



DIVISION OF
CORPORATION FINANCE

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

March 9, 2022

Jennifer H. Noonan
Bass, Berry & Sims PLC

Re: Tractor Supply Company (the "Company")
Incoming letter dated January 6, 2022

Dear Ms. Noonan:

This letter is in response to your correspondence concerning the shareholder proposal (the "Proposal") submitted to the Company by James McRitchie for inclusion in the Company's proxy materials for its upcoming annual meeting of security holders.

The Proposal asks that the board commission and publish a report on (1) whether the Company participates in compensation and workforce practices that prioritize Company financial performance over the economic and social costs and risks created by inequality and racial gender disparities and (2) the manner in which any such costs and risks threaten returns of diversified shareholders who rely on a stable and productive economy.

We are unable to concur in your view that the Company may exclude the Proposal under Rule 14a-8(i)(3). We are unable to conclude that the Proposal, taken as a whole, is so vague or indefinite that it is rendered materially misleading.

We are unable to concur in your view that the Company may exclude the Proposal under Rule 14a-8(i)(7). In our view, the Proposal transcends ordinary business matters because it raises human capital management issues with a broad societal impact. *See* Staff Legal Bulletin No. 14L (Nov. 3, 2021).

Copies of all of the correspondence on which this response is based will be made available on our website at <https://www.sec.gov/corpfin/2021-2022-shareholder-proposals-no-action>.

Sincerely,

Rule 14a-8 Review Team

cc: Frederick H. Alexander
The Shareholder Commons

Jennifer H. Noonan
jnoonan@bassberry.com
(615) 742-6265

January 6, 2022

VIA E-MAIL

Office of Chief Counsel
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: *Tractor Supply Company*
Stockholder Proposal of James McRitchie
Securities Exchange Act of 1934 ("Exchange Act")—Rule 14a-8

Ladies and Gentlemen:

This letter is to inform you that our client, Tractor Supply Company (the "Company"), intends to omit from its proxy statement and form of proxy for its 2022 Annual Meeting of Stockholders (collectively, the "2022 Proxy Materials") a stockholder proposal (the "Proposal") and statements in support thereof received from The Shareholder Commons on behalf of James McRitchie (the "Proponent").

Pursuant to Rule 14a-8(j), we have:

- filed this letter with the Securities and Exchange Commission (the "Commission") no later than eighty (80) calendar days before the Company intends to file its definitive 2022 Proxy Materials with the Commission; and
- concurrently sent a copy of this correspondence to the Proponent.

Rule 14a-8(k) and Staff Legal Bulletin No. 14D (Nov. 7, 2008) ("SLB 14D") provide that stockholder proponents are required to send companies a copy of any correspondence that the proponent elects to submit to the Commission or the staff of the Division of Corporation Finance (the "Staff"). Accordingly, we are taking this opportunity to inform the Proponent that if the Proponent elects to submit additional correspondence to the Commission or the Staff with respect to the Proposal, a copy of that correspondence should be furnished concurrently to the undersigned on behalf of the Company pursuant to Rule 14a-8(k) and SLB 14D.

THE PROPOSAL

The Proposal states:

RESOLVED, shareholders ask that the board commission and publish a report on (1) whether the Company participates in compensation and workforce practices that prioritize Company financial performance over the economic and social costs and risks created by inequality and racial and gender disparities and (2) the manner in which such costs and risks threaten returns of diversified shareholders who rely on a stable and productive economy.

A copy of the Proposal, the supporting statement and related correspondence with the Proponent is attached to this letter as Exhibit A.

BASES FOR EXCLUSION

We hereby respectfully request that the Staff concur in our view that the Proposal may be excluded from the 2022 Proxy Materials pursuant to:

- Rule 14a-8(i)(7) because the Proposal deals with matters relating to the Company's ordinary business operations; and
- Rule 14a-8(i)(3) because the Proposal is impermissibly vague and indefinite so as to be inherently misleading.

ANALYSIS

I. The Proposal May Be Excluded Pursuant To Rule 14a-8(i)(7) Because It Involves Matters Related To The Company's Ordinary Business Operations.

A. Background.

Rule 14a-8(i)(7) permits a company to omit from its proxy materials a stockholder proposal that relates to the company's "ordinary business operations." In the adopting release, the Commission stated that the policy behind Rule 14a-8(i)(7) is to "confine the resolution of ordinary business problems to management and the board of directors, since it is impracticable for shareholders to decide how to solve such problems at an annual shareholders meeting." *Release No. 34-40018* (May 21, 1998) (the "1998 Release"). In the 1998 Release, the Commission identified "two central considerations" in applying the ordinary business operations exclusion. The consideration relevant to the Proposal is that "[c]ertain tasks are so fundamental to management's ability to run a company on a day-to-day basis that they could not, as a practical matter, be subject to direct shareholder oversight." *1998 Release*. Examples of the tasks cited by the Commission include "management of the workforce, such as the hiring, promotion, and termination of employees, decisions on production quality and quantity, and the retention of suppliers" (emphasis added). *1998 Release*.

In addition, while the Proposal calls for a risk assessment and report to the Company's stockholders, the Staff has determined in prior no-action letters that framing a request for a report, including a report to assess certain risks, rather than a specific action does not alter the underlying analysis of the Proposal under Rule 14a-8(i). As the Staff noted in Staff Legal Bulletin No. 14E (October 27, 2007) ("SLB No. 14E"), "rather than focusing on whether a proposal and supporting statement relate to the company engaging in an evaluation of risk, we will instead focus on the subject matter to which the risk pertains or that gives rise to the risk... [S]imilar to the way in which we analyze proposals asking for the preparation of a report, the formation of a committee or the inclusion of disclosures in a Commission-prescribed document – where we look to the underlying subject matter of the report, committee or disclosure to determine whether the proposal relates to ordinary business – we will consider whether the underlying subject matter of risk evaluation involves a matter of ordinary business to the company." See *Johnson Controls, Inc.* (avail. Oct. 26, 1999) ("[Where] the subject matter of the additional disclosure sought in a particular proposal involves a matter of ordinary business . . . it may be excluded under [R]ule 14a-8(i)(7)."); see also *Ford Motor Co.* (avail. Mar. 2, 2004) (concurring with the exclusion of a proposal requesting that the company publish a report about global warming/cooling, where the report was required to include details of indirect environmental consequences of its automobile manufacturing business).

Therefore, the substance of the report or requested action determines whether a proposal can be excluded from the proxy materials.

Consistent with Staff guidance and as discussed below, the Proposal requests a report involving subject matters that address the Company's ordinary business operations, and therefore may be excluded under Rule 14a-8(i)(7).

B. The Proposal May Be Excluded Because Its Subject Matter Relates To General Employee Compensation.

The Proposal is excludable pursuant to Rule 14a-8(i)(7) because it relates to the Company's ordinary business operations as it pertains directly to the Company's employee compensation policies and practices. As the employer of a nationwide workforce, employee compensation practices and policies are essential components of the Company's daily business operations.

In analyzing stockholder proposals relating to compensation, the Staff has distinguished between proposals that relate to general employee compensation and proposals that concern executive officer and director compensation, noting that the former implicate a company's ordinary business operations and are therefore excludable. *See* Staff Legal Bulletin No. 14A (July 12, 2002) (indicating that under the Staff's "bright-line analysis" for compensation proposals, companies "may exclude proposals that relate to general employee compensation matters in reliance on rule 14a-8(i)(7)" but "may [not] exclude proposals that concern only senior executive and director compensation").

The Staff has consistently concurred with the exclusion of stockholder proposals under Rule 14a-8(i)(7) that, like the Proposal, address both executive compensation and non-executive compensation. *See, e.g., Yum! Brands, Inc.* (avail. Feb. 24, 2015) (concurring in the exclusion under Rule 14a-8(i)(7) of a proposal that requested that the company prepare a report on its executive compensation policies, including a comparison of senior executive compensation and store employees' median wage as relating to Yum's ordinary business operations because the proposal related to compensation that may be paid to employees and not only to senior executive officers and directors); *Microsoft Corp.* (avail. Sept. 17, 2013) (concurring with the exclusion of a proposal that sought to limit the average total compensation of senior management, executives, and other employees because the proposal related to compensation that may be paid to employees generally and not only senior executive officers and directors). Additionally, the Staff has long recognized that proposals that attempt to manage internal operating policies and practices may be excluded pursuant to Rule 14a-8(i)(7) because they infringe on management's core functions in overseeing the day-to-day ordinary business operations of a company. *See, e.g., FedEx Corp.* (avail. Jul. 7, 2016) (concurring with the exclusion of a proposal relating to the terms of the company's employee retirement plans).

The Proposal attempts to tie the Company's compensation practices to wage inequality. However, the Staff has also consistently concurred with the exclusion under Rule 14a-8(i)(7) of stockholder proposals relating to wage reform and wage inequality as relating to general compensation matters. *See, e.g., Marriott International Inc.* (avail. Mar. 26, 2021) (concurring with the exclusion of a proposal under Rule 14a-8(i)(7) that requested the board of directors to commission and disclose a report on the "external social costs created by the compensation policy of [the company] and the manner in which such costs affect the vast majority of its shareholders who rely on overall market returns," notwithstanding the proponent's assertion that the proposal addressed a significant policy issue); *The Home Depot, Inc.* (avail. Mar. 1, 2017) (concurring with the exclusion of a proposal requesting adoption and publication of principles for minimum wage

reform, noting that "the proposal relates to general compensation matters, and does not otherwise transcend day-to-day business matters," despite the proponent's assertion that minimum wage was a significant policy issue); *The TJX Companies, Inc. (Trillium Asset Mgmt., LLC)* (avail. Mar. 8, 2016) (concurring with the exclusion of a proposal requesting that the company adopt and publish minimum wage reform principles, stating that the proposal "relates to general compensation matters"); *Apple, Inc. (Zhao)* (avail. Nov. 16, 2015) (concurring with the exclusion of a proposal requesting that the company's compensation committee "adopt new compensation principles responsive to America's general economy, such as unemployment, working hour[s] and wage inequality"); *Wal-Mart Stores, Inc.* (avail. Mar. 15, 1999) (concurring with the exclusion of a proposal requesting a report that was to include, among other things, a description of "[p]olicies to implement wage adjustments to ensure adequate purchasing power and a sustainable living wage" and noting the proposal was excludable under Rule 14a-8(i)(7) because the quoted language "relate[d] to ordinary business operations").

