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2017 Proxy Season Preview

What to expect in 2017, and a look back at the 2016 mini-season

As we head into the 2017 proxy season, this edition of ProxyPulse provides insights and data on key corporate governance and shareholder voting trends from 1,052 annual meetings held during the "mini season" between July 1 and December 31, 2016.

WHAT TO EXPECT IN 2017

AN EVOLVING REGULATORY ENVIRONMENT

The SEC is undergoing major changes with a new chair to be confirmed, two new commissioners to be added, and new appointments to a number of leadership roles in the divisions. Corporate governance rules that were proposed (but not finalized) prior to the presidential election, including pay versus performance and clawback requirements, are unlikely to have the same support. Some rules enacted under Dodd-Frank, such as say-on-pay votes, will likely continue. Other rules, such as those requiring CEO pay ratio disclosure, are expected to be reviewed. But even if some disclosure rules are repealed, the practices are not likely to just stop. Even if regulations change, shareholders are likely to continue to encourage companies to provide substantive disclosure on issues such as company efforts to promote positive social and environmental changes.

What's different about the mini-season?

The mini-season, which runs from July 1 to December 31, has far fewer shareholder meetings than the first half of the year, and more than half of mini-season meetings are at micro-cap companies. Twenty percent of total retail shares and 15% of total institutional shares are eligible for voting during the mini-season.

CORPORATE STEWARDSHIP COMES INTO INVESTOR FOCUS

In his annual letter to S&P 500 CEOs, Blackrock CEO Larry Fink emphasized the importance of corporate stewardship at this time of uncertainty. Fink called on corporations to craft long-term strategies that address the changing global environment, including pay inequity, environmental and social issues, and retirement insecurity for an aging population. He also encouraged companies to balance share buybacks with investments in future growth.

State Street also put a spotlight on corporate stewardship in its annual letter to companies in which it invests, urging boards to increase disclosure on their strategic approach to climate change and other key social issues and risks.

SAY WHEN ON PAY

At least once every six years, public companies are required to ask shareholders to weigh in on how frequently say-on-pay votes should occur. The first so-called "say when on pay" votes took place in 2011, and the second round will occur for most companies during 2017. Although some companies and some shareholders argue that less frequent say-on-pay votes would give companies more time to consider and respond with necessary changes to executive compensation programs, annual voting is likely to continue as the norm.

PROXY ACCESS MARCHES ON

Following highly-publicized shareholder proposal campaigns in 2015 and 2016, just over half of S&P 500 companies have now adopted proxy access bylaws. Although no major campaigns have been announced yet for 2017, we expect proxy access proposals to continue to roll in, and for the adoption to increase. While many public companies initially had reservations about proxy access, more than half of directors responding to PwC's *2016 Annual Corporate Directors Survey* now say that they have no concerns with adopting proxy access bylaws at their companies.

Smaller companies have been slower to adopt proxy access bylaws, but with the adoption rate at the Russell 3000 now topping 10%, we should expect more proxy access proposals at these companies.

RE-EXAMINING OVERBOARDED DIRECTORS

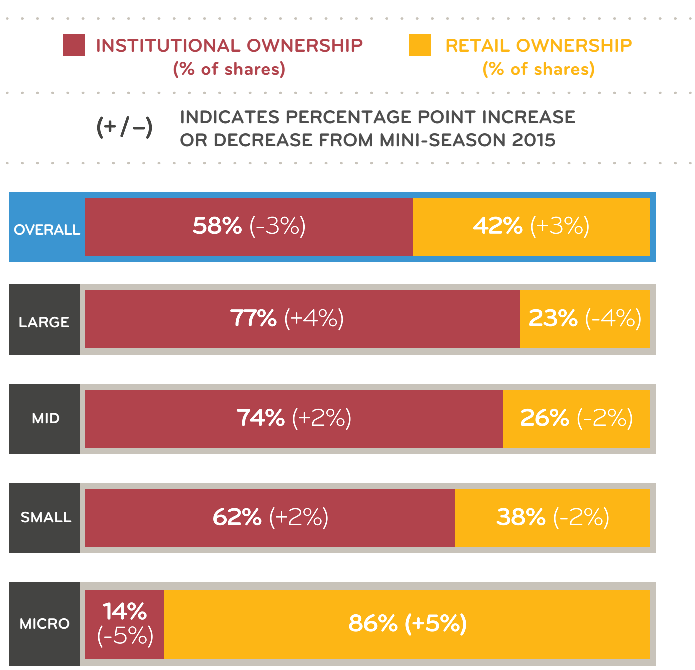
Proxy advisory firms ISS and Glass Lewis both made changes to their 2017 proxy voting guidelines on overboarding. They will recommend votes against directors who sit on more than five public company boards (down from a six board limit in previous guidelines).

