



THIRD EDITION 2014

Directors and Investors: Are they on the same page?

Insights from the 2014 proxy season
and recent governance surveys

This edition of ProxyPulse looks at results from 4,113 shareholder meetings held between January 1 and June 30, 2014, with data and analysis on topics including share ownership, director elections, “say-on-pay”, shareholder proposals, proxy material distribution, and voting mechanics. We also provide perspectives from recent governance surveys of directors and institutional shareholders and discuss them alongside the actual voting results from the 2014 proxy season.

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2014 PROXY SEASON VOTING HIGHLIGHTS

DIRECTOR AND INVESTOR SURVEY PERSPECTIVES

DIRECTOR ELECTIONS

Average shareholder support for directors was 96% in 2014. Large-cap company directors received the highest average support (97%) and micro-cap directors the lowest (90%). Five percent of directors failed to attain at least 70% shareholder support, versus 6% in 2013, and 2% (or 365 directors) failed to get majority support.

Forty-one percent of institutional shareholders surveyed say director re-election risk increased in the last year.¹ In addition, director sensitivity to "negative shareholder voting" (against, abstain, and withhold votes) also increased. Fifty-eight percent of directors surveyed now say that a negative shareholder vote of less than 25% would give them concern about re-nomination.²

SAY-ON-PAY

There was a season-over-season increase in the number of pay plans that failed to receive majority shareholder support – 123 in the 2014 season compared to 104 in the 2013 season. While overall, shareholders continued to support "say-on-pay" proposals at high levels, (average support of 89%), there were signs of weakening support levels at mid-, small- and micro-cap companies.

Eight in ten directors surveyed agree that "say-on-pay" has caused their board to look at compensation disclosures in a different way and that there has been an increase in the influence of proxy advisory firms. Nearly three-quarters of directors agree that "say-on-pay" has increased shareholder dialogue and prompted directors to change the way they communicate about compensation. However, two-thirds of directors don't believe that "say-on-pay" has effected a "right-sizing" of CEO compensation.²

SHAREHOLDER ACTIVISM

Shareholder activism is intense, particularly at the largest companies. While the number of actual proxy contests and exempt solicitations (i.e. "no vote" campaigns against directors) decreased between 2013 and 2014, a significant number of companies indicated that they were impacted by activist campaigns. Some of these were resolved without requiring a shareholder vote.

Twenty-nine percent of directors surveyed had interactions with activists and held extensive board-level discussions in this area over the last twelve months. The largest company directors report a greater rate of experience with activism than smaller company directors.²

SHAREHOLDER PROPOSALS

Shareholder proposals to split the roles of Chair and CEO increased in number (there were 62 such proposals in 2014 compared to 53 in 2013). Average support was 30% and 6 proposals received majority support. Social and environmental proposal volume saw a slight uptick in 2014, although none received majority support.

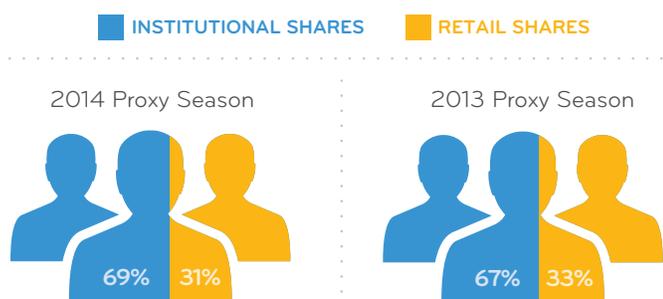
Fifty-five percent of directors surveyed said they currently have a separate Chair and CEO. Of those companies that still have a combined role, half have discussed splitting the role at their next CEO succession. Fewer than 10% of directors say they have had substantial discussions of corporate social responsibility issues, like climate change and human rights, in the last 12 months.²

PUBLIC COMPANY OWNERSHIP AND SHAREHOLDER VOTING RATES

Institutional ownership increased slightly in 2014, and low retail voting rates continue. For the 2014 proxy season, 69% of street shares were owned by institutional shareholders and 31% by retail shareholders – an increase of about two percentage points in institutional ownership from 2013. Mid-cap companies had the highest average rate of institutional ownership (75%), while micro-cap companies had the lowest (29%).