As discussed in the foregoing precedents, when a proposal relates, as the Proposal does, to both executive and general employee compensation, it is excludable under Rule 14a-8(i)(7). Here, the Proposal requests a report on the "economic and social costs and risks" of the effects of the Company's "compensation and workforce practices" and how such costs and risks may impact certain investors. The Proposal refers broadly to the Company's compensation practices and encompasses all the Company's employees generally. The references in the supporting statement to the compensation and wages of "employees" and the "median employee" make clear that the Proposal focuses on more than simply elements of executive compensation, but instead applies to any compensation offered by the Company under its "compensation and workforce practices."

The Company is responsible for the compensation of tens of thousands of employees. The Proposal would require the Company to collect data, review and assess compensation practices with respect to all Company employees, determine (or speculate as to) direct and indirect effects of those compensation decisions, extrapolate to areas that may not be relevant or impactful for the Company and evaluate "costs and risks," all of which implicate the Company's ordinary business operations. The first part of the Proposal asks the Company to disclose whether it "participates in compensation and workforce practices that prioritize Company financial performance over the economic and social costs and risks created by inequality and racial and gender disparities" – this does not focus on social or public policy issues, but rather centers squarely on disclosure of the Company's ordinary practices. Merely relating the disclosure or shareholder oversight request to social phenomena does not rise to the level of the social policy exception.

In addition, the fact that the Proposal is couched in terms of how the Company's employee compensation practices affect diversified shareholders does not change the clear, underlying intent of the Proposal – that the Company alter its employee hiring and compensation practices. In fact, the supporting statement expressly states that the purpose of the report is to "help determine *whether and when the Company should prioritize employee equality and welfare* over financial returns" (emphasis added). In this case, the Proposal is clear that the Proponent believes that "employee equality and welfare" are directly affected by the Company's compensation and workforce practices. As such, the only objective that can be inferred from this language is that the Company should consider altering employee compensation practices. As the Staff has consistently held – employee compensation practices are an ordinary business matter, and as a result, the Proposal is excludable.

If implemented, the Proposal would interfere with management's ability to make the tailored employment-related decisions that are a fundamental part of the Company's day-to-day business operations. The Company operates retail stores in 49 states and relies on its strong culture, mission, and values, which are interconnected with the engagement and satisfaction of all of its

employees, which the Company calls Team Members. The Company is deeply committed to maintaining its superior work environment, and management is focused on best workforce practices for all Team Members, of whom 49% are female and 17% are minorities. The day-to-day decisions that management makes in recruiting, managing, training, developing, and compensating Team Members are precisely the types of core business functions that the Staff has long recognized are not appropriate for direct shareholder oversight. The overbroad nature of the Proposal further demonstrates that the Proposal's policy would not be in the best interests of the Company's multifaceted workforce and that shareholders are not best suited to direct such core functions that are fundamental to the success of management's ordinary business operations.

C. *The Proposal May Be Excluded Because Its Subject Matter Relates To Management Of The Company's Workforce.*

The Commission has also held that stockholder proposals may be excluded under Rule 14a-8(i)(7) when they relate to a company's management of its workforce. In *United Technologies Corp.* (avail. Feb. 19, 1993), the Staff provided the following examples of excludable ordinary business categories: "employee health benefits, *general compensation issues not focused on senior executives, management of the workplace*, employee supervision, *labor-management relations, employee hiring and firing*, conditions of the employment and employee training and motivation" (emphasis added). As discussed above, the Proposal's requested report on the "costs and risks" of the Company's compensation and workforce practices implicates the Company's general workforce. The supporting statement's references to workers' wages and certain diversity statistics evidence that the requested report relates to how the Company compensates and manages its workforce, which are core components of managing a large, nationwide workforce on a day-to-day basis.

The Staff has long recognized that a wide variety of proposals pertaining to the management of a company's workforce are excludable under Rule 14a-8(i)(7). For example, in *Yum! Brands, Inc.* (avail. Mar. 6, 2019), the Staff concurred with the exclusion of a proposal relating to adopting a policy not to "engage in any Inequitable Employment Practice," noting it related "generally to the [c]ompany's policies concerning its employees and does not focus on an issue that transcends ordinary business matters." *See also, e.g., Bristol Myers Squibb Co.* (avail. Jan. 7, 2015); *The Walt Disney Co.* (avail. Nov. 24, 2014, recon. denied Jan. 5, 2015) (in each of *Bristol Myers* and *Walt Disney*, concurring with the exclusion of a proposal that the board of directors consider the adoption of an anti-discrimination policy protecting employees' rights to engage in legal activities relating to the political process, civic activities and public policy without retaliation as relating to the company's ordinary business operations); *PG&E Corp.* (avail. Mar. 7, 2016) (concurring with the exclusion of a proposal requesting that the board institute a policy banning discrimination based on race, religion, donations, gender, or sexual orientation in hiring vendor contracts or customer relations, as relating to the company's ordinary business operations); *Intel Corp.* (avail. Mar. 18, 1999) (concurring with the exclusion of a proposal seeking adoption of an "Employee Bill of Rights," which would have established various "protections" for the company's employees, including limited work-hour requirements, relaxed starting times, and a requirement that employees treat one another with dignity and respect, noting that the foregoing was excludable as relating to "management of the workforce").

Like the foregoing precedents, the Proposal is concerned with the Company's management of its workforce, as it seeks a report relating to the Company's compensation and workforce practices and the supporting statement discusses the Proponent's views of the Company's workforce practices on its employees. The fact that the Proposal asks for an analysis of the effects of the Company's compensation and workforce practices on a subset of stockholders does not take the Proposal out of the realm of "employee management and compensation," both of which have

consistently been deemed excludable as ordinary business matters and not appropriate for stockholder oversight. By requesting a report that would review the "costs and risks" created from the Company's compensation and workforce practices, the Proposal addresses the Company's management of its employees and their compensation and is therefore excludable under Rule 14a-8(i)(7).

D. The Proposal Does Not Focus On Any Significant Policy Issue.

The precedents set forth above clearly demonstrate that the Proposal directly addresses ordinary business matters and, therefore, is excludable under Rule 14a-8(i)(7). The 1998 Release distinguishes proposals pertaining to ordinary business matters from those involving "significant social policy issues." *1998 Release*. (citing Exchange Act Release No. 12999 (Nov. 22, 1976)). While "proposals . . . focusing on sufficiently significant social policy issues (e.g., significant discrimination matters) generally would not be considered to be excludable," the Staff has indicated that proposals relating to both ordinary business matters and significant social policy issues may be excludable in their entirety in reliance on Rule 14a-8(i)(7) if they do not "transcend the day-to-day business matters" discussed in the proposals. *1998 Release*. When assessing proposals under Rule 14a-8(i)(7), the Staff considers "both the proposal and the supporting statement as a whole." Staff Legal Bulletin No. 14C, part D.2 (June 28, 2005). In addition, the Staff has consistently held that merely referencing topics that might raise significant policy issues, but which do not define the scope of actions addressed in a proposal and which have only tangential implications for the issues that constitute the central focus of a proposal, does not transform an otherwise ordinary business proposal into one that transcends ordinary business. Here, the Proposal's principal focus is on the Company's employee compensation and management of its workforce and not a significant policy issue. The fact that the Proposal requests a report on how the Company's policies may affect diversified shareholders does not alter the fact that the Proposal is focused on ordinary business matters. As stated in the Proposal, the purpose of the requested report is to "determine whether and when the Company should prioritize employee equality and welfare over financial returns." The Proponent's explanation in the supporting statement of "employee equality and welfare" as being driven by compensation and hiring and promotion practices makes it clear that the Proposal relates to ordinary business matters and not a significant policy issue.

Even if the Proposal were to raise a significant policy issue, the Staff has frequently agreed that a proposal that touches, or may touch, upon significant policy issues is excludable if the proposal does not focus on such issues. For example, in *The Western Union Co.* (avail. Mar. 14, 2011), the Staff concurred in the exclusion of a proposal requesting the formation of a risk committee and report by the committee on how the company was monitoring and controlling particular risks, where the underlying subject matter of the risks involved ordinary business matters notwithstanding that the request to form a risk committee could constitute a significant policy issue that transcended the company's ordinary business operations. *See also, Wells Fargo (Harrington Investments, Inc.)* (avail. Feb. 27, 2019) where the Staff concurred in the exclusion of a proposal as related to "ordinary business" where the proposal requested that the board commission an independent study and then report to stockholders on "options for the board . . . to amend [the] [c]ompany's governance documents to enhance fiduciary oversight of matters relating to customer service and satisfaction" notwithstanding language relating to various compliance and governance issues at the company. While one or more of those issues related to policy issues may have transcended ordinary business, the "Resolved" clause focused on customer relations, rendering the proposal excludable under Rule 14a-8(i)(7).

Assuming, *arguendo*, that racial and economic inequality and their effects on the portfolio returns of diversified shareholders is a significant social policy issue, like in *Western Union* and *Wells Fargo*, that issue is not the crux of the Proposal. Instead, the clear focus of the Proposal is the Company's ordinary business of compensation and workforce practices. As a result, similar to the foregoing precedents, the Proposal fails to focus on any issue that might rise to the level of significance that would preclude exclusion.

