



2018 Proxy Season Review

This edition of ProxyPulse™ provides insights into key corporate governance and shareholder voting trends during the 2018 proxy season. It covers the results of 4,090 public company annual meetings held between January 1 and June 30, 2018. ProxyPulse™ data is based on Broadridge's processing of shares held in street name.



OVERVIEW & KEY TAKEAWAYS

- Institutional ownership of public company shares declined slightly to 70% (from 71% in 2017). Retail ownership increased to 30% this season (from 29% in 2017).
- Institutional shareholder voting participation remained high at 91%. Retail shareholder participation declined slightly to 28% this season (from 29% in 2017).
- On average, shareholder support for directors (at 96% of the shares they cast) was consistent with director support in 2017. However, 416 directors failed to attain majority support this season and 1,408 directors failed to surpass the 70% support threshold. The number of directors failing to surpass these support thresholds increased by 11% and 14%, respectively, over last year.
- In 2018, many companies began making mandatory CEO pay ratio disclosures, comparing the total compensation of their chief executive officer to that of their median employee. Average support for say-on-pay proposals this season remained at 89%, generally consistent over a five-year period. Notably, shareholder support for say-on-pay proposals at companies where the CEO pay ratio was disclosed was the same, on average, as it was at companies that were not required to disclose the pay ratio. 93 say-on-pay proposals failed to receive majority shareholder support overall.
- Institutional shareholder support for social and environmental proposals increased over the past five years (from 19% in 2014 to 29% in 2018). While retail shareholder support (at 16%) has also increased from five years ago, it lagged institutional support by over 12 percentage points in the 2018 proxy season.
- Institutional and retail support of corporate political spending proposals has increased notably over a five-year period (from 20% overall in 2014 to 28% this season). Support of institutional shareholders (at 29%) was 8 percentage points higher than support of retail shareholders in the 2018 proxy season.
- The number of proxy access shareholder proposals declined over the last four years (from 81 in 2015 to 34 in 2018). This is partially due to the fact that many companies have voluntarily adopted proxy access - including 65% of S&P 500 companies.¹ Notably this past season, institutions opposed shareholder proposals that sought to lower existing thresholds or remove limits on the number of shareholders required to reach the ownership threshold.

¹ Sidley Austin Corporation: Proxy Access – Now a Mainstream Governance Practice, February 2018

SHAREHOLDER ENGAGEMENT & OTHER DEVELOPMENTS

During the 2018 proxy season, institutional investors engaged with companies on a variety of topics. Notable developments include:

- BlackRock engaged with companies on topics including CEO over-commitment, board diversity and gun violence.² BlackRock's engagement also focused on director performance evaluations and director succession.
 - NYC Comptroller Scott Stringer and the NYC pension funds continued to advance their 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.³ At least 35 of these companies are now disclosing director gender and race.
 - Forty-nine of the 151 boards have appointed 59 new directors who are either female or people of color.
 - The California Public Employees' Retirement System (CalPERS) reported that they engaged with over 500 companies in the Russell 3000 on their lack of board diversity, and that they withheld votes from 271 directors at 85 companies as a result.⁴
 - T. Rowe Price (TRP) reiterated its position as a long-term investor, and detailed its philosophy on shareholder activism. According to the firm, other activist investors should not claim to speak on behalf of TRP.⁵
- Additionally, TRP stated it will engage with companies directly, and privately, to resolve differences constructively. For contested solicitations, it will apply a long-term lens to determine which side is more likely to foster long-term performance by the company.

² BlackRock Inc.: Investment Stewardship Report: Americas Q2 2018, June 2018

³ Comptroller Stringer, NYC Funds: Unprecedented Disclosure of Corporate Boardroom Diversity Following Groundbreaking Campaign, June 2018

⁴ CalPERS: Corporate Board Diversity Update, June 2018

⁵ T.Rowe Price: ESG Spotlight, June 2018

WHAT DOES THE DATA TELL US?

We continue to see substantial differences in voting between institutional and retail investors. The analysis below shows how institutional and retail investor segments voted on a number of different proposal types. The data points to the importance for many companies of engaging with all of their shareholders.

