ProxyPulse™

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# 2019 Proxy Season Review

This edition of ProxyPulse™ provides insights into key corporate governance and shareholder voting data for the 2019 proxy season, as well as the five-year trends. It covers the results of 4,059 public company annual meetings held between January 1 and June 30, 2019.

ProxyPulse™ data is based on Broadridge's processing of shares held in street name. The five-year trend data covers the proxy season, which is when the majority of public company meetings occur.

# Overview & Key Takeaways

*"Focusing on long-term value automatically widens the universe of stakeholders that matter to a company's long-term success...We have therefore used our voice and our vote to warn against the adverse consequences of focusing solely on short-term shareholders."*[1]

**— CYRUS TARAPOREVALA**
**CEO**
**STATE STREET GLOBAL ADVISORS**

We continue to see substantial differences in voting between institutional and retail investors. This analysis shows how institutional and retail investor segments voted on a number of different proposal types. The data highlights how important it is for companies to engage with all of their shareholders. In general, retail shareholders were less supportive of shareholder proposals than institutional voters.

- Institutional and retail share ownership has stayed relatively steady over the last five years, with slight variations toward greater institutional ownership. In 2015, institutional and retail ownership was 68% and 32%, respectively, compared to 70% and 30% in 2019.
- The number of directors failing to receive majority support (at least 50% of the votes in favor) has continued to climb, from 345 in 2015 to 478 in 2019, despite a lower number of directors standing for election. Directors failing to receive at least 70% support have also continued to increase, from 1,185 in 2015 to 1,726 in 2019. Among the 478 directors that failed to receive majority support, institutional shareholder support was at 30% while retail shareholder support was at 77%. And of the 1,726 directors that received less than 70% support, institutional support was at 47% and retail support was at 84%.
- The average level of support for say-on-pay proposals declined from 89% in 2018 to 88% in 2019. In 2019, 33 companies who failed to achieve 50% favorability on say-on-pay proposals also had at least one director fail to achieve 50% support.
- Overall volume of shareholder proposals submitted for a vote was the lowest in the last five years, from a high of 549 in 2015 to 420 in 2019. Overall average support was down as well—from 31% of shares voted in favor in 2018 to 29% in 2019.
- The number of environmental and social proposals put to a vote rose slightly from 110 in 2018 to 115 in 2019. However, overall average support declined two percentage points to 25% in 2019 from 27% in 2018.

# Shareholder Engagement & Other Developments

During the 2019 proxy season, institutional investors engaged with companies on a variety of topics, including board composition and environmental and social issues.

## BUSINESS ROUNDTABLE AMENDS STATEMENT OF CORPORATE PURPOSE

In August 2019, the Business Roundtable (BRT) updated its *Statement on the Purpose of a Corporation* to reflect a focus on all stakeholders rather than just shareholders.[2] This update has been met with a mix of support and criticism from the shareholder and corporate governance communities. Since 1997, the Statement has focused on shareholder primacy; the new Statement reflects the association's commitment to a more broadly defined set of stakeholders, including customers, employees, suppliers, communities and shareholders. One hundred eighty-one (181) CEOs signed the new Statement committing to lead their companies for the benefit of all stakeholders.

## SELECT INVESTOR DEVELOPMENTS: BOARD DIVERSITY

State Street Global Advisors ("State Street") reported that 400 of 910 Russell 3000 companies identified in the "Fearless Girl" campaign as not having any female directors have added women to their boards. State Street further reported that they voted against one or more directors at 421 companies for lack of board diversity during the period 03/2018-02/2019.[3] State Street announced that in 2020 it would start voting against all nominating and governance committee directors (not just the chair) at companies where they have concerns about gender diversity for four consecutive years, and are unable to engage in productive dialogue with management during that time.[4] Similarly, BlackRock reported that it voted against board members at 52 Russell 1000 companies that had fewer than two women on their boards or no other diverse directors.[5] Seventy-nine percent (79%) of Vanguard's engagements with companies during 2019 included discussion of board composition.[6]