As discussed above, the Proposal relates to ordinary business matters: general employee compensation and the Company's management of its workforce. Accordingly, because the Proposal's request is directly related to the Company's ordinary business operations and does not transcend those ordinary business operations, similar to the proposals in the precedents discussed above, the Proposal may be excluded under Rule 14a-8(i)(7).

II. The Proposal May Be Excluded Under Rule 14a-8(i)(3) Because It Is Impermissibly Vague And Indefinite So As To Be Inherently Misleading.

A shareholder proposal may be excluded under Rule 14a-8(i)(3) if the proposal or supporting statement is contrary to any of the Commission's proxy rules, including Rule 14a-9, which prohibits materially false or misleading statements in proxy solicitation materials. The Staff consistently excludes proposals where "the resolution contained in the proposal is so inherently vague or indefinite that neither the stockholders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires." Staff Legal Bulletin No. 14B (Sept. 15, 2005). Further, a shareholder proposal may be properly excluded as inherently vague where the "meaning and application of terms and conditions . . . in the proposal would have to be made without guidance from the proposal and would be subject to differing interpretations" such that "any action ultimately taken by the [c]ompany upon implementation [of the proposal] could be significantly different from the actions envisioned by the shareholders voting on the proposal." *Fuqua Industries, Inc.* (Mar. 12, 1991); *see also, e.g., Bank of America Corp.* (avail. Feb. 22, 2010) (concurring with the exclusion of a proposal requesting the establishment of a board committee on "US Economic Security" where the proposal failed to define that term and where the company asserted that the proposal contained a vague litany of factors to be considered including the "long term health of the economy," the "well-being of US citizens" and "levels of domestic and foreign control," all of which rendered the proposal impermissibly vague); *Alaska Air Group, Inc.* (Apr. 11, 2007) (proposal requesting the board of directors amend the governing documents of the company to "assert, affirm and define the right of the owners of the company to set standards of corporate governance" was excluded as vague and indefinite because "standards of corporate governance" is a concept that is "sweeping in its scope," making it impossible for the company, its board of directors or the stockholders to determine with any certainty what must be addressed to comply with the proposal); *eBay Inc.* (Apr. 10, 2019) (proposal requesting that the company "reform" its executive compensation committee was properly excluded under Rule 14a-8(i)(3) because the term "reform," without additional context or explanation, did not allow the company and its stockholders to understand the scope of the reform being requested; *Apple Inc.* (Dec. 6, 2019) (proposal requesting that the company "improve guiding principles of executive compensation" was excluded as impermissibly vague under Rule 14a-8(i)(3) because the "proposal lack[ed] [a] sufficient description about the changes, actions or ideas for the company and its shareholders to consider that would potentially improve the guiding principles.")). As described below, the Proposal is so vague and indefinite that neither the Company nor the Company's stockholders could comprehend what the requested report would entail. Therefore, the Proposal is excludable under Rule 14a-8(i)(3).

As the foregoing precedents demonstrate, the Staff has routinely concurred with the exclusion of proposals that fail to define key terms or otherwise fail to provide sufficient clarity or guidance to enable either stockholders or the company to understand how the proposal would be implemented. Here, like the proposal in *Bank of America*, the Proposal fails to define a number of key terms and phrases essential to the Proposal. The Proposal seeks a report on “*economic and social costs and risks*” created by inequality and racial and gender disparities, and “the manner in which *any such costs and risks threaten returns of diversified shareholders who rely on a stable and productive economy*” (emphasis added). It is necessary for stockholders to understand these terms and phrases in order to reasonably determine what actions or measures the Proposal requires and, ultimately, whether the stockholders are in favor of the Company obtaining the requested report.

First, the Proposal fails to define the key terms “economic and social costs and risks” and, like the proposals in the precedents cited above, these terms do not have commonly understood uniform meanings. Other than vague references to “economic growth” and “GDP”, the Proposal provides no clarity or direction as to what economic costs and risks to diversified portfolios it means to address. The “economic costs” of inequality could mean accounting costs, opportunity costs, or direct or indirect costs, among other things, and “economic risks” could include a variety of issues, including changes in regulations and policies, macroeconomic or microeconomic conditions, or political instability, among other things. Likewise, “social costs and risks” is similarly undefined and could have a myriad of meanings. While the Proposal does mention the broad terms “social cohesion,” “political polarization” and “social instability,” it is impossible to know what exactly is meant by these undefined terms. It is unclear if the Proposal is meant to address actual monetary costs, political costs, external or personal costs, a combination thereof, or other entirely different costs and risks. The Proposal does not address whether the requested report is to focus on all types of “economic and social costs and risks” created by inequality and racial and gender disparities or some subset thereof, nor does it address how the Company could conceivably quantify or assess these costs and risks. Instead, the supporting statement discusses the Proposal in overly broad terms, asking the Board to consider “global economy and cohesion” and undefined threats to returns of shareholders relying on a “stable and productive” economy with no indication of what “stable” or “productive” means. For instance, does a “stable and productive” economy mean one of growth, low fluctuation in the markets, low interest rates, low inflation, high employment, high consumer confidence, or all of a combination of these or other concepts?

Without further guidance regarding the scope and nature of the requested report, stockholders would inevitably be left to struggle with multiple and conflicting interpretations about the central request of the Proposal. As drafted, the Proposal could be interpreted as requiring a broad macroeconomic report analyzing a wide variety of economic and societal risks, direct and indirect, whether financial, political, environmental, and otherwise, that the Company's compensation and workforce practices could create in the communities in which the Company operates, in the United States or globally. For example, a stockholder may be in favor of supporting a report on the Company's financial impacts on U.S. markets, but that same stockholder may not be in favor of supporting a report about the Company's financial impact on “global economy and cohesion.” Equally as confusing, the Proposal is not clear on whether the report is limited to effects on the Company's diversified stockholders or, as the Proposal could be read, all “diversified shareholders.” Given the inherent vagueness of the Proposal, there is likewise little assurance that if the Proposal received majority support that the Company would implement it in the manner that the majority of stockholders expected. This is the kind of situation the Staff has consistently sought to avoid when concurring with the exclusion of similarly inherently vague proposals.

As in the precedents cited above, based on the language in the Proposal, neither the Company nor its stockholders would be able to determine with any reasonable certainty how to implement the Proposal, nor what information the requested report is intended to address. Like in *Bank of America*, where vague factors were not adequate to provide sufficient clarity to the undefined term “US Economic Security,” the references in the Proposal to terms like “economic growth,” “political polarization,” “social cohesion,” and “social instability,” among others, also leave the Company and its stockholders unable to determine with any reasonable certainty the scope and nature of the requested report. As a result, the Proposal lacks sufficient specificity to indicate to the Company and its stockholders what actions the Proposal requires, and the Proposal as a whole is therefore rendered materially misleading. This is not a question of marginal ambiguity that the Company's Board of Directors or management could use its discretion to resolve, but an inherent vagueness that cannot be overcome. Similar to *Bank of America*, when a proposal fails to define a term or key phrase that is essential to an understanding and execution of the proposal, the Proposal is excludable under Rule 14a-8(i)(3) as vague and indefinite.

CONCLUSION

Based upon the foregoing analysis, we respectfully request that the Staff concur that it will take no action if the Company excludes the Proposal from its 2022 Proxy Materials.

We would be happy to provide you with any additional information and answer any questions that you may have regarding this subject. Correspondence regarding this letter should be sent to jnoonan@bassberry.com. If we can be of any further assistance in this matter, please do not hesitate to call me at (615) 742-6265 or Noni L. Ellison, the Company's Senior Vice President, General Counsel and Corporate Secretary, at (615) 278-0986.

Sincerely,

/s/ Jennifer H. Noonan

Jennifer H. Noonan

Enclosures

cc: Noni L. Ellison, Tractor Supply Company
James McRitchie
Sara Murphy, The Shareholder Commons

EXHIBIT A

[Tractor Supply Company: Rule 14a-8 Proposal, November 19, 2021]

[This line and any line above it – Not for publication.]

ITEM 4*: Report on costs of low wages and inequality

RESOLVED, shareholders ask that the board commission and publish a report on (1) whether the Company participates in compensation and workforce practices that prioritize Company financial performance over the economic and social costs and risks created by inequality and racial and gender disparities and (2) the manner in which any such costs and risks threaten returns of diversified shareholders who rely on a stable and productive economy.

Supporting Statement:

The Company's starting wage is \$11.25 per hour and its median employee was paid \$24,437, or 0.15% of the CEO's compensation. By comparison, the living wage was \$16.54 per hour, or \$34,404 per for a family of four (two working adults, two children) in 2019.¹ While the Company's workforce is 49 percent female and 17 percent minority, those groups make up only 21 percent and 5 percent of executive and senior management.

Research reveals that such inequality and racial disparity harm the entire economy:

- Income inequality slows U.S. economic growth by reducing demand by 2 to 4 percent.²
- A 1% increase in inequality leads to a 1.1% per capita GDP loss.³
- Gender and racial gaps created \$2.9 trillion in losses to U.S. GDP in 2019.⁴
- Eliminating racial disparity would add \$5 trillion to the U.S. economy over the next five years.⁵

This drag on GDP directly reduces returns on diversified portfolios,⁶ and creates serious social costs that further threaten financial markets. For example, excessive inequality can erode social cohesion and heighten political polarization, leading to social instability.⁷ It also increases health costs and decreases the value of human capital, through links to more chronic health conditions developed earlier in life.⁸

By paying so many of its employees less than a living wage, the Company increases its margins and thus financial performance. But gain in Company profit that comes at the expense of society and the economy is a bad trade for most Company shareholders, who are diversified and rely on broad economic growth to achieve their financial objectives. The costs and risks created by inequality will directly reduce long-term diversified portfolio returns.