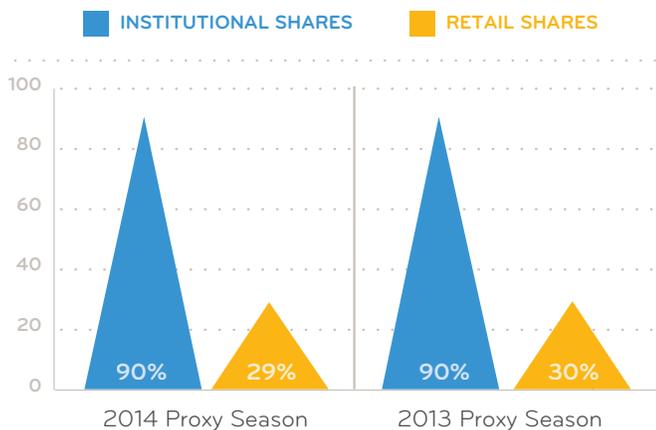
OWNERSHIP COMPOSITION

OWNERSHIP BREAKDOWN BY SHARES



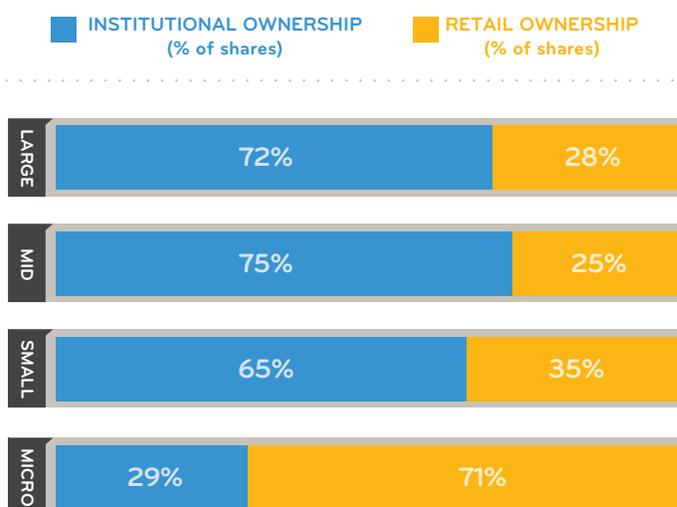
In terms of voting, institutional shareholders voted 90% of their shares in 2014, but retail shareholders as a group voted just 29% of the shares they held, a slight decline compared to last season.

PERCENTAGE OF SHARES VOTED BY OWNERSHIP SEGMENT

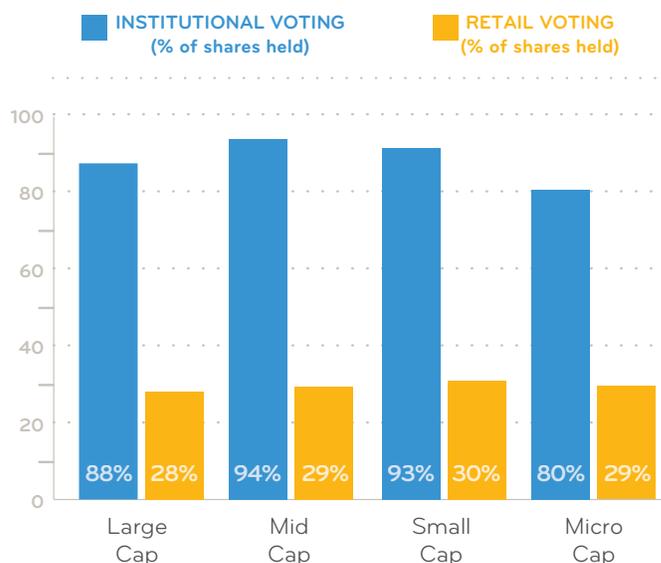


Voting rates varied by company size; institutional shareholders voted 94% of their shares at mid-cap companies but only 80% at micro-cap companies. Retail shareholder voting rates were in the 28% to 30% range across all company size ranges.

