ProxyPulse™
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THIRD EDITION 2014

Directors and Investors: Are they on the same page?

Insights from the 2014 proxy season and recent governance surveys

This edition of ProxyPulse looks at results from 4,113 shareholder meetings held between January 1 and June 30, 2014, with data and analysis on topics including share ownership, director elections, "say-on-pay", shareholder proposals, proxy material distribution and voting mechanics. We also provide perspectives from recent governance surveys of directors and institutional shareholders, and where appropriate, discuss them alongside the actual voting results from the 2014 proxy season.

HIGHLIGHTS

2014 PROXY SEASON VOTING HIGHLIGHTS

DIRECTOR AND INVESTOR SURVEY PERSPECTIVES

DIRECTOR ELECTIONS

Average shareholder support for directors was 96% in 2014. Large-cap company directors received the highest average support (97%) and micro-cap directors the lowest (90%).

Forty-one percent of institutional shareholders surveyed say director re-election risk has increased in the last twelve months.[1] In addition, director sensitivity to negative shareholder voting against, abstain, and withhold vote also increased this year. Fifty-six percent of directors surveyed now say that a negative shareholder vote of 11-25% would give them concern about re-nomination.[2]

SAY-ON-PAY

There was a season-over-season increase in the number of pay plans that failed to receive majority shareholder support – 123 in 2014 compared to 104 in 2013. But overall, shareholders continue to support "say-on-pay" proposals at high levels. Average support was 89%, about the same as in 2013.

Eight in ten directors surveyed agree that "say-on-pay" has caused their board to look at compensation disclosures in a different way and increased the influence of proxy advisory firms. Nearly three-quarters of directors agree that "say-on-pay" has increased shareholder dialogue and prompted directors to change the way they communicate about compensation. However, nine in ten of directors don't believe that "say-on-pay" has effected a "right-sizing" of CEO compensation.[2]

SHAREHOLDER ACTIVISM

Shareholder activism has intensified, particularly at the largest companies. While the number of actual proxy contests, and exempt solicitations (i.e. "no vote" campaigns against directors) decreased between 2013 and 2014, a significant number of companies were impacted by activist campaigns. Some of these were resolved without requiring a shareholder vote.

Twenty-nine percent of directors surveyed had interactions with activists and held extensive board-level discussions in this area over the last twelve months. The largest company directors report twice the frequency of experience with activism as smaller company directors.[2]

SHAREHOLDER PROPOSALS

Shareholder proposals to split the roles of Chair and CEO increased in number (there were 62 such proposals in 2014 compared to 53 in 2013). Average support was 30% and 6 proposals received majority support. And social and environmental proposal volume saw a slight uptick in 2014, although none received majority support.

Fifty-five percent of directors surveyed said they currently have a separate Chair and CEO. Of those companies that still have a combined role, half have discussed splitting the role at their next CEO succession. And fewer than 10% of directors say they have had substantial discussions of corporate social responsibility issues, like climate change and human rights, in the last 12 months.[1]

* Numbers may not add up to 100% due to rounding

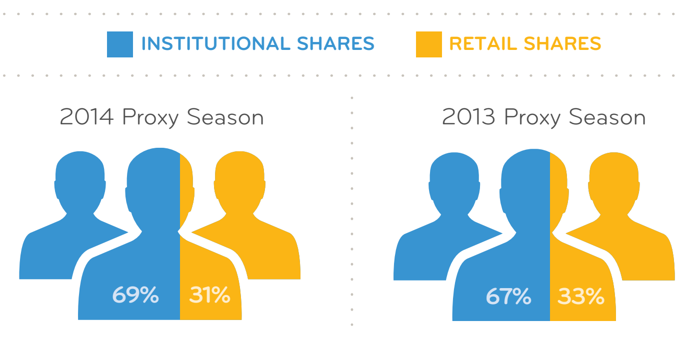
PUBLIC COMPANY OWNERSHIP AND SHAREHOLDER VOTING RATES

Institutional ownership increased slightly in 2014, and low retail voting rates continue. During the 2014 proxy season, 69% of street shares were owned by institutional shareholders and 31% by retail shareholders – an increase of about two percentage points in institutional ownership from 2013. Mid-cap companies have the highest average rate of institutional ownership (75%), while micro-cap companies have the lowest (29%).

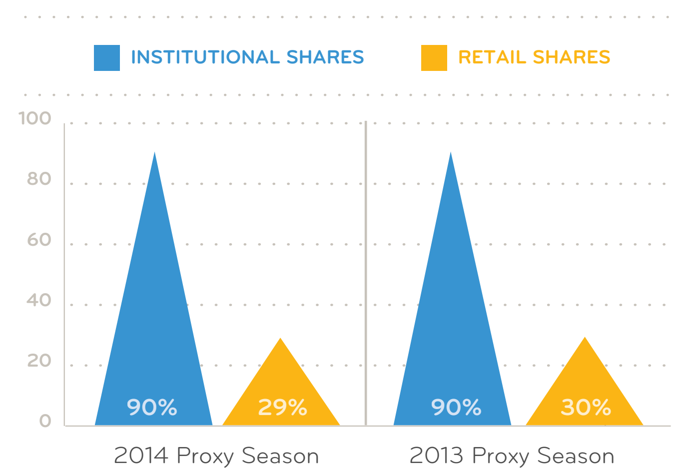
In terms of voting, institutional shareholders voted 90% of their shares in 2014, but retail shareholders as a group voted just 29% of the shares they held, a slight decline compared to last season.