¹ <https://livingwage.mit.edu/articles/61-new-living-wage-data-for-now-available-on-the-tool>

² <https://www.epi.org/publication/secular-stagnation/>

³ <https://www.pionline.com/sponsored-content/facing-hard-truths-material-risk-rising-inequality>

⁴ <https://www.frbsf.org/our-district/files/economic-gains-from-equity.pdf>

⁵ <http://Tractor Supply.us/3olxWHQ>

⁶ Ibid n. 2.

⁷ <https://www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017>

⁸ <https://www.pionline.com/sponsored-content/facing-hard-truths-material-risk-rising-inequality>

This proposal asks the Board to commission a report that analyzes the trade-offs the Company makes between financial return and the global economy and cohesion, and how those trade-offs affect diversified shareholders. Such a report would not require precision: identifying areas where the Company creates inequality and racial disparity and analyzing how they might manifest as costs or risks to diversified portfolios would help determine whether and when the Company should prioritize employee equality and welfare over financial returns.

Please vote for: Report on costs of low wages and inequality – Proposal 4*



[This line and any below are *not* for publication]

[*Number to be assigned by the Company]

The graphic above is intended to be published with the rule 14a-8 proposal. The graphic would be the same size as the largest management graphic (and accompanying bold or highlighted management text with a graphic) or any highlighted management executive summary used in conjunction with a management proposal or a rule 14a-8 shareholder proposal in the 2021 proxy.

The proponent is willing to discuss mutual elimination of both shareholder graphic and any management graphic in the proxy in regard to this specific proposal.

Reference SEC Staff Legal Bulletin No. 14I (CF)

[\[16\]](#) Companies should not minimize or otherwise diminish the appearance of a shareholder’s graphic. For example, if the company includes its own graphics in its proxy statement, it should give similar prominence to a shareholder’s graphics. If a company’s proxy statement appears in black and white, however, the shareholder proposal and accompanying graphics may also appear in black and white.

Notes: This proposal is believed to conform with Staff Legal Bulletin No. 14B (CF), September 15, 2004, including (emphasis added):

Accordingly, going forward, we believe that it would not be appropriate for companies to exclude supporting statement language and/or an entire proposal in reliance on rule 14a-8(i)(3) in the following circumstances:

- the company objects to factual assertions because they are not supported;
- the company objects to factual assertions that, while not materially false or misleading, may be disputed or countered;

- the company objects to factual assertions because those assertions may be interpreted by shareholders in a manner that is unfavorable to the company, its directors, or its officers; and/or
- the company objects to statements because they represent the opinion of the shareholder proponent or a referenced source, but the statements are not identified specifically as such.

We believe that it is appropriate under rule 14a-8 for companies to address these objections in their statements of opposition.

See also Sun Microsystems, Inc. (July 21, 2005).

I also remind you of the SEC's recent guidance and my request that you acknowledge receipt of this shareholder proposal submission. In SLB 14L Section F, <https://www.sec.gov/corpfin/staff-legal-bulletin-14l-shareholder-proposals>, Staff "encourages both companies and shareholder proponents to acknowledge receipt of emails when requested."

James McRitchie

PII

November 22, 2021

Tractor Supply Company
5401 Virginia Way
Brentwood, TN 37027
Via: nellison@tractorsupply.com

Attn: Noni L. Ellison, Senior Vice President, General Counsel and Corporate Secretary

I hereby authorize The Shareholder Commons to file a shareholder resolution on my behalf for Tractor Supply Company's ("the Company") 2022 annual shareholder meeting. The proposal specifically requests that the Company publish a report disclosing the external economic and social costs the Company's compensation and workforce practices may create, and the impact of those costs on the Company's diversified shareholders.

I support this proposal because it would help to curb activities on the part of the Company that may undermine the value of my broader portfolio. I specifically authorize The Shareholder Commons to engage with Tractor Supply Company on my behalf regarding the proposal and the underlying issues, and to negotiate a withdrawal of the proposal as The Shareholder Commons sees fit.

I understand that I may be identified on the corporation's proxy statement as the filer of the aforementioned resolution.

Sincerely,



James McRitchie

cc: board@tractorsupply.com



Via electronic mail

November 22, 2021

Tractor Supply Company

5401 Virginia Way
Brentwood, TN 37027

Attn: Noni L. Ellison
Senior Vice President, General Counsel, and Corporate Secretary

RE: Rule 14a-8 shareholder proposal for 2022 Annual Shareholder Meeting

Dear Ms. Ellison,

The Shareholder Commons (“TSC”) is filing a shareholder proposal on behalf of James McRitchie, a shareholder of Tractor Supply Company (the “Company”), for action at the next Company annual meeting. The Proponent submits the enclosed shareholder proposal for inclusion in the Company’s 2022 proxy statement, for consideration by shareholders, in accordance with Rule 14a-8 of the General Rules and Regulations of the Securities Exchange Act of 1934.

The Proponent has continuously beneficially owned, for at least 3 years as of the date hereof, at least \$2,000 worth of the Company’s common stock. Verification of this ownership will be sent under separate cover. The Proponent intends to continue to hold such shares through the date of the Company’s 2022 annual meeting of shareholders.

A letter from the Proponent authorizing TSC to act on his behalf is enclosed. A representative of the Proponent will attend the stockholders’ meeting to move the resolution as required.

The Proponent and I are available to meet with the Company via teleconference on December 2, 2021, at 12:00 p.m. EST or 12:30 p.m. EST. In [SLB 14L Section F](#), SEC Staff “encourages both companies and shareholder proponents to acknowledge receipt of emails when requested.” Please acknowledge receipt of this proposal, and kindly indicate whether you wish to accept either of our proposed meeting times.

The proponent can be reached at jm@corp.gov.net. I can be contacted at +1.202.578.0261 or sara@theshareholdercommons.com. Please address any future correspondence regarding the proposal to me. I am available to discuss this issue and would welcome the opportunity to engage.

Sincerely,

Sara E. Murphy



Frederick H. Alexander

info@theshareholdercommons.com

+1.302.485.0497

January 26, 2022

Office of Chief Counsel
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

RE: Shareholder proposal of James McRitchie to Tractor Supply Company regarding compensation practices that threaten diversified shareholders

Division of Corporate Finance Staff Members:

James McRitchie (the “Proponent”) is the beneficial owner of Tractor Supply Company (the “Company”) common stock and has submitted a shareholder proposal (the “Proposal”) to the Company. The Proponent has asked me to respond to the letter dated January 6, 2020 (“Company Letter”) that Jennifer H. Noonan sent to the Securities and Exchange Commission (the “SEC”). In that letter, the Company contends that the Proposal may be excluded from the Company’s 2022 proxy statement.

For the reasons discussed in this letter, we respectfully contend that the Proposal is not excludable under Rule 14a-8 and must therefore be included in the Company’s 2022 proxy materials. A copy of this letter is being emailed concurrently to Ms. Noonan.

SUMMARY

The Proposal requests a study of (1) the economic and social costs associated with certain human-capital management practices in which the Company prioritizes its own financial performance over the societal costs of such practices and (2) an analysis of any consequent adverse effects on diversified shareholders. The Company asserts that the Proposal is excludable as relating to ordinary business (Rule 14a-8(i)(7)) or because it is vague and indefinite (Rule 14a-8(i)(3)).

The Proposal is not excludable pursuant to Rule 14a-8(i)(7) because it is solely directed to a significant policy issue the Company’s ongoing business poses, namely *the question of how to address the additional social costs a corporation externalizes due to the prioritization of internal financial returns, including social costs human-capital management practices generate*. The Company Letter fails to acknowledge that this policy issue is at the heart of the Proposal, and therefore fails to address the key question of whether that issue transcends the ordinary business question upon which the Proposal touches. The Company Letter

also fails to acknowledge relevant responses to no-action requests from the 2021 proxy season and recent Staff guidance.

The Company asserts that the Proposal is vague, yet reading the language of the Proposal, neither the Company nor shareholders would have difficulty in ascertaining the core question at issue in the Proposal, even if the Board would have to exercise discretion and judgment in implementing it; thus, the Proposal is not vague within the meaning of Rule 14a-8(i)(3).

ANALYSIS

1. The Proposal is not excludable pursuant to Rule 14a-8(i)(7)

A. Commission and Staff guidance

The Commission has indicated that a shareholder proposal that might otherwise be excludable as relating to ordinary business under Rule 14a-8(i)(7) may not be excludable if it raises significant social policy issues. Amendments to Rules on Shareholder Proposals, Exchange Act Release No. 34-40018, (May 21, 1998). In explaining ordinary business, the Release noted:

*Certain tasks are so fundamental to management's ability to run a company on a day-to-day basis that they could not, as a practical matter, be subject to direct shareholder oversight. Examples include the management of the workforce, such as the hiring, promotion, and termination of employees, decisions on production quality and quantity, and the retention of suppliers. However, **proposals relating to such matters but focusing on sufficiently significant social policy issues (e.g., significant discrimination matters) generally would not be considered to be excludable, because the proposals would transcend the day-to-day business matters and raise policy issues so significant that it would be appropriate for a shareholder vote.***

Staff Legal Bulletin 14A (July 12, 2002) noted that public debate was indicative of the presence of a significant policy issue:

*The Division has noted many times that **the presence of widespread public debate regarding an issue is among the factors to be considered in determining whether proposals concerning that issue "transcend the day-to-day business matters."***¹

Staff Legal Bulletin 14E (October 27, 2009) addressed additional relevant considerations. Under the bulletin guidance, a proposal that requests analysis of risks to investors does not necessarily render the proposal excludable. Instead, the Staff suggested that a key question is whether the particular risk that is being analyzed involves a significant policy issue:

