

# Vote Bulletin: McDonald's Corporation

Company	<b>McDonald's Corporation (NYSE: MCD)</b>
Market and Sector	United States, Consumer Discretionary
Meeting Date	26 May 2022
Key Resolutions <sup>1</sup>	<p><u>Proxy Contest – two shareholder-nominated directors</u></p> <p><b>Item 4:</b> Reduce Ownership Threshold for Shareholders to Call Special Meeting</p> <p><b>Item 5:</b> Report on Efforts to Reduce Plastic Use</p> <p><b>Item 7:</b> Report on Use of Gestation Stalls in Pork Supply Chain</p> <p><b>Item 8:</b> Report on Third-Party Civil Rights Audit</p> <p><b>Item 10:</b> Issue Transparency Report on Global Public Policy and Political Influence</p>
Key Topics	Proxy contest, company impacts on people, natural capital, diversity, equity and inclusion, corporate political activities, lobbying
Board Recommendation	The board recommends shareholders vote AGAINST these shareholder proposals
BlackRockVote	BlackRockvoted AGAINST these shareholder proposals

## Overview

McDonald's Corporation (McDonald's) engages in the operation and franchising of restaurants.

BlackRock Investment Stewardship (BIS) has engaged regularly with McDonald's over the last several years to discuss a range of corporate governance and sustainable business matters that we believe contribute to a company's ability to deliver the durable, long-term shareholder returns our clients depend on to meet their financial goals. This has included conversations about natural capital, board diversity and human capital management, as well as the company's broader sustainability agenda, which BlackRock believes can be a defining factor in companies' long-term prospects.

At the 2022 annual general meeting (AGM), a shareholder nominated two directors to replace two of the company's incumbent directors over concerns about McDonald's animal welfare practices.<sup>2</sup> In an open letter to McDonald's shareholders, the proponent asserted that the Board "has impugned its credibility on corporate governance and ESG issues by failing to deliver on [the] commitment to eliminate [the] usage of cruel gestation

<sup>1</sup> McDonald's Corporation, "[2022 McDonald's Annual Shareholders' Meeting](#)".

<sup>2</sup> US Securities and Exchange Commission, "[Schedule 14A](#)", April 21, 2022.

crates in its supply chains.”<sup>3</sup> To further our understanding of the situation, BIS engaged with both McDonald’s management and the shareholder proposing the directors. Upon engagement and after our analysis of the company’s disclosure and other publicly available information on these issues, BIS did not support the shareholder-nominated candidates and voted with management in support of the incumbent board members. We believe that, in most cases, our clients – the owners of the companies we invest in on their behalf – are best served when a company is constructively engaged, is receptive to shareholder feedback, and initiates change from within. We are inclined to support management in such situations.<sup>4</sup> BIS assesses these situations on a case-by-case basis, always through the lens of the long-term financial interests of our clients.

## **Rationale for BlackRock’s vote on other shareholder proposals**

### **Item 4: Reduce Ownership Threshold for Shareholders to Call Special Meeting (AGAINST)**

**BIS did not support this proposal because we believe that the company’s 25% threshold for shareholders to call a special meeting is appropriate.**

The proposal asked McDonald’s Board to “take the steps necessary to amend the appropriate company governing documents to give the owners of a combined 10% of our outstanding common stock the power to call a special shareholder meeting.”<sup>5</sup>

As stated in our [Proxy voting guidelines for U.S. securities](#), we believe that shareholders should have the right to call a special meeting in cases where a reasonably high proportion of shareholders (typically a minimum of 15% but no higher than 25%) share concerns about an issue that should go to a shareholder vote.

In our view, McDonald’s already provides shareholders the right to call a special meeting at an appropriate threshold of 25%, which we believe offers shareholders a reasonable opportunity to raise issues of substantial importance without having to wait for management to schedule a meeting. For these reasons, we did not support the proposal.

### **Item 5: Report on Efforts to Reduce Plastic Use (AGAINST)**

**While we acknowledge the materiality of plastic pollution to the company, BIS did not support this shareholder proposal because we believe the company’s existing disclosure is sufficient.**

The proposal asked McDonald’s Board to issue a report “describing how the company will reduce its plastics use in alignment with the reductions findings of the Pew Report, or other authoritative sources, to feasibly reduce ocean pollution.”<sup>6</sup>

Engaging on plastics pollution is an increasingly important topic for BIS, as discussed in our commentary on [Our approach to engagement on natural capital](#). We appreciate when companies who produce or rely heavily on plastics in their products or operations disclose information on how waste is managed. This disclosure might include how they are accelerating efforts related to recycling and reuse of plastic products to minimize waste; it might also include targets established to limit runoff and waste and to support efforts to clean up existing plastics pollution.

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<sup>3</sup> US Securities and Exchange Commission, “[Schedule 14A](#)”, April 21, 2022.