OWNERSHIP COMPOSITION

OWNERSHIP BREAKDOWN BY SHARES

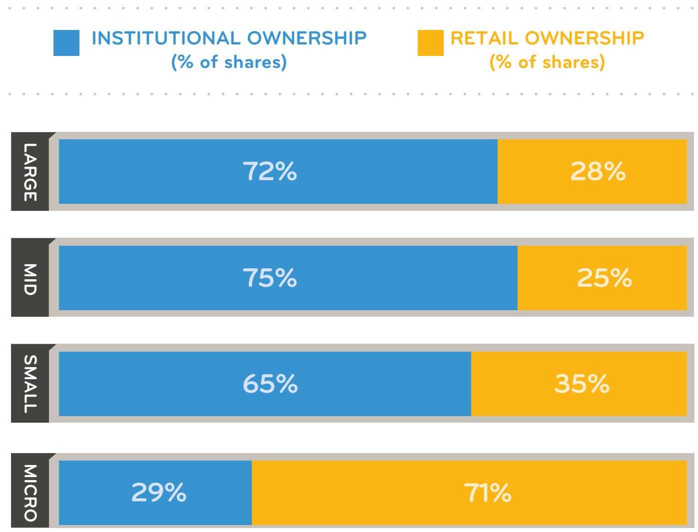


PERCENTAGE OF SHARES VOTED BY OWNERSHIP SEGMENT

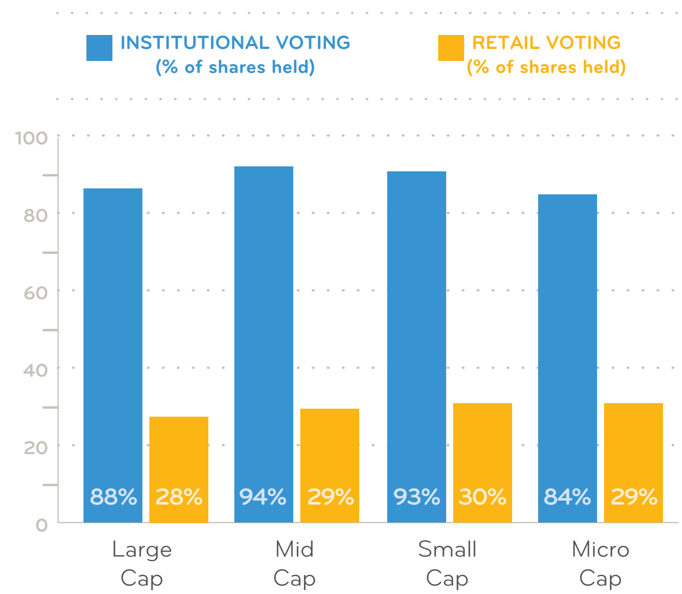


Voting rates vary by company size; institutional shareholders voted 94% of their shares at mid-cap companies but only 84% at micro-cap companies. Retail shareholder voting rates were in the 28% to 30% range across all company size ranges.

OWNERSHIP COMPOSITION BY COMPANY SIZE – 2014 PROXY SEASON



SHARES VOTED BY SEGMENT AND BY COMPANY SIZE – 2014 PROXY SEASON



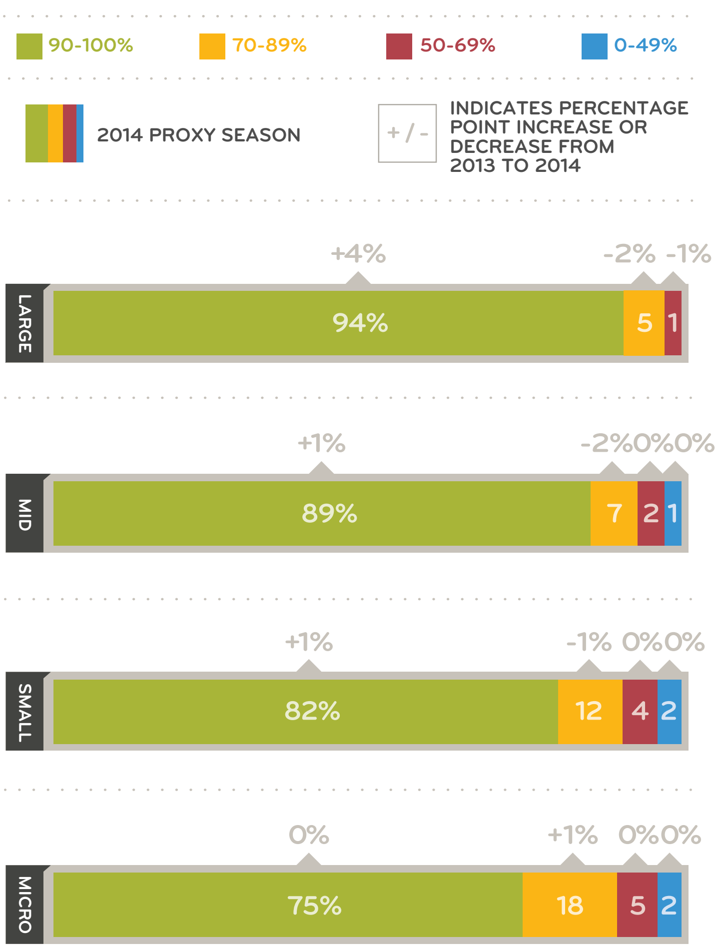
Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