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

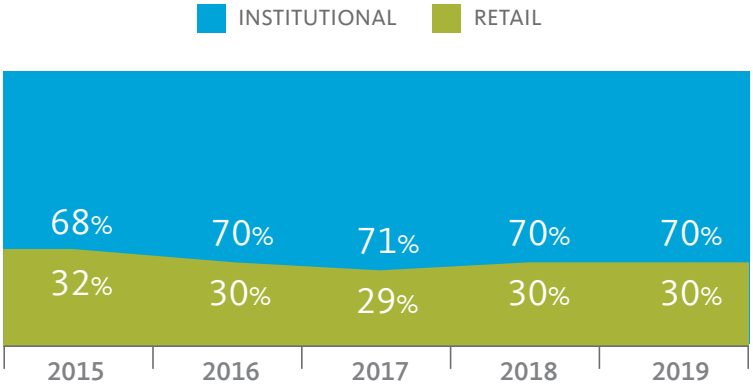
ESG matters continue to be a topic of engagement for institutional investors. BlackRock reported that it engaged with 256 companies globally on "environmental risks and opportunities."[7] State Street reported that it had 89 engagements on climate risk/reporting alone.[8] Additionally, State Street launched R-Factor™ in 2019—the "Responsibility-Factor Score—a measure of a company's operations and governance related to "financially material ESG challenges facing the company's industry."[9]

# 1 Share Ownership

## Institutional and retail share ownership remained unchanged

Institutional and retail ownership of public company shares remained unchanged at 70% and 30%, respectively, from the 2018 season.

**RETAIL/INSTITUTIONAL SHARE OWNERSHIP COMPOSITION**



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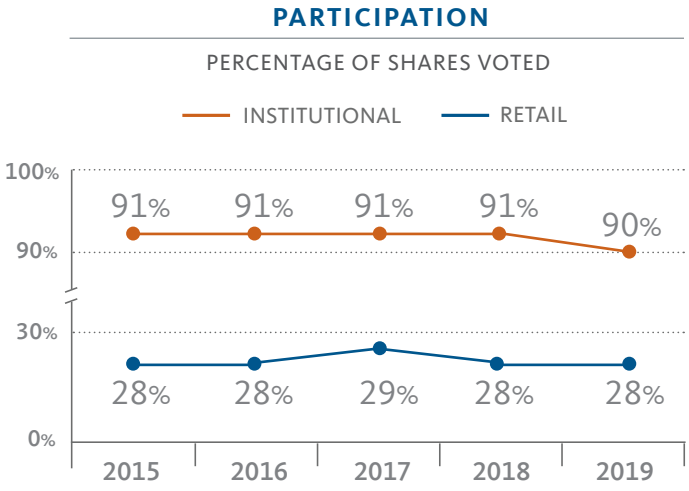
# Shareholder Voting

Institutional shareholder voting participation decreased slightly to 90% from 91% during the 2018 season. Retail shareholder participation saw no change from the 2018 season—holding steady at 28%.

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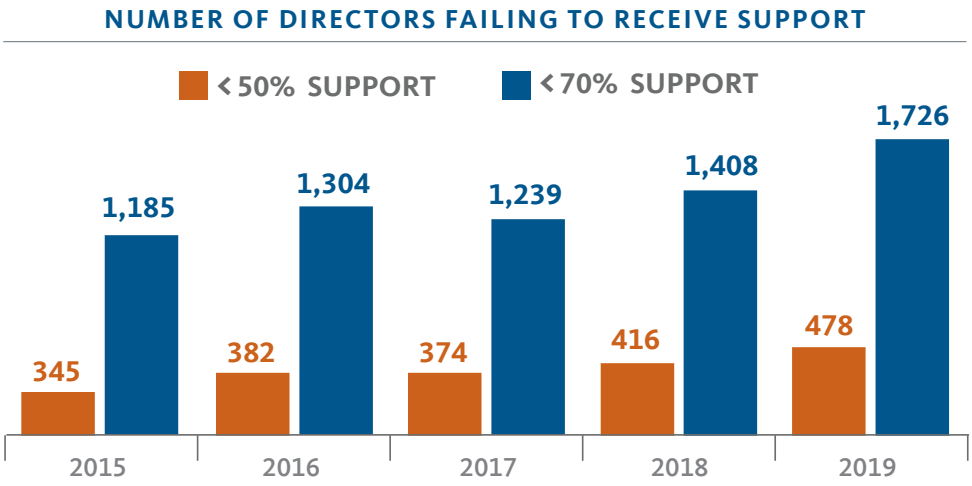
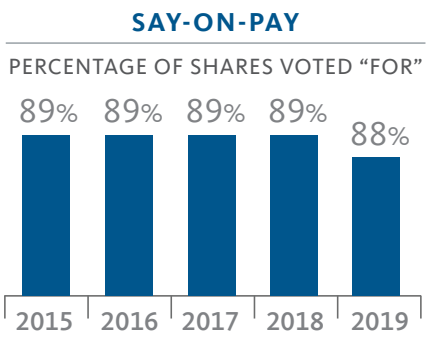



# Director Elections

On average, overall shareholder support for directors (at 95% of the shares cast) was down slightly from 96% in 2018. However, 478 directors failed to attain majority support this season and 1,726 directors failed to surpass the 70% support threshold. Among the 478 directors that failed to receive majority support, institutional shareholder support was at 30% while retail shareholder support was at 77%. And of the 1,726 directors that received less than 70% support, institutional support was at 47% and retail support was at 84%. The number of directors failing to surpass these support thresholds increased by 15% and 23%, respectively, over last year's proxy season. This continues a trend of increasing numbers of directors failing to reach the 50% and 70% thresholds over the last few years.