<sup>4</sup> Activist situations represent a small portion of the votes made in any given year; however, they often receive disproportionate attention. In 2021, there were several very high-profile situations as well as a general rebound in investor activism as the economy started to recover from the pandemic.

<sup>5</sup> McDonald’s Corporation, “[2022 Notice of Annual Meeting and Proxy Statement](#)”.

<sup>6</sup> McDonald’s Corporation, “[2022 Notice of Annual Meeting and Proxy Statement](#)”.

While BIS believes that plastics pollution is a material risk for the company, in our view, McDonald's existing disclosure provides sufficient information, outlining the company's clear policies and targets that are in place to reduce the use of plastics across their operations.<sup>7</sup>

We also note that McDonald's is contributing to the development of frameworks and standards to address plastic waste in the context of their sector, which we believe should help accelerate progress across the market.

#### **Item 7: Report on Use of Gestation Stalls in Pork Supply Chain (AGAINST)**

**BIS did not support this proposal because we believe that the company has adequate disclosure in place to address this issue.**

The shareholder proposal requested that the company "confirm that the confinement of gestating pigs in individual stalls will be ended in its U.S. pork supply chain by 2022. If McDonald's cannot so confirm, shareholders request disclosure of: 1) the percentage of pork in its U.S. supply produced without locking gestating pigs in solitary confinement stalls, and 2) the risks McDonald's may face over the disparity between its gestation stall pledges/reporting and the reality within its supply chain. This should occur within three months of the 2022 annual meeting, at reasonable cost, and omit proprietary information."<sup>8</sup>

McDonald's currently provides detailed [animal welfare updates](#), including its use of gestation stalls in the company's pork supply chain, on the company website and in its [Purpose & Impact Progress Summary](#).

As of 2021, about 60% of McDonald's U.S. pork was purchased from group housed pork (GHP) systems. The company expects that by the end of 2022, 85-90% of their U.S. pork will come from group housing systems, representing progress across a 10-year timeframe. The company also expects that by the end of 2024, 100% of their U.S. pork volume will come from group housing systems<sup>9</sup>. Based on the company's disclosure and clearly defined plans in place, we believe that they are adequately managing this risk and therefore did not believe it was in the best economic interests of our clients to support this shareholder proposal.

#### **Item 8: Report on Third-Party Civil Rights Audit (AGAINST)**

**While we acknowledge that racial equity audits can be beneficial for companies in addressing material risks and opportunities, BIS did not support this shareholder proposal because, in our assessment, McDonald's current disclosure provides clear, fulsome information to enable stakeholders to track the effectiveness of the company's diversity, equity and inclusion (DEI) efforts, and their stated goals provide insight into the company's ongoing priorities.**

The proposal asked McDonald's Board "oversee a third-party audit analyzing the adverse impact of McDonald's policies and practices on the civil rights of company stakeholders, above and beyond legal and regulatory matters, and to provide recommendations for improving the company's civil rights impact."<sup>10</sup>

BIS appreciates when companies disclose how they consider the interests of their workforce in business decision-making. In this context, we look to companies to disclose information about their commitment to advancing diversity, equity, and including, including their efforts to recruit, retain, and develop diverse talent,

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<sup>7</sup> For example, McDonald's disclosure on Packaging & Waste describes the company's existing commitment to source 100% of primary packaging, including plastics, from renewable, recycled or certified sources instead of virgin fossil fuel-based plastics by the end of 2025. The company also plans to recycle 100% of packaging in restaurants by the end of 2025. McDonald's disclosed strategy focuses on eliminating packaging, shifting materials, recovering and recycling packaging and creating end markets for recycled materials. See McDonald's Corporation, "[Packaging & Waste](#)".

<sup>8</sup> McDonald's Corporation, "[2022 Notice of Annual Meeting and Proxy Statement](#)".

<sup>9</sup> McDonald's Corporation, "[Animal Health & Welfare](#)".

<sup>10</sup> McDonald's Corporation, "[2022 Notice of Annual Meeting and Proxy Statement](#)".

create an inclusive workplace for all workers, support executive training for underrepresented groups, and address any compensation gaps across different workforce demographics.<sup>11</sup>

Currently, McDonald's discloses workforce composition data through their [Diversity Snapshot](#). The company also has targets in place to increase diversity, equity and inclusion at the company level; by the end of 2025, McDonald's expects to increase representation of historically underrepresented groups in leadership roles (Senior Director and above) located in the U.S. to 35% and increase the representation of women in leadership roles globally (Senior Director and above) to 45%, with an overall goal to reach gender parity globally in leadership roles (Senior Director and above) by the end of 2030. Regarding diversity at the franchisee level, in 2021 McDonald's announced a franchisee recruitment initiative to help increase the number of franchisees from historically underrepresented groups in McDonald's U.S. and all McDonald's International Operated Markets.<sup>12 13</sup>

In addition, beginning in 2021 the company began incorporating quantitative metrics related to human capital management into the annual incentive compensation awards for its CEO and Executive Vice Presidents roles.<sup>14</sup> These metrics include, among other metrics, increasing the representation of women globally at the Senior Director level and above and increasing the representation of underrepresented minorities in the U.S. at the Senior Director level and above.

