

# HIGHLIGHTS FROM RR DONNELLEY'S GROUNDBREAKING INVESTOR SURVEY

What you need to know before drafting your next proxy

## Introduction

Over the past few years, there has been an explosion of innovation in proxy statements. Driving these changes are companies that have transformed their proxies from traditional SEC 14-a disclosure documents into more visually inviting and compelling communications pieces.

Other factors contributing to innovation are Say on Pay and the growing length of proxy statements with the attendant concerns that more pages are resulting in decreased readership. Over the past decade, for instance, the average annual meeting proxy statement has doubled in length, ballooning from an average of 30 pages to 60 pages or even more. Per Equilar, Inc., an executive compensation data firm, the median CD&A length has increased 26% since 2008.

In addition, many companies perceive a need to “tell a more effective story” about why their corporate governance and compensation practices are appropriate and beneficial for investors—and thus deserving of shareholder support.

As the country's leading financial communications firm, helping roughly one third of all public companies with various phases of the design, production, filing, distribution and hosting of proxy statements and other company disclosures, RR Donnelley is increasingly offering companies advice as well as assistance with execution. Companies are asking us: “Should we change our proxy? And if so, how and for what purposes?”

Mindful that proxies have multiple audiences, including regulators, the media, employees, law firms, proxy advisors, and a range of retail, institutional and employee shareholders, RR Donnelley firmly believes that “no one size fits all” when it comes to proxy statements. We recommend that proxy innovations be aligned with each company's unique corporate culture, governance profile, and proxy objectives.

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**“Only lawyers would ‘enjoy’ reading a proxy. For the rest of us, [a] proxy should be treated more like a marketing document—with a story to tell—once the SEC disclosure requirements are met. Design is very important.”**

—Responding institutional investor

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Given that institutional investors are a key audience for proxy statements and collectively own over 80% of our clients' shares, we felt it appropriate to conduct primary research to ensure that our recommendations are aligned with the needs of this critical audience.

## Highlights

### High degree of collaboration between voters and portfolio managers

Voting participation is high among institutional investors. In fact, we found that the majority of respondents had over \$100 billion in assets under management and voted over 3,000 stocks. An overwhelming majority (97.1%) of these respondents voted on all proposals for their portfolio companies.

The majority of respondents' firms primarily practice active as opposed to passive (or indexed) investing. For the actively managed portfolios, voters interact with their investment management colleagues (i.e., portfolio managers and equity analysts) on a regular basis both to review proxy-voting policy, as well as to determine how they will vote on particular proposals at specific companies.

