

THIRD EDITION 2015

# 2015 Proxy Season Wrap-up

This edition of ProxyPulse is based on analysis of data from 4,280 companies that held their annual meetings between January 1, 2015 and June 30, 2015. This report provides insights into both share ownership trends and voting results. We also identify key questions for directors to consider asking of management teams, and issues that could impact voting results going forward.

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## 2015 PROXY SEASON AT A GLANCE

- **PROXY ACCESS:** Seventy percent of the more than 80 proxy access proposals voted on this season received majority support from shareholders, averaging 57%. This development is significant given that during the 2014 proxy season, only ten proposals were voted on, with three attaining a majority.<sup>1</sup> When retail shareholders voted, they cast 85% of their shares against proxy access (which is generally in line with management's recommendations), whereas institutional shareholders voted 61% of their shares in favor of such proposals.
- **SAY-ON-PAY:** Ten percent of companies failed to attain the support of at least 70% of the shares voted, an improvement from last season when 13% failed to surpass this benchmark. Forty percent of the companies that failed to surpass the 70% support benchmark during the 2014 proxy season, and had a say-on-pay vote this season, again failed to surpass 70% support. New rules from the SEC on the CEO pay-ratio disclosure, as well as anticipated rules on clawbacks and pay for performance disclosure, could impact say-on-pay voting in the future.
- **DIRECTOR ELECTIONS:** 1,184 directors failed to garner more than 70% shareholder support during the 2015 proxy season, although average support for directors was 96%. In many cases, low levels of director support extended back to the prior annual meeting; 41% of companies that had a director fail to attain majority support last season also had a director fail to obtain majority support this season.
- **SHARE OWNERSHIP:** As a group, institutional investors held 68% of the shares of U.S. public companies this season, down one percentage point from last season. In contrast, the retail segment's ownership increased to 32% this season.
- **RETAIL VOTING PARTICIPATION:** Voting rates of retail shareholders continue to decline. This season, individuals voted only 28% of the shares they owned. Over 97 billion retail shares went unvoted during the 2015 proxy season, which equates to just over 22% of street shares outstanding. Low retail voting participation presents companies with significant opportunities to engage this shareholder segment.
- **DIRECTOR COMMUNICATIONS WITH INVESTORS:** The extent of board-shareholder engagement has continued to rise throughout the year, and many boards are adopting policies and procedures governing such communications. Sixty-nine percent of directors surveyed now say their board has direct communication with institutional investors, compared to 66% last year.<sup>2</sup>

Over the last three years, discussions with investors have become more commonplace on matters such as executive compensation, strategy, and risk oversight.

<sup>1</sup> Sullivan & Cromwell, LLP, *2014 Proxy Season Review*, June 25, 2014

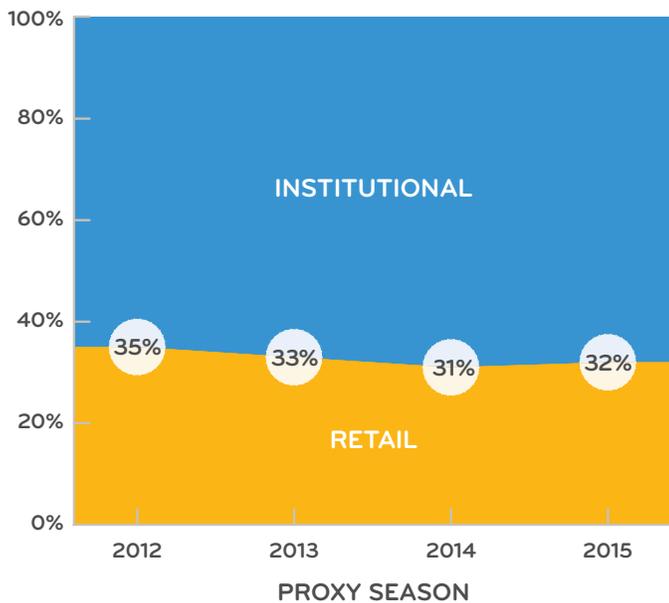
<sup>2</sup> PwC's *2015 Annual Corporate Directors Survey*, 783 respondents

## PUBLIC COMPANY OWNERSHIP

Since last proxy season, institutional ownership of the street shares of U.S. companies decreased by one percentage point to 68%, whereas retail ownership increased by one percentage point to 32%. This is a slight reversal of the trend over recent years, where retail ownership was a decreasing proportion of the total.

The proportion of shares owned by institutional investors varies greatly by company size. Whereas institutions hold only 28% of the shares of micro cap companies, they hold 72% of the shares of large caps. This illustrates the importance to each company of understanding how its shares are held.

