

2020

THE

DEBRIEFING

SEASON REVIEW AND FALL ENGAGEMENT GUIDE

INTERESTED IN MORE THAN A DEBRIEF?

For more information, please reach out.

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All data provided in this review reflects statistics gathered from January through June 2020. Unless otherwise specified, statistics detailed within this guide are based on companies found in the Russell 3000.

Statistics in this document were extrapolated from data provided by ISS Corporate Solutions and FactSet.

DISCLAIMER: This presentation includes current public information that we consider reliable, including data and statements made by third parties, but we do not represent that it is accurate or complete, and it should not be relied on as such. This information should not be considered, or used as, legal or financial advice.

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SHAREHOLDER PROPOSALS

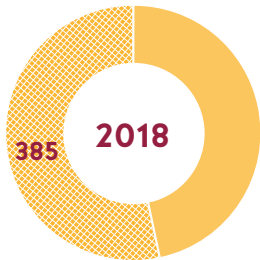
Submissions remain constant, yet more proposals made it onto ballots in 2020.

The Debrief

- Although we saw approximately the same number of submissions from the previous year, more proposals made it onto ballots in 2020. This is likely influenced by an increase in the number of governance-related proposals as well as an increase in the sophistication of the requests made by proponents.
- Nearly 80% of governance proposals went to a vote this year, a slight increase from 2019.
 - Almost half of all social proposals submitted made it onto ballots, which did not represent a significant change from 2019.
 - Just over a quarter of environmental proposals went to a vote in 2020, which is in line with what we observed in 2019.
- Shareholder proposals continue to be the focus of large-cap companies, with over 75% of proposals being submitted at S&P 500 companies.
- Trending topics received increased spikes in average support levels and increased numbers of passing proposals. These included political contributions/lobbying proposals, proposals related to human capital management and climate change reporting proposals.

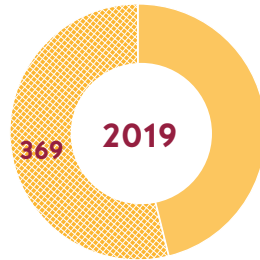


SUBMITTED VS. VOTED, YEAR-OVER-YEAR

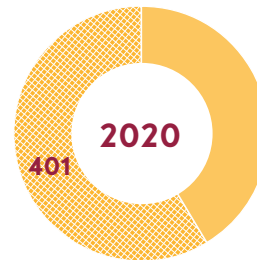


Total = 720

■ SHPs Submitted ■ SHPs That Made It Onto Ballots



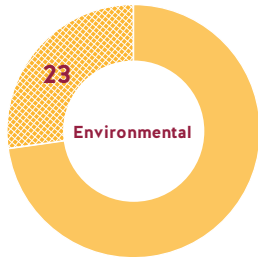
Total = 682



Total = 682

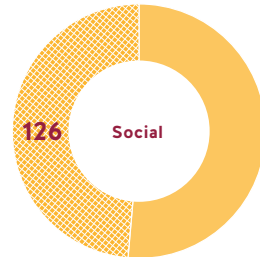


SUBMITTED VS. VOTED, BY PROPOSAL CATEGORY

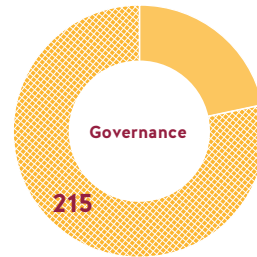


Total = 84

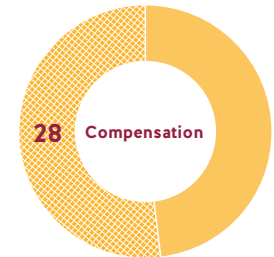
■ SHPs Submitted ■ SHPs That Made It Onto Ballots