# Say-on-Pay



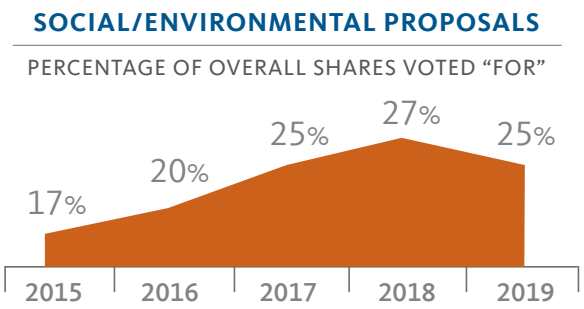

Average support for say-on-pay proposals this season dropped one percentage point to 88%—the first change in several years. During this season, 124 say-on-pay proposals failed to receive majority shareholder support overall. A closer look at the data for those proposals revealed that 27% of issuers who failed to achieve 50% favorability on say-on-pay also had at least one director who failed to achieve 50% favorability (33 out of 124). Also, 36% of issuers who failed to achieve 70% favorability on say-on-pay also had at least one director who failed to achieve 70% favorability (116 out of 322).

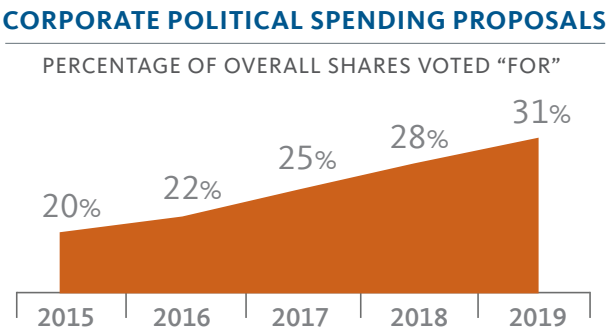
# Shareholder Proposals

Overall volume of shareholder proposals submitted for a vote was the lowest in the last five years, from a high of 549 in 2015 to 420 in 2019. Overall average support was down as well—from 31% of shares voted in favor in 2018 to 29% in 2019. However, looking at two shareholder proposal types in detail shows there are varying degrees of support.

Overall shareholder support for social and environmental proposals decreased from 27% in 2018 to 25% in 2019 (the first decline in support over the last five years). Given that engagement between institutional shareholders and companies has increased, it is likely the decline in average support could be related to discussions outside of the proxy process.

Overall support of corporate political spending proposals continued to increase over the last five years—from 20% overall in 2015 to 31% overall in 2019. Support of institutional shareholders (at 32%) was 13 percentage points higher than support of retail shareholders in the 2019 proxy season.



# About ProxyPulse™

ProxyPulse is based in part on analysis of company Form 8-K filings from EDGAR and 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.

**PwC's Governance Insights Center** is a group within PwC whose mission is to provide insights to directors and investors to help them better understand governance topics and trends.

In the past we reported voting outcomes by aggregating all votes cast across all meetings. In limited instances, reported outcomes could be impacted somewhat by a few companies with unusually large numbers of shares or heavy solicitations. In this report, each proposal is equally weighted, regardless of each issuer's total shares outstanding.

The historical data used in the five-year trend charts has been normalized for a few meetings that included large volumes of penny stock issuers.

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[1] Cyrus Taraporevala, "We Need Stakeholder Capitalism to Achieve a Sustainable and Inclusive Future," *State Street Global Advisors*, August 20, 2019.

[2] Business Roundtable, "Business Roundtable Redefines the Purpose of a Corporation to Promote an Economy that Serves All Americans"; August 19, 2019.

[3] State Street Global Advisors, *Stewardship Report 2018 -19* September 2019.

[4] Ibid.

[5] BlackRock, *2019 Investment Stewardship Annual Report*, August 2019.

[6] Vanguard, *Investment Stewardship: 2019 Annual Report*, August 2019.

[7] BlackRock, *2019 Investment Stewardship Annual Report*, August 2019.

[8] State Street Global Advisors, *Stewardship Report 2018 -19*, September 2019.

[9] State Street Global Advisors, *R-Factor™–A Transparaent ESG Scoring System*, https://www.ssga.com/our-insights/viewpoints/r-factor.html/ (accessed September 16, 2019).

# ProxyPulse™

**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.

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