

Does shareholder behavior vary by company size?

SECOND EDITION

A closer look at shareholder voting

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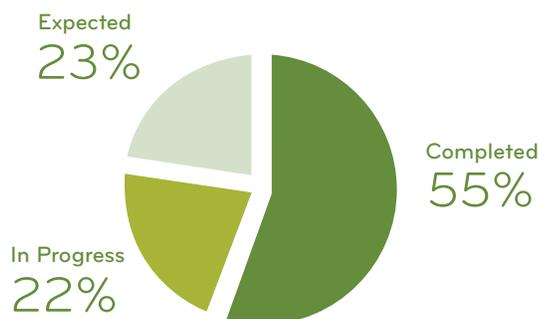
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This second edition of ProxyPulse covers 2,858 shareholder meetings from January 1, to May 23, 2013 (55% of all meetings expected this season).

In this edition, we focus on company size as measured by market capitalization in four ranges. We look at shareholder voting results in director elections, on executive pay plans, on proposals to declassify boards of directors (i.e., to annually hold elections of company directors), and on proposals for disclosing a company's political spending.

As you will see, voting outcomes vary by company size, and can be impacted by ownership mix, communications approach, and ongoing shareholder dialogue. While shareholder voting at larger companies is generally more supportive of these matters than it is at smaller firms, opportunities exist for companies of all sizes to better engage all of their shareholders in order to achieve important voting benchmarks.

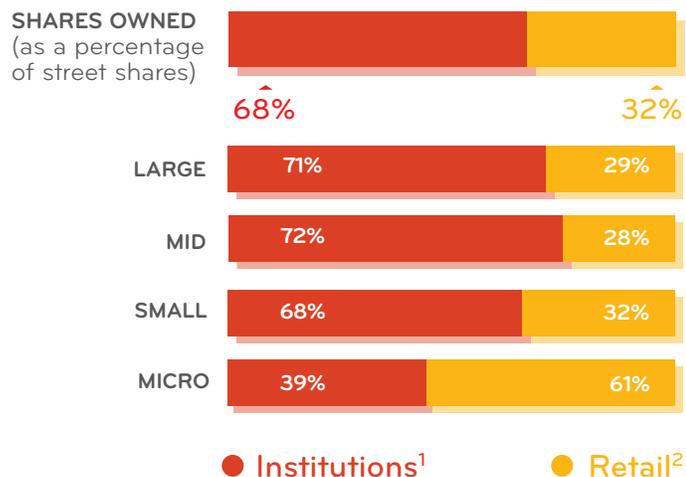
PROXY SEASON PROGRESS



2,858 shareholder meetings were completed between January 1 – May 23, 2013.

It's clear that the corporate governance environment has become increasingly complex. As a result there are greater expectations of corporate directors and governance professionals. Within this context, the clarity, consistency and transparency of company communications are essential to engagement of all shareholders.

OWNERSHIP BY SHAREHOLDER SEGMENT AND COMPANY SIZE



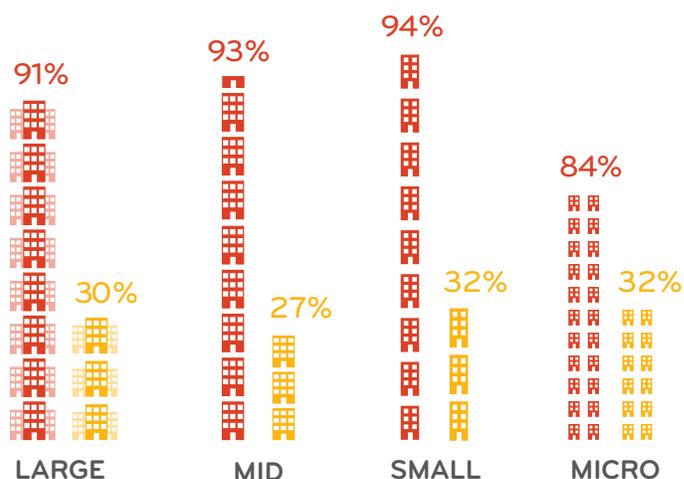
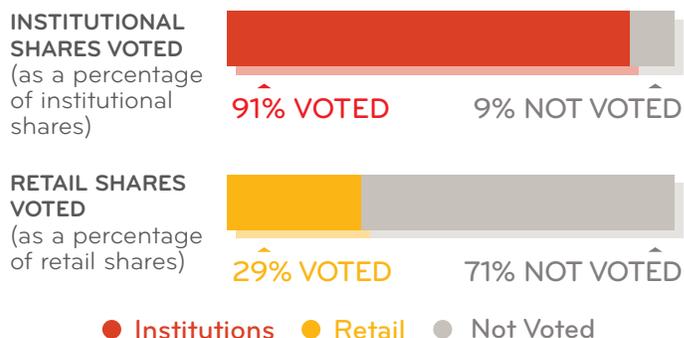
Institutions own the majority of shares in companies of all sizes with the exception of micro caps.

