ProxyPulse™

A BROADRIDGE + PwC INITIATIVE

FIRST EDITION 2014

What have we learned about shareholder voting behavior?

Looking back at the 2013 fall mini-season and into the 2014 spring proxy season

This first edition of ProxyPulse for 2014 looks back at key trends from the 2013 fall "mini-season" covering 1,066[1] shareholder meetings held between July 1 and December 31, 2013. We also include comparative data from the 2012 fall mini-season.[2]

This edition looks at several areas including public company ownership composition, director elections, say-on-pay, proxy material distribution, and the mechanics of shareholder voting. In addition, we examine how historical shareholder voting behavior and the current corporate governance environment are likely impacting the early 2014 spring proxy season.

[1] For purposes of data comparability, we excluded from our analysis the voting results of four micro-cap companies with significantly atypical shareholder profiles in which retail ownership exceeded 90%.
[2] A season over season comparison provides a consistent view of all companies with proxy activity during that part of the calendar year.

HIGHLIGHTS

PAGE TWO
- Observations for calendar year 2013
- New developments for the early 2014 spring proxy season

PAGE THREE
- Ownership composition and voting trends

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- Trends for 2014

OBSERVATIONS FOR CALENDAR YEAR 2013

- **Director support has slipped modestly.** Although director support was strong overall in the 2013 fall mini-season, the average percentage of shares voted in favor of directors fell from 94% to 92% since the 2012 fall mini-season. At small-cap companies, 7% of directors received less than 70% support: at micro-cap companies 10% received less than 70% support. In all company size segments, there were increases in the percentage of directors whose support shifted from over 90% to the 70-89% range.
- **More pressure on executive compensation.** Although pay plans generally attained strong shareholder support, there was a 7 percentage point decrease in the number of pay plans that attained over 70% of shares voted in favor — from 89% of plans in the 2012 fall mini-season to 82% of plans in the 2013 fall mini-season. In addition, a greater percentage of investors than directors believe that directors should consider modifying executive compensation plans at lower levels of negative say-on-pay voting.
- **Retail share ownership was substantially greater in the 2013 fall mini-season than it was last spring.** There continue to be opportunities to improve retail investor participation. As a group, retail shareholders owned 44% of the shares of 2013 fall mini-season companies, but the percentage of their shares voted fell from 29% in the 2012 fall mini-season to 27% in the 2013 fall mini-season.
- **The adoption of electronic proxy material delivery and shareholder voting continues to spread.** A significant number of companies have shifted from full paper proxy materials to "notice" as more companies leverage segmented mailings, and the number of shareholders indicating a preference for electronic delivery continues to increase. Shareholders are also more frequently casting their ballots electronically as companies make it easier for shareholders to vote on mobile devices and more brokers provide integrated voting platforms on their websites.

DEVELOPMENTS FOR THE EARLY 2014 SPRING PROXY SEASON

- **Shareholder activism is on the rise.** High-profile activist investors are stepping up their demands for company action and the number of exempt solicitations[3] increased from 13 in calendar year 2012 to 22 in 2013, a 69% increase year over year. Proxy contests[4] increased from 58 to 64 in the same time period, a 10% increase year over year.
- **Shareholder proposal topics appear similar to last year.** Much like 2013, early 2014 governance-related shareholder proposals focus on board declassification, independent board chairs, and corporate political spending disclosure. But there are also some new proposal types to be aware of related to the CEO/average worker pay ratio.
- **Amended ISS policy may impact director voting**. A change in Institutional Shareholder Services' (ISS) policy for making voting recommendations on directors that focuses on how directors responded last year to shareholder proposals that received a majority of shares cast in favor may impact director voting this year.

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.

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[3] 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. Unlike proxy contests, exempt solicitations do not involve distribution of opposition proxy cards.