DIRECTOR ELECTIONS

Shareholder support for directors remains strong, yet surveyed investors say re-election risk has increased. On average, 96% of shares were voted in favor of directors during the 2014 proxy season – up about one percentage point from 2013. At large-cap companies, 94% of directors received at least 90% shareholder approval compared to 75% at micro-cap companies. Five percent of directors failed to attain at least 70% shareholder support, versus 6% in 2013, and 2% failed to get majority support, consistent with 2013.

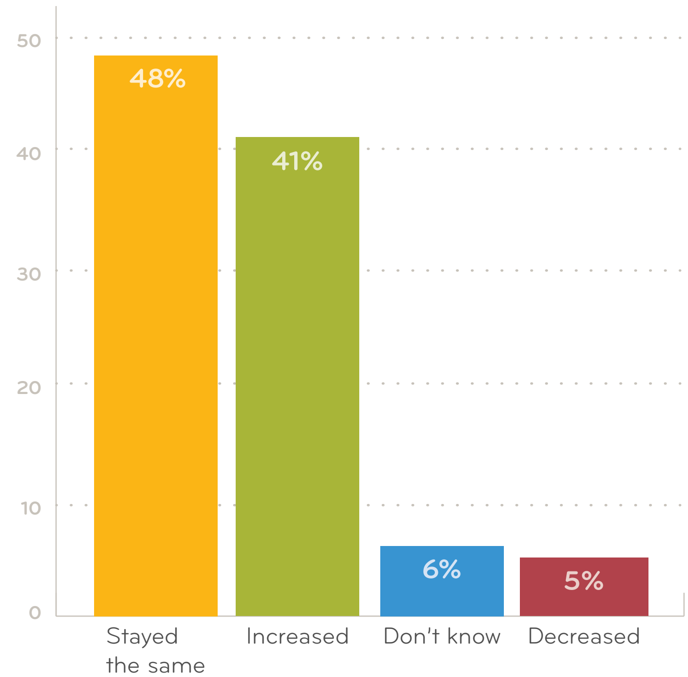
However, despite high levels of support for directors, four in ten investors surveyed say director re-election risk has increased over the last twelve months. This reflects the high performance expectations investors have of directors and their continued oversight of and interest in director elections.

PERCENTAGE* OF SHARES VOTED "FOR" INDIVIDUAL DIRECTORS BY COMPANY SIZE



INVESTOR VIEWS ON DIRECTOR RE-ELECTION RISK

In the last 12 months, do you feel director re-election risk increased, decreased, or remained the same?



Source: *PWC's 2013 Investor Survey*

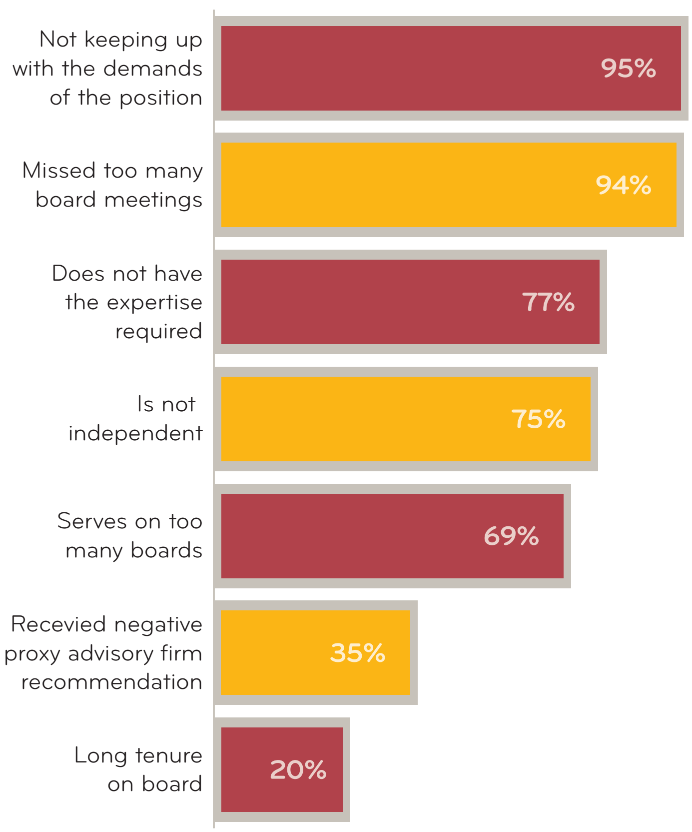
Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

So what factors do shareholders say are most important in making their decision to vote for or against a director? Over 90% of surveyed institutional investors say keeping up with the demands of the position and board meeting attendance are important to their voting decisions. More than three-quarters say director expertise and independence are important factors. On the other hand, investors say that proxy advisory firm recommendations and long board tenure are the least important factors in their director voting decisions.