Total = 258



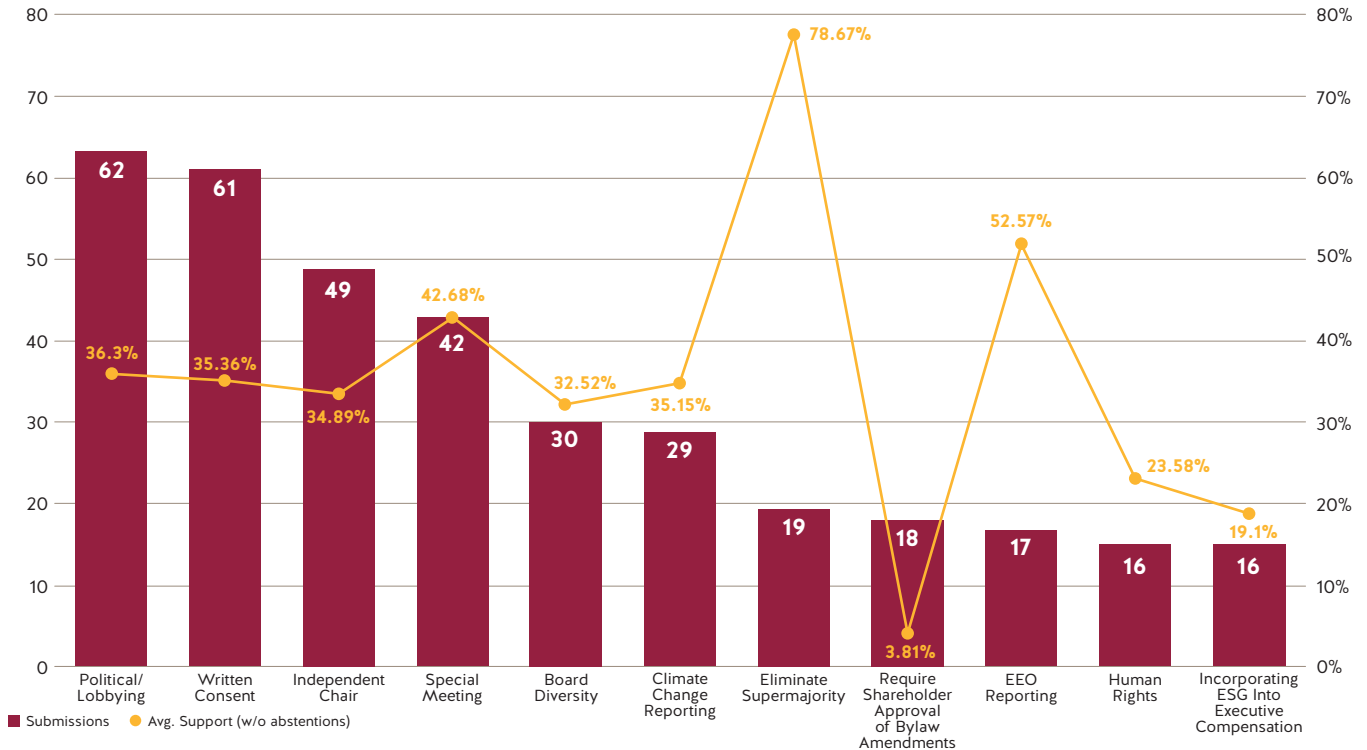
Total = 274



Total = 54

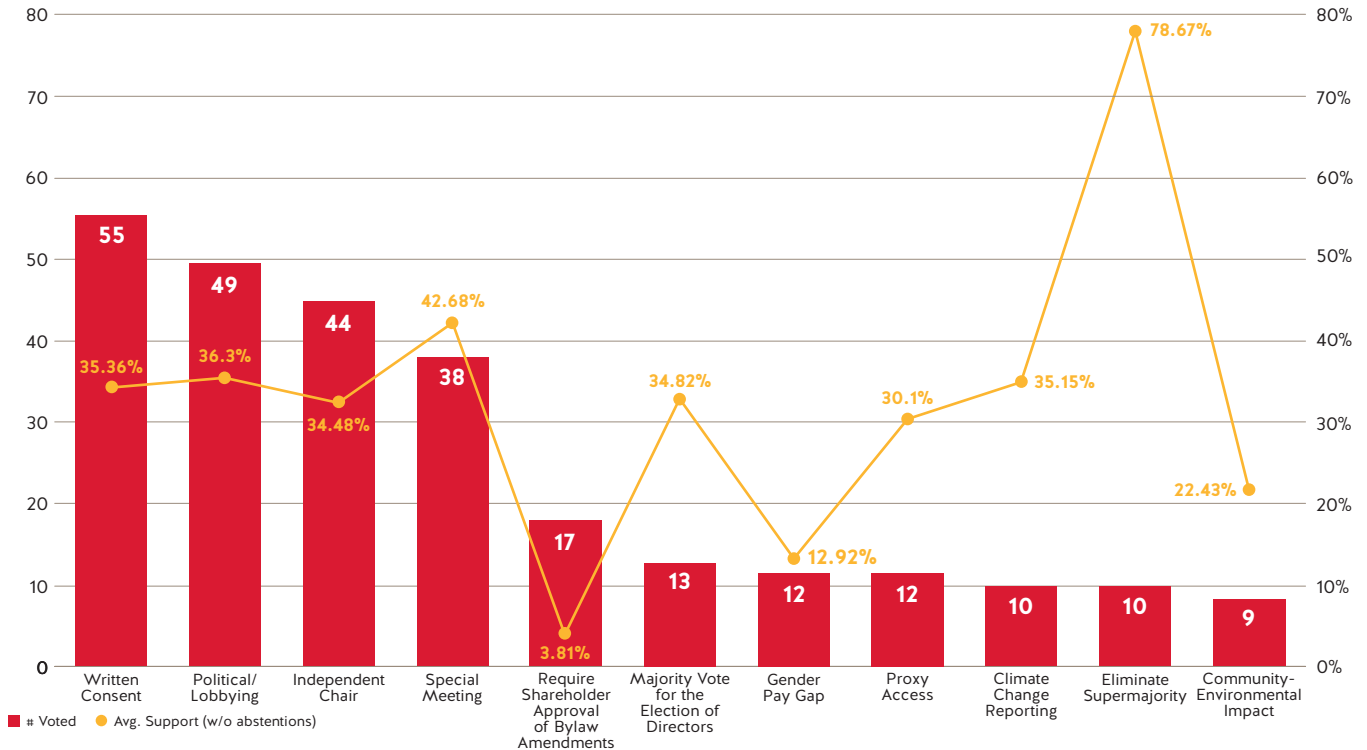


TOP SUBMITTED PROPOSALS 2020





TOP PROPOSALS THAT MADE IT ONTO BALLOTS 2020



ENVIRONMENTAL INITIATIVES

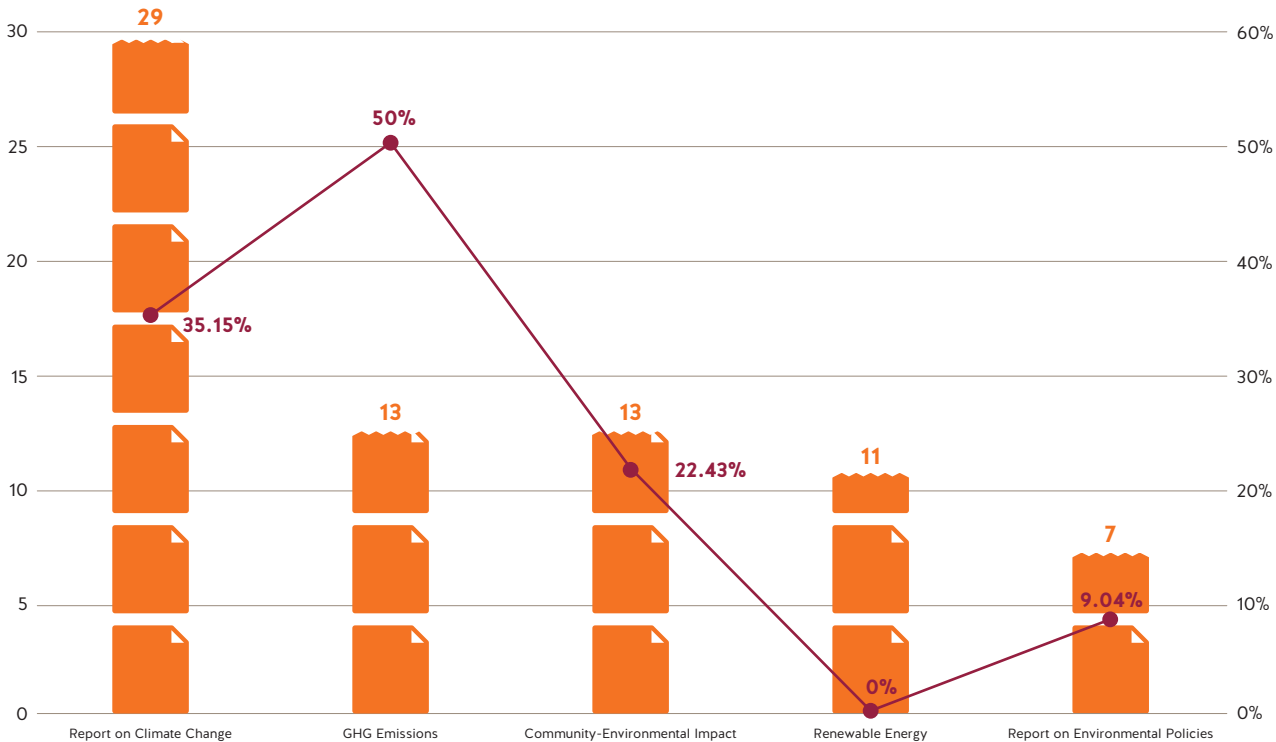
We saw an increasing number of proposals for environmental initiatives receiving majority support despite fewer submissions.

The Debrief

- 84 proposals were submitted this year, with 23 making it onto ballots. Six proposals received majority support this year, whereas none did in 2019.
- Requests for climate change reporting received the highest number of submissions as well as the highest number of proposals in this category that received majority shareholder support.
- Proposals requesting reports on the costs and benefits of climate-related expenditures increased slightly this year. These proposals, seen as a counterpoint to the momentum created by the major investors pushing for increased transparency regarding climate-related initiatives, all received low support levels in the single digits.