Based on our assessment, the company's current approach to managing their impacts on people is robust, as discussed in their related disclosure which in our view provides sufficient information to track the effectiveness of the company's DEI efforts.<sup>15</sup> We will continue to monitor the progress towards their stated goals.

#### **Item 10: Issue Transparency Report on Global Public Policy and Political Influence (AGAINST)**

**BIS did not support this proposal because, in our assessment, McDonald's disclosure regarding their political spending and lobbying activities provides sufficient information.**

The proposal asks McDonald's to issue a report annually on "global public policy and political influence, disclosing company expenditures and activities outside of the United States."<sup>16</sup>

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<sup>11</sup> BlackRock Investment Stewardship, "[Our approach to engagement on human capital management](#)", February 2022.

<sup>12</sup> McDonald's Corporation, "[McDonald's announces global effort to increase demographic representation of franchisee base](#)", December 2021.

<sup>13</sup> McDonald's also has robust disclosure regarding their DEI-related strategy for suppliers, which discusses the company's initiative beginning in July 2021 to invite U.S.-based supplier of goods and services to sign a Mutual Commitment to Diversity, Equity & Inclusion which commits them to actions such as implementing an overall DEI strategy, including annual training or education for employees to be better DEI practitioners and leaders and creating infrastructure accountability to track progress, share regular updates and best practices on effective programs and measurement. See "[McDonald's and Largest Suppliers Join Mutual Commitment to Diversity Equity and Inclusion: Increasing Purchases with Diverse Suppliers](#)", July 2021 and McDonald's Corporation, "[Diversity, Equity & Inclusion](#)".

<sup>14</sup> McDonald's Corporation, "[Allyship through Accountability](#)", February 2021.

<sup>15</sup> Regarding McDonald's advertising budget, as discussed in the supporting statement of the shareholder proposal, the company expects to increase national investments in diverse-owned media companies from 4% to 10% by 2024,<sup>15</sup> and expects to increase spend with Black-owned media and production properties from 2% to 5% by 2024, in addition to increased investments with other diverse segments, including Hispanic, Asian Pacific American, Women and LGBTQ-owned properties.<sup>15</sup> McDonald's USA is forming "an advisory board of external marketing and advertising subject matter experts dedicated to identifying the biggest barriers to economic opportunity facing diverse-owned media and production companies and putting collective efforts behind new programs and initiatives to eliminate them. See "[McDonald's Increasing Spend with Diverse-Owned Media, Content and Production Partners](#)" May 2021.

<sup>16</sup> "Such report should disclose company funding and in-kind support directed to candidates or electioneering, lobbying, and charitable donations for the preceding year including: Recipients and amounts; The Company's membership in or payments to nongovernmental organizations including trade and business associations, scientific or academic organizations and charities; The rationale for these activities. The Board and management may, in its discretion, establish a de minimis threshold, such as contributions to an individual or

BIS regularly engages with companies to understand how they use corporate political activities to support policy matters material to their long-term strategy and shareholder value. As part of this, we look at companies' publicly available disclosures to understand how lobbying and political contributions support their stated policy positions.

As explained in our commentary on [Our perspective on corporate political activities](#), we look to companies that engage in political activities to develop, maintain, and disclose robust processes, including effective board oversight, to guide these activities and mitigate associated risks. It is helpful to investors' understanding if companies provide accessible and clear disclosures so that investors can easily understand how companies' political activities support their long-term strategy, including on their stated public policy priorities.

We believe that McDonald's current disclosure is sufficient to meet the requests of this shareholder proposal. For example, currently McDonald's oversight system for corporate political activities is outlined in their Political Contribution Policy which helps ensure that their limited political contributions outside the U.S. comply with applicable law and are in the best, long-term interests of the company and shareholders.<sup>17</sup> McDonald's also publishes a list on their website of trade associations of which they are a member.<sup>18</sup>

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organization totaling less than \$250, below which itemized disclosures would not be required." McDonald's Corporation, "[2022 Notice of Annual Meeting and Proxy Statement](#)".

<sup>17</sup> McDonald's Corporation, "[McDonald's Corporation Political Contribution Policy](#)".

<sup>18</sup> McDonald's Corporation, "[Political Contributions](#)".

## About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.<sup>19</sup>

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

**Want to know more?** [blackrock.com/stewardship](https://blackrock.com/stewardship)

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<sup>19</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.