¹ https://www.sec.gov/interps/legal/cfslb14a.htm#P36_4602

*On a going-forward basis, rather than focusing on whether a proposal and supporting statement relate to the company engaging in an evaluation of risk, we will instead focus on the subject matter to which the risk pertains or that gives rise to the risk. **The fact that a proposal would require an evaluation of risk will not be dispositive of whether the proposal may be excluded under Rule 14a-8(i)(7).** Instead, similar to the way in which we analyze proposals asking for the preparation of a report, the formation of a committee or the inclusion of disclosure in a Commission-prescribed document – where we look to the underlying subject matter of the report, committee or disclosure to determine whether the proposal relates to ordinary business – we will consider whether the underlying subject matter of the risk evaluation involves a matter of ordinary business to the company. **In those cases in which a proposal's underlying subject matter transcends the day-to-day business matters of the company and raises policy issues so significant that it would be appropriate for a shareholder vote, the proposal generally will not be excludable under Rule 14a-8(i)(7)** as long as a sufficient nexus exists between the nature of the proposal and the company. Conversely, in those cases in which a proposal's underlying subject matter involves an ordinary business matter to the company, the proposal generally will be excludable under Rule 14a-8(i)(7). In determining whether the subject matter raises significant policy issues and has a sufficient nexus to the company, as described above, we will apply the same standards that we apply to other types of proposals under Rule 14a-8(i)(7).*

The Staff has also stated that shareholder proposals involve significant social policies if they **involve issues that engender widespread debate, media attention, and legislative and regulatory initiatives.**²

As *SLB E* made clear, the Staff at that time required that a proposal permitted under the significant policy exception was required to have a “nexus” to the Company’s business. The Staff recently announced its intention to refocus its analysis of the significant social policy exception on the policy in question, and not the nexus between the policy issue and the company. *Staff Legal Bulletin No. 14L* (November 3, 2021):

Going forward, the staff will realign its approach for determining whether a proposal relates to “ordinary business” with the standard the Commission initially articulated in 1976, which provided an exception for certain proposals that raise significant social policy issues, and which the Commission subsequently reaffirmed in the 1998 Release. This exception

² JD Supra, *SEC Staff’s Latest Guidance Presents Dilemma for Companies Seeking to Exclude Shareholder Proposals on Environmental and Social Issues* (January 4, 2018) (“In a June 30, 2016 stakeholder meeting, the Staff indicated that significant policy issues are matters of widespread public debate, which include legislative and executive attention and press attention.”)

*is essential for preserving shareholders' right to bring important issues before other shareholders by means of the company's proxy statement, while also recognizing the board's authority over most day-to-day business matters. **For these reasons, staff will no longer focus on determining the nexus between a policy issue and the company, but will instead focus on the social policy significance of the issue that is the subject of the shareholder proposal. In making this determination, the staff will consider whether the proposal raises issues with a broad societal impact, such that they transcend the ordinary business of the company.***

*Under this realigned approach, proposals that the staff previously viewed as excludable because they did not appear to raise a policy issue of significance for the company may no longer be viewed as excludable under Rule 14a-8(i)(7). **For example, proposals squarely raising human capital management issues with a broad societal impact would not be subject to exclusion solely because the proponent did not demonstrate that the human capital management issue was significant to the company.***

In addition to eliminating the nexus test, SLB L also limited the analysis as to whether a proposal related to a significant policy would "micromanage" the company. As one commentator described the change:

The new bulletin resets the interpretation of micromanagement to focus on whether the granularity of the proposal is consistent with shareholders' capacity to understand and deliberate; i.e., proponents are expected to tailor proposals to a level of inquiry that is consistent with the current state of investor discourse and knowledge.³

As the quoted language from SLB L makes clear, the elimination of the extra hurdles would apply even if the proposal related to the otherwise ordinary business of "hiring, promotion and termination" described in the 1998 Release. Thus, an otherwise eligible proposal that relates to ordinary business, including employee compensation or workforce management, can no longer be excluded if those issues have "a broad societal impact."

The report on external risks and costs the Proposal requests relates to an underlying issue with broad societal impact: the appropriate way to address the social costs companies are likely to externalize if they choose to optimize their own financial returns, including any social costs resulting from human-capital management practices.

³ Sanford Lewis, *SEC Resets the Shareholder Proposal Process*, Harvard Law School Forum on Corporate Governance (December 23, 2021).

B. Significant policy issue: externalizing costs to stakeholders

The Proposal is unambiguous about the underlying policy issue: the Company may be engaging in workforce practices that raise the Company's profits but harm society (and ultimately the diversified portfolios of most of its shareholders). The supporting statement details how inequality and racial disparity (the social harms into which the Proposal inquires) lead to reduced demand, GDP loss, social instability, and increased health costs. It also explains how these negative social effects may be the result of the Company's seeking to increase its own profit margins and financial performance. This "trade" of company wealth for social harm has broad societal impact and has been the subject of legislation, regulation, and public debate, as shown below.

i. Corporate law and shareholder primacy

The directors of U.S. corporations have long focused their efforts on improving the financial return of their corporation to its shareholders. While there has been a fierce ongoing debate as to whether corporations should in fact be managed for the benefit of only shareholders or for a broader group of stakeholders,⁴ the concept of shareholder primacy has dominated corporate law. This doctrine eschews consideration of the external costs of a business unless those costs affect the corporation's own financial return to its shareholders. A series of decisions by the Delaware courts cemented the place of shareholder primacy in the United States.⁵

*eBay Domestic Holdings, Inc. v. Newmark*⁶ is a recent example of the judicial focus on shareholder wealth maximization. The court embraced shareholder primacy, finding it was a violation of the directors' fiduciary duties to make decisions primarily for the benefit of users of the corporation's platform:

Having chosen a for-profit corporate form, the craigslist directors are bound by the fiduciary duties and standards that accompany that form. Those standards include acting to promote the value of the corporation for the benefit of its stockholders. The "Inc." after the company name has to mean at least that. Thus, I cannot accept as valid . . . a corporate policy that specifically, clearly, and admittedly seeks not to maximize the economic value of a for-profit Delaware corporation for the benefit of its

⁴ Frederick Alexander, *BENEFIT CORPORATION LAW AND GOVERNANCE: PURSUING PROFIT WITH PURPOSE* (2018) at 21-26.

⁵ See *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173 (Del. 1986) (holding that when a corporation is to be sold in a cash-out merger, the directors' duty is to maximize the cash value to shareholders, regardless of the interests of other constituencies, because there is no long term for the shareholders); *Katz v. Oak Indus. Inc.*, 508 A.2d 873, 879 (Del. Ch. 1986) ("It is the obligation of directors to attempt, within the law, to maximize the long-run interests of the corporation's stockholders; that they may sometimes do so 'at the expense' of others [e.g., debtholders] . . . does not . . . constitute a breach of duty."); Leo E. Strine, Jr., *The Social Responsibility of Boards of Directors and Stockholders in Change of Control Transactions: Is There Any "There" There?*, 75 S. Cal. L. Rev. 1169, 1170 (2002) ("The predominant academic answer is that corporations exist primarily to generate stockholder wealth, and that the interests of other constituencies are incidental and subordinate to that primary concern."); Joan MacLeod Heminway, *Corporate Purpose and Litigation Risk in Publicly Held U.S. Benefit Corporations*, 40 Seattle Univ. L. Rev. 611, 613 (2017) ("Delaware decisional law is arguably particularly unfriendly to for-profit corporate boards that fail to place shareholder financial wealth maximization first in every decision they make.")

⁶ 16 A.3d 1 (Del. Ch. 2010) (emphasis added).

stockholders.⁷

The former Chief Justice of the Delaware Supreme Court has explained that the law clearly favors shareholders, stating, “a clear-eyed look at the law of corporations in Delaware reveals that, within the limits of their discretion, directors must make stockholder welfare their sole end, and that other interests may be taken into consideration only as a means of promoting stockholder welfare.”⁸ Toward the end of the twentieth century, many jurisdictions in the United States adopted “constituency statutes,” fully or partially opting out of shareholder primacy.⁹ None of those states mandates stakeholder interest consideration, however.¹⁰ Delaware, the jurisdiction in which the Company is incorporated, has not adopted such a statute.

Delaware’s common-law commitment to shareholder primacy has led to a reaction regarding the risk it poses to stakeholders and the public.¹¹ Legislatures have responded by creating an alternative: beginning in 2010, U.S. jurisdictions began to adopt benefit corporation provisions, which created a corporate form that required directors to consider other stakeholder interests. Legislatures have acted in 39 U.S. jurisdictions (including Delaware), the Canadian province of British Columbia, and the countries of Italy, Colombia, and Ecuador over the last decade to make this new form available. In addition, legislation was introduced in the U.S. Congress in both houses that would have imposed benefit corporation duties on the directors of all billion-dollar companies.¹² The issue even surfaced in the most recent U.S. presidential election, as one candidate decried “the era of shareholder capitalism.”¹³ In response, critics argued that favoring shareholders was the best recipe for a successful economy:

*In reality, corporations do enormous social good precisely by seeking to generate returns for shareholders.*¹⁴

ii. Unwinding shareholder primacy protects shareholders

Benefit corporation statutes are a legislative expression of the need to provide corporations with a basis to account for non-shareholder interests with a priority equal to that given to shareholder interests. But there is also a strong argument that shareholders themselves are better served if a corporation

⁷ *Id.* at 34-35 (referring to corporate justification for shareholder rights plan meant to forestall a change in control that might threaten platform users’ interests).

⁸ Leo Strine, *The Dangers of Denial: The Need for a Clear-Eyed Understanding of the Power and Accountability Structure Established by the Delaware General Corporation Law* 50 *WAKE FOREST LAW REVIEW* 761 (2015).

⁹ Alexander, *supra n.* 3, at 135–148.