**“The online table of contents must contain a live link to the section. A text-only table of contents is of no use.”**

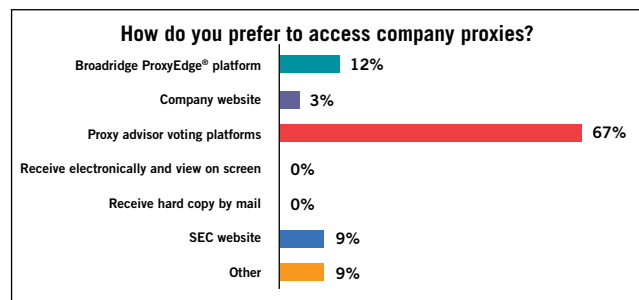
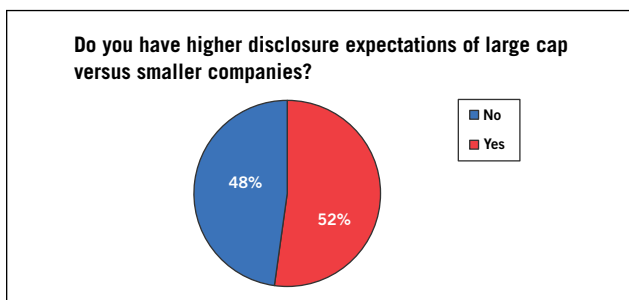
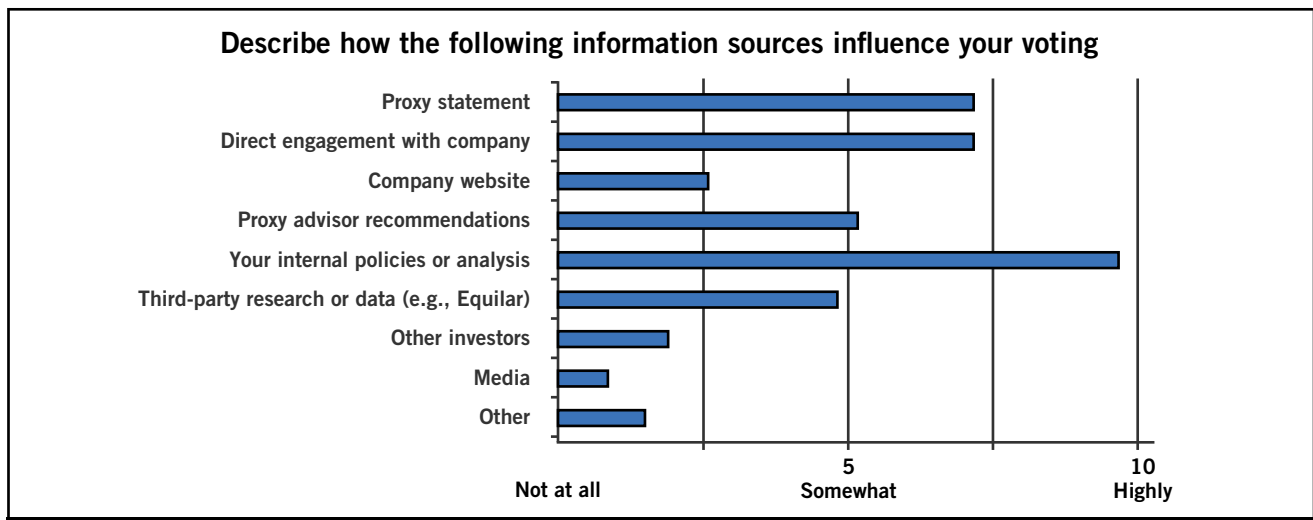
—Responding institutional investor

### How institutional investors read proxies

Large institutions are no longer receiving and reading the traditional hard copy proxies. Instead, the overwhelming majority of respondents report that they view proxies on their proxy advisors' platforms or on Broadridge's ProxyEdge®.

Respondents indicated they were not overly influenced by the reports and vote recommendations of proxy advisors. Instead, respondents indicated that their votes were primarily driven by internal policies. And in fact, the company's proxy statement and direct engagement with companies ranked higher as an information source than proxy advisors' reports and recommendations.

Notably, respondents have different disclosure expectations based on a company's size. A slight majority—or 52%—indicated that they have higher disclosure expectations for large companies than for smaller ones. To explain this expectations gap, they suggested that larger companies may have been public longer, may have more complex stories to tell, and may quite possibly possess the resources to tell their stories more fully.



## What content matters most

As many companies suspect, most investors don't read proxies from front to back. Sixty percent indicated that they skip directly to specific sections, with the first destination being the CD&A Executive Summary. Eighty-four percent of respondents said that the CD&A assists with proxy review, followed by the proxy statement summary at front (64%).

Regarding subject matter, respondents rank director independence, pay-for-performance alignment, and disclosure of performance measures highest among the content areas they consider important.

When asked "How clearly and effectively are these topics discussed?", investors gave companies fairly good marks on director disclosure, but relatively poor marks on disclosure of pay-for-performance alignment and of performance measures.