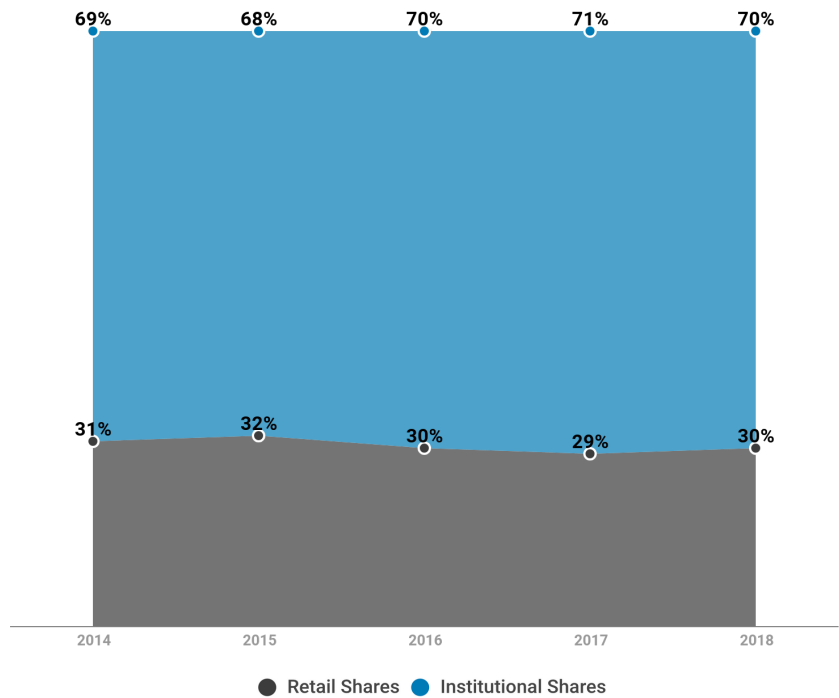
SHARE OWNERSHIP

- Institutional ownership of public companies declined slightly to 70% year-over-year, while retail share ownership increased to 30% in 2018, compared to 29% in 2017.

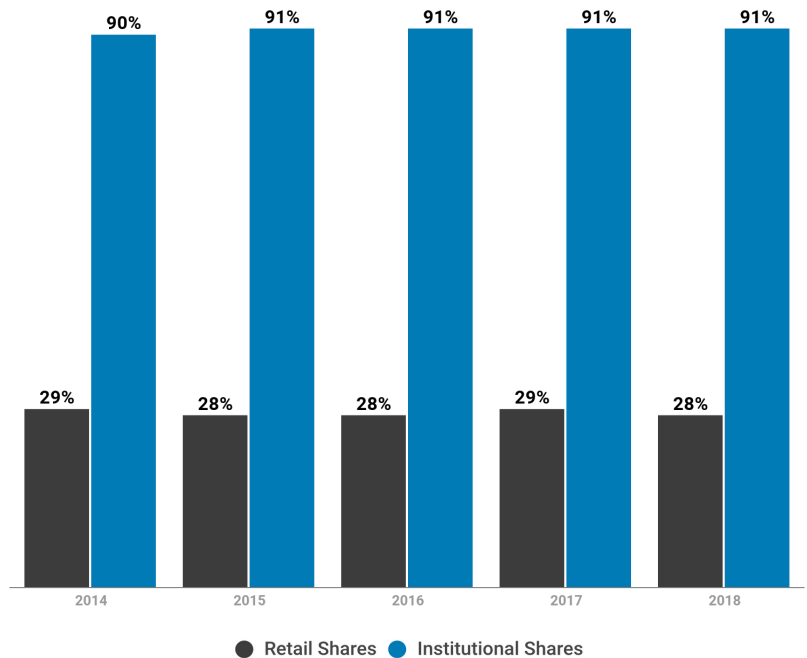
SHAREHOLDER PARTICIPATION

- The average percentage of institutional shares voted remains high at 91%. Retail shares voted remains relatively low at 28%, a slight decline from 29% in 2017, but in line with the five-year trend.