¹⁰ *Id.*

¹¹ See generally, Lynn Stout, *THE SHAREHOLDER VALUE MYTH: HOW PUTTING SHAREHOLDERS FIRST HARMS INVESTORS, CORPORATIONS AND THE PUBLIC* (2012).

¹² Copies of the legislation are available here: <https://www.congress.gov/bill/116th-congress/senate-bill/3215?q=%7B%22search%22%3A%5B%22accountable+capitalism+act%22%5D%7D&s=1&r=1> (Senate) and here: <https://www.congress.gov/bill/116th-congress/house-bill/6056?q=%7B%22search%22%3A%5B%22accountable+capitalism+act%22%5D%7D&s=2&r=2> (House)

¹³ *Biden says investors ‘don’t need me,’ calls for end of ‘era of shareholder capitalism,’* (CNBC) (July 9, 2020), available at <https://www.cnbc.com/2020/07/09/biden-says-investors-dont-need-me-calls-for-end-of-era-of-shareholder-capitalism.html>.

¹⁴ Andy Pudzer, *Biden’s Assault on ‘Shareholder Capitalism,’* (Wall Street Journal) (August 17, 2020), available at <https://www.wsj.com/articles/bidens-assault-on-shareholder-capitalism-11597705153>.

deprioritizes its own financial returns. Lynn Stout, a leading academic opponent of shareholder primacy, explains that evolving arguments against shareholder primacy do not rely on a zero-sum calculus that protects stakeholders to the detriment of shareholders; instead, she explains that these arguments “focus not on how shareholder primacy hurts stakeholders or society *per se*, but on how shareholder primacy can hurt *shareholders*, both individually and immediately, and collectively and over time.”¹⁵

Thus, because most shareholders are also stakeholders of their corporations through their diversified portfolios, the value maximization of any individual company in their portfolio may be detrimental to their interests:

[F]or widely held public corporations, most shareholders are broadly diversified investors who are dependent on a stable society and environment to support all of their investments and would be financially injured if some corporations create extra profits by externalizing social and environmental costs.¹⁶

This recognition that diversified shareholders’ interests converge with broad social interests when it comes to corporate cost externalization is reflected in the request for an externalities report contained in the Proposal. As detailed in the next subsection, policymakers have begun to incorporate this convergence into the rules that govern investment fiduciaries.

iii. Trust law

This policy issue has also appeared in recent regulatory and legislative activity relating to trustees for retirement plans and other investment advisors. The Department of Labor recently proposed a Rule that would have made it more difficult for trustees to account for environmental and social costs, but, after receiving public comments, revised the final rule in a manner that gives trustees the ability to address corporate activity that imposes the type of social costs described in the Proposal when the trustees believed those costs would affect their diversified portfolios—exactly the type of costs on which the Proposal seeks a report:

In addition, Final Rules should also permit stewardship that discourages portfolio companies from engaging in behaviour that harms society and the environment, and consequently the value of shareholders’ diversified portfolios (For example, plan fiduciaries might vote to encourage all companies to lower their carbon footprint, not because it will necessarily increase return at each and every company, but because it will promote a strong economy and thus increase the return of their diversified

¹⁵ See n.11 at 59.

¹⁶ Frederick Alexander, *How to Leverage Benefit Governance*, in Katayun Jaffari and Stephen Pike, *ESG IN THE BOARDROOM: A GUIDEBOOK FOR DIRECTORS* (American Bar Association, forthcoming).

portfolio).¹⁷

Moreover, in 2020, a bill was introduced in the U.S. House of Representatives that included an express finding that plan fiduciaries should consider the costs corporations in their portfolios impose on the financial system:

The Congress finds the following:

Fiduciaries for retirement plans should...

*(D) consider the impact of plan investments on the stability and resilience of the financial system; ...*¹⁸

While the bill related to costs to the financial system, rather than human-capital management, it was clearly focused on the same policy concern: costs that a company's profit-seeking activities impose on stakeholders.¹⁹

iv. The Business Roundtable (BRT) statement

In addition to the activity noted in the prior section regarding political and legislative activity around the issue of external costs to stakeholders, the business community, including the Company itself, has noted the importance of considering stakeholder interests other than those of shareholders. In August of 2019, the CEOs of 181 of the largest corporations in the United States signed on to the Statement of the Purpose of a Corporation (the "Statement"), emphasizing that companies should not prioritize only their own financial returns to shareholders, but should consider the interests of other stakeholders as well:

***Americans** deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all...*

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

*Delivering value to our **customers**. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations...*

¹⁷ Frederick Alexander, *The Final DOL Rules Confirm That Fiduciary Duty Includes 'Beta Activism,'* RESPONSIBLE INVESTOR (December 15, 2020) available at <https://www.responsible-investor.com/articles/the-final-dol-rules-confirm-that-fiduciary-duty-includes-beta-activism>.

¹⁸ H.R. 8959 (116th): Retirees Sustainable Investment Policies Act of 2020

¹⁹ See also Frederick Alexander, Holly Ensign-Barstow, Lenore Palladino, and Andrew Kassoy, *From Shareholder Primacy to Stakeholder Capitalism: A Policy Agenda for Systems Change* (arguing that fiduciary duties of trustees should incorporate external costs of individual companies that harm portfolios).

*Supporting the communities in which we work. We respect the **people in our communities** and protect the environment by embracing sustainable practices across our businesses...*

*Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and **our country**.²⁰*

Thus, the Statement, *which the Company's own CEO signed*, explains exactly why the Proposal is a critical policy question: it asks the Company to report on the social costs of its compensation and workforce practices, which fall upon "Americans," "customers," "people in our community," and "our country," the very stakeholders to whom the Company publicly committed less than two years ago.

The reaction to the Statement's issuance (as well as the number of companies signing on) in August 2019 demonstrated the policy significance of addressing external costs. One dubious commentator noted, "For many of the BRT signatories, truly internalizing the meaning of their words would require rethinking their whole business."²¹ Others noted the importance of the change, but also that it was meaningless without ending shareholder primacy:

Ensuring that our capitalist system is designed to create a shared and durable prosperity for all requires this culture shift. But it also requires corporations, and the investors who own them, to go beyond words and take action to upend the self-defeating doctrine of shareholder primacy.²²

Other commentators were worried not that the Statement did not go far enough, but rather that it went too far:

Asking corporate managers to focus more on improving society and less on making profits may sound like a good strategy. But it's a blueprint for ineffective and counterproductive public policy on the one hand, and blame-shifting and lack of accountability on the other. This is a truth Milton Friedman recognized nearly five decades ago – and one that all corporate stakeholders ignore today at their peril.²³

Another writer agreed, linking the issue to the same essay by Milton Friedman:

The issue of which constituency – or "stakeholder" – has the highest priority has long been a classic corporate governance conundrum. Still, the prevailing consensus, as espoused by Milton Friedman in his September

²⁰ *Supra*, n. 1 (emphasis added).

²¹ Andrew Winston, *Is the Business Roundtable Statement Just Empty Rhetoric?* HARVARD BUSINESS REVIEW (August 30, 2019).

²² Jay Coen-Gilbert, Andrew Kassoy and Bart Houlihan, *Don't Believe the Business Roundtable Until It's CEO's Actions Match Their Words*, FAST COMPANY (August 22, 2019).

²³ Karl Smith *Corporations Can Shun Shareholders, But Not Profits*, BLOOMBERG OPINION (August 27, 2019).

13, 1970 New York Times Magazine article, has been corporate executives work for their owners (i.e., shareholders) and have a responsibility to do what those owners desire, which is to make as much money as (legally) possible. That all changed on August 19, 2019.²⁴

While exploring the commitments to corporate social responsibility, the latter two articles each returned to Friedman's famous article, which stated:

*[T]he doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book *Capitalism and Freedom*, I have called it a 'fundamentally subversive doctrine' in a free society, and have said that in such a society, 'there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.'²⁵*

Showing that the controversy is long-lived, the 50th anniversary of the essay in 2020 set off another round of commentary.²⁶

v. The Proposal addresses the policy issue of corporate cost externalization in pursuit of financial return

The outpouring of legislative activity around benefit corporations, regulatory and legislative activity around trustee obligations to consider external corporate costs, and commentary around the Statement raise a critical policy issue: should corporations continue to prioritize financial return or should they, at least in some instances, sacrifice financial return to reduce the social costs they would otherwise externalize?

The Proposal asks the Company to begin to address this question by identifying the costs it externalizes through its human-capital management practices. An understanding of the nature of these costs, even if imperfect, can begin the process of addressing whether and where excessive external costs are being generated, and whether there are remedies the company could apply unilaterally, through industry coalitions or perhaps through public/private partnerships. Moreover, by linking the external costs to harm to the Company's diversified shareholder base, the proposal also raises the possibility that there are

²⁴ Christopher Carosa *Did Business Roundtable Just Break A Fiduciary Oath?*, [FiduciaryNews.com](http://fiduciarynews.com). August 27, 2019, available at <http://fiduciarynews.com/2019/08/did-business-roundtable-just-break-a-fiduciary-oath/>.

²⁵ Milton Friedman, *The Social Responsibility of Business Is to Increase Its Profits* N.Y. TIMES, Sept. 13, 1970 (magazine).

²⁶ See, e.g., *Friedman 50 Years later*, PROMARKET (collecting 27 essays about Friedman's article and its legacy) (Stigler Center for the Study of the Economy and the State).

remedies in which the interest of Company shareholders and other stakeholders converge, which may lead to decisions not to optimize financial return at the Company.