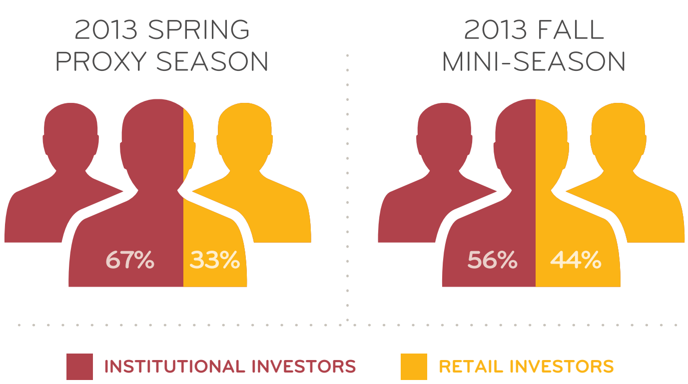
[4] For these purposes, a proxy contest is defined as a meeting in which a counter solicitation is made.

OWNERSHIP COMPOSITION AND VOTING TRENDS

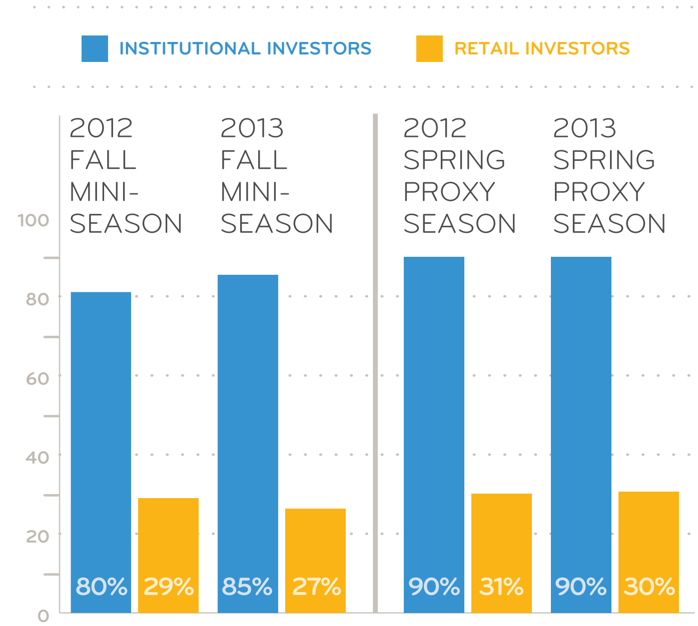
2013 fall mini-season retail ownership stable year over year, but retail voting decreases. During the 2013 fall mini-season, 56% of street shares were owned by institutional investors and 44% by retail investors – approximately the same as during the 2012 fall mini-season. However, 2013 fall mini-season retail ownership was 11 percentage points higher than during the 2013 spring proxy season. This is likely due to the greater percentage of small and micro-cap companies that hold their annual meetings during mini-season and tend to have a greater retail ownership base.

Retail investors voted about 27% of their shares in the 2013 fall mini-season – a decrease of about 2 percentage points from the previous year. Institutional investors on the other hand voted 85% of their shares, an increase of 5 percentage points from the same period in 2012. Voting rates varied widely by company size during the 2013 fall mini-season. For instance, institutional investors voted 90% of their shares at small-cap companies but only 68% at micro-caps. Retail voting was highest at mid-cap companies (37%) and lowest at large-caps (25%).

