ProxyPulse™
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FIRST EDITION 2015

2015 Proxy Season Preview

Looking back at the 2014 mini-season and into 2015

This first edition of ProxyPulse for 2015 looks back at the 2014 mini-season, analyzing beneficial shareholder data from 1,077 U.S. public company shareholder meetings held between July 1 and December 31, 2014. We provide statistics and analysis on share ownership, voting rates, director elections, and say-on-pay. In addition, we look at governance developments that could shape the 2015 proxy season and beyond.

2014 MINI-SEASON HIGHLIGHTS

- **Ownership and voting:** Institutional shareholders owned 59% of the street shares while retail shareholders owned 41%. Institutional ownership rose by 3 percentage points, consistent with recent trends. While institutions voted 83% of the shares they owned, retail shareholders voted only 28% of their shares.
- **Director elections:** 125 directors failed to receive majority shareholder support, a 26% increase over the 2013 mini-season. Additionally, 344 directors failed to attain at least 70% support — an important benchmark for many companies and proxy advisors.
- **Say-on-Pay:** Average shareholder support for pay plans declined by 3 percentage points over the 2013 mini-season. Thirty-five companies failed to attain majority support for their say-on-pay vote.
- **Retail voting participation:** Over 22 billion retail shares went unvoted during the 2014 mini-season, which equates to just over 29% of street shares outstanding. Low rates of retail voting present an opportunity for greater company engagement with shareholders.

A LOOK AT 2015 AND BEYOND

Each of these developments are explained in greater detail on page seven.

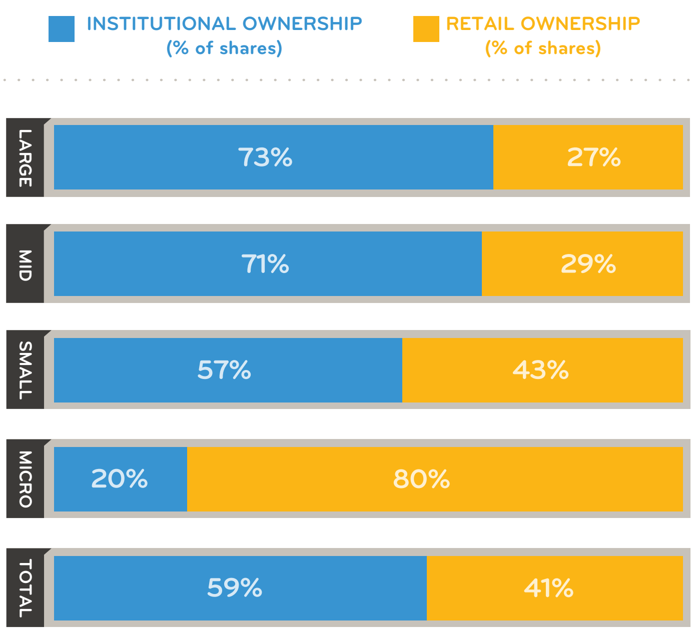
- **Proxy access proposals are in the spotlight**
- **Will cybersecurity disclosures change?**
- **Amended proxy advisor policies could impact voting**
- **CEO/median pay ratio disclosure rule on 2015 rulemaking agenda**
- **Director communications with shareholders continues to increase**
- **The rise of fee-shifting bylaws**

OWNERSHIP AND VOTING

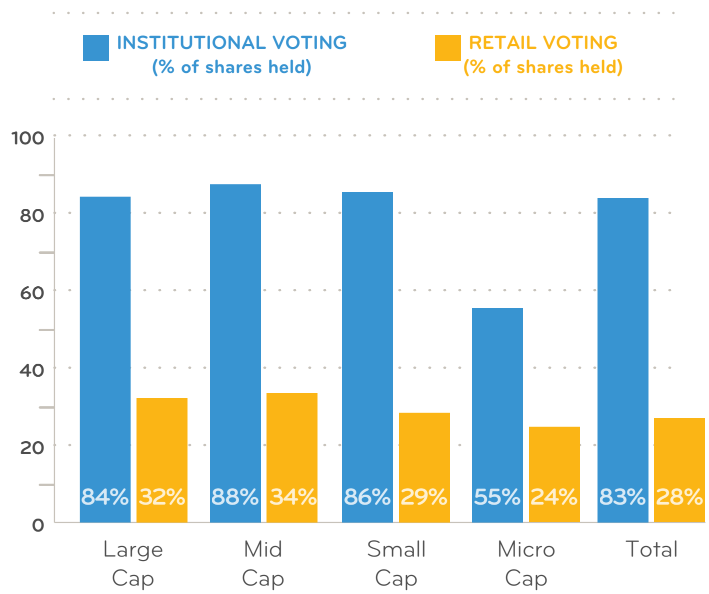
During the 2014 mini-season, institutional shareholders, as a group, owned 59% of the street shares and retail shareholders owned 41%. Institutional ownership rose by 3 percentage points from the 2013 mini-season, consistent with recent trends in investment management.