At the same time, director sensitivity to negative shareholder voting increased in 2014. In fact, 56% of directors now say that negative voting in the 11-25% range would cause them to be concerned about re-nomination, compared to only 48% last year. The graphic below tracks director sensitivity levels to negative voting compared to the number of directors who received that range of negative voting during the 2014 proxy season. For example, 88% of directors (19,788) had negative voting of <15%. This posed a concern to 12% of directors surveyed.

FACTORS INFLUENCING INVESTOR "NO" VOTES

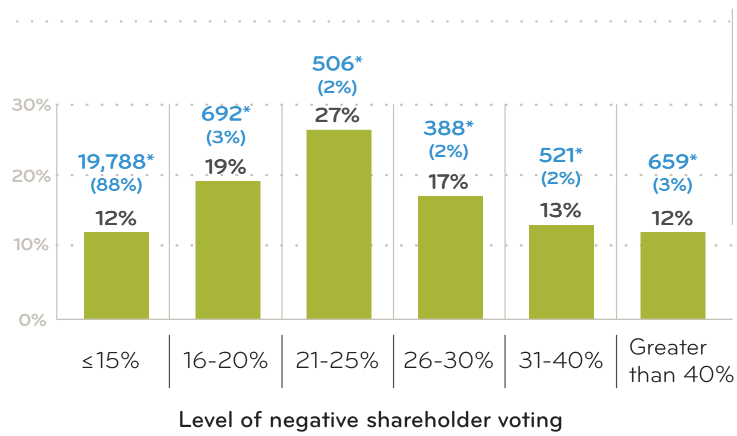
In general, how important are the following factors in making the decision to vote for/against (or withhold your vote for) a director?



Source: ***PWC's 2013 Investor Survey***

DIRECTOR SENSITIVITY TO NEGATIVE SHAREHOLDER VOTING

At what level of negative shareholder voting should boards be concerned about renomination?



* Indicates the number of directors with this voting result during the 2014 proxy season

Source: ***PWC's 2014 Annual Corporate Directors Survey***

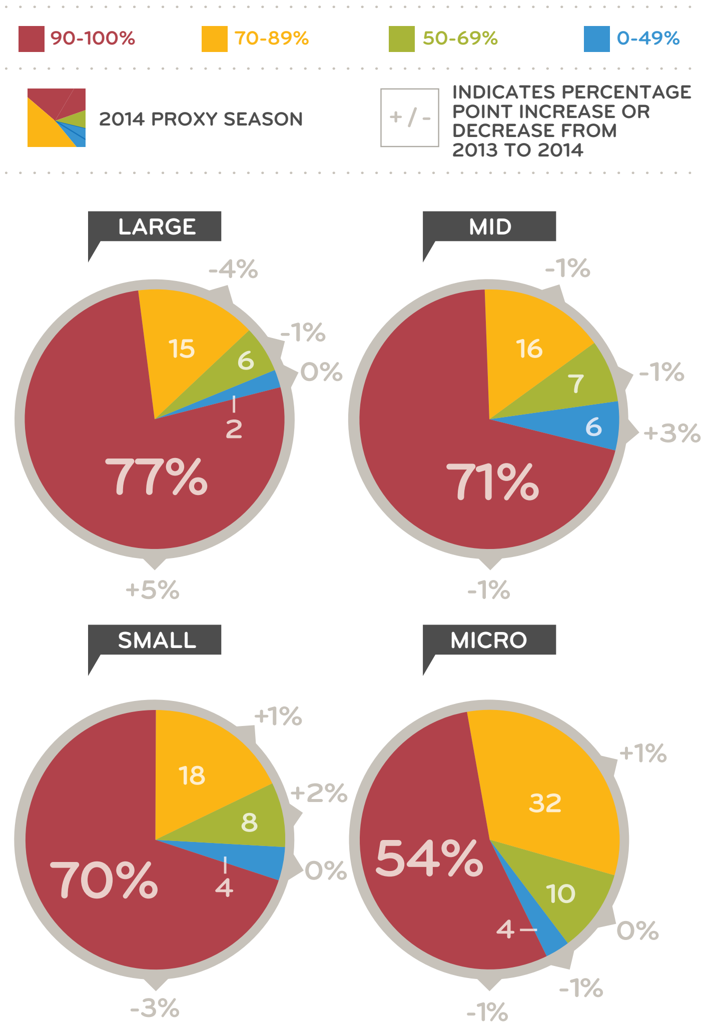
SAY-ON-PAY

There was a season-over-season increase in the number of pay plans that failed to receive majority shareholder support – 123 in 2014 compared to 104 in 2013. While overall, shareholders continued to support "say-on-pay" proposals at the same high levels on average as they did in the 2013 season (89%), support slipped in mid-, small-, and micro-cap companies. At mid-caps, the percentage of plans attaining 90-100% category fell from 72% to 71% and the percentage of plans that failed to attain majority support doubled from 3% to 6%. There was some weakening in support among small caps as well. The percentage of plans attaining 90-100% group decreased from 73% to 70%, and the percentage of plans with support in the 50-69% group increased from 6% to 8%.

Additionally, 13% of companies failed to attain the 70% affirmative threshold looked at closely by some proxy advisory firms—a percentage relatively unchanged from 2013. However, support for the 70% threshold did decrease among mid-cap and small-cap companies, 2% and 1% respectively.

