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2017 Proxy Season Review

What were the big headlines in the 2017 proxy season? Environmental, social and governance issues like climate change and board diversity. Institutional investors took notice – and action.

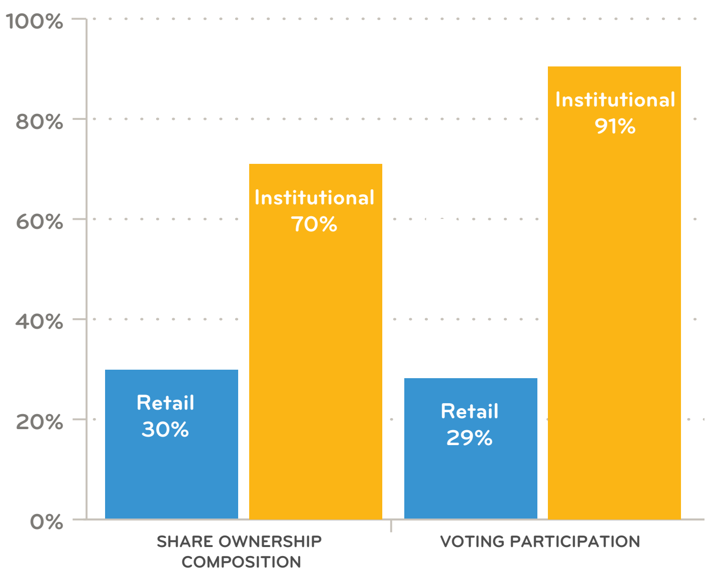
This edition of ProxyPulse is based on analysis of 3,379 shareholder meetings held between January 1 and June 30, 2017. We provide insights into the voting behavior of shareholders and discuss key corporate governance trends of interest to management teams and boards of directors.

2017 PROXY SEASON AT A GLANCE

While share ownership and voting rates among institutional and retail shareholders remained relatively consistent with prior years, the 2017 proxy season was characterized by a continued rise in governance activism. Environmental, social and governance (ESG) issues like climate change and board diversity made headlines. A few of the largest institutional investors were vocal about companies needing to be more responsive in such areas, and in some cases, these investors took action when they were not satisfied.

BENEFICIAL SHARE OWNERSHIP AND VOTING

2017 PROXY SEASON



For example, State Street Global Advisors voted against the election of directors at 400 companies without a single female board member because they did not feel the companies were making significant progress diversifying their boards. BlackRock, Vanguard and Fidelity voted for shareholder proposals related to climate change disclosure, which resulted in three such proposals receiving majority shareholder support for the first time.

Proxy access, a leading issue over the last few years, has become the new normal, with over 60% of the S&P 500 adopting bylaws for director nominations from shareholders. The 2017 season saw the continued adoption of proxy access bylaws as well as a number of so called "fix-it" proposals in which shareholders attempted to change certain proxy access requirements.

Virtual shareholder meetings grew, as 163 companies held virtual-only shareholder meetings so far this year, compared to 122 during the same period last year. But this was not without controversy. Some shareholders, including the New York City Pension Funds and the Council of Institutional Investors, voiced concerns with the absence of in-person annual meetings.

Multi-class share structures with unequal voting rights also came under fire. Standard & Poor's updated its policy in July 2017 to bar companies with multi-class voting shares with unequal voting rights from its 500 index. FTSE/Russell proposed a similar policy that would only include in their indexes companies with at least 5% of voting shares held by the public. These changes follow several high-profile initial public offerings in 2017 in which multi-class share structures with unequal voting rights were used.

On the regulatory front, newly confirmed SEC Chairman Jay Clayton highlighted the principles that will guide his tenure, citing the need for the SEC to evolve with markets, promote capital formation and be conscious of the additional burdens that regulatory change create. The SEC's fall agenda was released in July, and several unfinished items from Dodd-Frank are no longer being prioritized. Notably, pay-for-performance disclosures, clawbacks, universal proxy ballots and enhanced board diversity disclosure rules are no longer on the Commission's short-term agenda.