### HISTORICAL SHARE OWNERSHIP

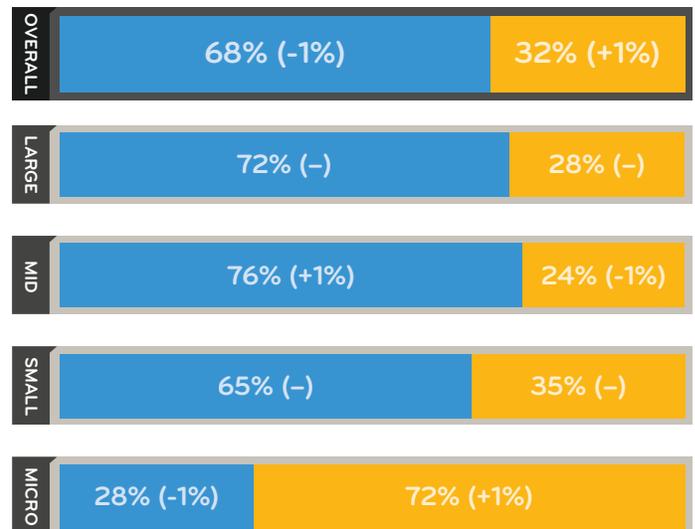


### SHARE OWNERSHIP BY COMPANY SIZE – PROXY SEASON 2015

**INSTITUTIONAL OWNERSHIP** (% of shares) **RETAIL OWNERSHIP** (% of shares)

+/- INDICATES PERCENTAGE POINT INCREASE OR DECREASE FROM PROXY SEASON 2014

- INDICATES NO CHANGE YEAR-OVER-YEAR



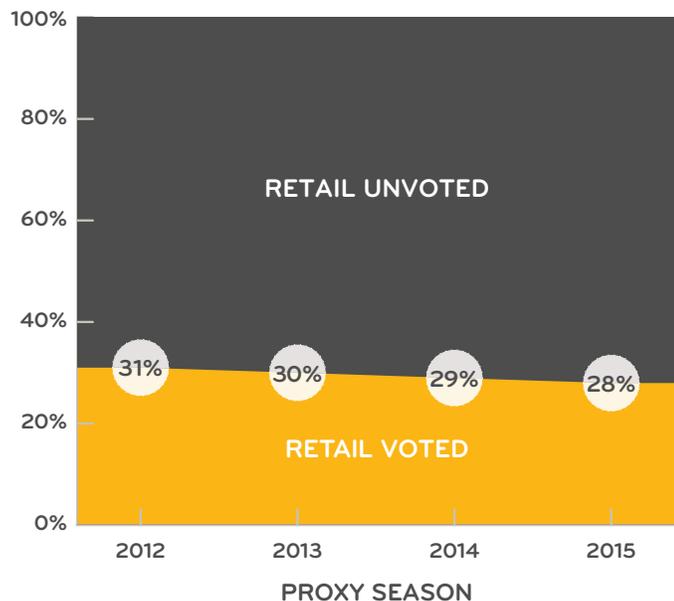
#### DIRECTOR QUESTION:

Do we understand shifts in the company's ownership base and how these shifts can impact shareholder voting?

## SHAREHOLDER VOTING

Institutions continue to vote at significantly higher rates than retail investors. Whereas institutional investors voted 91% of their shares this season, only 28% of retail shares were voted. More than 97 billion retail shares remained unvoted during this proxy season.

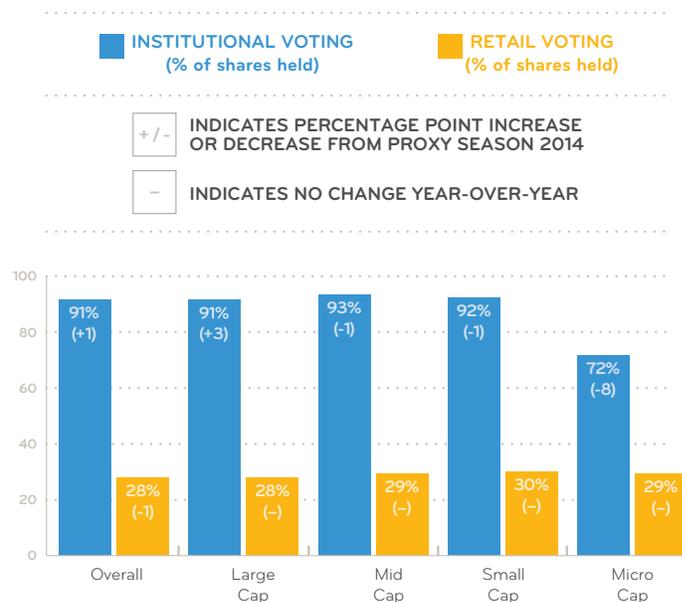
### HISTORICAL RETAIL VOTING RATES



While low retail voting rates are fairly consistent across company segments, institutional voting rates vary; 91% of institutional shares were voted at large-cap companies this season, while only 72% were voted at micro-cap companies—a decrease of eight percentage points from the 2014 proxy season.