Such reports are not unprecedented. In the 2021 proxy season, YUM! Brands (“YUM”) received a similar proposal regarding the presence of excessive antibiotics in its supply chain and agreed to prepare a report regarding costs it externalized in the form of increased antimicrobial resistance of pathogens that threaten human and animal health.²⁷ YUM agreed to prepare a report that, when ultimately issued, explained the areas where competitive pressures limited its ability to reduce the social costs the continued use of antibiotics in its supply chain creates. In other words, the report identified areas where financial return was being prioritized over public health and economic growth. The report went on to suggest the need for greater public/private cooperation:

The challenge of individual costs and widely distributed societal benefits, a situation common in many sustainability issues, plays a key role in antimicrobial resistance. This may make it difficult to pursue AMR mitigation while remaining competitive on costs and highlights the need for strong collaboration between both the public and private sectors.²⁸

This was a tremendously important statement for a restaurant company to put on the public record as a step toward addressing the problem of companies feeling pressure to prioritize their own finances over the public good.

While the YUM report did not put specific numbers on the costs it externalized, financial analysts have begun to quantify the broad societal impact of various forms of externalized social costs. In a recent study (the “Schroders Report”), a leading asset manager determined that publicly listed companies imposed social and environmental costs on the economy with a value of \$2.2 trillion annually—more than 2.5 percent of global GDP and more than half the profits those companies earned.²⁹ These costs have many sources, including pollution, water withdrawal, climate change, and employee stress. The study shows exactly the areas where corporations are likely to ignore stakeholder interests, to the detriment of the global economy. The social costs arising from human-capital management practices fall directly within this problematic paradigm.

The Proposal seeks to address the issue by leveraging areas in which the Company’s diversified shareholders’ interests converge with broad social interests in reducing the Company’s cost

²⁷ <https://www.prnewswire.com/news-releases/the-shareholder-commons-announces-withdrawal-of-shareholder-proposal-after-yum-brands-commits-to-disclose-systemic-costs-of-antibiotic-use-301239878.html>. Specifically, the withdrawn proposal read as follows:

RESOLVED, shareholders ask that the board commission and disclose a study on the external environmental and public health costs created by the use of antibiotics in the supply chain of our company (the “Company”) and the manner in which such costs affect the vast majority of its shareholders who rely on a healthy stock market.

²⁸ <https://www.yum.com/wps/wcm/connect/yumbrands/41a69d9d-5f66-4a68-bdee-e60d138bd741/Antimicrobial+Resistance+Report+2021+11-4+-+final.pdf?MOD=AJPERES&CVID=nPMkceo>

²⁹ <https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/sustainex/sustainex-short.pdf>

externalization. As described above in subparagraph ii, the convergence arises from the fact that when a corporation prioritizes its financial returns above all stakeholder concerns, it can harm its own diversified shareholders, who often constitute the vast majority of a public company's shareholders.³⁰ Such shareholders and beneficial owners suffer when companies follow the shareholder primacy model and impose costs on the economy that lower GDP, which reduces overall equity value.³¹ Accordingly, Company shareholders (along with the world's population and economy) could benefit from a better understanding of whether the Company's financial interests are being prioritized over social costs generated by inequality and gender and racial disparities.

The Proposal will address this issue by asking the Company to describe the external costs created by certain of its human-capital management practices, providing context to its shareholders and permitting them to understand whether the value proposition of the Company is truly sustainable, or whether its profits rely on the exploitation of common resources and vulnerable populations.

Thus, the Proposal's request for a report on how the Company externalizes certain social costs and risks addresses the significant policy issue of whether corporations should account for stakeholder interests, and is therefore not excludable for purposes of Rule 14a-8(i)(7).

vi. The type of cost externalization named in the Proposal constitutes a significant policy issue on its own

The Proposal asks for a report on the "economic and social costs and risks created by inequality and racial and gender disparities" that may result from human capital management practices that reflect the prioritization of Company financial returns over the need to limit social costs. While this is clearly part of the larger policy issue discussed above, it also has broad societal impact standing on its own. The supporting statement demonstrates this:

Research reveals that such inequality and racial disparity harm the entire economy:

- *Income inequality slows U.S. economic growth by reducing demand by 2 to 4 percent.*³²
- *A 1% increase in inequality leads to a 1.1% per capita GDP loss.*³³
- *Gender and racial gaps created \$2.9 trillion in losses to U.S. GDP in*

³⁰ Indeed, the top three holders of Company shares are mutual fund companies Vanguard, State Street, and BlackRock, whose clients are generally indexed or otherwise broadly diversified investors. <https://finance.yahoo.com/quote/TSCO/holders?p=TSCO>

³¹ See Richard Mattison et al., *Universal Ownership: Why environmental externalities matter to institutional investors*, UNEP Finance Initiative and PRI (2011), available at https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf; <https://www.advisorperspectives.com/dshort/updates/2020/11/05/market-cap-to-gdp-an-updated-look-at-the-buffett-valuation-indicator> (total market capitalization to GDP "is probably the best single measure of where valuations stand at any given moment") (quoting Warren Buffet).

³² <https://www.epi.org/publication/secular-stagnation/>

³³ <https://www.pionline.com/sponsored-content/facing-hard-truths-material-risk-rising-inequality>

2019.³⁴

- *Eliminating racial disparity would add \$5 trillion to the U.S. economy over the next five years.*³⁵

This drag on GDP directly reduces returns on diversified portfolios,³⁶ and creates serious social costs that further threaten financial markets. For example, excessive inequality can erode social cohesion and heighten political polarization, leading to social instability.³⁷ It also increases health costs and decreases the value of human capital, through links to more chronic health conditions developed earlier in life.³⁸

Following the Proponent's submission of the Proposal, an important report addressing the macroeconomic costs of inequality was issued by The Investment Integration Project ("TIIP"), an organization focused on the relationship between investors and the type of systemic issue created when companies externalize costs to maximize their own returns. The report was focused on inequality, and explained the wide-ranging social costs inequality imposes:

However, today's extreme income inequality does more harm than good—it slows economic growth, leads to more frequent and deeper recessions, limits upward mobility, aggravates social cohesion, and exacerbates political polarization. In particular, women and racial and ethnic minorities are disproportionately harmed. ...

Race and gender inequities further slow consumer spending and GDP growth. Lower- and middle-income earners typically spend a higher proportion of their income than higher earners, and therefore stimulate more economic growth. The failure of companies and governments to keep pace with pay for typical workers results in a shrinking middle-income earning population. Because an even larger share of income is being shifted to wealthy households that save rather than spend, economic growth is suppressed. ...

Chasms between the income, wealth, and power of the highest and lowest earners affect more than buying power and aggregate demand; they have important social consequences. Extreme income inequality introduces into society social discontent and tension, political polarity and tendencies toward nationalistic populism, trade wars, and general social and political

³⁴ <https://www.frbsf.org/our-district/files/economic-gains-from-equity.pdf>

³⁵ <http://TractorSupply.us/3olxWHO>

³⁶ Ibid n. 32.

³⁷ <https://www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017>

³⁸ <https://www.pionline.com/sponsored-content/facing-hard-truths-material-risk-rising-inequality>

unrest, instability, and dysfunction. ...

Moreover, systemic challenges can compound when they intersect. The threat of climate change demands immediate action. At the same time, phasing out coal and other fossil fuels threatens well-paying jobs, thereby exacerbating income inequality. Inability to deal with the prospects of income inequality in these industries paralyzes action on climate change. In this case, calls for a “just transition” are crucial to simultaneously contend with these interrelated complications. Investors should therefore be concerned about income inequality not only in and of itself but also for its potential to complicate their ability to contend with other systemic challenges. If unrest and conflict paralyze our political systems and prevent the compromises necessary for an inclusive public good, we will see underinvestment in the economy, continuing discrimination, and increased demands on a weakened government for social services that it does not have the resources to provide. The resulting weakening of social, environmental, and financial systems introduces risks to investors in the long term. As a result, income inequality has the potential to affect investor portfolios across all industries and asset classes.³⁹

As detailed in the supporting statement, the Company’s starting pay is well below the living wage for a family of four with two full-time workers. If this circumstance contributes to the inequality that leads to the issues the TIIP report describes, it clearly satisfies the test set out in *SLB L*, of “broad societal impact.”

- vii. The Proposal concerns a significant policy issue and should not be excluded because it touches on non-executive compensation

The Company Letter argues for an exclusion under Rule 14a-8(i)(7) because the Proposal touches on non-executive compensation. Where the focus of the Proposal is clearly on a significant policy issue, the fact that it may touch on issues related to employee compensation should not result in exclusion. This was made clear in *SLB L*:

[P]roposals squarely raising human capital management issues with a broad societal impact would not be subject to exclusion solely because the proponent did not demonstrate that the human capital management issue was significant to the company.

The previous letters concurring in the exclusion of proposals involving employee compensation were decided prior to the Staff’s new guidance on micromanagement and nexus, and prior to the realignment of analysis meant to match the Commission’s original intent regarding the significant policy exception, as discussed in *SLB L*.

³⁹ *Systemic Stewardship: Investing to Address Income Inequality* (2021) at 15-18, available at <https://www.tiiproject.com/wp-content/uploads/2022/01/TIIP-Stewardship-Final.pdf>.

Even before such realignment, the Staff recognized that the issue of corporate externalized costs that damage diversified portfolios satisfies the significant policy exception under Rule 14a-8(i)(7). See *PepsiCo, Inc.*, (March 12, 2021) (Staff declined to concur in exclusion under Rule 14a-8(i)(7) when proposal requested a study of public health costs associated with the company's business and the manner in which such costs affect diversified shareholders who rely on overall market returns); *CVS Health Corp.*, recon. denied (Mar.30, 2021) ("a proposal related to the external public health costs... may raise a significant policy issue that transcends a company's ordinary business operations.") We recognize that the Staff concurred in the exclusion of a social cost proposal relating to compensation under Rule 14a-8(i)(7) in the prior proxy season, *Marriott International, Inc.* (March 26, 2021), but note that (1) the concurrence predated the issuance of *SLB L*, (2) the Staff may have believed that the *Marriott 2021* proposal involved micromanagement⁴⁰ or lacked nexus, the former analysis now being reset and the latter eliminated under *SLB L*, and (3) the resolution contained in that proposal did not reference any specific public policy issue, but only general cost externalization.⁴¹

viii. Scope is limited to the significant policy issue

Exceptions to the general rule allowing a proposal that transcends ordinary business to be excludable have been made where the proposal addresses both ordinary business and transcendent social policy issues. In contrast, the scope of the Proposal is narrowly and correctly drawn to address only the significant policy issues—the subject of widespread debate—associated with the externalization of certain social costs in an effort to maximize financial returns. It does not extend beyond the relevant social policy issue.