Although retail shareholders own 32% of beneficial shares, they vote only 29% of the shares they own. Institutional shareholder ownership is highest at large cap companies and lowest at micro caps. Overall, 71% of street shares were voted; 62% of those by institutions, and 9% by retail. In the case of micro caps, although institutions owned 39% of the shares, they represented 63% of the shares voted. With low rates of retail participation that leave 71% of retail shares unvoted, companies should revisit strategies to encourage voting.

¹ For purposes of this report, the term "institutions" refers to mutual funds, public and private pension funds, hedge funds, investment managers, managed accounts, and vote agents.

² The term "retail" refers to individuals whose shares are held beneficially in brokerage accounts.

VOTING RATES BY COMPANY SIZE



There are significant differences in institutional versus retail voting rates across all company sizes.

There are substantial differences in voting rates by the two major shareholder groups. Institutional shareholders voted 91% of their shares at large cap companies, 93% at mid caps, 94% at small caps and 84% at micro caps. Retail voting across different company sizes ranged from a high of 32% at both small and micro caps to a low of 27% at mid caps.

DIRECTOR QUESTION:

- How does our mix of institutional and retail ownership impact the voting participation of our shareholders?

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

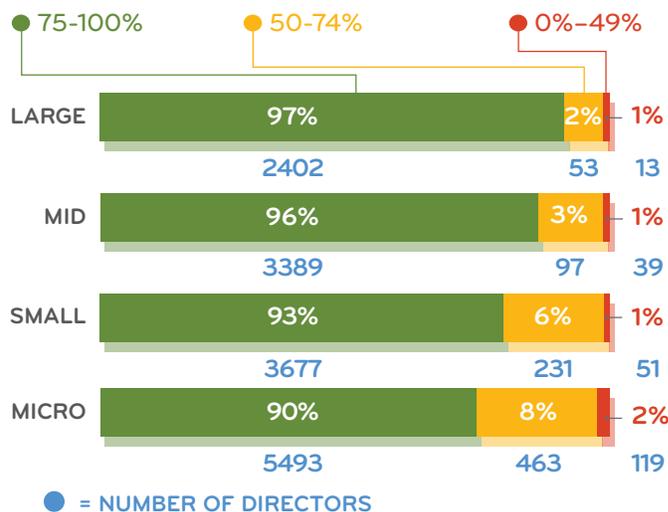
Technology continues to reduce the costs of communicating with shareholders. New modes of communication can extend your reach and improve connections to all shareholders.

QUESTIONS TO ASK REGARDING SHAREHOLDER ENGAGEMENT:

- Do we approach our shareholders as we would our customers - in order to understand, reach and build long-term brand loyalty?
- Do we use corporate communication channels to encourage employees to vote their shares?
- Do we target reminder-to-vote communications to shareholders that voted in a prior year?
- Do we utilize social media to disseminate certain communications?
- Do we put meeting materials in a prominent location on our website in the weeks before our shareholder meeting?
- Do we provide electronic shareholder forums throughout the year with fresh content directly from the CEO and board?
- Do we provide an online component to our shareholder meetings to make participation more convenient?

DIRECTOR VOTING BY COMPANY SIZE

PERCENTAGE OF SHARES VOTED IN FAVOR



Shareholder support for directors is highest at larger companies, and is lowest at smaller companies.

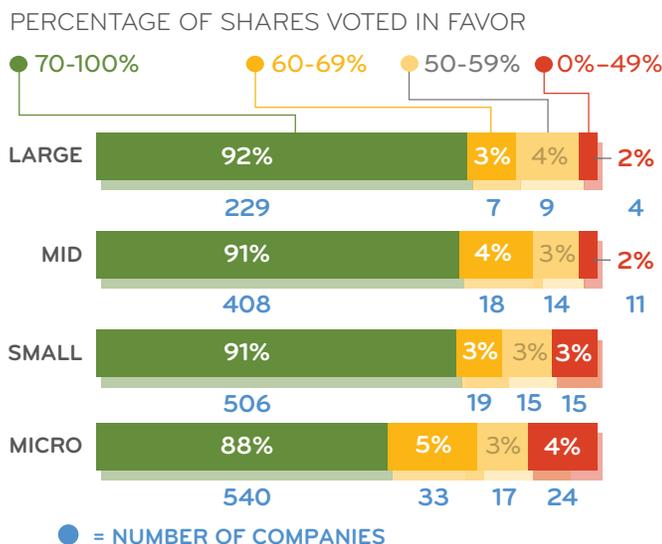
On average, directors of larger companies receive the highest levels of shareholder support, and directors of smaller companies receive less support. On average, across all companies, 81% of directors up for election received over 90% shareholder support. And nine of ten received at least 80% support. As noted in PwC's 2012 Annual Corporate Directors Survey, three out of five directors said they would be concerned about re-nomination of a fellow director who did not receive at least 75% support. While less than 3% of directors at large caps had less than 75% shareholder support, 7% of small cap and 10% of micro cap directors received less than the 75% support benchmark. And 119 directors (about 2%) at micro caps failed to receive majority support.