OWNERSHIP COMPOSITION BY COMPANY SIZE – 2014 PROXY SEASON



SHARES VOTED BY SEGMENT AND BY COMPANY SIZE – 2014 PROXY SEASON

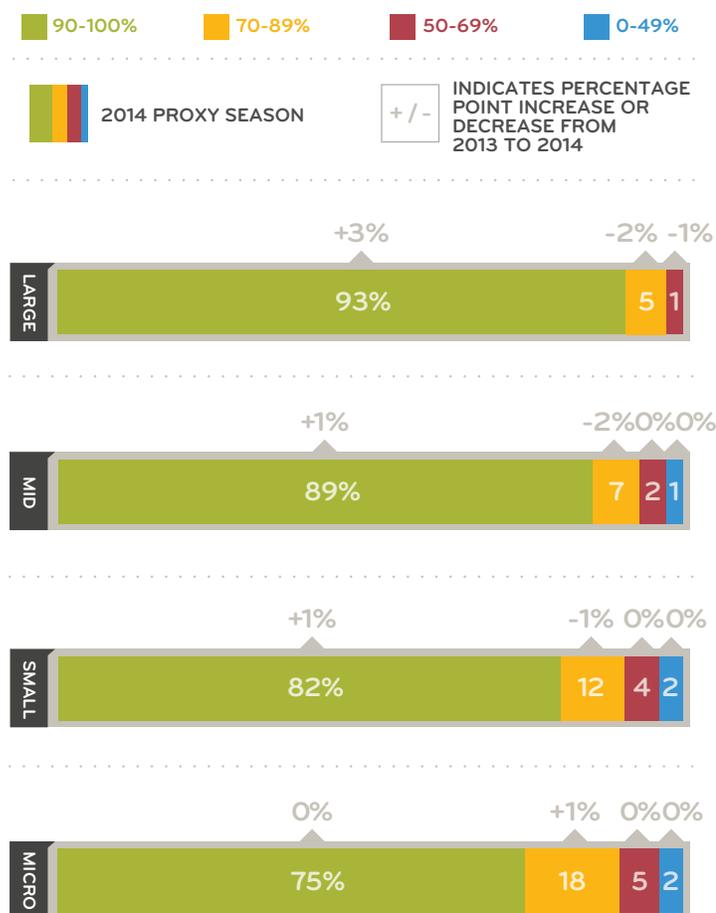


Key defining company size: Large Cap: \$10b+ • Mid Cap: \$2b–\$10b • Small Cap: \$300m–\$2b • Micro Cap: \$300m or less

DIRECTOR ELECTIONS

Shareholder support for directors remains strong, yet investors surveyed say re-election risk has increased. On average, 96% of shares were voted in favor of directors during the 2014 proxy season – up about one percentage point from 2013. At large-cap companies, 93% of directors received at least 90% shareholder approval, compared to 75% of directors at micro-cap companies. Five percent of directors failed to attain at least 70% shareholder support, versus 6% in 2013, and 2% (or 365 directors) failed to get majority support.

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

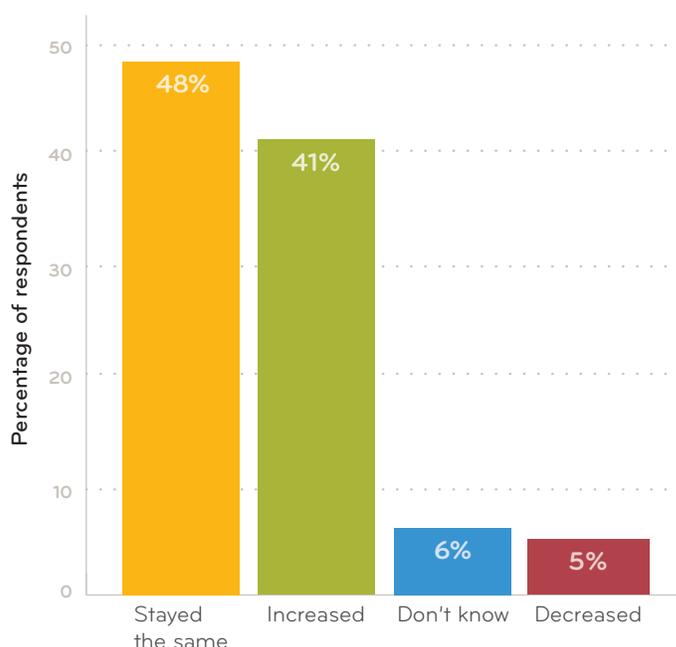


Note: Numbers may not add to 100% due to rounding.

However, despite high levels of support for directors, four in ten institutional investors surveyed say director re-election risk increased last year. This reflects the high performance expectations investors have of directors and their continued oversight of and interest in director elections.

INVESTOR VIEWS ON DIRECTOR RE-ELECTION RISK

In the last 12 months, do you feel director re-election risk increased, decreased, or remained the same?