LOOKING BACK AT THE 2016 MINI-SEASON

SHARE OWNERSHIP

- There was a three percentage point increase in retail share ownership over the same period last year—from 39% to 42% of the shares held.
- Retail ownership levels were bolstered by an overall decrease in large-cap shares and an increase in micro-cap shares, coupled with a five percentage point increase in retail ownership of micro-cap companies—from 81% last mini-season to 86% this mini-season.

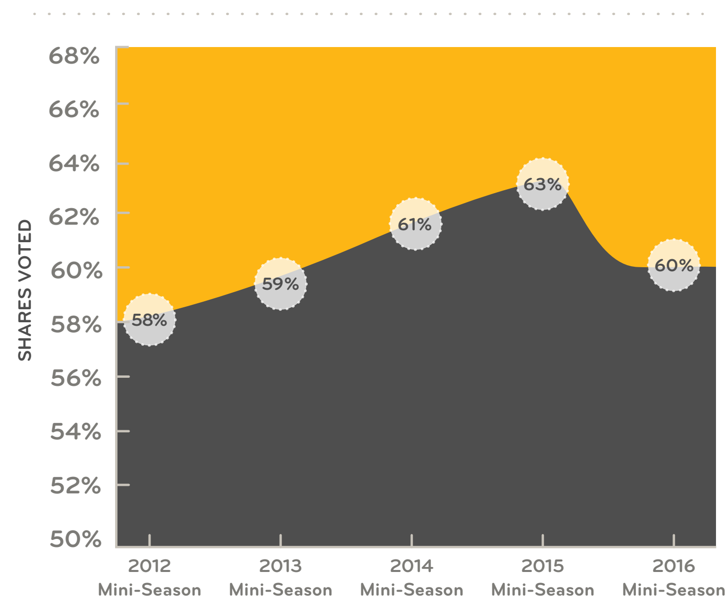
SHARE OWNERSHIP BY COMPANY SIZE – MINI-SEASON 2016



SHAREHOLDER VOTING

- Overall, 60% of shares were voted. While institutions as a group voted 83% of the shares they held, down from 85% during the last mini-season, the percentage of retail shares voted remained low, at 28%.
- The relatively low participation rate of retail shareholders reduced the overall rate of voting participation.
- Voting rates vary based on company size. For instance, institutions voted 83% of their shares at large-cap companies, but only 74% at micro-caps.

OVERALL SHAREHOLDER VOTING – 5 YEAR TREND (MINI-SEASON 2012 - 2016)

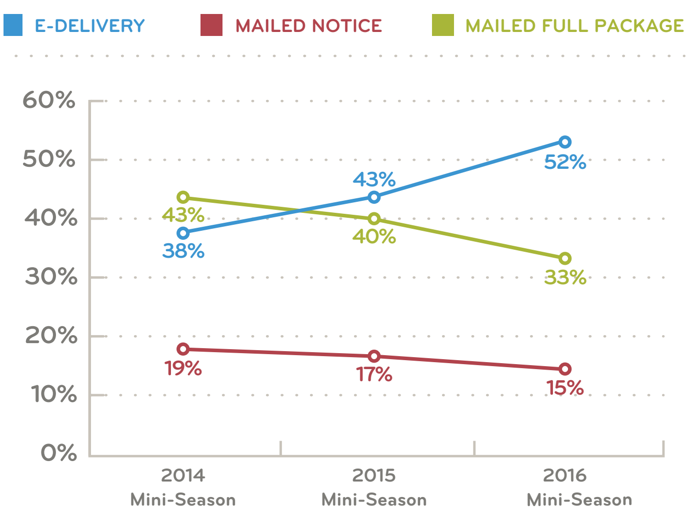


Key defining company size: Large Cap: $10b+ • Mid Cap: $2b–$10b • Small Cap: $300m–$2b • Micro Cap: $300m or less

PROXY DISTRIBUTION/ VOTING METHOD

- For the first time, over 50% of retail investors chose to receive their proxy materials electronically during this mini-season—a 9 percentage point increase over the same period last year.
- While fewer retail investors are receiving paper copies of the materials, the percentage of retail shares voted by hard copy distribution rose, from 25% to 37%. So while fewer paper copies of proxy materials were distributed, those who received the full paper package voted at higher rates.