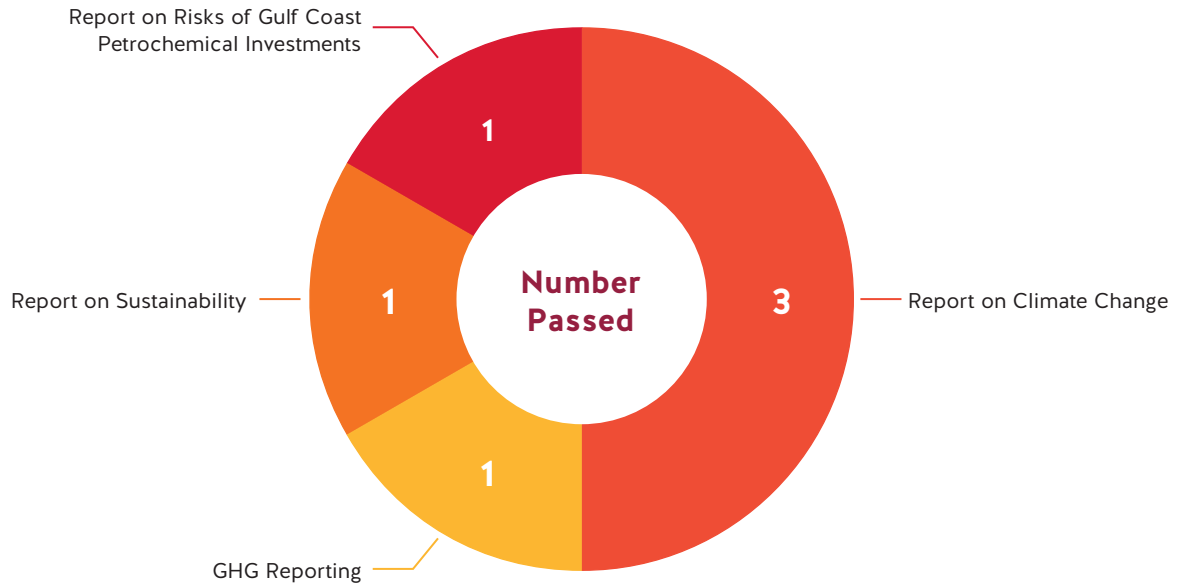
TOP ENVIRONMENTAL PROPOSALS



■ Submissions ● Avg. Support (w/o abstentions)



MAJORITY-SUPPORTED ENVIRONMENTAL PROPOSALS PASSED



Proponents

- Pension Plan of the United Church of Canada, The Trillium Small/Mid Cap Fund, BNP Paribas Asset Management
- As You Sow Foundation
- Undisclosed
- Jantz Management LLC

SOCIAL INITIATIVES

We recorded significant spikes in shareholder support for certain topics despite lower proposal submissions.

The Debrief

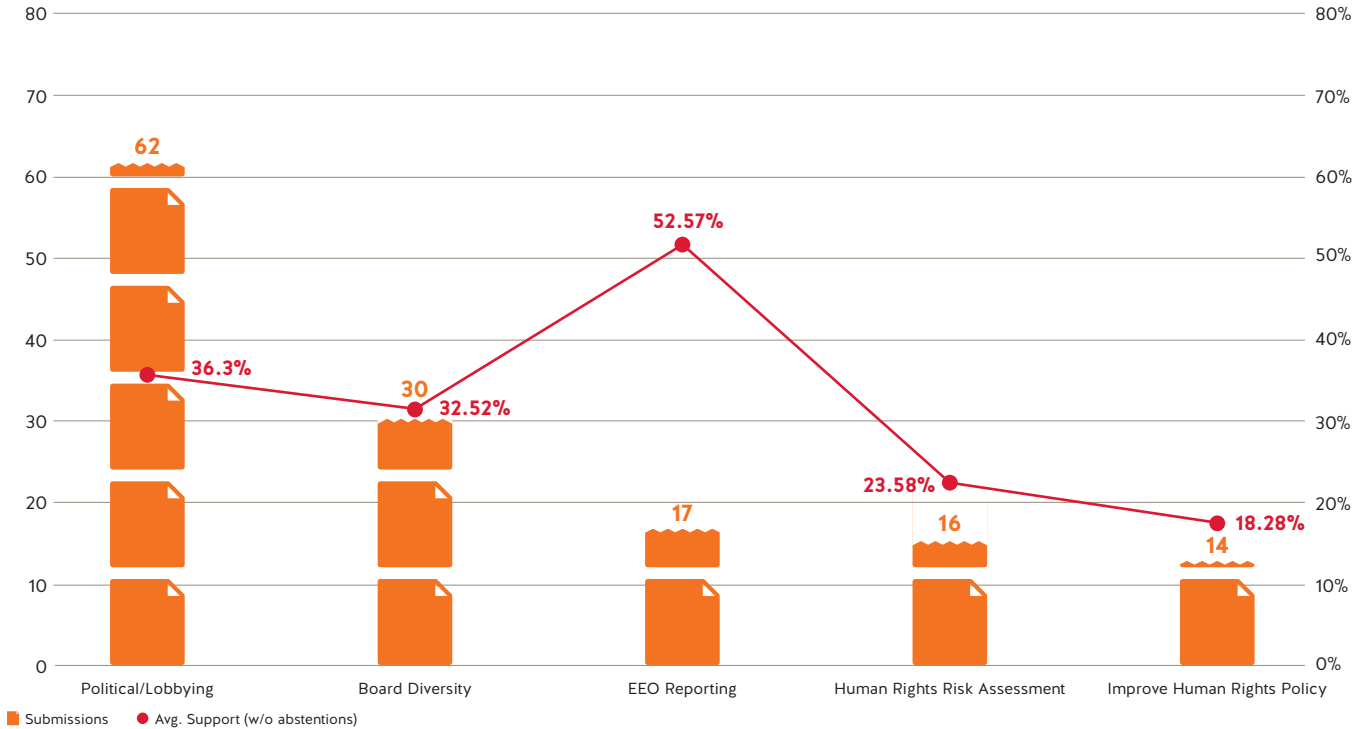
- Proposal submission lowered slightly to 258 this year (2019:314), with almost half making it onto ballots—similar to what we saw in 2019.
- Proposals requesting workforce diversity (“EEO”) reporting and strengthened board diversity saw significant jumps in shareholder support. Workforce diversity (“EEO”) reporting requests received an average of 52.57% shareholder support, compared to 38.60% the previous year. Support for board diversity proposals jumped by 144% to an average support level of 32.52%. This follows the larger trend of investors becoming increasingly interested in the human capital management of a company, a topic that will likely gain further traction following the employee impact of the COVID-19 crisis and the recent additional momentum related to the Black Lives Matter movement.
- Political contributions and lobbying proposals continue to take the lead in terms of submissions, and unsurprisingly in light of the current political climate, an increasing number are passing—five this year compared to three last year.
- The New York City Comptroller launched the third phase of the Boardroom Accountability Project in time for the 2020 proxy season with an initiative calling on companies to adopt a “Rooney Rule” policy, requiring the consideration of both women and people of color for every open board seat and for CEO appointments. The Comptroller has advanced this initiative through a combination of letter campaigns, shareholder proposal submissions and engagement with companies.