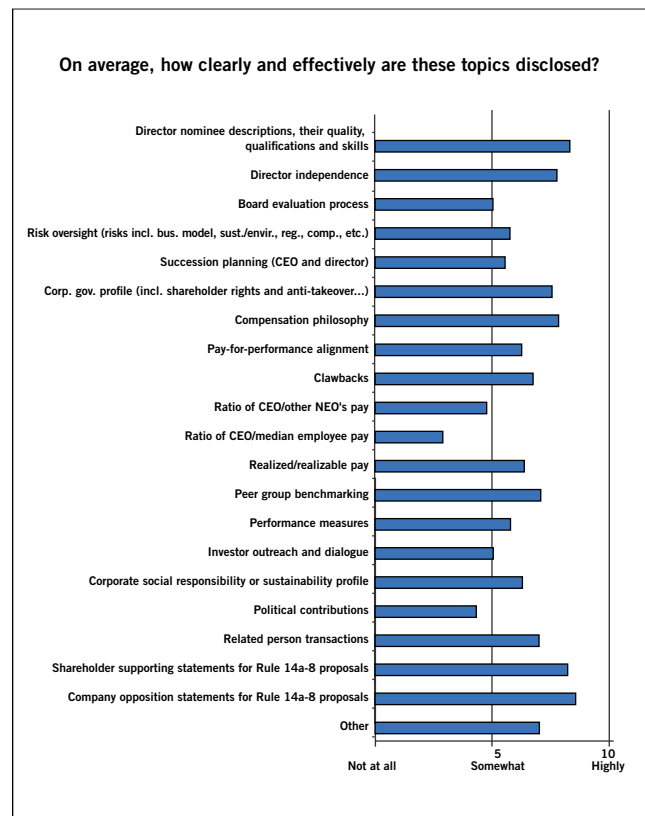
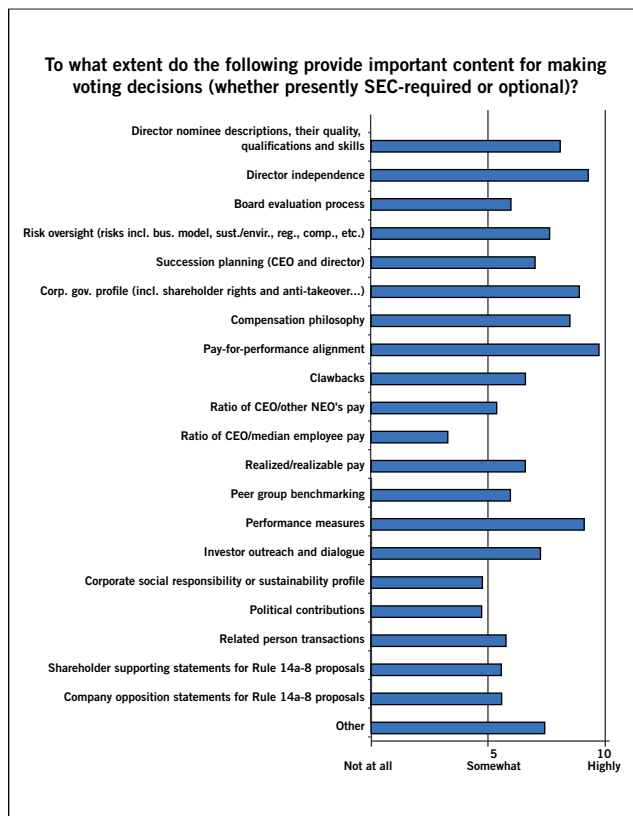
This relative disappointment in quality and clarity of key aspects of compensation disclosure could be interpreted as investors will never be satisfied with the quality and specificity of compensation disclosures. As we observe a wide range of divergence among companies in clarity of disclosure, clearly the more opaque disclosures are not meeting investor informational needs and are areas to consider upgrading.