Many companies have successfully engaged their retail shareholder base in order to increase participation by, for example, reminding their retail shareholders that they can make a difference. Generally speaking, retail shareholders have indicated that they want concise, user-friendly information on the companies whose shares they hold, including information on strategy, major business and policy developments, executive compensation, and risk management.

### SHARES VOTED BY COMPANY SIZE – PROXY SEASON 2015



#### DIRECTOR QUESTION:

Based on our communications with investors, do we anticipate any close or controversial shareholder votes in the near future?

## DIRECTOR ELECTIONS

- Almost twenty-three thousand directors stood for election during the 2015 season. Eighty-two percent of directors received shareholder support of at least 90% of the shares voted. Ninety-eight percent of directors received majority shareholder support.
- 1,184 directors failed to receive at least 70% shareholder support this season. The 70% threshold is an important benchmark for proxy advisory firms and many investors.
- 345 individual directors at 169 different companies did not receive majority support from shareholders.
- 41% of companies that had at least one director fail to achieve majority support in 2014, and had a director election this year, also had a director fail to receive majority support in 2015.

## SHAREHOLDER APPROVAL LEVELS – PROXY SEASON 2015

Shareholder Approval Level	# of Directors	% of Directors
90-100%	18,920	82%
80-89%	2,030	12%
70-79%	835	
60-69%	510	
50-59%	329	4%
0-49%	345	
<b>Total</b>	<b>22,969</b>	<b>100%</b>

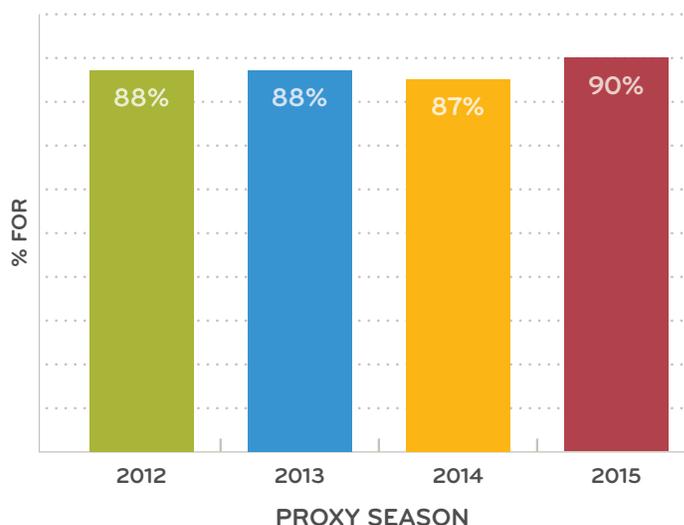
### DIRECTOR QUESTION:

Are any of our directors at risk of not achieving majority shareholder support? If so, how are we responding?

## SAY-ON-PAY

- Approximately 10% of pay plans failed to surpass the 70% shareholder support level, in comparison to the 2014 season when 13% of pay plans failed to hit this threshold.
- Of the companies that failed to surpass the 70% support benchmark during the 2014 proxy season (and had a say-on-pay vote this year), 40% again failed to attain at least 70% support. However, 36% of companies that failed to surpass 70% support during the 2014 season attained 90% or greater support in 2015.
- Weak support for say-on-pay in one year can be followed by weak support for directors in the following year. Forty-six percent of companies that failed their say-on-pay vote in 2014 and had a director election this season, had at least one director fail to receive 70% support.

## HISTORICAL SAY-ON-PAY SUPPORT



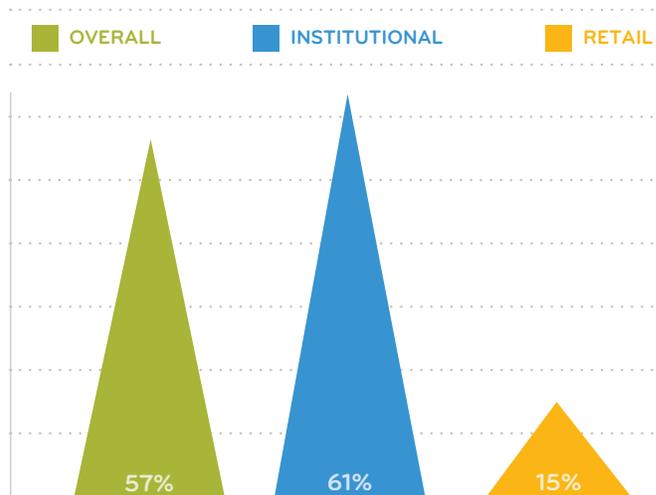
### DIRECTOR QUESTION:

How will new or pending regulations on executive pay impact future say-on-pay votes?

