MARCH 2018

2018 Proxy Season Preview and 2017 Mini-Season Wrap-Up

This edition of ProxyPulse provides insights and data on shareholder voting trends from 1,040 annual meetings held during the "mini-season" between July 1 and December 31, 2017. We also look at key corporate governance developments for the 2018 proxy season.

WHAT'S COMING IN 2018

CONTINUING INVESTOR FOCUS ON BOARD DIVERSITY

Several large institutional investors are holding companies accountable for gender diversity in the boardroom.

In February 2018, BlackRock, the largest asset manager in the US, sent a letter to companies in the Russell 1000 that do not have at least two female directors on their board, asking them to explain their long-term diversity efforts and strategy. BlackRock also updated its voting policies to state that they expect companies to have at least two female directors.

In addition, NYC Comptroller Scott Stringer and the NYC pension funds launched the Boardroom Accountability Project 2.0, aimed at pushing for diverse, independent and climate-competent boards. They called on the boards of 151 US companies to disclose the race and gender of their directors, as well as their skills in a standardized "matrix" format. In a related move, they are entering into dialogues on boards' "refreshment" processes.

INCREASING ATTENTION ON ESG SHAREHOLDER PROPOSALS

Shareholder proposals focused on environmental issues—such as disclosing the long-term impact of climate change on the business—received majority support in 2017 at a handful of S&P 500 companies for the first time. Overall, average support for climate change shareholder proposals increased from 27% in the 2016 fall mini-season to 30% in the 2017 fall mini-season. Investors, such as BlackRock and Vanguard, pushed companies to consider how environmental, social and governance (ESG) factors fit into long-term strategic growth plans. For 2018, environmentally-focused shareholder proposals will likely gain more support.

Of particular note is BlackRock CEO Larry Fink's January, 2018 letter to portfolio company CEOs entitled "A Sense of Purpose," in which he calls for a "new model for corporate governance" that more closely takes social issues into account.

> "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers and the communities in which they operate."
>
> **–Larry Fink, *CEO of BlackRock***

The letter also emphasized the importance of engagement between boards and shareholders.

A NEW LOOK AT EXECUTIVE COMPENSATION

Starting in 2018, companies will begin making mandatory CEO pay ratio disclosures, comparing the total compensation of their chief executive officer with that of their median employee. The disclosure may bring a new focus on pay equity issues at some companies where support for say-on-pay has lagged.

Against the backdrop of this new disclosure, some investors are also taking a closer look at their say-on-pay votes. State Street Global Advisors (SSGA) has announced that it will no longer vote for say-on-pay proposals at companies where it believes that executive compensation practices are problematic, but not egregious. SSGA says it will signal its concern with an abstention.

INCREASING USE OF TECHNOLOGY IN ANNUAL MEETINGS

The number of companies holding virtual shareholder meetings rose to 236 in calendar year 2017 from 187 in 2016.

Blockchain technology is also making its way into annual meetings, and will be used to process voting for a small number of companies in the 2018 proxy season.

TAKING STOCK OF THE 2017 MINI-SEASON

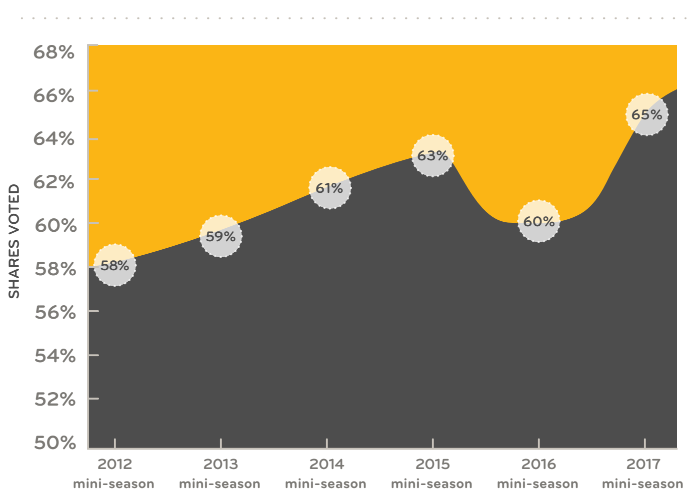
SHARE OWNERSHIP

- Retail ownership, at 35%, was the lowest percentage since the 2012 mini-season. This is due in part to a shift in the mix of companies holding meetings during the fall.
- The shift in ownership profile was largely driven by a 9% drop in retail ownership at micro-cap companies. Institutional shareholders expanded their investments in large, medium and small cap companies.

What's different about the mini-season?

Fewer companies hold meetings during the mini-season, and those that do tend to be smaller. Less than one-quarter (23%) of all public company annual meetings take place from July 1 to December 31. More than half of these meetings are held by micro-cap companies.