OWNERSHIP COMPOSITION 2013



PERCENTAGE OF SHARES VOTED BY OWNERSHIP SEGMENT

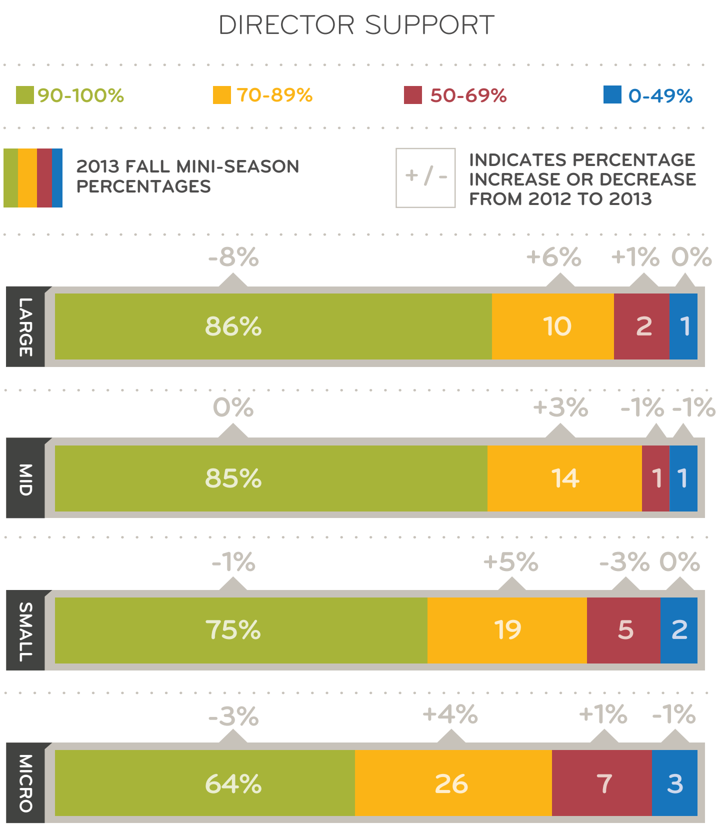


DIRECTOR TAKEAWAY:

- It's critical to understand your company's institutional and retail ownership distribution, as voting behaviors tend to vary widely by segment and company size.

Directors continue to be elected with sizable shareholder support, but fewer are reaching the 90% threshold. In the 2013 fall mini-season, there was a decrease in the percentage of directors receiving over 90% shareholder support – 69% did so compared to 72% during the 2012 fall mini-season. This phenomenon was most notable at large-cap companies, where the number of directors garnering over 90% shareholder support decreased by 8 percentage points year over year.

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

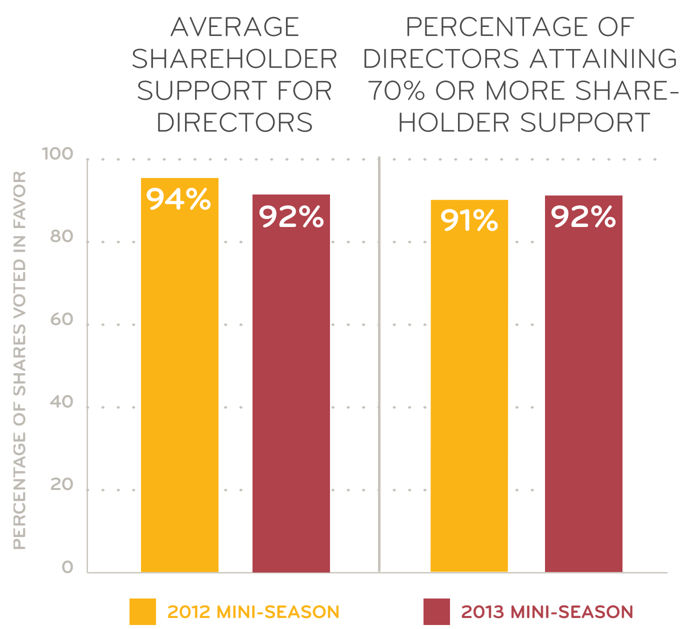


Reasons for shareholders to vote against a director can vary. According to PwC's *What Matters in the Boardroom 2013*, 55% of investors say a perceived inability to keep up with the demands of the director role is the "most or a very important" factor in making a decision to vote for or against a director. Forty-nine percent of investors say the same regarding perceived lack of expertise and 40% say so about a perceived lack of independence. Negative recommendations from proxy advisory firms and long board tenure are the least important factors in motivating an investor to vote for or against a director (6% and 3%, respectively).

DIRECTOR TAKEAWAY:

- Consider benchmarking your board's level of negative director voting against peers.