RETAIL/INSTITUTIONAL SHARE OWNERSHIP: PERCENTAGE OF SHARES OWNED BY SEGMENT



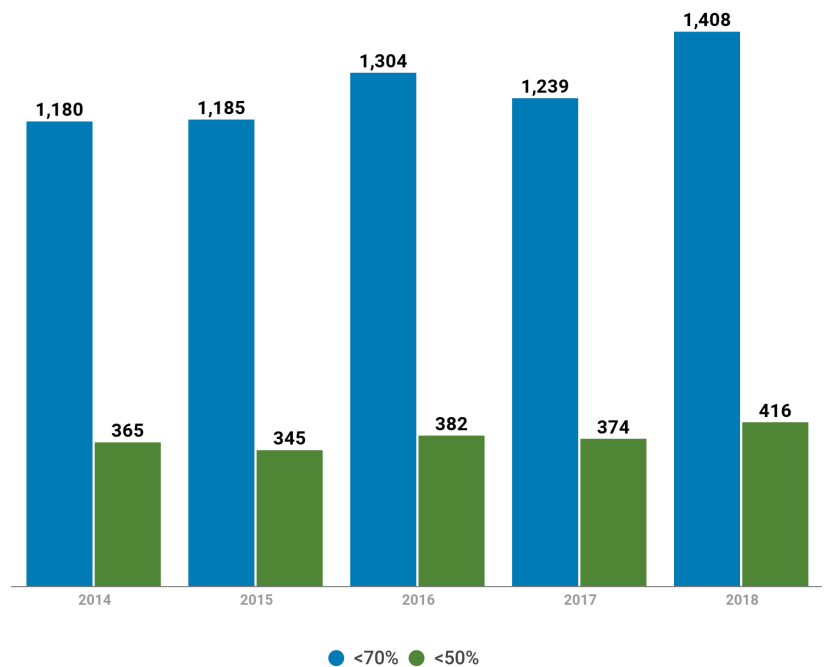
SHAREHOLDER PARTICIPATION: PERCENTAGE OF SHARES VOTED BY SEGMENT



DIRECTOR VOTING

- A total of 21,855 directors stood for election during the 2018 proxy season. On average, director support remained consistent with 2017. Institutional and retail investors provided average support of 96% and 95% respectively.
- 416 directors failed to receive majority shareholder support this season and 1,408 directors failed to attain at least 70% shareholder support, a threshold monitored by some proxy advisors. While the total number of directors standing for election has decreased over the past five years, there was an increase in the number of directors that failed to receive majority shareholder support (11% increase) or surpass the 70% support threshold (14% increase) over last year.

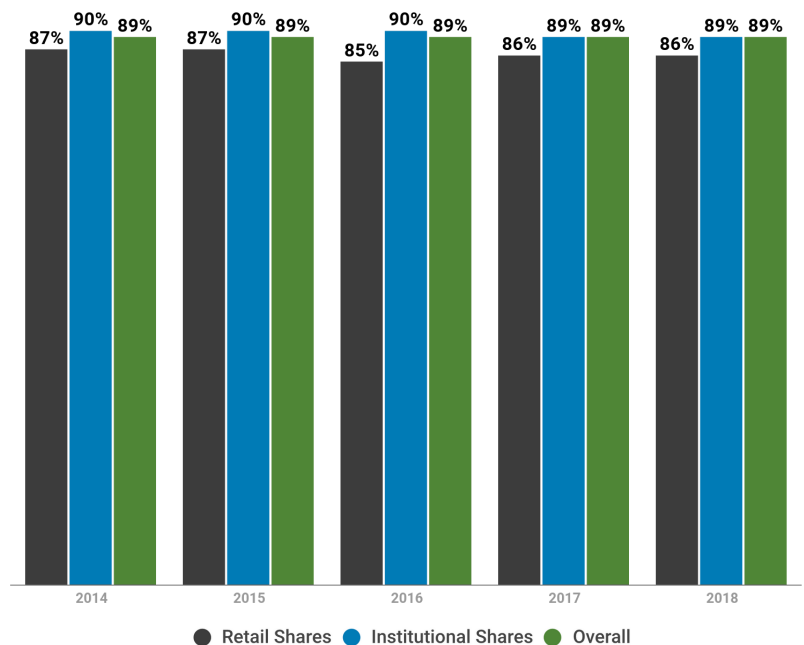
NUMBER OF DIRECTORS FAILING TO RECEIVE 50% (MAJORITY) AND 70% SUPPORT 2014 - 2018