DIRECTOR QUESTION:

- Given our size, how does our company's shareholder support for director candidates compare to that of our peers?

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

SAY ON PAY APPROVAL RATES BY COMPANY SIZE



NOTE: May not add to 100% due to rounding

Say on pay voting is generally strong, but about 10% of companies did not achieve the 70% support benchmark closely looked at by proxy advisory firms. Shareholders supported pay plans at rates over 90% at more than two-thirds of companies and nine of ten companies received at least 70% support. However, 186 companies did not attain or surpass the 70% approval benchmark. Although there is strong support at companies of all sizes, pay plans are getting less support at smaller companies. Going forward, these companies might reconsider how they communicate with their institutional shareholders and how they encourage greater retail participation. This could make the difference in achieving important voting benchmarks.

DIRECTOR QUESTION:

- Would additional outreach to our retail shareholders have influenced the outcome of our say on pay vote?

BOARD DECLASSIFICATION APPROVAL RATES BY COMPANY SIZE

PERCENTAGE OF SHARES VOTED IN FAVOR



Proposals for board declassification receive very high levels of support across all company sizes.

Board declassification proposals are receiving overwhelming shareholder support – and are no longer solely a focus at large caps. Over the last few years, shareholders have continued to push boards to declassify their structure and hold annual elections for all directors. However, annual elections are significantly more pervasive at larger companies³. Perhaps this is why more than three-quarters of board declassification proposals were at companies that are mid cap or smaller. Both management and shareholder proposals for board declassification received very high levels of support across all company sizes.

DIRECTOR QUESTION:

- If we do not have annual elections for all directors, is it likely we will receive a shareholder proposal asking us to do so?

³ According to Spencer Stuart, 83% of the S&P 500 companies have adopted annual elections.

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POLITICAL SPENDING DISCLOSURE PROPOSALS

APPROVAL RATES	% OF COMPANIES
60 - 100%	0%
50 - 59%	2%
40 - 49%	4%
30 - 39%	20%
20 - 29%	32%
10 - 19%	9%
<10	34%

NOTE: May not add to 100% due to rounding

Political spending disclosure proposals are receiving generally low support across all company sizes although some large companies have adopted voluntary disclosure. While there is currently no requirement that companies disclose their political spending, some companies have chosen to voluntarily disclose some details of their political engagement programs. Over the last several years, shareholders have filed proposals seeking greater disclosure of corporate political spending. Over the last 3 years, such proposals have been one of the most frequently filed. So far in 2013, these proposals have received relatively low levels of support with only 2% of company proposals receiving majority support. Proposals at large caps received on average 18% support and mid caps 34%. However, a number of companies that received political spending disclosure proposals over multiple years saw increased shareholder support. In some cases, this resulted in companies taking steps to pro-actively adopt some form of disclosure prior to another shareholder vote.

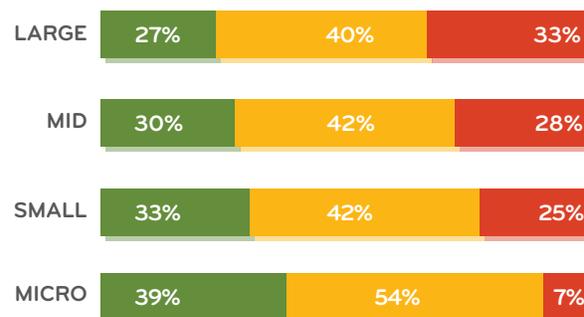
DIRECTOR QUESTION:

- Are we comfortable with the level of information the company provides about its political engagement program? How would we respond to investors seeking more detailed disclosure?

RETAIL DISTRIBUTION METHODS BY COMPANY SIZE

PERCENTAGE OF SHARES

● Electronic ● Full Paper Package ● Mailed Notice



Large cap companies have used Notice for proxy material distribution at the greatest rate.

Companies are segmenting proxy delivery methods to balance cost and retail shareholder participation.

When it comes to retail shareholders, 43% of the shares received proxy materials in full paper format, 30% of the shares received proxy information by electronic delivery and 27% of the shares were reached through a mailed Notice of Internet availability. In total, across all distribution methods, 29% of the retail shares were voted. But when a mailed Notice was sent, only 20% of the shares were voted.

DIRECTOR QUESTION:

- Have we had discussions about potential changes to how the company distributes proxy materials?

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

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 governance leading practices, publishing thought leadership, and offering forums on current issues.

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

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