On average, institutional shareholders voted 83% of their shares and retail shareholders voted 28% of their shares during the period. Yet, there was a wide gap in voting rates based on company size. For example, institutions voted 88% of their shares at mid-cap companies but only 55% of their shares at micro-caps. Retail shareholders voted 34% of their shares at mid-cap companies but only 24% at micro-caps.

SHARE OWNERSHIP BY COMPANY SIZE – 2014 MINI-SEASON



SHARES VOTED BY COMPANY SIZE – 2014 MINI-SEASON



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

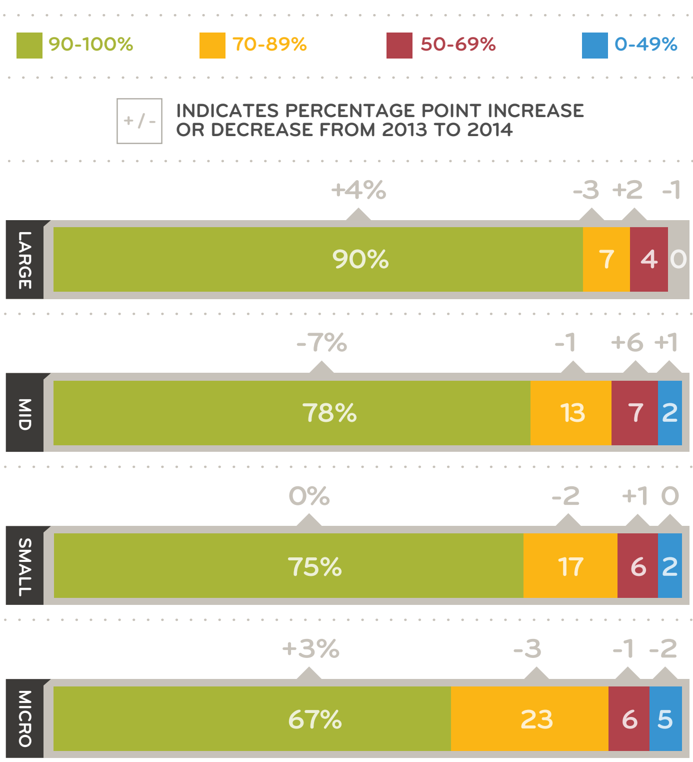
DIRECTOR ELECTIONS

Directors continue to be elected with sizable shareholder support, but there were areas of weakness. Although average director support rose during the 2014 mini-season (from 92% to 94%), there were notable areas of low or falling support. Most notably, in the mid-cap segment there was a 7-point decline in support above the 90% threshold.

DIRECTOR SUPPORT 2014 MINI-SEASON

	Average Shareholder Support for Directors	Percentage of Directors that Failed to Receive 70% or More Support
Overall	94%	9%
Large Cap	95%	4%
Mid Cap	91%	8%
Small Cap	92%	7%
Micro Cap	88%	10%

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



* *Numbers may not add up to 100% due to rounding*

In total, 125 directors at 53 different companies failed to attain majority shareholder approval. This was an increase from 99 directors at 45 companies during the 2013 mini-season. Moreover, a total of 344 directors failed to attain the support of at least 70% of the shares voted in the 2014 mini-season. The 70% shareholder support threshold is an important benchmark for many companies and proxy advisors.

DIRECTOR APPROVAL LEVELS

	2014 Mini-Season	2014/2013 Mini-Season		2013 Mini-Season
SHAREHOLDER APPROVAL LEVEL	# OF DIRECTORS	%		# OF DIRECTORS
90 - 100%	2,697	71%	69%	2,823
80 - 89%	515	20%	22%	614
70 - 79%	224			295
60 - 69%	144	6%	6%	167
50 - 59%	75			66
0 - 49%	125	3%	3%	99
TOTAL	3,780			4,064

For some companies, low levels of director support extend back to their previous annual meeting. In fact, one-third of the companies that had a director fail to attain majority support last season also had a director fail to obtain majority support this season. And, forty-six companies with a director that failed to surpass the 70% affirmative threshold this season also had a director fail to surpass the 70% threshold last season.