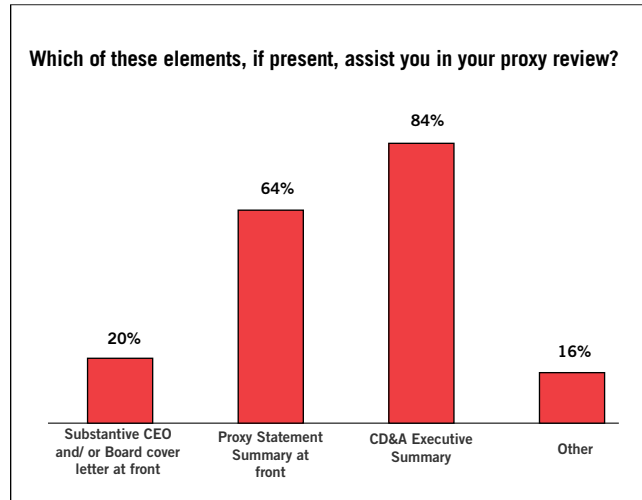
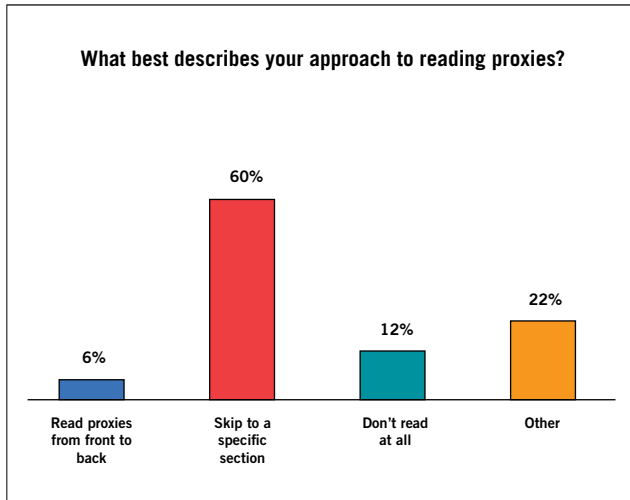
Use of Plain English was highly desirable, as was selective use of easy-to-understand graphs.

Respondents commented extensively about "over-engineered" graphs. A slight majority (54%) indicated that they had seen over-engineered graphs in the past, and several observed that when they see a complicated, poorly labeled, or simply hard-to-follow graph, they conclude that they are being deliberately misled.

Respondents noted that they favor the traditional one-column text over two-column text. Of course, most of these investors read proxies online, where most such proxies are presented in single-column format.

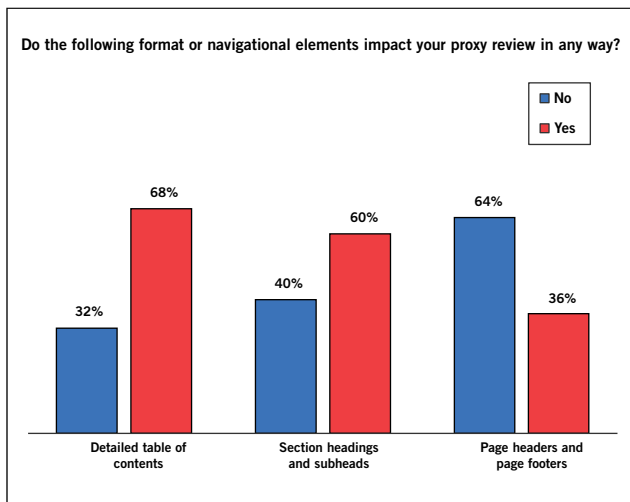
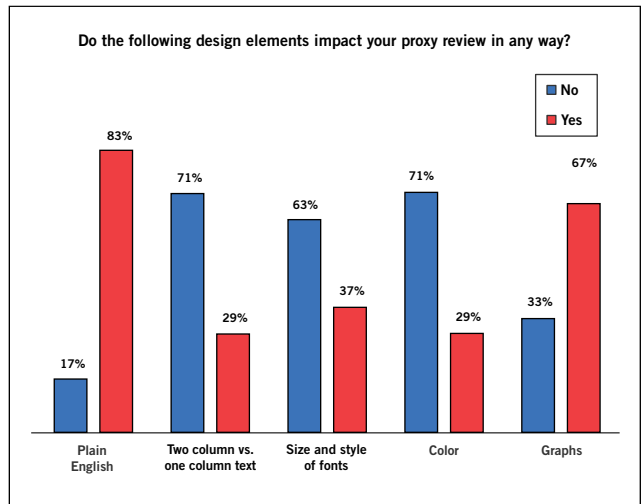
Finally, when asked about length versus brevity, respondents indicated a preference for "more concise documents" (defined as under 60 pages).





“... in a CD&A I like to see a ‘water-fall’ organization style: First a candid overview of how the company performed that year, which sets the tone. Then, comp. decisions made during the period, the ‘why’ and the ‘how.’ Finally, the housekeeping stuff: policies, contracts, footnotes. The compensation philosophy statement is not useful at all.”

—Responding institutional investor



“Some graphs can be misleading. For instance, graphs that tell us what [percentage] of pay is performance-based are meaningless if the metrics themselves are not robust.”