But has "say-on-pay" voting actually changed anything? Eight in ten directors surveyed agree that "say-on-pay" has caused their board to look at compensation disclosures in a different way and increased the influence of proxy advisory firms. Nearly three-quarters of directors agree that "say-on-pay" has increased shareholder dialogue and prompted directors to change the way they communicate about compensation. However, nine in ten of directors don't believe that "say-on-pay" has affected a "right-sizing" of CEO compensation.

SAY-ON-PAY VOTING RATES BY COMPANY SIZE



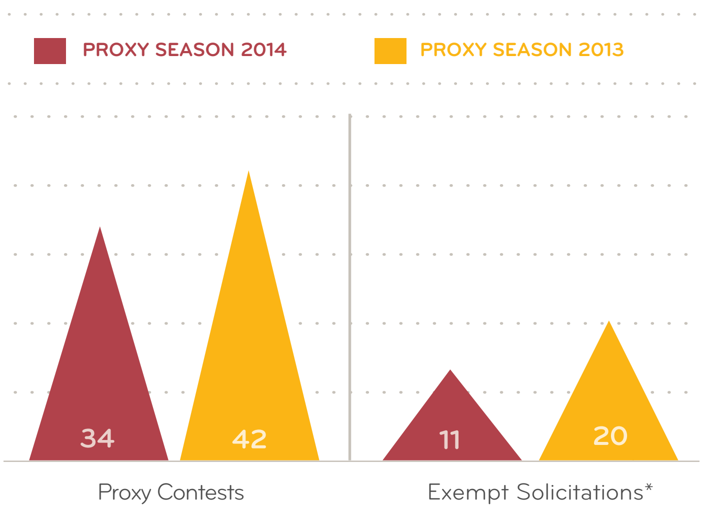
Key defining company size: Large Cap: \$10b+ • Mid Cap: \$2b–\$10b • Small Cap: \$300m–\$2b • Micro Cap: \$300m or less

SHAREHOLDER ACTIVISM

The shareholder activism environment has intensified, particularly for the largest companies. While the number of actual proxy contests, and exempt solicitations (i.e. "no vote" campaigns against directors) decreased between 2013 and 2014, a significant number of companies were impacted by activist campaigns. However, some of these situations were resolved without requiring a shareholder vote.

Twenty-nine percent of directors have had interactions with activists and held extensive board-level discussions in this area over the last twelve months. The largest company directors report twice the frequency of experience with activism as smaller company directors — likely explaining why smaller company directors express less concern with activists and are less likely to have had board discussions on the topic.

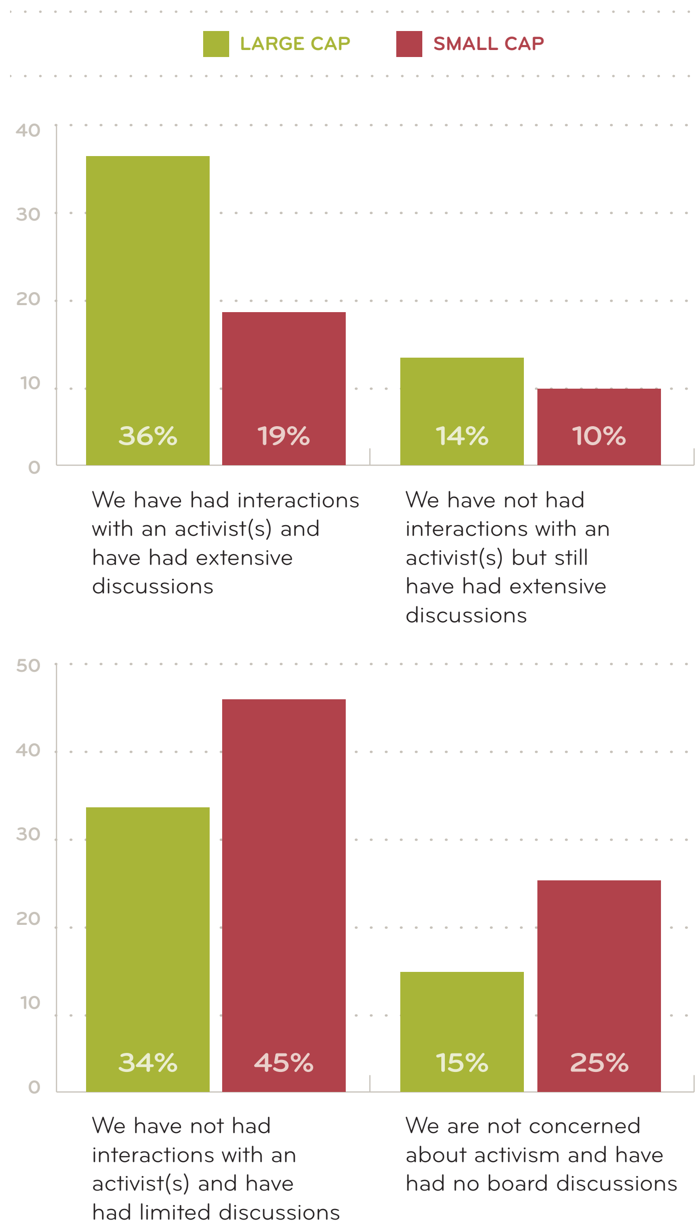
SHAREHOLDER ACTIVISM



* An exempt solicitation is defined as one in which a proponent sends a letter to shareholders through Broadridge. A vote "no" letter is an example of an exempt solicitation. Unlikely proxy contests, exempt solicitations do not involve distribution of opposition proxy cards.