144%
increase in average
shareholder support for
board diversity proposals



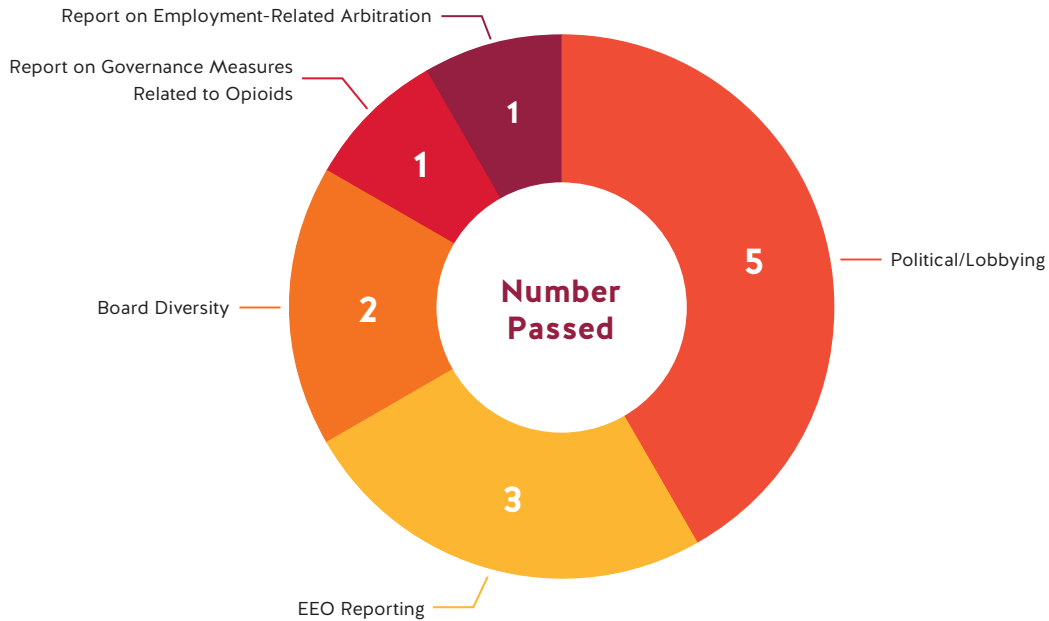


TOP SOCIAL PROPOSALS





MAJORITY-SUPPORTED SOCIAL PROPOSALS PASSED



Proponents

- James McRitchie, John Chevedden, The International Brotherhood of Teamsters General Fund, Service Employees International Union, Friends Fiduciary Union
- Lutra Living Trust, Terry Miller, As You Sow Foundation
- Comptroller of the State of New York
- Bright Start College Savings Trust
- Comptroller of the State of New York