PROXY SEASON INSIGHTS

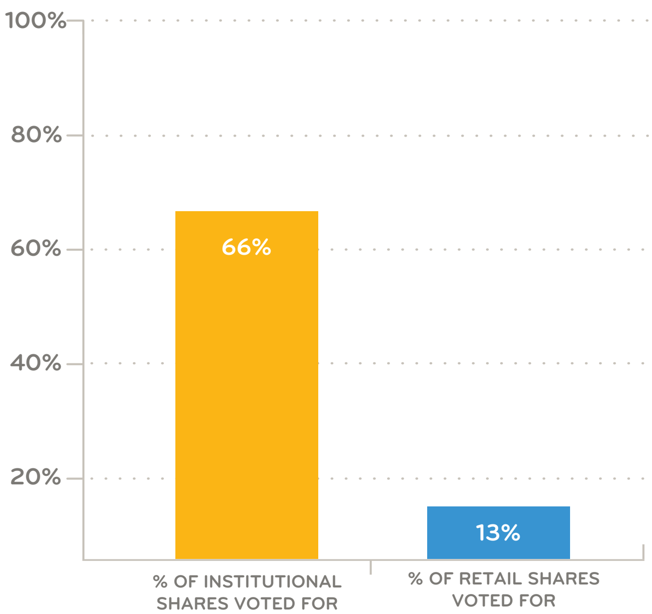
CLIMATE CHANGE PROPOSALS GAIN MOMENTUM

Several large institutional investors were more vocal in their support for proposals seeking company reports on the impact of climate change. Shareholders were particularly concerned when companies refused to engage on such topics. BlackRock publicly supported shareholder proposals at several companies, citing lack of reporting progress and inadequate investor engagement by the companies as reasons for their support.[1]

- Seven additional proposals related to climate change issues received at least 40% shareholder support—none achieved this level of support last season.
- Analysis of beneficial ("street name") shares for these seven proposals show that institutional shareholders[2] voted 66% of their shares in favor of climate change-related proposals, compared to only 13% support among retail shares.

SHAREHOLDER SUPPORT FOR CLIMATE CHANGE PROPOSALS[3]

2017 PROXY SEASON



With the growing momentum of ESG proposals in the 2017 proxy season, companies should anticipate that these topics will continue to be high on the agenda in 2018. With the United States withdrawal from the Paris Climate Accord, disclosure requests related to climate change risk are anticipated to be at the forefront. Boards should expect questions from shareholders on how companies are considering climate risk in their strategy and operations, and how their environmental impact reporting is evolving.

SHAREHOLDER ACTIVISM – PROXY CONTESTS DECLINE DESPITE THE HEADLINES

While shareholder activism continued to receive a great deal of attention this season, proxy contests decreased compared to the same period last year. During the first half of 2016 there were 47 contests, compared to only 38 for the same period this year. Some high-profile contested solicitations were decided in negotiations before a shareholder vote.

- The average length of campaigns decreased drastically in the first half of 2017: 44 days, compared to 109 days for the entire year in 2016.
- During Q1 and Q2 2017, 63 total board seats were won in proxy contests, compared to 139 for all of 2016.[4] This illustrates that boards are increasingly negotiating with activists, and settling faster to avoid a shareholder vote.

[1] BlackRock, *Investment Stewardship Report: Americas Q2 2017*, June 2017.

[2] "Institutional shareholders" refers to shares voted through a vote agent, managed accounts, shares processed via Broadridge's ProxyEdge platform, or any position identified by a bank/broker as institutional. This typically includes mutual funds, pension funds, hedge funds, discretionary asset managers and/or university endowments funds. All other shares are considered retail.

[3] Analysis of climate change proposals that received more than 40% support.

[4] FactSet with PwC analysis, July 2017.

BOARD DIVERSITY

Institutional investors are acting on policy promises to hold directors accountable for gender diversity progress—starting earlier than anticipated. While there were still relatively few shareholder proposals on board diversity in 2017, there was a significant increase in their support over the 2016 season. Further, some institutional investors voted against directors who are on boards without female directors, and that did not clearly articulate steps in place to change this.