PROXY DISTRIBUTION TO RETAIL SHAREHOLDERS – 3 YEAR TREND



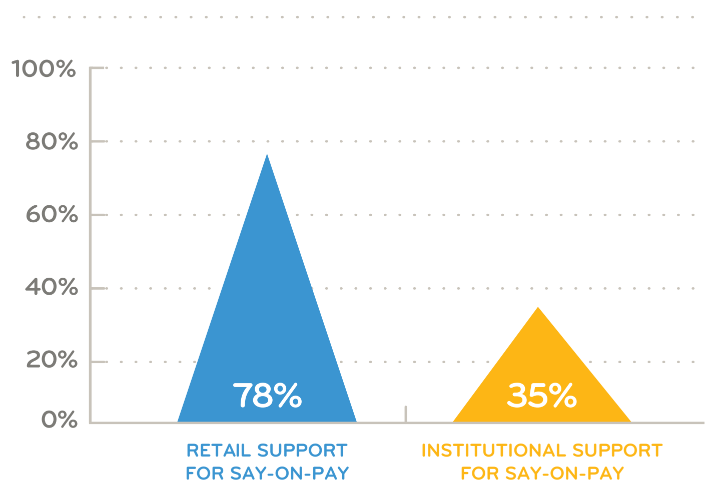
DIRECTOR ELECTIONS

- 3,483 directors stood for election during the 2016 mini-season.
- Average director support was 93%.
- 373 directors failed to surpass 70% support, a threshold closely monitored by some investors and proxy advisors.
- 128 directors at 55 different companies failed to receive support from a majority of the shares voted.
- Low levels of support can persist from one shareholder meeting to the next. Thirty-eight percent of companies that had at least one director fail to obtain majority support in 2015 also had a director fail to attain majority support in 2016.

SAY-ON-PAY

- Overall support for executive compensation programs strengthened, with average shareholder support increasing to 84% this mini-season from 80% the previous year. Specifically, average support at large-cap and small-cap companies increased to 83% and 86%, respectively.
- Seven percent of companies failed to receive support from a majority of shares.
- Twenty percent of companies failed to surpass the critical 70% support threshold.
- Low levels of support for say-on-pay can persist from one shareholder meeting to the next—over 50% of companies that failed to surpass 70% support during this period in 2015 also failed to surpass that support level in 2016.
- Among companies that failed to surpass the 70% support threshold, retail shareholders cast 78% of their votes in favor, while institutions cast only 35% of their shares in favor.

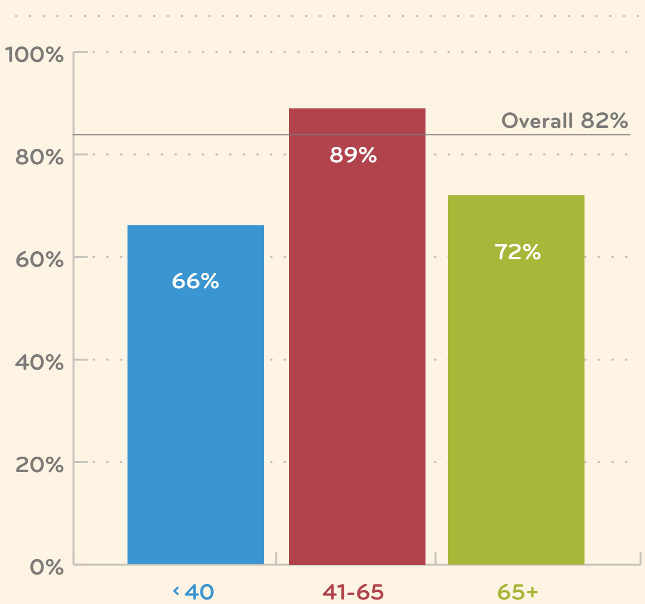
RETAIL AND INSTITUTIONAL VOTING SUPPORT: SAY-ON-PAY VOTES AT COMPANIES WITH LESS THAN 70% OVERALL SUPPORT



2016 DEMOGRAPHIC SPOTLIGHT: CORRELATION BETWEEN VOTING AND AGE

For this report, we analyzed data from all meetings held in 2016 to determine how the age of US shareholders correlates to their support for say-on-pay. The analysis shows that, as a group, shareholders between the ages of 41 and 65 supported executive compensation programs at much higher rates than other shareholders. In fact, shareholders under the age of 40 voted in support of say-on-pay only 66% of the time—23 percentage points lower than 41-65 year olds.[1]

SAY-ON-PAY SUPPORT SEGMENTED BY AGE



[1] Broadridge randomly sampled beneficial and registered proxy records, which were matched to a leading market and credit data analysis provider to develop aggregate profiles of individual investors that hold shares in US public companies. That data was then matched to voting results to identify demographic trends. Data based on full year 2016 voting data.

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 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.

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