GOVERNANCE INITIATIVES

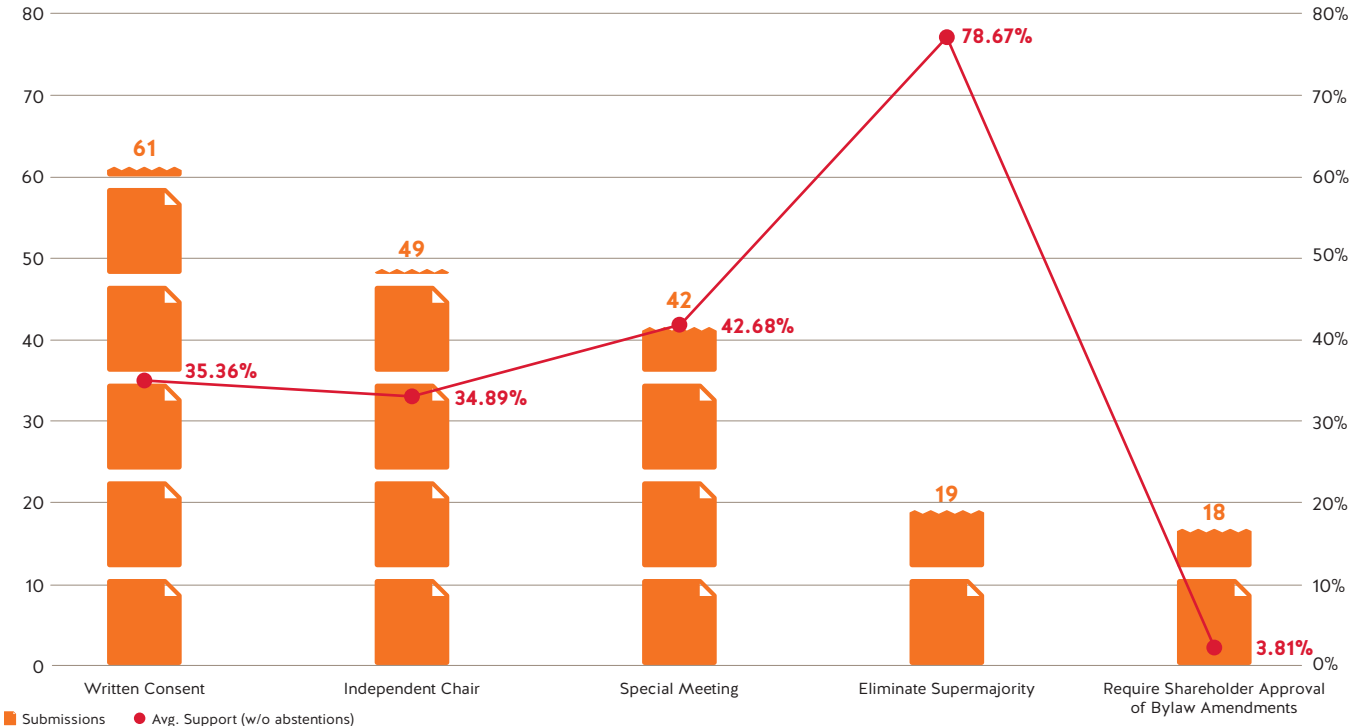
More proposals are making it onto ballots, and many are proving harder to defeat.