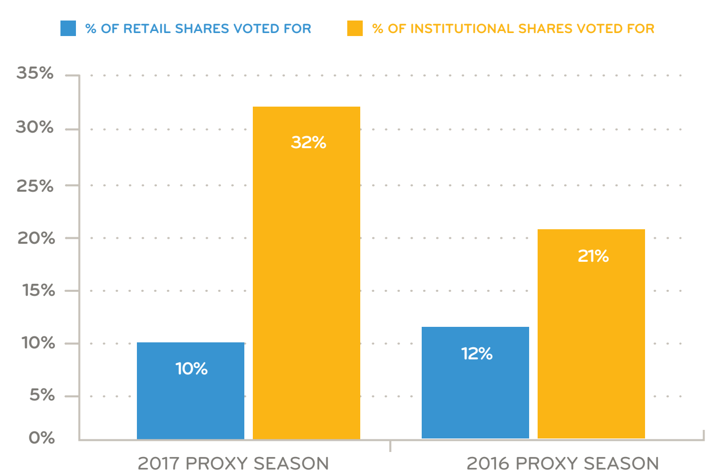
- For the nine shareholder proposals on board diversity, the average support was 27%, up from 23% last season for 8 proposals. The average abstention was 9% last season and that number dropped to 3% so far this year.
- Retail investors are much less likely to support proposals related to board diversity. While 31% of institutional shares supported such proposals, only 14% of retail shares voted in favor of board diversity initiatives.

Board diversity will continue to garner attention from shareholders for the foreseeable future. Several institutional investors have cited this as a top engagement priority, and many directors are evaluating the efforts they've undertaken to diversify their board. Shareholders want to understand how the board evaluates its composition. They want clarity on board refreshment policies. Some companies are providing enhanced disclosure on how their board's annual self-assessment process drives director succession planning.

SHAREHOLDER PROPOSALS DECREASE – BUT SUPPORT INCREASES

- Shareholder proposals that actually went to a vote decreased from 506 in 2016 to 430 this season. Seventy-six percent of such votes took place at S&P 500 companies, compared to 72% during 2016. The number of annual meetings with at least one shareholder proposal decreased from 180 last season to 169 this season.
- Institutional and retail shareholder support for shareholder proposals varied greatly. Institutional shareholders were much more supportive of proposals across the various categories—typically two to three times that of retail shareholders. For example, institutions voted 32% of their shares in favor of environmental proposals so far in 2017, while only 10% of retail shares supported such proposals.
- For the 2017 proxy season, the number of no-action requests (i.e., requests of the SEC to exclude a shareholder proposal from the proxy) increased to 288, compared to 245 in 2016. The staff granted 78% of the requests, the highest percentage in four years.[5]

SHAREHOLDER SUPPORT FOR ENVIRONMENTAL-RELATED SHAREHOLDER PROPOSALS



[5] Gibson Dunn, *Shareholder Proposal Developments during the 2017 Proxy Season*, June 2017.

VIRTUAL-ONLY SHAREHOLDER MEETINGS

Virtual-only shareholder meetings are growing in popularity as some companies feel that they reduce costs and expand reach. The New York City Pension Funds and the Council of Institutional Investors recently voiced concerns with companies that host only a virtual meeting, without an in-person component.

- Over 200 companies have hosted a virtual meeting over the past 12 months, and almost 180 companies had a virtual meeting this season. Of the 180, 163 eliminated an in-person meeting completely, up slightly from 122 companies for the first half of 2016. Fourteen percent of companies that held virtual-only meetings were in the S&P 500 as of their meeting date.
- Eleven companies with virtual-only annual meetings had at least one shareholder proposal. While average support for all shareholder proposals submitted during this period (430) was 29.5%, support for the 18 shareholder proposals at the 11 virtual-only meetings was 23.5%, with none receiving majority shareholder support.
- Twelve percent of companies collected questions in advance of their virtual meeting, 95% allowed questions to be submitted online during the meetings, and 3% enabled shareholders to ask questions over a live telephone line.
- In 2012 an industry committee published *Guidelines for protecting and enhancing online shareholder participation in annual meetings*.[6] In response to the growing number of companies adopting virtual shareholder meetings, the committee reconvened in 2017, with the goal of issuing an updated set of guidelines for the 2018 proxy season.