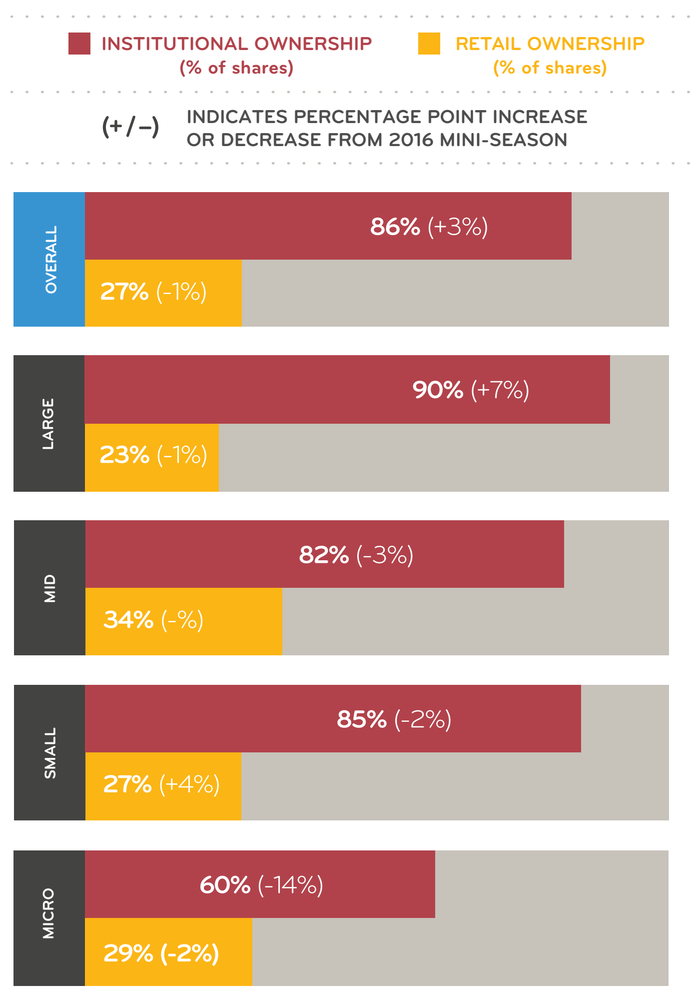
OVERALL SHAREHOLDER VOTING – 6 YEAR TREND (MINI-SEASON 2012 - 2017)



SHAREHOLDER VOTING

- The percentage of shares voted during the mini-season increased by 5 points to 65%.
- Institutional investors continue to vote their shares at high rates. The overall percentage of their shares voted increased from 83% to 86%.
- Meanwhile, the percentage of retail holders voting their shares remains comparatively low. Retail shares voted fell one point from 28% to 27%.

SHARES VOTED BY COMPANY SIZE – 2017 MINI-SEASON



DIRECTOR ELECTIONS

- 3,337 directors stood for election during the 2017 mini-season.
- Overall support for directors increased two percentage points from the 2016 mini-season, from 93% of the shares voted, on average, to 95%. This could be related generally to strong market performance during 2017.
- 318 directors (9.5%) failed to receive 70% shareholder support levels—a threshold closely monitored by proxy advisors and some shareholders. In the prior mini-season, 10% of directors failed to surpass this 70% support threshold.
- 99 directors (3%) failed to receive support from a majority of the shares voted. This compares to the 128 directors (4%) who failed to receive majority support in the 2016 mini-season.

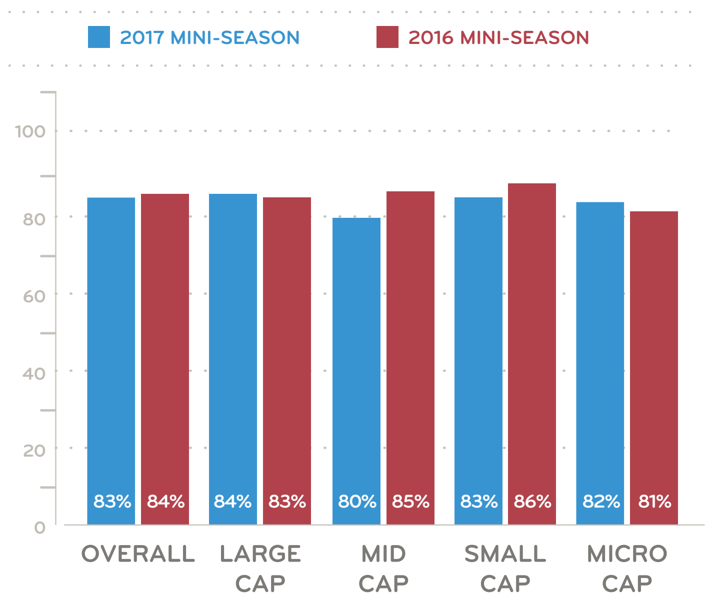
SAY-ON-PAY

- Average support for the 408 say-on-pay proposals fell slightly from 84% in the 2016 mini-season to 83% this mini-season.
- While average support levels at micro caps and at the largest companies increased slightly, support fell slightly at small- and mid-cap companies.
- 27 companies (7%) failed to receive majority support for their executive compensation programs, which is relatively consistent with the 2016 mini-season. 75 companies (19%) failed to reach the 70% threshold (versus 90 companies in the 2016 mini-season).
- There were 211 proposals on say-when-on-pay in the 2017 mini-season. Eighty-nine percent (89%) of the shares voted supported an annual say-on-pay vote, while 10% supported a triennial advisory vote.

DIRECTOR SUPPORT 2017 MINI-SEASON

	Average shareholder support for directors	Percentage of directors who failed to receive 70% or more support
Overall	95%	10%
Large cap	96%	3%
Mid cap	96%	3%
Small cap	92%	10%
Micro cap	88%	12%

AVERAGE SAY-ON-PAY SUPPORT LEVELS



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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