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>McKesson</td>
<td>Withhold on Audit Chair</td>
<td>Teamsters</td>
<td>-</td>
<td>12%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>Pfizer</td>
<td>Lobbying</td>
<td>Teamsters</td>
<td>-</td>
<td>34%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2018</td>
<td>Rite Aid</td>
<td>Board Risk Report</td>
<td>UAW Trust</td>
<td>-</td>
<td>61%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>AbbVie</td>
<td>Independent Chair</td>
<td>Rhode Island State Treasurer's Office</td>
<td>Vermont State Treasurer’s Office</td>
<td>39%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>AmerisourceBergen</td>
<td>Exclusion of Legal Costs</td>
<td>City of Philadelphia Public Employees’ Retirement System</td>
<td>-</td>
<td>12%</td>
<td>-</td>
</tr>
<tr>
<td>2019</td>
<td>Johnson &amp; Johnson</td>
<td>Clawback Disclosure</td>
<td>Office of the New York City Comptroller</td>
<td>-</td>
<td>46%</td>
<td>-</td>
</tr>
<tr>
<td>2019</td>
<td>Johnson &amp; Johnson</td>
<td>Exclusion of Legal Costs</td>
<td>Oxfam</td>
<td>-</td>
<td>29%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Mallinckrodt</td>
<td>Board Risk Report</td>
<td>Mercy Investment Services</td>
<td>Bon Secours Mercy Health, Catholic Health Initiatives, Congregation of Divine Providence, and Daughters of Charity, Inc.</td>
<td>79%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Mallinckrodt</td>
<td>Clawback Disclosure</td>
<td>UAW Trust</td>
<td>-</td>
<td>53%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Mallinckrodt</td>
<td>Lobbying</td>
<td>United Church Funds</td>
<td>-</td>
<td>80%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>McKesson</td>
<td>Lobbying</td>
<td>SHARE</td>
<td>-</td>
<td>46%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Mylan</td>
<td>Misconduct Clawback</td>
<td>UAW Trust</td>
<td>Aegon Asset Management, Hermes Equity Ownership Services, and APG Funds assisted in presenting resolution at annual meeting to help inform the vote.</td>
<td>&gt;50%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Pfizer</td>
<td>Separation of Chair and CEO</td>
<td>Sisters of St. Francis Dana Investment Advisors, Miller/Howard Investments</td>
<td>-</td>
<td>27%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Walgreens</td>
<td>Board Risk Report</td>
<td>Mercy Investment Services</td>
<td>UAW Retiree Medical Benefits Trust, Northwest Women Religious Investment Trust, Missionary Oblates of Mary Immaculate, and Domini Impact Equity Fund.</td>
<td>61%</td>
<td>Link Here</td>
</tr>
<tr>
<td>2019</td>
<td>Walgreens</td>
<td>Exclusion of Legal Costs</td>
<td>City of Philadelphia Public Employees’ Retirement System</td>
<td>-</td>
<td>5%</td>
<td>Link Here</td>
</tr>
</tbody>
</table>
APPENDIX 4

Cardinal Health Case Study

Cardinal Health (CAH) is an American multinational health care services company with headquarters in Ohio and Ireland (EMEA). The company specializes in the distribution of pharmaceuticals and medical products, and is the third largest pharmaceutical wholesaler in the United States.

Initiation

At the time the IOA spoke on behalf of $1.1 trillion in assets under management and advisement. Mercy Investment Services (MIS) led the engagement. The IOA work was building on the earlier work of the state treasurers and the Teamsters in consultation with Segal Marco Advisors engaged with CAH. IOA began its engagement in September 2017 by sending a letter, signed by 18 members, asking for dialogue with Board members about CAH’s opioid risks.

Timeline

- July 2017: UAW Trust settled with CAH on misconduct clawback including disclosure of use.
- November 2017: Two days before CAH’s 2017 AGM, where investors were due to vote on a Teamster proposal to separate the positions of the CEO and chair, the Company announced that the CEO would be stepping down and that an independent chair would be appointed.
- Winter 2017-18: CAH and MIS had several phone calls but MIS agreed to hold IOA engagement until Teamsters settled. CAH expressed appreciation that all investors were collaborating.
- February 2018: Dialogue about CAH establishing a board committee and a board member agreed to meet with IOA.
- April 2018: In-person meeting with CAH including Lead Director Greg Kenny. CAH explained new board committee, importance of lobbying, and codifying independent chair. IOA proposed further governance actions including issuing a board risk report and addressing executive compensation incentives.
- May 2018: MIS filed resolution asking for report on board oversight of opioid distribution. Teamsters filed resolution asking Company to avoid excluding legal costs from incentive pay.
- July 2018: Because CAH promised to deliver the report on board oversight, shareholders withdrew the resolution. CAH then posted the report on its website in which it publicly acknowledged the IOA.
- September 2018: The IOA and CAH met to discuss updates on board subcommittee and engaged in a lengthy discussion on exclusion of legal costs from executive compensation.
- November 2018: The Teamster resolution asking the Company to avoid excluding legal costs received a 17 percent vote at CAH AGM.
- March 2019: Follow-up dialogue with CAH on work of Ad Hoc Oversight Committee. Teamsters continued their engagement regarding executive compensation incentives.
- June 2019: Teamsters filed proposal on executive compensation incentives to seek more disclosure on whether legal costs related to opioids are excluded when calculating executive incentive pay.
- July 2019: CAH implemented Teamsters proposal by committing to a level of disclosure that enables investors to determine if CAH insulates executives from legal costs related to opioids by removing the impact from executive incentive pay.