[6] https://www.broadridge.com/_assets/pdf/broadridge-guidelines-for-protecting-and-enhancing-online-shareholder-participation-in-annual-meetings.pdf

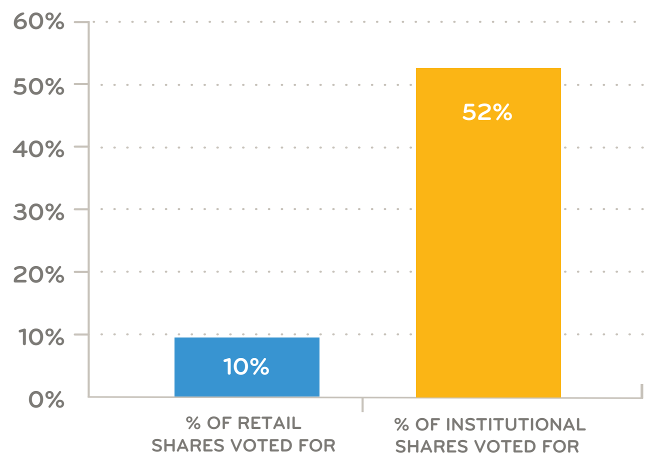
PROXY ACCESS – THE NEW NORM

More than 60% of S&P 500 companies have now adopted proxy access bylaws, up from less than one percent in 2014. The total number of companies with such bylaws is now over 430.

- Of the 49 proxy access shareholder proposals that went to a vote this season, 18 received majority support. However, over half of those that failed were proposing amendments to existing proxy access bylaws.
- While institutions voted 52% of their shares in favor of proxy access, retail shares only supported such proposals at a rate of 10%.

PROXY ACCESS PROPOSALS

2017 PROXY SEASON



SAY-ON-PAY AND SAY-WHEN-ON-PAY

While overall shareholder support for say-on-pay remains high at 91%, a fair number of companies continue to fall short of important benchmarks. Approximately seven percent of companies (185) did not surpass the 70% shareholder support threshold this season. Among companies with less than 70% support last season, 31% failed to surpass 70% support again this season.

Of the 1,883 say-when-on-pay votes that occurred during proxy season, 88% received majority support for an annual say-on-pay vote. Just over 11% supported the vote occurring every three years, and just a handful will move forward with votes every two years.

ABOUT

ProxyPulse is based in part on analysis of company 8K filings from EDGAR, and Broadridge's processing of shares held in street name, which accounts for over 80% of all shares outstanding of US publicly-listed companies. Shareholder voting trends during the proxy season represent a snapshot in time and may not be predictive of full-year results.

Broadridge Financial Solutions is the leading third-party processor of shareholder communications and proxy voting. Each year it processes over 600 billion shares at over 12,000 meetings.

PwC's Governance Insights Center is a group within PwC whose mission is to help directors and investors alike better understand insights and latest thinking on current governance issues.

Broadridge Financial Solutions

Chuck Callan
Senior Vice President – Regulatory Affairs
845.398.0550
chuck.callan@broadridge.com

Sharyn Bilenker
Vice President – Corporate Affairs & Strategic Development
201.714.8778
sharyn.bilenker@broadridge.com

PwC's Governance Insights Center

Paula Loop
Leader
Governance Insights Center
646.471.1881
paula.loop@pwc.com

Paul DeNicola
Managing Director
Governance Insights Center
646.471.8897
paul.denicola@pwc.com

Catie Hall
Director
Governance Insights Center
973.236.5718
catherine.hall@pwc.com

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