DIRECTOR EXPERIENCES WITH SHAREHOLDER ACTIVISM

How would you describe your board's preparation for and actual experience with shareholder activism?



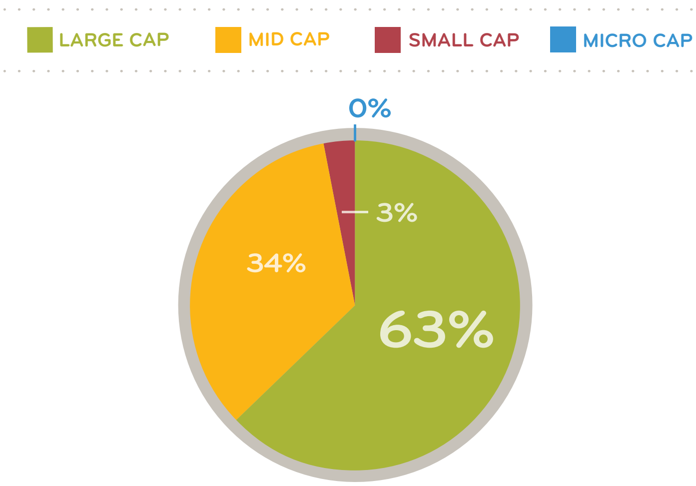
Source: *PWC's 2014 Annual Corporate Directors Survey*

Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

Board leadership structures continue to evolve. In recent years, a growing number of companies have chosen to separate the roles of CEO and board Chair. During the 2014 proxy season, 62 shareholder proposals were put forth to separate the roles (compared to 53 in 2013), with average shareholder support of 30%. Six proposals received majority support.

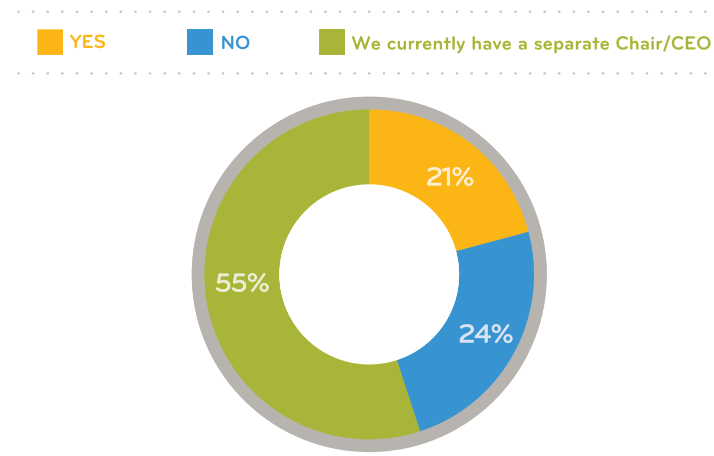
About two-thirds of these proposals were targeted at the largest companies. A little over half of directors surveyed say their company has already separated the roles, and of those who have not, half say their board is considering doing so in the future. CEO succession events are sometimes viewed as ideal times for this transition.

2014 PROXY SEASON SPLIT CHAIR/CEO PROPOSALS BY COMPANY SIZE



DIRECTOR DISCUSSIONS OF BOARD LEADERSHIP

If you currently have a combined Chair/CEO, has your board discussed splitting the role during your next CEO succession?



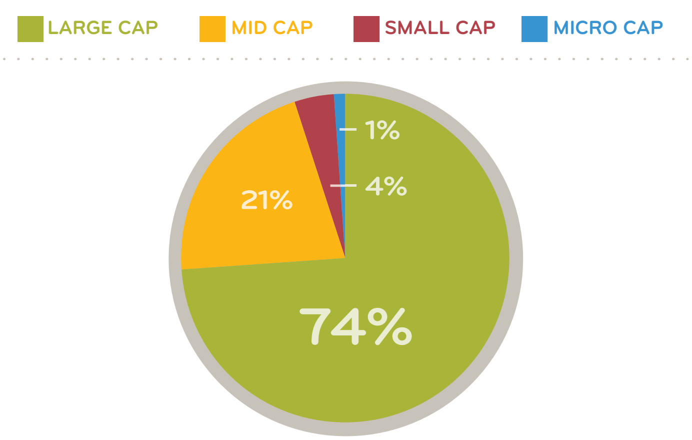
Source: *PWC's 2013 Annual Corporate Directors Survey*

Key defining company size: Large Cap: \$10b+ • Mid Cap: \$2b–\$10b • Small Cap: \$300m–\$2b • Micro Cap: \$300m or less

The number of shareholder proposals related to social and environmental issues increased slightly from 2013, but shareholder support averaged just 18%, and none of these proposals received majority approval. At the same time, about three-quarters of directors surveyed say they have "not very much" or "not at all" discussed issues like human rights, climate change, carbon emissions or resource scarcity during the last twelve months.