SAY-ON-PAY VOTING

- In 2018, companies began making mandatory CEO pay ratio disclosures, comparing the total compensation of the chief executive officer to that of the median employee.
- Notably, shareholder support for say-on-pay proposals at companies where the CEO pay ratio was disclosed was the same, on average, as it was at companies that were not required to disclose the pay ratio. In fact, the average support for say-on-pay proposals, at 89%, has remained generally consistent over the past five years.
- In the 2018 proxy season, 287 say-on-pay proposals failed to receive the support of at least 70% of the shares voted, and 93 failed to receive majority support.

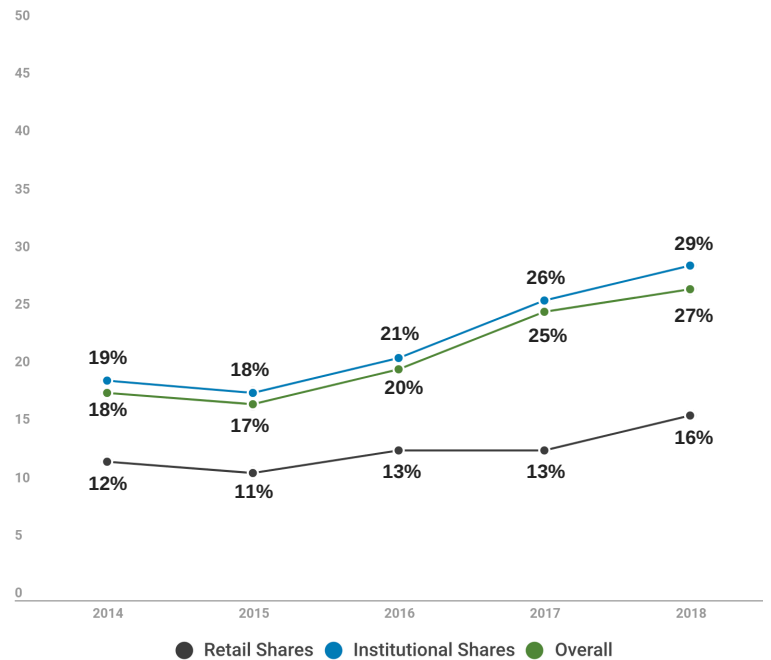
SAY ON PAY: PERCENTAGE OF SHARES VOTED "FOR"



SOCIAL AND ENVIRONMENTAL PROPOSALS

- Social and environmental proposals were again the largest category of shareholder proposals on proxy ballots.
- Institutional shareholder support for these proposals has increased over the past five years (from 19% in 2014 to almost 29% in 2018). Institutional shareholders were more supportive of these proposals than retail shareholders in each year. For the 2018 proxy season, institutional shareholder support was 29% and retail shareholder support was 16%.