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

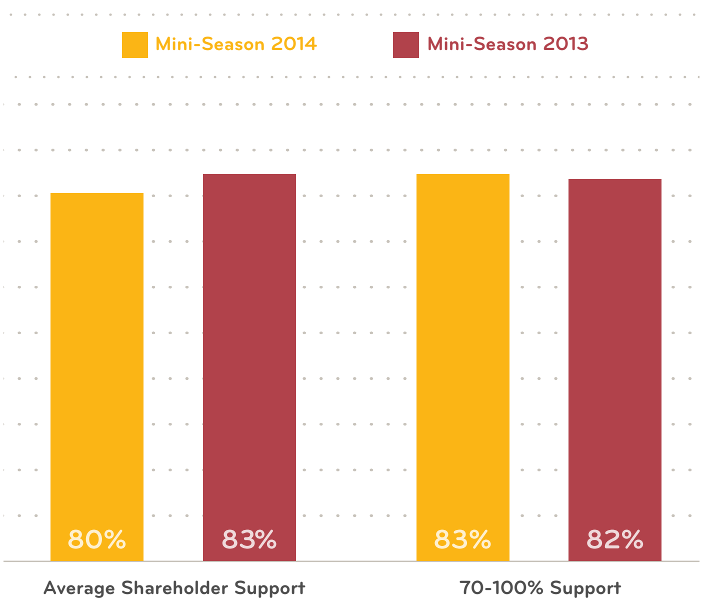
SAY-ON-PAY

Say-on-pay support declined from last year. During the 2014 mini-season, the average level of support for pay plans fell to 80% — from 83% last mini-season. On the other hand, micro-cap companies saw an increase in support for their pay plans — from 71% in the 2013 mini-season to 80% in 2014.

Declines in support levels were pronounced at large-cap companies. During the 2013 mini-season, only one large cap company failed to achieve at least 70% support for say-on-pay. In the 2014 mini-season, six large-cap companies (17%) failed to meet this threshold.

Overall, out of 471 companies, 35 did not attain majority support.

SAY-ON-PAY SUPPORT



SAY-ON-PAY 2014 MINI-SEASON

	Average Shareholder Support	Percentage of Companies that Failed to Receive 70% or More Support
Overall	80%	17%
Large Cap	76%	17%
Mid Cap	87%	18%
Small Cap	87%	13%
Micro Cap	80%	19%

ADDITIONAL INSIGHTS

The relationship between say-on-pay from one season to the next: Almost half of all companies whose pay plans failed to garner 70% shareholder support in the 2013 mini-season, also failed to receive 70% support in the 2014 mini-season.

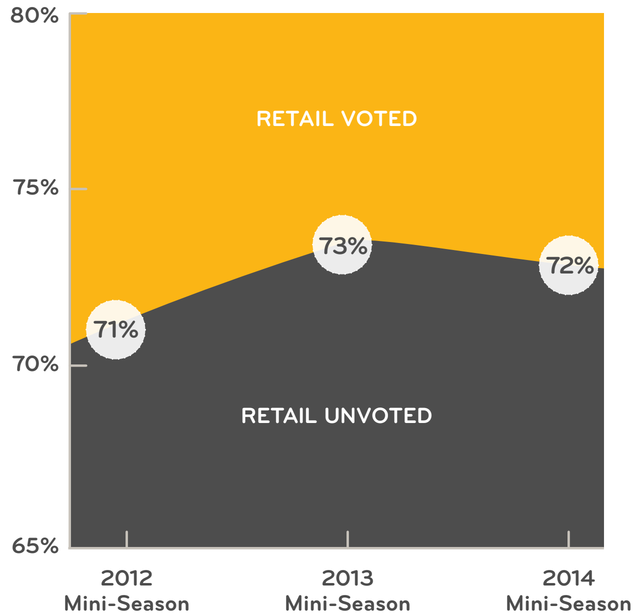
The relationship between director elections and say-on-pay: This season, 35 companies failed to attain majority support for their pay plans. Of this group, 30 companies also had a director election this season, and almost half had a director who failed to attain at least 70% shareholder support.

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

RETAIL VOTING/PARTICIPATION

Low retail voting rates continue to present companies with engagement opportunities. Average retail voting participation has remained relatively flat over the last three years. Considering unvoted retail shares total about 22.5 billion, companies have an opportunity to further engage this important ownership segment.