—Responding institutional investor

## Other noteworthy investor comments

“Fewer pages are always better, but brevity at the risk of missing discussion of a complex issue isn’t positive.”

“... I would advise investing first in charts and graphs. They help to illustrate complex compensation points, and they break up the text in an effective and informative way.”

“... Don’t use charts/graphs or explanations of issues that aren’t central to your particular company simply because everyone else is doing it—be critically focused on what information is most important for your company’s shareholders. If lawyers are drafting this as a compliance document, have a marketing person or non-lawyer review for ‘readability’—your shareholders aren’t all lawyers or familiar with often arcane disclosure requirements.”

One respondent argued against busy graphs: “...the ‘picture’ should be a quick way to communicate an idea; if it takes more than a [five] second look, you are better off communicating the issue in writing (if you need excessive footnotes to explain the graph, that’s another indication that the concepts are too complex).”

“Issues such as succession planning and board self-evaluation are completely opaque for investors, so it is helpful if the proxy can shed at least a little light on these processes.”

“Companies have improved a great deal, but I’m still sometimes surprised that the best and most important explanations are not part of the proxy disclosure; they occur in the outreach calls following the proxy filing. If companies tell their story and provide a full explanation in the proxy material, all shareholders have access to the information (and companies might save themselves some time and effort related to subsequent engagement efforts). Don’t forget that this is as much about persuasion and education as it is a compliance document.”

## Additional recommendations

In advising our clients, RR Donnelley does not start with the assumption that all companies should or must radically change their traditional practices or proxy formats and designs. Rather, we review a client's most recent proxy and voting results as a benchmark. Based on the areas that the survey validates as important, we first look for the presence and quality of the content investors indicate they search most for, and then the ease of locating that information. This often leads to opportunities to improve the clarity of certain disclosures and the ease of locating it.

Judicious use of color can improve the visual appeal of a proxy document and heighten the impact of key information, including graphs. For institutional investors, questions of color and visual impact deserve particular focus, especially when it comes to designing the on-line version of the proxy, which is the version that most institutional investors will read.

Graphs can help to make and reinforce key points. To be avoided, however, are “overly creative” graphs that miss the mark with—or worse, confuse—investors.

## About the survey

During August and September of 2013, RR Donnelley sent an e-mail survey to the corporate governance and proxy voting heads at 200 institutional investors. The investors surveyed ranged from the largest 13-f filing mutual funds and investment management firms (by assets under management), through many state and local pension funds, labor funds and social investors, including many activist investors.

Targeting the corporate governance and proxy voting heads at these firms, we asked a broad range of questions about how they use proxy statements, where proxy statements rank as an information source, what they look for in voting proxies, what information they find helpful, and where proxies could be improved. These questions covered substantive content, organization, design and navigation.

We received over 40 thoughtful, comprehensive answers, with the respondents cutting across various investor types and sizes. Some of the answers and their implications are very straightforward. Others are subject to interpretation.

The results of this groundbreaking survey have already been incorporated into the advice we provide to clients about how best to design proxies to meet the identified needs and preferences of their owner/voter audiences.

## For more information

To discuss this executive summary report, access a copy of the full survey results or find out how RR Donnelley can help you design and create a proxy that will hit the mark with your investors, contact your local RR Donnelley representative.

## About the author

Ronald M. Schneider is the Director of Corporate Governance Services for RR Donnelley Global Capital Markets, responsible for providing thought leadership on emerging corporate governance, proxy and disclosure issues and assisting clients with compliance and proxy disclosure issues critical to their success.

Over the past three decades, Ron has advised public companies of all sizes, industries and stages of growth facing investor activism, as well as challenging and sensitive proxy solicitations involving corporate governance, compensation and control issues.

His primary recent focus has been helping companies conduct engagement programs with their top institutional investors with the objective of identifying and addressing investor concerns through best practices in proxy disclosure.

During his career he has managed more than 1,600 proxy solicitations, 200 tender or exchange offers and 30 proxy contests, with his proxy fight clients succeeding in over 70% of such situations.

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RR Donnelley wishes to thank Morrow & Co. LLC for its assistance in disseminating the survey to certain investors.

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