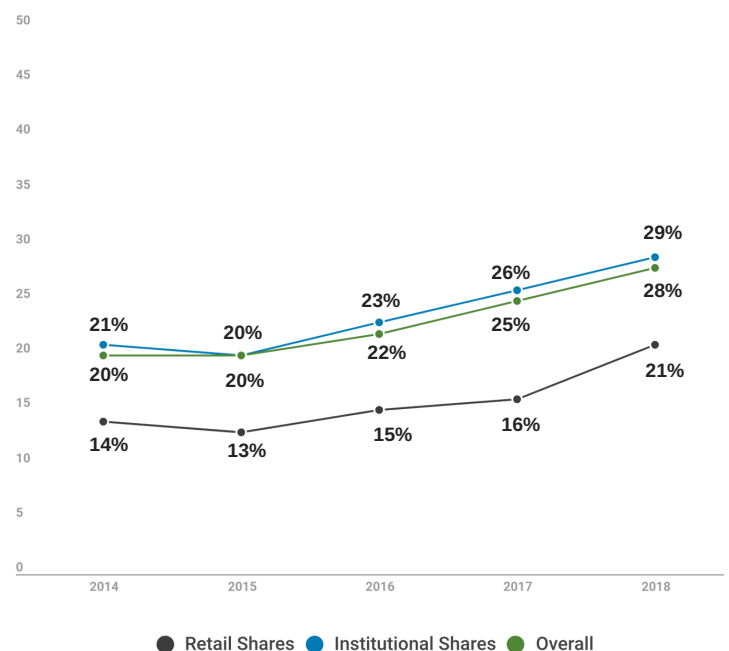
SOCIAL/ENVIRONMENTAL PROPOSALS: PERCENTAGE OF SHARES VOTED "FOR"



POLITICAL SPENDING PROPOSALS

- Overall support of corporate political spending proposals has increased notably over a five-year period from 20% in 2014 to 28% this season. Support of institutional shareholders (at 29%) was 8 percentage points higher than that of retail shareholders in 2018.
- Institutional shareholders provided average support of 29% in 2018, compared to 21% in 2014. Retail shareholders provided average support of 21% in 2018, compared to 14% in 2014.

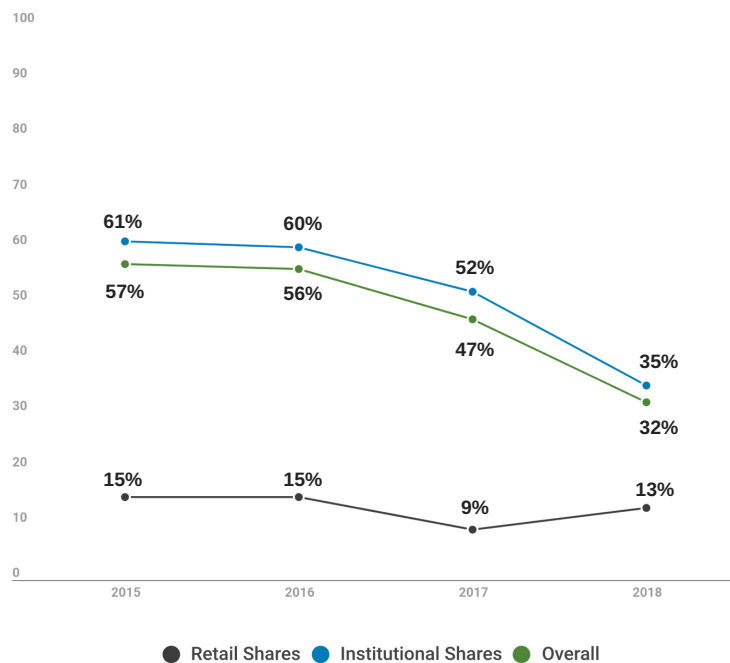
POLITICAL SPENDING DISCLOSURES: PERCENTAGE OF SHARES VOTED "FOR"



PROXY ACCESS

- The number of proxy access shareholder proposals declined over the last four years (from 81 in 2015 to 34 in 2018). This is primarily due to the number of companies that have adopted proxy access – including 65% of S&P 500 companies.¹
- The overall support for proxy access proposals declined from 57% in 2015 to 32% in 2018. Institutional shareholder support has declined from 61% in 2015 to 35% in 2018. Institutions largely opposed shareholder proposals that sought to lower existing thresholds or remove limits on the number of shareholders required to reach the ownership threshold.

**PROXY ACCESS PROPOSALS:
PERCENTAGE OF SHARES VOTED "FOR"**



¹ Sidley Austin Corporation: Proxy Access – Now a Mainstream Governance Practice, February 2018

ABOUT

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 help directors and investors alike better understand insights and the latest thinking on current governance issues.

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