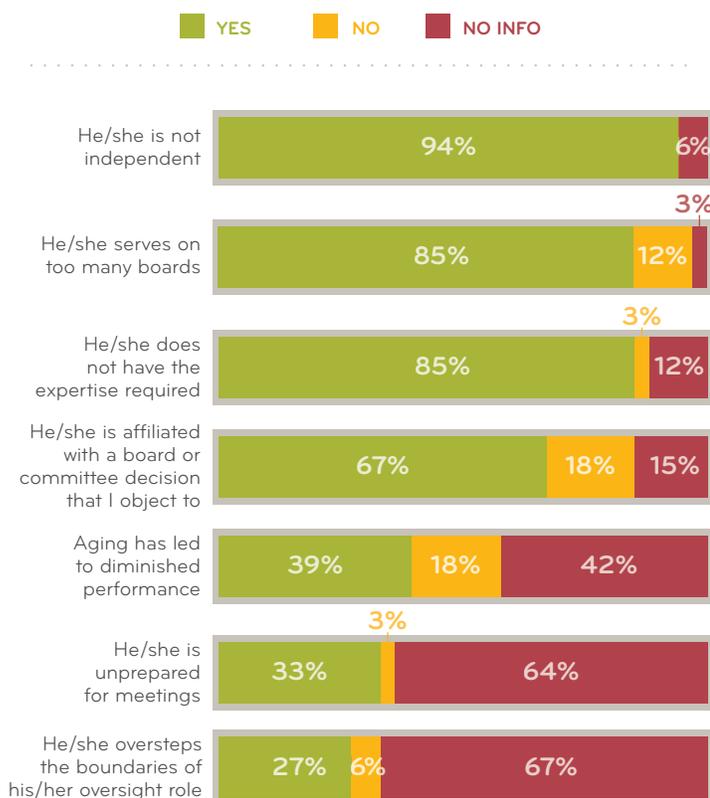
Source: PwC's 2013 Investor Survey

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

So what factors do shareholders say are most important in making their decision to vote for or against a director? Over 90% of institutional investors surveyed say director independence is important to their director voting decisions. More than eight in ten say serving on too many boards and director expertise are important factors. On the other hand, investors say that director age is a less important factor in their director voting decisions.

FACTORS INFLUENCING INVESTOR VOTES ON DIRECTORS

Do the following factors influence your decision to vote for/against (or withhold your vote for) a director?

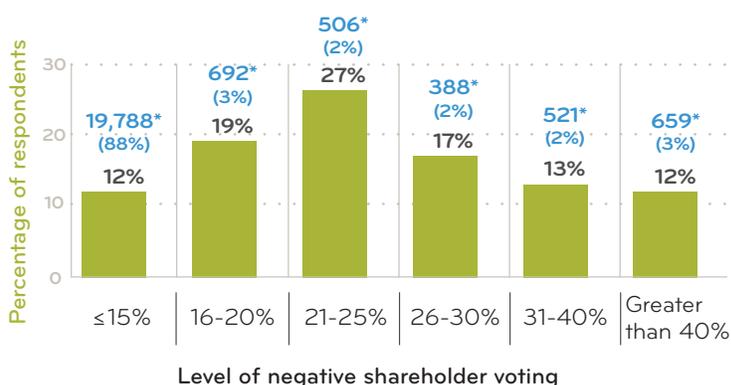


Source: PwC's 2014 Investor Survey

Director sensitivity to negative shareholder voting increased in 2014. In fact, 58% of directors now say that negative voting of less than 25% would cause them to be concerned about re-nomination, compared to only 48% who said this last year. The graphic below tracks director sensitivity levels to negative voting compared to the number of directors who received that range of negative voting during the 2014 proxy season. For example, 88% of directors (19,788) had negative voting of ≤15% of shares voted. This threshold posed a concern to 12% of directors surveyed.

DIRECTOR SENSITIVITY TO NEGATIVE SHAREHOLDER VOTING

At what level of negative shareholder voting should boards be concerned about renomination?



* Indicates the actual number and percentage of directors with this voting result during the 2014 proxy season.