IOA Members Participating in Dialogues


Key Takeaway

CAH was the first Company to collaborate with the IOA to produce a Report on Board oversight of opioids and became the model IOA used for encouraging other companies. CAH separated the role of board chair and CEO, and the chair is an independent director. Additionally, CAH has established an Ad Hoc Oversight Committee that is dedicated to overseeing the opioid issues the company faces. CAH provided a rare level of transparency into calculations for executive incentive pay that informs whether executives are insulated from legal costs related to opioids.
## IOA Press Coverage

This list, compiled by Mercy Investment Services, includes mentions of IOA by the press, as well as interviews with IOA members.

<table>
<thead>
<tr>
<th>Date</th>
<th>Headline</th>
<th>Source</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/1/2018</td>
<td>Franciscan Sisters of Perpetual Adoration - not an article</td>
<td>FSPA website</td>
<td><a href="https://www.fspa.org/content/ministries/justice-peace/corporate-responsibility">https://www.fspa.org/content/ministries/justice-peace/corporate-responsibility</a></td>
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<tr>
<td>Date</td>
<td>Headline</td>
<td>Source</td>
<td>URL</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>5/13/2018</td>
<td>Pharma investors mobilise on reputational risk concerns</td>
<td>Financial Times</td>
<td><a href="https://www.ft.com/content/3ad0f62a-2dd5-11e8-97ec-4bd3494d5f14">https://www.ft.com/content/3ad0f62a-2dd5-11e8-97ec-4bd3494d5f14</a></td>
</tr>
<tr>
<td>7/2/2018</td>
<td>Teamsters urge McKesson shareholders to reject audit chair’s re-election</td>
<td>Modern Healthcare</td>
<td><a href="https://www.modernhealthcare.com/article/20180702/NEWS/180709989/teamsters-urge-mckesson-shareholders-to-reject-audit-chair-s-re-election">https://www.modernhealthcare.com/article/20180702/NEWS/180709989/teamsters-urge-mckesson-shareholders-to-reject-audit-chair-s-re-election</a></td>
</tr>
<tr>
<td>Date</td>
<td>Headline</td>
<td>Source</td>
<td>URL</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>10/30/2018</td>
<td>Rite Aid shareholders vote to support increased oversight of opioid sales</td>
<td>STAT</td>
<td><a href="https://www.statnews.com/pharmalot/2018/10/30/rite-aid-shareholders-opioids/">https://www.statnews.com/pharmalot/2018/10/30/rite-aid-shareholders-opioids/</a></td>
</tr>
<tr>
<td>12/5/2018</td>
<td>Investor activists win again and persuade Endo to catalog opioid risks</td>
<td>STAT</td>
<td><a href="https://www.statnews.com/pharmalot/2018/12/05/investor-activists-endo-opioids/">https://www.statnews.com/pharmalot/2018/12/05/investor-activists-endo-opioids/</a></td>
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<td>Date</td>
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<td>7/31/2019</td>
<td>What’s the difference between spending on lobbying and on elections</td>
<td>Responsible Investor</td>
<td><a href="https://www.responsible-investor.com/home/article/whats_the_difference_between_spending_on_lobbying_and_on_elections/">https://www.responsible-investor.com/home/article/whats_the_difference_between_spending_on_lobbying_and_on_elections/</a></td>
</tr>
</tbody>
</table>
Endnotes

1 These votes were at AmerisourceBergen, Mylan, Rite Aid Corp., Walgreens Boots Alliance, and 3 at Mallinckrodt.


3 NCHS, National vital statistics system. Estimates for 2017 and 2018 are based on provisional data for daily death rate. NCHS Data Brief for annual deaths, Brief No. 293, December 2017.


16 See https://www.wsj.com/articles/leave-opioid-lawsuits-to-state-attorneys-general-11551649471

17 Ibid

18 https://www.nbcnews.com/politics/justice-department/document-shows-drug-firm-knew-2008-it-was-shiping-large-n1019391


24 Data provided by Carol Nolan Drake, President and CEO of Carlow Consulting.
25 Ibid