C. *The Proposal is not excludable pursuant to Rule 14a-8(i)(3)*

The Company's argument that the Proposal is vague grasps at straws to try to find vagueness in a clearly written proposal. As the Company Letter correctly states: "The Staff consistently has taken the position that vague and indefinite shareholder proposals are inherently misleading and therefore excludable under Rule 14a-8(i)(3) because 'neither the [share]holders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires.'"

The Proposal is not vague under that standard. It asks the Company to report on its contribution to inequality and racial and gender disparities and how that contribution affects the return of diversified shareholders. While the underlying calculation to quantify such contribution would be complex, the Proposal only asks "whether" such a contribution is made, and "the manner" in which diversified shareholders are affected. Precise calculations are not requested. See *PepsiCo 2021* (declining to concur

⁴⁰ To that point, the "granularity of the [P]roposal is consistent with shareholders' capacity to understand and deliberate." See n.2 and accompanying text.

⁴¹ We believe that the legislation, regulation, and public debate over shareholder primacy demonstrate that any proposal addressing social cost externalization would be based on an underlying policy issue with broad societal impact, and thus not excludable under Rule 14a-8(i)(7). Even if the Staff disagrees with that broad proposition, it should not concur in the exclusion of the Proposal because, like the proposal at issue in *PepsiCo 2021*, the Proposal raises a specific set of externalized costs that, standing alone, have broad societal impact.

in exclusion of proposal seeking report on externalized public-health costs from a food and beverage business and effect of those costs on diversified shareholders).

The Company letter asserts that the Proposal makes “vague references to ‘economic growth’ and ‘GDP.’” In fact, the supporting statement cites four different studies that quantify specific effects that inequality and racial disparities have on GDP and economic growth. The Company Letter puts additional words from the Proposal in quotation marks and says it is unclear what they mean. However, reading those words in context, including the multiple economic studies cited, leaves little doubt about the thrust of the requested report: whether the Company participates in human-capital management practices that harm economic growth directly (by limiting spending power and demand) or through contribution to broad societal problems including political polarization and eroding social cohesion. While these problems have multiple elements, the thrust of the question is clear.

Nor should it be difficult to explain how those costs affect diversified shareholders. There is economic literature explaining how lowered GDP affects overall stock market value.⁴² It is no mystery how overall market return affects a diversified investor, for whom the most important factor determining return will not be how the companies in that portfolio perform relative to other companies (“alpha”), but rather how the market performs as a whole (“beta”). As one work describes this, “According to widely accepted research, alpha is about one-tenth as important as beta. Beta drives some 91 percent of the average portfolio’s return.”⁴³

Of course, compilation of such a report will require discretion and business judgment on the part of the Company because it will have to make decisions as to appropriate methodologies to describe such costs, but that is an entirely appropriate role for the board and management. YUM’s management was able to create just such a report, which provided critical information to its shareholders regarding the trade-offs between optimizing financial return and addressing certain social costs created by the corporation’s business practices.

No doubt these are hard questions. Reporting on them may be uncomfortable for the Company’s board and management, but the Company will not have difficulty discerning the action required.

CONCLUSION

The Proposal clearly addresses a significant policy issue: the social cost of designing the Company’s compensation and workforce practices to optimize financial returns, even if that design harms the economy. As such, we respectfully request that the Staff inform the Company that it is denying the no-

⁴² See, e.g., [See Universal Ownership: Why Environmental Externalities Matter to Institutional Investors](https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf), Appendix IV (demonstrating linear relationship between GDP and a diversified portfolio) available at https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf; cf. <https://www.advisorperspectives.com/dshort/updates/2020/11/05/market-cap-to-gdp-an-updated-look-at-the-buffett-valuation-indicator> (total market capitalization to GDP “is probably the best single measure of where valuations stand at any given moment”) (quoting Warren Buffet).

⁴³ Steven Davis, Jon Lukmonik and David Pitt-Watson, *WHAT THEY DO WITH YOUR MONEY*, p. 50 (2016).

action letter request. If you have any questions, please contact me at rick@theshareholdercommons.com or 302-485-0497.

Sincerely,



Rick Alexander
CEO

cc: Noni Ellison
Jennifer Noonan

THE PROPOSAL

[Tractor Supply Company: Rule 14a-8 Proposal, November 19, 2021]

[This line and any line above it – Not for publication.]

ITEM 4*: Report on costs of low wages and inequality

RESOLVED, shareholders ask that the board commission and publish a report on (1) whether the Company participates in compensation and workforce practices that prioritize Company financial performance over the economic and social costs and risks created by inequality and racial and gender disparities and (2) the manner in which any such costs and risks threaten returns of diversified shareholders who rely on a stable and productive economy.

Supporting Statement:

The Company's starting wage is \$11.25 per hour and its median employee was paid \$24,437, or 0.15% of the CEO's compensation. By comparison, the living wage was \$16.54 per hour, or \$34,404 per for a family of four (two working adults, two children) in 2019.⁴⁴ While the Company's workforce is 49 percent female and 17 percent minority, those groups make up only 21 percent and 5 percent of executive and senior management.

Research reveals that such inequality and racial disparity harm the entire economy:

- Income inequality slows U.S. economic growth by reducing demand by 2 to 4 percent.⁴⁵
- A 1% increase in inequality leads to a 1.1% per capita GDP loss.⁴⁶
- Gender and racial gaps created \$2.9 trillion in losses to U.S. GDP in 2019.⁴⁷
- Eliminating racial disparity would add \$5 trillion to the U.S. economy over the next five years.⁴⁸

This drag on GDP directly reduces returns on diversified portfolios,⁴⁹ and creates serious social costs that further threaten financial markets. For example, excessive inequality can erode social cohesion and heighten political polarization, leading to social instability.⁵⁰ It also increases health costs and decreases the value of human capital, through links to more chronic health conditions developed earlier in life.⁵¹

By paying so many of its employees less than a living wage, the Company increases its margins and thus financial performance. But gain in Company profit that comes at the expense of society and the economy is a bad trade for most Company shareholders, who are diversified and rely on broad economic growth to achieve their financial objectives. The costs and risks created by inequality will directly reduce long-term diversified portfolio returns.

⁴⁴ <https://livingwage.mit.edu/articles/61-new-living-wage-data-for-now-available-on-the-tool>

⁴⁵ <https://www.epi.org/publication/secular-stagnation/>

⁴⁶ <https://www.pionline.com/sponsored-content/facing-hard-truths-material-risk-rising-inequality>

⁴⁷ <https://www.frbsf.org/our-district/files/economic-gains-from-equity.pdf>

⁴⁸ <http://TractorSupply.us/3olxWH0>

⁴⁹ Ibid n. 45.

⁵⁰ <https://www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017>

⁵¹ <https://www.pionline.com/sponsored-content/facing-hard-truths-material-risk-rising-inequality>

This proposal asks the Board to commission a report that analyzes the trade-offs the Company makes between financial return and the global economy and cohesion, and how those trade-offs affect diversified shareholders. Such a report would not require precision: identifying areas where the Company creates inequality and racial disparity and analyzing how they might manifest as costs or risks to diversified portfolios would help determine whether and when the Company should prioritize employee equality and welfare over financial returns.

Please vote for: Report on costs of low wages and inequality – Proposal 4*



[This line and any below are *not* for publication]

[*Number to be assigned by the Company]

The graphic above is intended to be published with the rule 14a-8 proposal. The graphic would be the same size as the largest management graphic (and accompanying bold or highlighted management text with a graphic) or any highlighted management executive summary used in conjunction with a management proposal or a rule 14a-8 shareholder proposal in the 2021 proxy.

The proponent is willing to discuss mutual elimination of both shareholder graphic and any management graphic in the proxy in regard to this specific proposal.

Reference SEC Staff Legal Bulletin No. 14I (CF)

[\[16\]](#) Companies should not minimize or otherwise diminish the appearance of a shareholder's graphic. For example, if the company includes its own graphics in its proxy statement, it should give similar prominence to a shareholder's graphics. If a company's proxy statement appears in black and white, however, the shareholder proposal and accompanying graphics may also appear in black and white.

Notes: This proposal is believed to conform with Staff Legal Bulletin No. 14B (CF), September 15, 2004, including (emphasis added):

Accordingly, going forward, we believe that it would not be appropriate for companies to exclude supporting statement language and/or an entire proposal in reliance on rule 14a-8(i)(3) in the following circumstances:

- the company objects to factual assertions because they are not supported;
- the company objects to factual assertions that, while not materially false or misleading, may be disputed or countered;

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- the company objects to factual assertions because those assertions may be interpreted by shareholders in a manner that is unfavorable to the company, its directors, or its officers; and/or
 - the company objects to statements because they represent the opinion of the shareholder proponent or a referenced source, but the statements are not identified specifically as such.

We believe that it is appropriate under rule 14a-8 for companies to address these objections in their statements of opposition.

See also Sun Microsystems, Inc. (July 21, 2005).

I also remind you of the SEC's recent guidance and my request that you acknowledge receipt of this shareholder proposal submission. In SLB 14L Section F, <https://www.sec.gov/corpfin/staff-legal-bulletin-14l-shareholder-proposals>, Staff "encourages both companies and shareholder proponents to acknowledge receipt of emails when requested."