Source: PwC's 2014 Annual Corporate Directors Survey

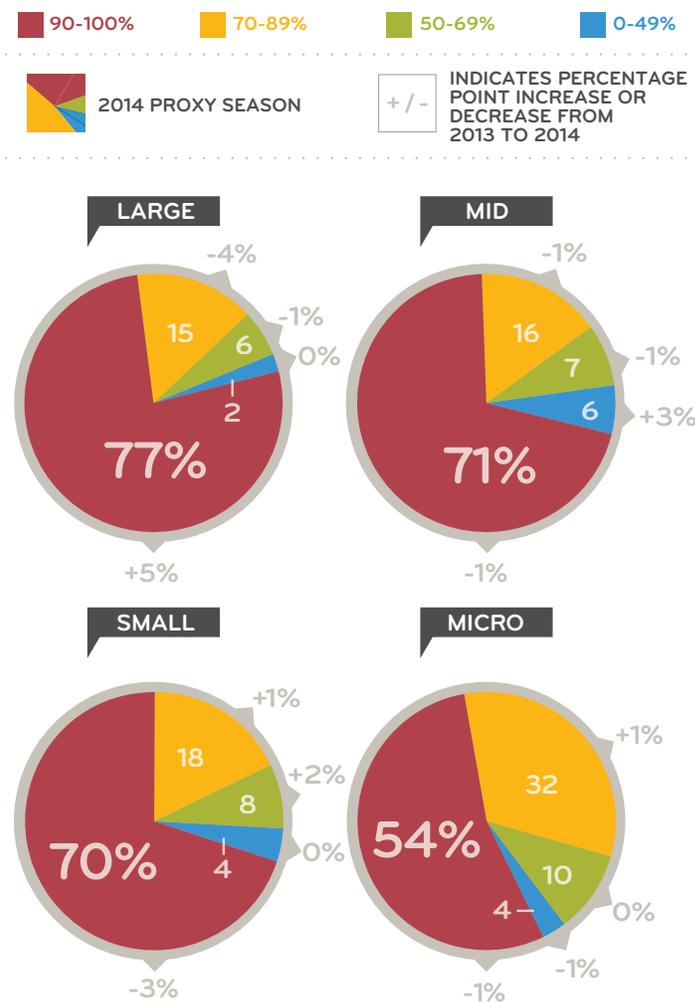
SAY-ON-PAY

There was a season-over-season increase in the number of pay plans that failed to receive majority shareholder support – 123 in 2014 compared to 104 in 2013. Although shareholders continued to support “say-on-pay” proposals at the same high levels on average as they did in the 2013 season (89%), support levels slipped in mid-, small-, and micro-cap companies. At mid-caps, the percentage of plans attaining support in the 90-100% range fell from 72% to 71% and the percentage of plans that failed to attain majority support doubled from 3%(18) to 6%(41). There was some weakening in support among small caps as well. The percentage of plans attaining support in the 90% range decreased from 73% to 70%, and the percentage of plans with support in the 50-69% range increased from 6% to 8%.

Additionally, 13% of companies failed to attain the 70% affirmative threshold looked at closely by some proxy advisory firms—a percentage relatively unchanged from 2013. However, support at the 70% threshold did decrease among mid-cap and small-cap companies, 2% and 1% respectively.

But has “say-on-pay” voting actually changed anything? Eight in ten directors surveyed agree that “say-on-pay” has caused their board to look at compensation disclosures in a different way and increased the influence of proxy advisory firms. Nearly three-quarters of directors agree that “say-on-pay” has increased shareholder dialogue and prompted directors to change the way they communicate about compensation. However, two-thirds of directors don’t believe that “say-on-pay” has effected a “right-sizing” of CEO compensation.

SAY-ON-PAY VOTING RATES BY COMPANY SIZE – PERCENTAGE OF SHARES VOTED IN SUPPORT



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

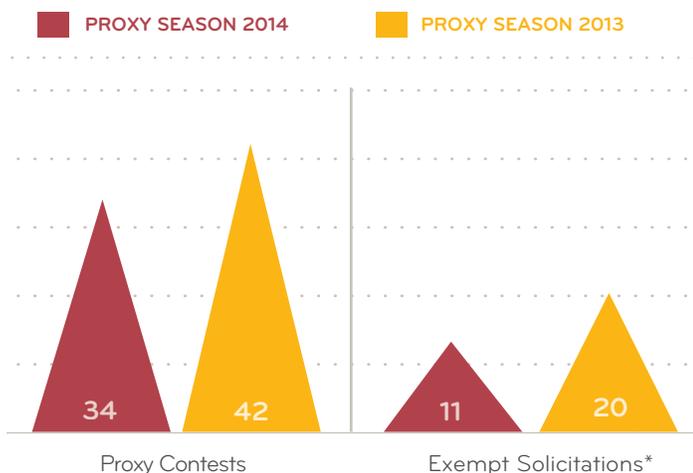
SHAREHOLDER ACTIVISM

The shareholder activism environment has intensified, particularly for the largest companies.

While the number of actual proxy contests, and exempt solicitations (i.e., “no vote” campaigns against directors) decreased between 2013 and 2014, a significant number of companies indicated that they were impacted by activist campaigns. However, some of these situations were resolved without requiring a shareholder vote.

Twenty-nine percent of directors surveyed indicated they had interactions with activists and held extensive board-level discussions in this area over the last twelve months. The largest company directors report a greater rate of experience with activism than smaller company directors – possibly explaining why smaller company directors express less concern with activists and are less likely to have had board discussions on the topic.