## PROXY ACCESS

- During the 2015 proxy season, there were votes on over 80 shareholder proposals for proxy access. Seventy percent of these proposals received majority support—averaging 57% of the votes cast.
- By a significant margin, retail shareholders did not support proxy access, as 85% of the shares they cast were voted against such proposals. On the other hand, institutions voted 61% of their shares in favor of proxy access.
- The data did not show evidence of a linkage between proxy access proposals and specific shareholder dissatisfaction with current directors at those companies. Shareholder rights, rather than dissatisfaction, appeared to be the driving force.
- By the end of this calendar year, we expect that well over 100 shareholder proposals for proxy access will come to a vote. Many of these proposals were submitted by the New York City Comptroller's Office. Most of the proposals provide a mechanism for an individual or group that holds 3% of the shares for three years or more to nominate up to 25% of the available seats. This is consistent with some proxy advisor guidelines.

### PERCENTAGE OF SHARES VOTED IN SUPPORT OF PROXY ACCESS



#### DIRECTOR QUESTION:

How does the changing landscape around shareholder-director nominations impact how the board thinks about its composition?

## OTHER AREAS OF INTEREST

### • DIRECTOR COMMUNICATIONS WITH INVESTORS

- › The extent of board-shareholder engagement continues to increase and many boards are adopting policies and procedures for proactive communication directly with shareholders.
- › Increasing numbers of directors indicate that discussing executive compensation with shareholders is important.<sup>3</sup> Whereas in 2013, 66% of respondents indicated a willingness to communicate on executive compensation, this year 77% felt this way. Similarly, two-thirds of directors believe it's appropriate to communicate with investors regarding company strategy, compared to 45% in 2013; two-thirds also believe it's appropriate to communicate with investors regarding risk oversight, compared to 48% in 2013.

› **Director question:** What kind of guidelines, if any, do we need to proactively communicate with shareholders regarding governance issues?

### • BOARD LEADERSHIP

- › There were 57 shareholder proposals to split the role of Chair and CEO. Of these, only three received majority support.
- › The number of companies with a split Chair and CEO continues to rise. Fifty-seven percent of directors say their companies have already separated the roles, and 11% are considering doing so at their next CEO succession.<sup>4</sup>

› **Director question:** If we have not already done so, should the company consider splitting the chair and CEO roles?

### • ANNUAL ELECTIONS FOR DIRECTORS

- › This season, 37 companies had a board declassification shareholder proposal on their proxy, and 100% of those proposals passed. This is consistent with last season's voting results where all 54 of these proposals passed.

› **Director question:** Do we anticipate a shareholder proposal for annual director elections, and if so, should we consider proactively making this change?

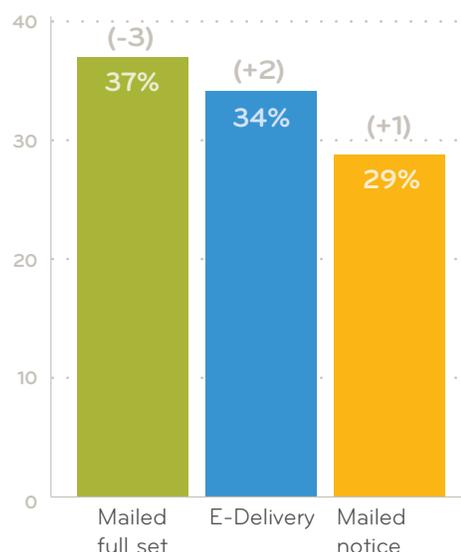
### • PROXY DELIVERY METHODS

- › Electronic delivery of proxy materials to retail investors increased by two percentage points to 34% from 2014, and full mailed sets of proxy materials dropped three percentage points during the same period.

› **Director question:** Do we understand and optimize our proxy delivery options to best encourage retail shareholder participation?

## RETAIL INVESTOR PROXY DELIVERY METHODS

+ / - INDICATES PERCENTAGE POINT INCREASE OR DECREASE FROM PROXY SEASON 2014



<sup>3</sup> Ibid. "How appropriate is it for boards to engage in direct communications with shareholders on executive compensation?" Thirty-six percent of directors responded that it is very appropriate, and 41% indicated it is somewhat appropriate.

<sup>4</sup> Ibid.

## ABOUT

ProxyPulse is based in part on 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-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 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 governance leading practices, publishing thought leadership, and offering forums on current issues.

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PricewaterhouseCoopers LLP has not examined, compiled or 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.

About the PwC 2015 Annual Corporate Directors Survey. The annual survey was conducted in the summer of 2015. 783 public company directors responded to the survey, of which 74% serve on the boards of companies with more than \$1 billion in annual revenue.

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