DIRECTOR ELECTIONS

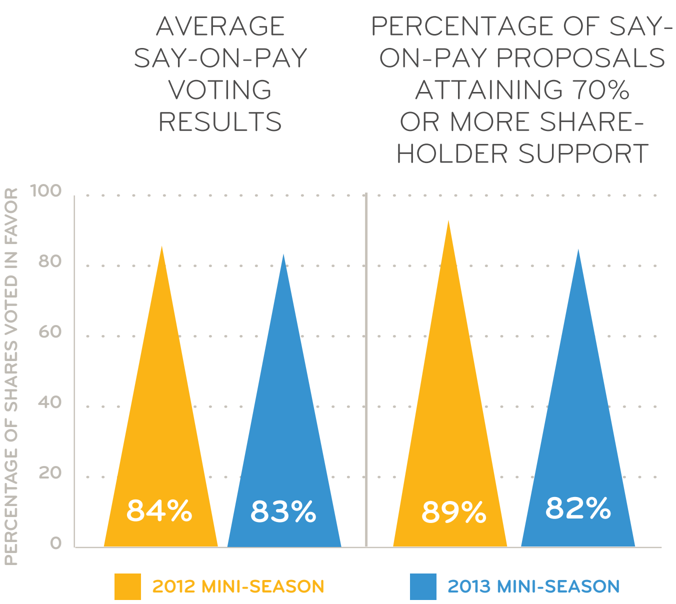


Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

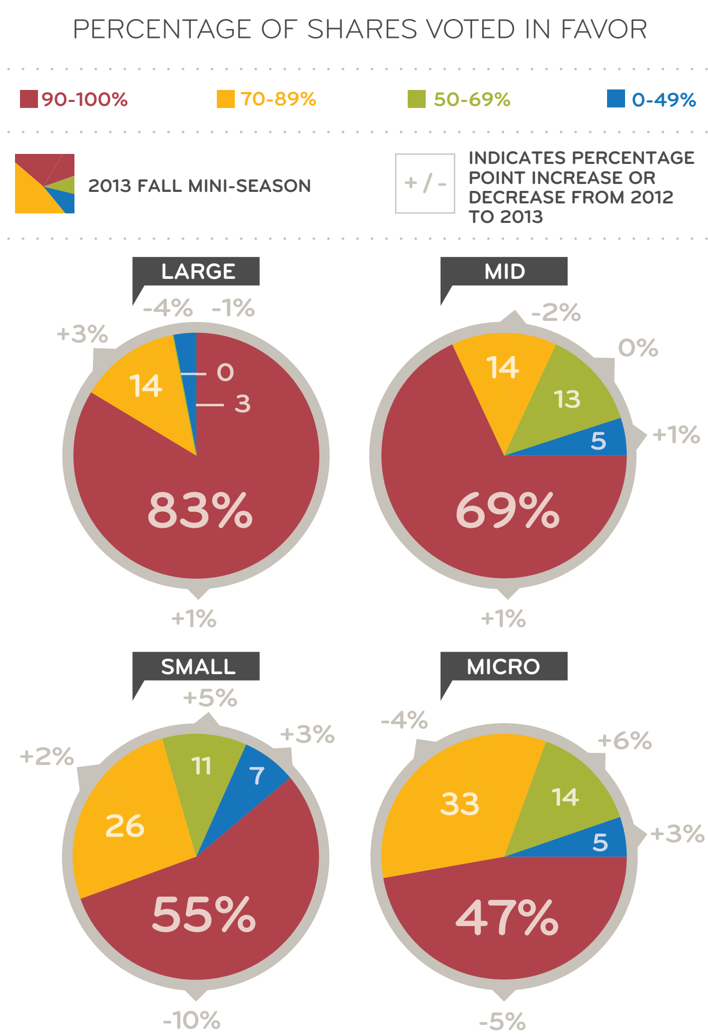
Say-on-pay proposals generally received high favorable support during the 2013 fall mini-season but 18% of companies received less than 70% support. During the 2013 fall mini-season, shareholders supported pay plans at rates over 90% at 53% of companies and more than eight of ten pay plans received at least 70% support. Eighteen percent of companies had favorable say-on-pay votes of less than 70% – the threshold looked at closely by proxy advisory firms. Support across market caps was consistent year over year with the exception of micro-caps where we observed a decrease of 15 percentage points in average support.