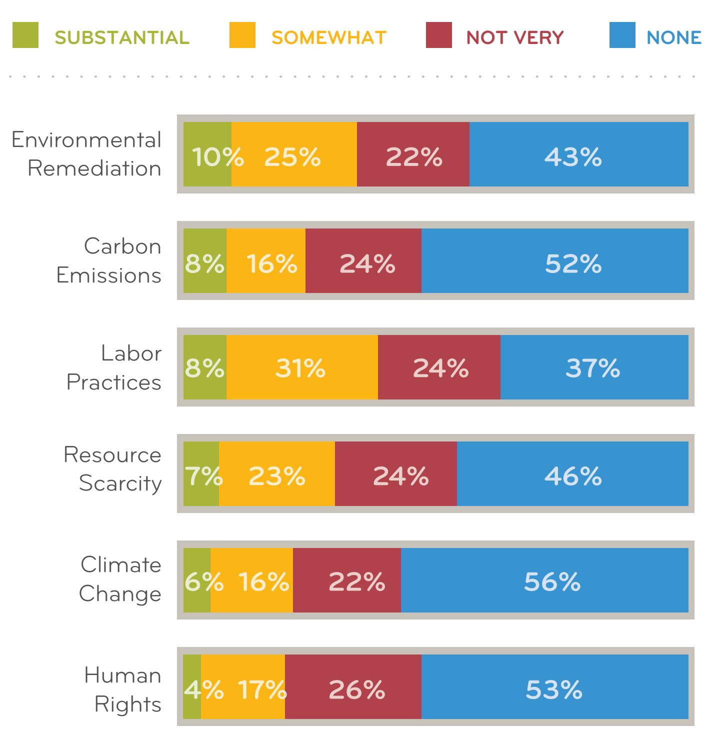
While only a minority of directors says they are discussing corporate social responsibility issues, these discussions are more likely to occur at the largest companies. This may be because these companies are more likely to be reporting to stakeholders on their corporate social responsibility initiatives.

SOCIAL AND ENVIRONMENTAL PROPOSALS BY COMPANY SIZE



BOARD DISCUSSIONS OF CORPORATE SOCIAL RESPONSIBILITY ISSUES

In the last 12 months, to what extent has your board discussed the following corporate social responsibility issues?



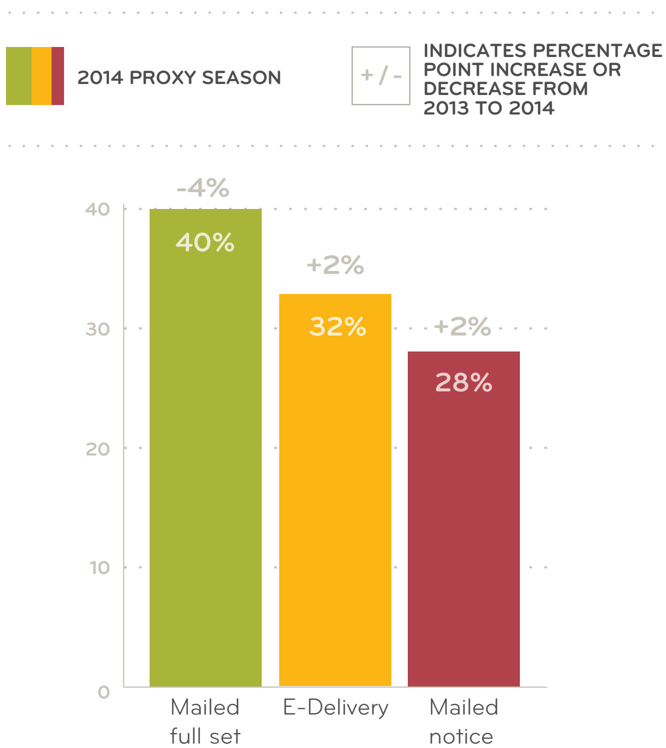
Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

PROXY DELIVERY AND VOTING METHODS

Electronic delivery of proxy materials and voting continues to increase. Virtually all institutional shareholders received proxy materials through an electronic platform in 2014. And, 98% of institutional shares voted were done so electronically. Retail shareholders continue to receive their proxy materials in a variety of ways, and use a more diverse mix of voting methods.

Thirty-two percent of retail investors received their 2014 proxy materials electronically and 28% through a mailed Notice of Internet Availability (up from 30% and 26%, respectively, during the 2013 proxy season). There was a four-percentage-point decrease in the volume of paper proxy materials sent to retail shareholders — consistent with a trend we have observed over the last several years. In terms of retail voting, individuals are using the Internet for 68% of the shares voted.