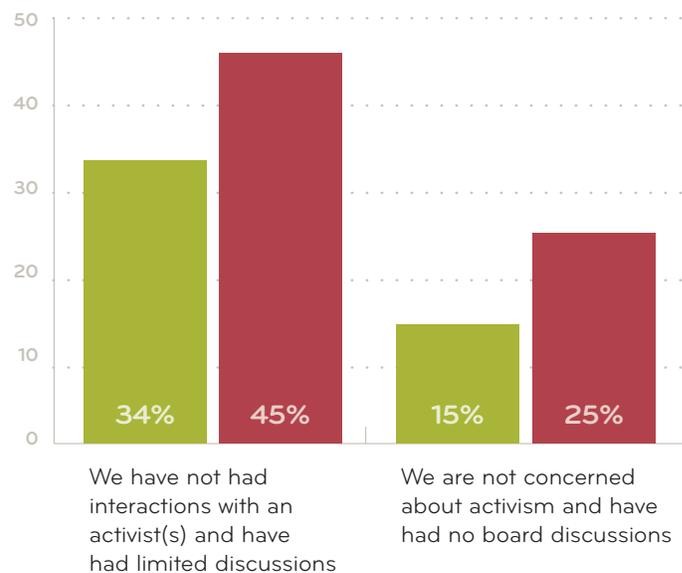
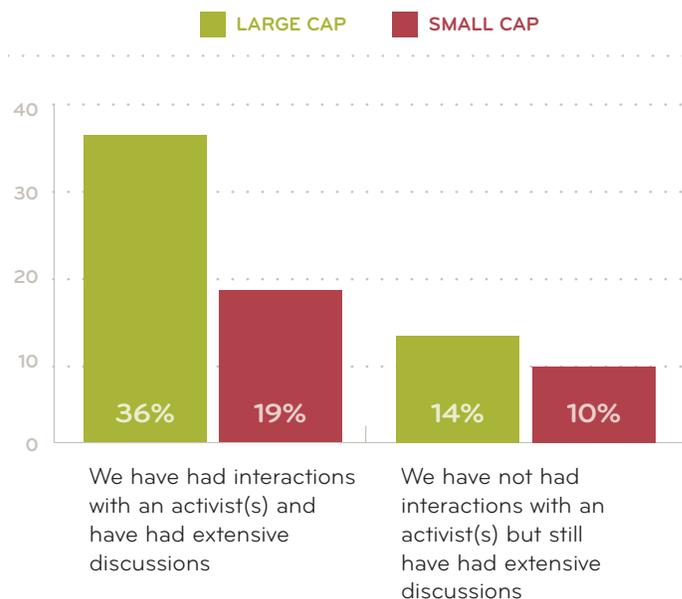
SHAREHOLDER ACTIVISM



* An exempt solicitation is defined as one in which a proponent sends a letter to shareholders through Broadridge. A vote “no” letter is an example of an exempt solicitation. Unlike proxy contests, exempt solicitations do not involve distribution of opposition proxy cards.

DIRECTOR EXPERIENCES WITH SHAREHOLDER ACTIVISM

How would you describe your board’s preparation for and actual experience with shareholder activism?

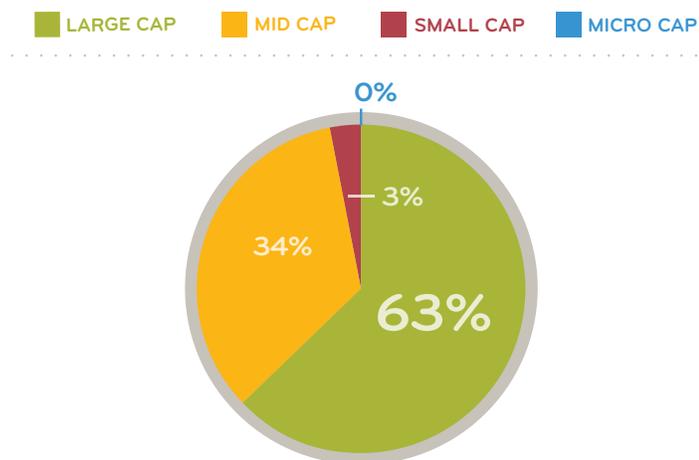


Source: PwC’s 2014 Annual Corporate Directors Survey

Board leadership structures continue to evolve. In recent years, a growing number of companies have chosen to separate the roles of CEO and board Chair. During the 2014 proxy season, 62 shareholder proposals were put forth to separate the roles (compared to 53 in 2013), with average shareholder support of 30%, consistent with support levels in 2013. About two-thirds of these proposals were targeted at the largest companies. Six proposals received majority support.

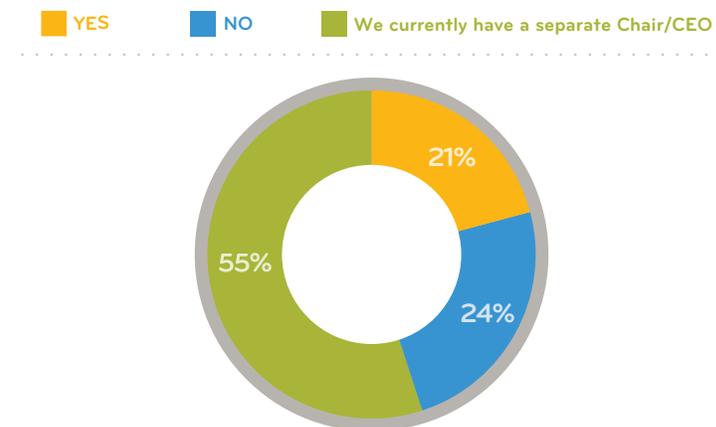
A little over half of directors surveyed say their company has already separated the roles, and of those who have not, half say their board is considering doing so in the future. CEO succession events are often viewed as ideal times for this transition.