These high levels of shareholder support for pay plans may be attributable to the changes that companies have made as a result of their previous year's say-on-pay vote. According to PwC's *What Matters in the Boardroom 2013*, seven of ten directors indicate some type of action was taken by their company in response to the prior year's say-on-pay voting results and 82% of investors believe some action was taken. A majority of directors and investors both believe say-on-pay voting has resulted in compensation being more performance-based. Investors credit say-on-pay with increased communication between the two groups regarding compensation issues and a reduction in the use of controversial benefits.

SAY-ON-PAY PROPOSALS



SAY-ON-PAY VOTING RATES BY COMPANY SIZE



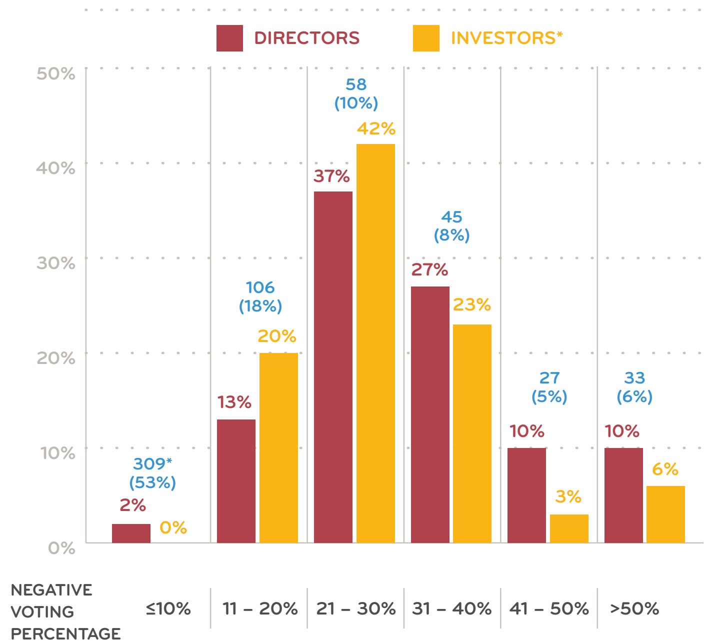
Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

On the whole, investors indicate that directors should reconsider their company's executive compensation plan at lower levels of negative say-on-pay voting than directors do. One in five investors believe that 11-20% negative shareholder voting signals a need to revisit compensation, compared to only 13% of directors.

The chart to the right tracks director and investor perspectives on sensitivity to negative say-on-pay voting compared to actual voting outcomes in the 2013 fall mini-season. For example, 58 companies that had say-on-pay votes received between 21% and 30% negative shareholder voting. Thirty-seven percent of directors and 42% of investors say this level of negative shareholder voting should prompt a reconsideration of executive compensation structures.

SAY-ON-PAY SENSITIVITY

AT WHAT LEVEL OF NEGATIVE SAY-ON-PAY VOTING SHOULD BOARDS CONSIDER MODIFYING EXECUTIVE COMPENSATION STRUCTURES?



*indicates the number of companies with this voting result during the 2013 fall mini-season.

*8% of investors "don't know"

Source: PwC's *What Matters in the Boardroom 2013*

DIRECTOR TAKEAWAY:

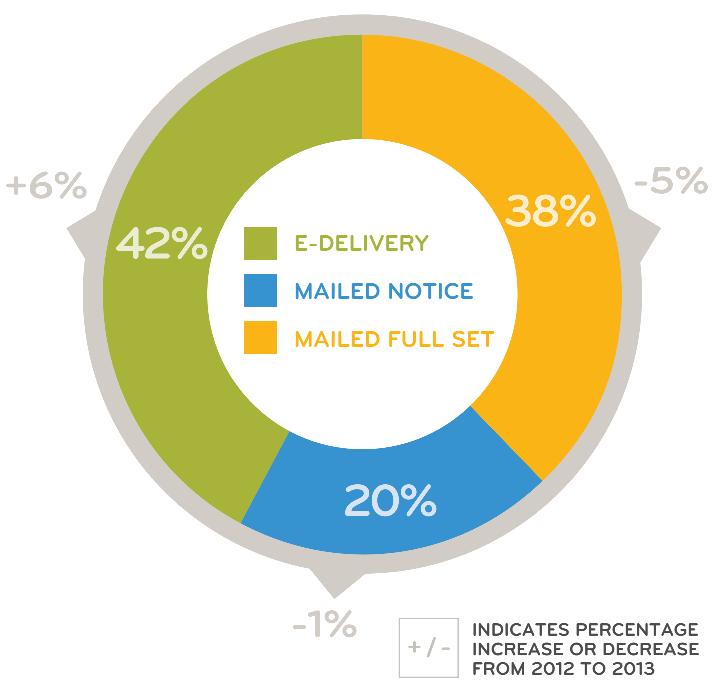
- Boards should continually re-evaluate the message shareholders are sending through say-on-pay voting.