RETAIL INVESTOR PROXY DELIVERY METHODS

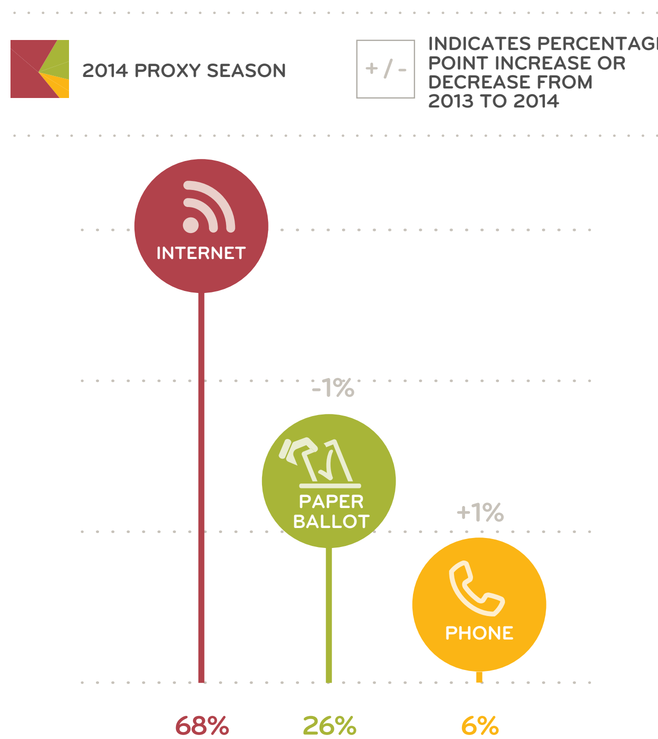


Percentage of shares sent by method of distribution

RETAIL INVESTOR PROXY VOTING METHODS

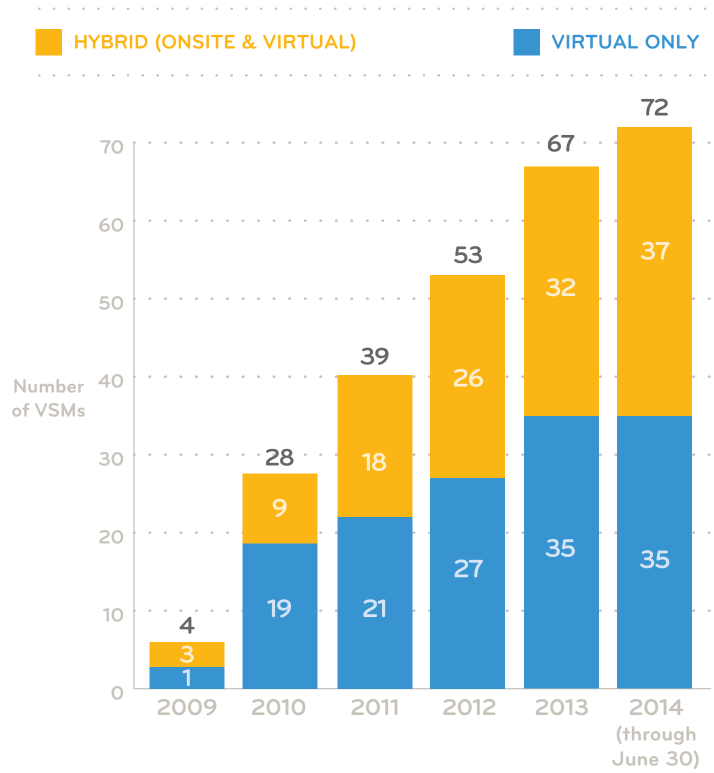
2014 PROXY SEASON

Percent of Shares Voted



Virtual shareholder meetings show slow, but continued growth. While the majority of companies continue to do "in-person" annual meetings, a small, but growing number have added a virtual component. Virtual meetings come in two main varieties: "hybrid" meetings where audio and/or video broadcasts are available to attendees in addition to an in-person meeting, and "fully virtual" meetings, which are solely online. The large majority of these virtual meetings were audio-only.

VIRTUAL MEETINGS — 2009 TO PRESENT



The analysis is based upon Broadridge's processing of shares held in street name, which accounts for over 80% of all shares outstanding of U.S. publicly-listed companies. For purposes of this report, the term "institutional shareholders" refers to mutual funds, public and private pension funds, hedge funds, investment managers, managed accounts and voting by vote agents. The term "retail shareholders" refers to individuals whose shares are held beneficially in brokerage accounts.

ABOUT

The analysis in this ProxyPulse is based upon Broadridge's processing of shares held in street name, which accounts for over 80% of all shares outstanding of U.S. publicly-listed companies. Shareholder voting trends during the proxy season represent a snapshot in time and may not be predictive of full-season 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 Center for Board Governance is a group within PwC whose mission is to help directors effectively meet the challenges of their critical roles. This is done by sharing leading governance practices, publishing thought leadership materials, and offering forums on current issues.

PwC Survey Information The 2014 Annual Corporate Directors Survey of 863 public company directors was conducted in the summer of 2014. The 2013 Annual Corporate Directors Survey of 934 public company directors was conducted in the summer of 2013. Of the respondents to both of these surveys, 70% serve on the boards of companies with more than $1 billion in annual revenue.

The 2013 Investor Survey was conducted in the summer of 2013 and its 66 respondents represented over $2 trillion in assets under management.

[1] **PwC 2013 Investor Survey** PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

[2] **PwC 2014 Annual Corporate Directors Survey** PricewaterhouseCoopers LLP has neither examined, compiled nor performed any procedures with respect to the ProxyPulse report and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

TO HAVE A DEEPER CONVERSATION ABOUT HOW THIS SUBJECT MAY AFFECT YOUR BUSINESS, PLEASE CONTACT:

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