



Preparing for the 2019 proxy season

By Dennis T. Whalen

We've all now had the opportunity to review reports on the results of the 2018 proxy season. Support for shareholder proposals was high, with more than half of shareholder proposals receiving more than 30 percent support. Environmental and social proposals again outnumbered traditional governance proposals. Shareholder proposals related to action on global warming and other environmental issues garnered strong support. In addition, there were a number of shareholder proposals related to important cultural and social movements and trends. Institutional investors continue their laser-like focus on board composition (including diversity, tenure, and refreshment), as well as long-term performance and sustainability, and linking compensation and strategy.

With the results of the 2018 proxy season in hand, it's time to prepare for the 2019 proxy season. I would emphasize two key areas for board focus in the coming months.

1. Reassess proxy disclosures in key areas of interest to investors—and benchmark.

Major institutional investors such as BlackRock, Vanguard, State Street, and others have made clear their expectations for companies and their boards to focus on long-term value creation and the factors driving it—including board composition and diversity, strategy and risk, talent, investment in research and development, culture and incentives, and environmental, social, and governance (ESG) initiatives. For example, in an August 2017 letter to public company directors, Vanguard chair and CEO F. William McNabb III wrote that the board “is one of the company’s most critical strategic assets.” McNabb noted in Vanguard’s evaluation of corporate governance practices that one of the four pillars of investment stewardship is “a high-functioning, well composed, independent, diverse, and experienced board, with effective ongoing evaluation practices.” And in his letters to CEOs, BlackRock’s Laurence D. Fink has asked them to lay out for shareholders a strategic framework for long-term value creation. He emphasized that over the long-term,

ESG issues—ranging from climate change to diversity to board effectiveness—have real, quantifiable, financial impacts and can provide essential insights into management’s effectiveness and a company’s long-term prospects.

In light of recent proxy trends and in response to the expectations of major institutional shareholders, many companies have enhanced their proxy disclosures to address these key areas of investor interest. Consider how your company’s proxy disclosures have evolved to keep pace and whether there is a need for disclosures in new areas of investor focus, such as culture, sexual harassment, and human capital management. Do your proxy disclosures tell the company’s story and address company-specific and industry-specific issues of interest to shareholders?

Finally, in assessing your company’s proxy disclosures, be sure to benchmark and compare the company’s proxy disclosures with those of others in the industry. Perhaps ask management’s disclosure committee to take the lead in this benchmarking effort.

2. Promote engagement with shareholders in the weeks and months before proxy season.

Shareholder engagement continues to be a priority for companies as institutional investors increasingly hold boards accountable for company performance and greater transparency. Boards need to understand institutional investor concerns and viewpoints in preparation for the 2019 proxy season. And it is incumbent upon directors and management teams to engage with shareholders about key issues—especially where there are governance concerns or when additional information is needed to make a more fully informed voting decision.

Also, as Cleary Gottlieb Partner Pamela Marcogliese noted during our latest quarterly webcast on proxy season, investor outreach by management and the board outside of proxy season, even absent a time-sensitive issue or crisis, is crucial to help establish a foundation to obtain investor support in the future. In the event of an activist campaign, the battle for institutional shareholder votes will be intense.

There is no one right approach to these shareholder engagements, but preparation and development of

an engagement strategy is key. Determine in advance who should participate. Anticipate the issues or concerns about the company the shareholder will likely want to address. Understand the shareholder's proxy voting guidelines and voting record.

For more on the 2018 proxy season, visit kpmg.com/us/blc.

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