2014 PROXY SEASON PROPOSALS TO SPLIT THE CHAIR/CEO – BY COMPANY SIZE



DIRECTOR DISCUSSIONS OF BOARD LEADERSHIP

If you currently have a combined Chair/CEO, has your board discussed splitting the role during your next CEO succession?



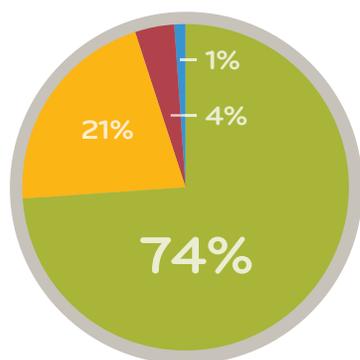
Source: PwC's 2013 Annual Corporate Directors Survey

The number of shareholder proposals related to social and environmental issues increased slightly from the 2013 season, but shareholder support averaged just 18%, and none of these proposals received majority approval. At the same time, about three-quarters of directors surveyed say they have had not very much or no discussion about issues like human rights, climate change, carbon emissions or resource scarcity during the last twelve months.

While only a small percentage of directors say they are substantially discussing corporate social responsibility issues, these discussions are more likely to occur at the largest companies. This may be because these companies are already reporting to stakeholders on their corporate social responsibility initiatives.

SOCIAL AND ENVIRONMENTAL PROPOSALS BY COMPANY SIZE

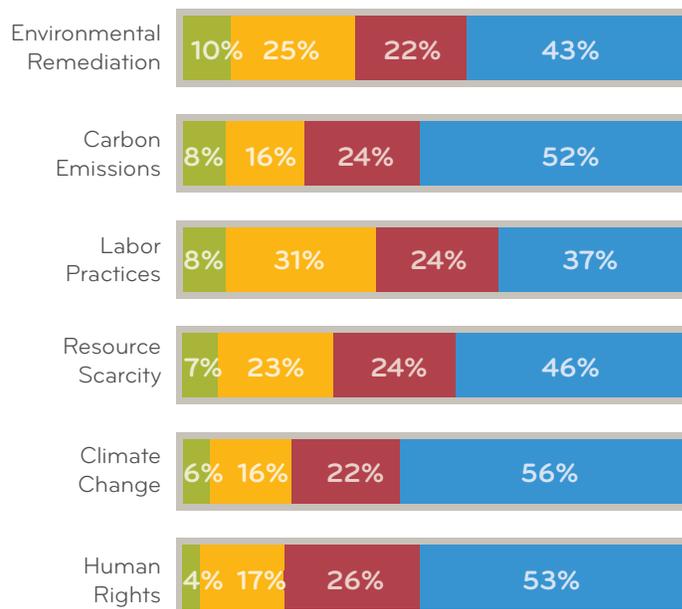
■ LARGE CAP ■ MID CAP ■ SMALL CAP ■ MICRO CAP



BOARD DISCUSSIONS OF CORPORATE SOCIAL RESPONSIBILITY ISSUES

In the last 12 months, to what extent has your board discussed the following corporate social responsibility issues?

■ SUBSTANTIAL ■ SOMEWHAT ■ NOT VERY MUCH ■ NONE



Source: PwC's 2013 Annual Corporate Directors Survey

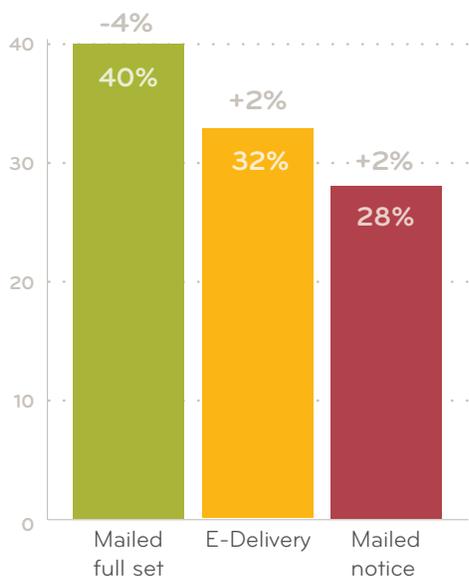
Key defining company size: Large Cap: \$10b+ • Mid Cap: \$2b–\$10b • Small Cap: \$300m–\$2b • Micro Cap: \$300m or less

PROXY DELIVERY AND VOTING METHODS

Electronic delivery of proxy materials and voting continues to increase. Virtually all institutional shareholders received proxy materials through an electronic platform in 2014. And 98% of institutional shares voted were done so electronically. Retail shareholders continue to receive their proxy materials in a variety of ways, and use a more diverse mix of voting methods.

Thirty-two percent of retail investors received their 2014 proxy materials electronically and 28% through a mailed Notice of Internet Availability (up from 30% and 26%, respectively, during the 2013 proxy season). There was a four-percentage point decrease in the relative number of retail shares to which materials were mailed by full sets – consistent with a trend toward greater cost savings. In terms of retail voting, individuals are using the Internet for 68% of the shares voted. A majority of the voted shares of recipients of mailed full sets are voted by Internet.