Electronic delivery of proxy materials and electronic shareholder voting continues to grow, but 73% of retail shares were un-voted in the 2013 fall mini-season. The means by which shareholders receive their proxy materials and vote their shares is evolving rapidly. The majority of institutional investors received proxy materials through an electronic platform and 98% of institutional shares were voted electronically in the 2013 fall mini-season.

However, retail shareholders received their proxy materials in a variety of ways and used a more diverse mix of voting methods. For 42% of retail shares, investors received proxy materials electronically and 20% through a mailed notice (compared to 36% and 21%, respectively, in the same period in 2012). In addition, for 38% of retail shares, investors were mailed the full paper package – a decrease of 5 percentage points from the same period in 2012.

RETAIL INVESTOR PROXY DELIVERY METHODS

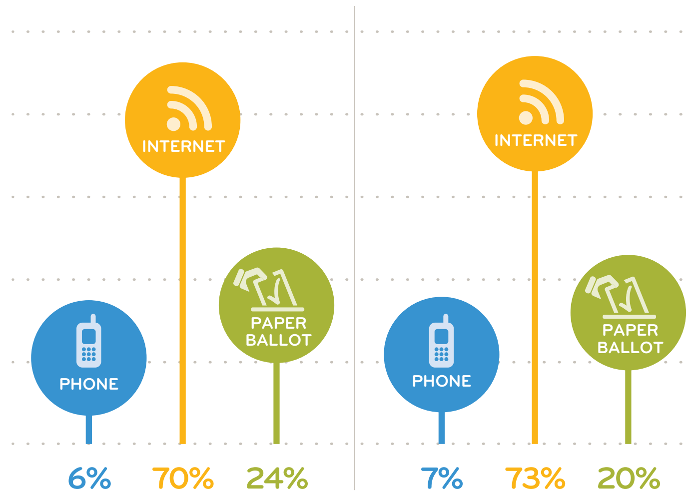
2013 FALL MINI-SEASON
Percent of Shares Sent



Seventy-three percent of all voted retail shares were voted via the internet, a 3% increase over 2012, and 20% voted via paper ballot, a 4% decrease from 2012. However, in all, only 27% of all retail shares were voted during the 2013 fall mini-season.

RETAIL INVESTOR PROXY VOTING METHODS

2012 MINI-SEASON 2013 MINI-SEASON
Percent of Shares Voted



DIRECTOR TAKEAWAY:

- Understand how your company disseminates proxy materials and the preferred voting methods of your shareholders.