OVER 22 BILLION RETAIL SHARES (72%) WENT UNVOTED DURING THE 2014 MINI-SEASON



The 72% of retail shares that went unvoted during the 2014 mini-season amounted to 29% of street shares outstanding.

The median level of retail ownership. One-half of the 1,077 companies that held meetings during the 2014 mini-season were at least 67% owned by retail investors. While the mini-season tends to have a larger percentage of smaller companies holding meetings, this underscores the importance of the retail segment to this significant number of companies.

Companies could take specific steps to encourage retail shareholders to vote:

- Send a "reminder to vote" communication to retail shareholders, possibly targeting shareholders that voted in a previous year
- Educate employee shareholders on corporate governance and proxy items and encourage them to vote their shares
- Make annual meeting materials easy to find on the company's website
- Better understand the makeup of the company's shareholder base, and consider changes to how the company distributes proxy voting materials to shareholders
- Utilize social media to educate shareholders on the issues and encourage active voting

A LOOK AT 2015 AND BEYOND

Proxy access proposals in the spotlight. The New York City pension fund submitted proxy access proposals to 75 companies for 2015. Separately, some companies have adopted proxy access bylaws without a shareholder vote. At Whole Foods, the SEC granted a no-action request to exclude a proposal from its 2015 proxy statement because management intended to include its own proposal. The SEC staff ruled that including both proposals would "present alternative and conflicting decisions for the stockholders..." SEC Chair Mary Jo White has since asked the agency's staff to review the rule that allows a company to exclude a shareholder proposal that directly conflicts with a management proposal.

Subsequently, the SEC announced it will "express no views on the application of Rule 14a-8(i)(9) during the current proxy season."

Will cybersecurity disclosures change? Cybersecurity breaches remain prominent in the news. SEC Commissioner Luis Aguilar recently encouraged boards of directors to ensure there is adequate oversight of cybersecurity, including regular reports on breaches and risks. This is an area that is likely to get increased scrutiny by shareholders.

Amended proxy advisor policies could impact voting. Institutional Shareholder Services (ISS) proxy season voting guidelines made changes to its voting policies on independent chair and equity plan shareholder proposals. ISS created a new "scorecard" approach to evaluating these shareholder proposals. For independent board chair proposals, this change updates the "generally for" voting policy by adding other factors to be considered, including the absence or presence of an executive chair, recent board and executive leadership transitions at the company, director/CEO tenure, and a longer (five-year) total shareholder return performance period.

Glass Lewis now includes a recommendation to vote against any bylaw or charter amendment that adopts an exclusive forum for shareholder litigation, unless the company can give a "compelling argument" that the bylaw benefits shareholders. It will also recommend a vote against all governance committee members if a board didn't adequately respond to a majority-approved shareholder proposal.

CEO/median pay ratio disclosure rule on 2015 SEC rulemaking agenda. The SEC advised that it will not publish its final CEO/median pay ratio disclosure rule until October 2015 at the earliest, according to the regulator's updated rulemaking agenda. It is possible that public companies would not be required to disclose the compensation ratio until their 2017 proxy statements.

The Dodd-Frank Act called for public companies to disclose the median of the annual total compensation of all employees, the annual total compensation of the CEO, and the ratio of these two amounts.

Director communications with shareholders continue to increase. A greater percentage of directors are communicating with institutional investors — 66% now say they do so compared to 62% last year, according to PwC's *2014 Annual Corporate Directors Survey*. Some companies are facing activist shareholders who are looking to make governance changes as well as replace board members. The frequency of activist campaigns has increased and many companies are developing engagement plans to address those shareholders.

Some directors are reluctant to participate in direct communication with shareholders because they are concerned about having too many voices speaking for the company.

The rise of fee-shifting bylaws. A small number of companies are adopting bylaws (without shareholder approval) that require a shareholder plaintiff to pay a company's legal fees if the plaintiff's action is unsuccessful against the company. Known as a "fee-shifting bylaw," more than three dozen Delaware-based companies began adopting such a provision after a May 2014 Delaware Supreme Court decision upheld the practice.

Since the Delaware court decision, there have been several campaigns to stop the adoption of this bylaw by more companies. The Corporation Law Section of the Delaware State Bar Association drafted proposed legislation to make such bylaws illegal. That legislation is still being considered by the Delaware legislature.

The Council of Institutional Investors (CII) began a campaign asking investors to lobby Delaware legislators to approve the legislation.

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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