RETAIL INVESTOR PROXY DELIVERY METHODS

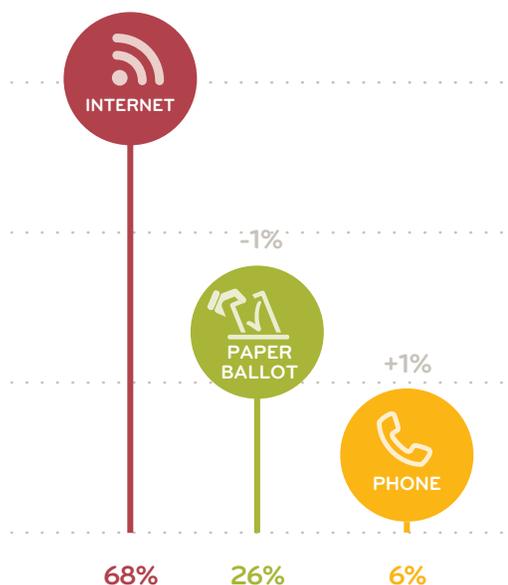


Percentage of shares sent by method of distribution

Note: Of the shares mailed by full set, 42% were voted. Of those sent by e-delivery, 20% were voted; and, of those mailed by Notice, 20% were voted

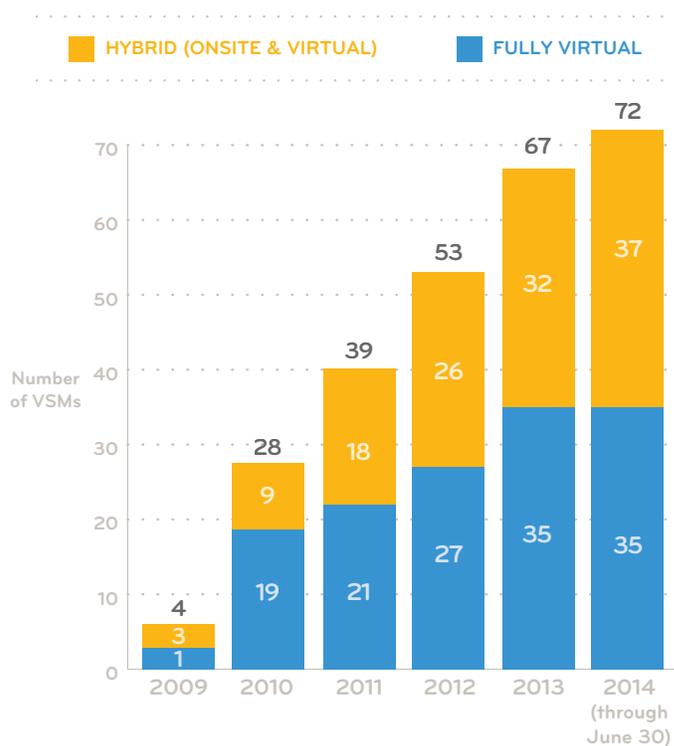
RETAIL INVESTOR PROXY VOTING METHODS

Percent of Shares Voted



Virtual shareholder meetings (VSMs) show slow, but continued growth. While the majority of companies continue to do “in-person” annual meetings, a small, but growing number have added a virtual component. Virtual meetings come in two main varieties: “hybrid” meetings where audio and/or video broadcasts are available to attendees in addition to an in-person meeting, and “fully virtual” meetings, which are solely online. The large majority of these virtual meetings were audio-only.

VIRTUAL MEETINGS – 2009 TO PRESENT



For purposes of this report, the term “institutional shareholders” refers to mutual funds, public and private pension funds, hedge funds, investment managers, managed accounts and voting by vote agents. The term “retail shareholders” refers to individuals whose shares are held beneficially in brokerage accounts.

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

PwC survey information The 2014 Annual Corporate Directors Survey of 863 public company directors was conducted in the summer of 2014. The 2013 Annual Corporate Directors Survey of 934 public company directors was conducted in the summer of 2013. Of the respondents to both of these surveys, 70% serve on the boards of companies with more than \$1 billion in annual revenue.

The 2013 Investor Survey was conducted in the summer of 2013 and its 66 respondents represented over \$2.5 trillion in assets under management.

The 2014 Investor Survey was conducted in the summer of 2014 and its 38 respondents represented over \$11.5 trillion in assets under management.

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PricewaterhouseCoopers LLP has neither examined, compiled nor performed any procedures with respect to the ProxyPulse report and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

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

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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.

¹ PwC 2013 Investor Survey

² PwC 2014 Annual Corporate Directors Survey