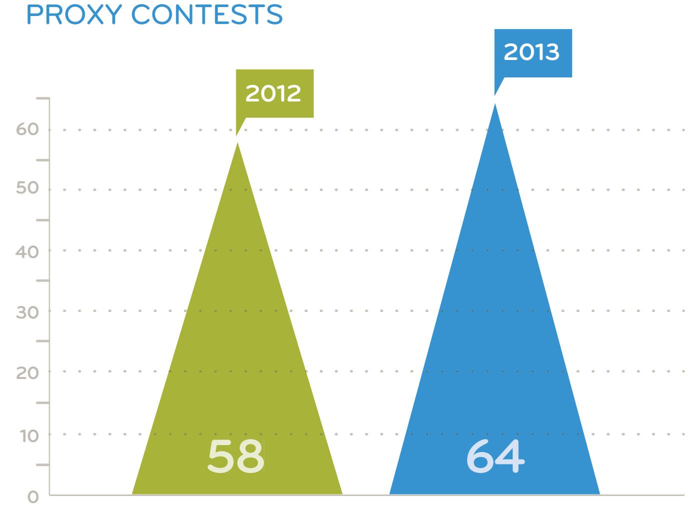
TRENDS FOR 2014

Shareholder proposal topics appear similar to last year. According to early data, over 700 shareholder proposals have been submitted to US public companies for 2014, with board declassification leading the way among governance-related issues, followed by proposals for independent board chairs and political spending disclosure. The Shareholder Rights Project (SRP), a program at Harvard Law School conducted in coordination with public pension funds and charitable organizations, has filed 31 board declassification proposals at S&P 500 and Fortune 500 companies this year. Independent board chair proposals have been largely driven by public pension funds and organized labor. The Center for Political Accountability has been an organizing force behind many of the political spending disclosure proposals, offering investors a "model resolution." 2014 compensation-related shareholder proposals include a new variation that would limit executive pay to 99 times that of the median worker.

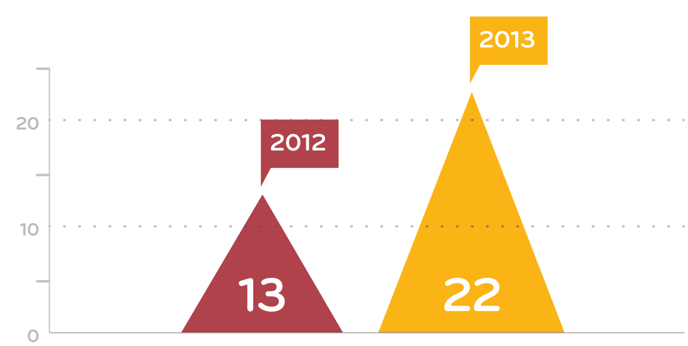
Amended proxy advisor policies may impact director voting. For 2014, there has been a change in policy at Institutional Shareholder Services (ISS) that may affect director voting. In determining whether to recommend "withhold" votes against directors, ISS will take a case-by-case approach in assessing whether a company has adequately implemented a shareholder proposal that received the support of a majority of the votes cast in the prior year. ISS will consider the company's disclosure of its shareholder outreach efforts, the rationale provided in its proxy statement for the level of implementation, the subject matter of the proposal, the level of support for and opposition to the proposal, and whether the underlying issue continues to be a voting item for this year's proxy. A negative recommendation from a proxy advisory firm such as ISS could have a negative impact on director voting results.

Shareholder activism is top of mind. A number of high-profile activist investors have made significant demands of companies or launched proxy contests in 2014. The demands are varied and include everything from selling off a business unit to issuing special dividends to seeking board representation. Heightened shareholder activism is consistent with a trend we have seen over the last several years. For example, there was a 69% increase in the number of exempt solicitations between calendar year 2012 and 2013 and a 10% increase in the number of proxy contests year over year. We will continue to monitor the activism landscape and in our next edition look more deeply at trends by industry and size.

PROXY CONTESTS



EXEMPT SOLICITATIONS



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.

Privacy: The data provided in these reports is anonymous, aggregated data, which is a result of the data processing involved in the voting process. As a result of the automated processing used to quantify and report on proxy voting, data is aggregated and disassociated from individual companies, financial intermediaries, and shareholders. We do not provide any data without sufficient voting volume to eliminate association with the voting party.

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

Broadridge Financial Solutions
Chuck Callan
Senior Vice President
Regulatory Affairs
845.398.0550
chuck.callan@broadridge.com

Michelle Jackson
Vice President
Business Development and Strategy
631.274.2777
michelle.jackson@broadridge.com

PwC's Center for Board Governance
Mary Ann Cloyd
Leader, Center for Board Governance
973.236.5332
mary.ann.cloyd@us.pwc.com

Paul DeNicola
Director, Center for Board Governance
973.236.4835
paul.denicola@us.pwc.com