The Debrief

- Governance proposals saw an increase in submissions as well as proposals that made it onto ballots.
- This year, written consent proposals received the highest number of submissions within the governance umbrella, increasing by approximately 50% to 61 proposals. Although the majority of these proposals requested the adoption of written consent, three this year requested an amendment to the company's preexisting written consent provision. These proposals received an average support level of 8.18%, compared to an average support level of 35.36% for proposals requesting an adoption.
- Average support for proposals requesting an elimination of supermajority voting provisions skyrocketed to almost 80%. This has historically been the governance topic that receives the highest level of support, and it is rare for these proposals to be defeated.
- This year, retail "gadfly" shareholders such as John Chevedden and Kenneth Steiner focused efforts on submitting proposals that requested shareholder approval of all future bylaw amendments. However, these proposals only received an average of 3.81% shareholder support.

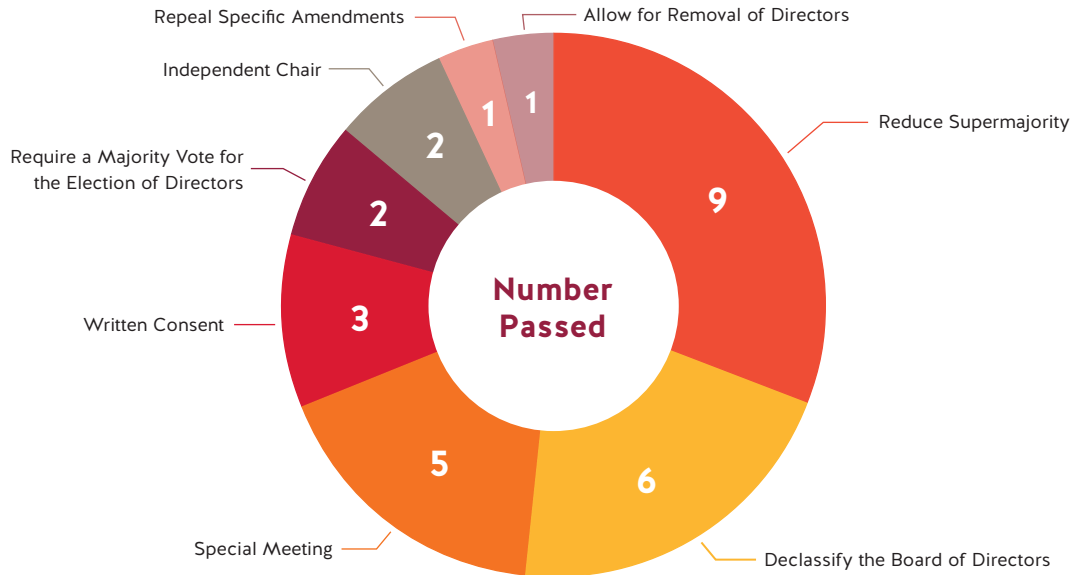


TOP GOVERNANCE PROPOSALS





MAJORITY-SUPPORTED GOVERNANCE PROPOSALS PASSED



Proponents

- John Chevedden, AFL-CIO, Undisclosed
- Lyons Capital, LLC, James McRitchie, Kenneth Steiner, GAMCO Asset Management, Myra Young
- John Chevedden, William Steiner, Undisclosed
- John Chevedden

- CalPERS
- Kenneth Steiner, Undisclosed
- Lapetus Capital II LLC
- James McRitchie

SAY-ON-PAY & EQUITY PLANS

Support remains high for both Say-on-Pay and Equity Plan proposals.

The Debrief

- Support for Say-on-Pay remains strong, with average support levels slightly increased from what we've seen in previous years. There were a fewer number of failures, down to 43 from 47 observed the previous year.
- Equity plan approvals remain uneventful, with support levels generally in line with historical data. Only two companies reported a failed vote this year.
- In terms of submissions, shareholder proposals regarding executive compensation have remained stagnant—only one passed this year, and it was a request to amend an executive compensation clawback policy. Proposals requesting the feasibility for incorporating ESG metrics into executive compensation received the highest number of submissions, though none passed.

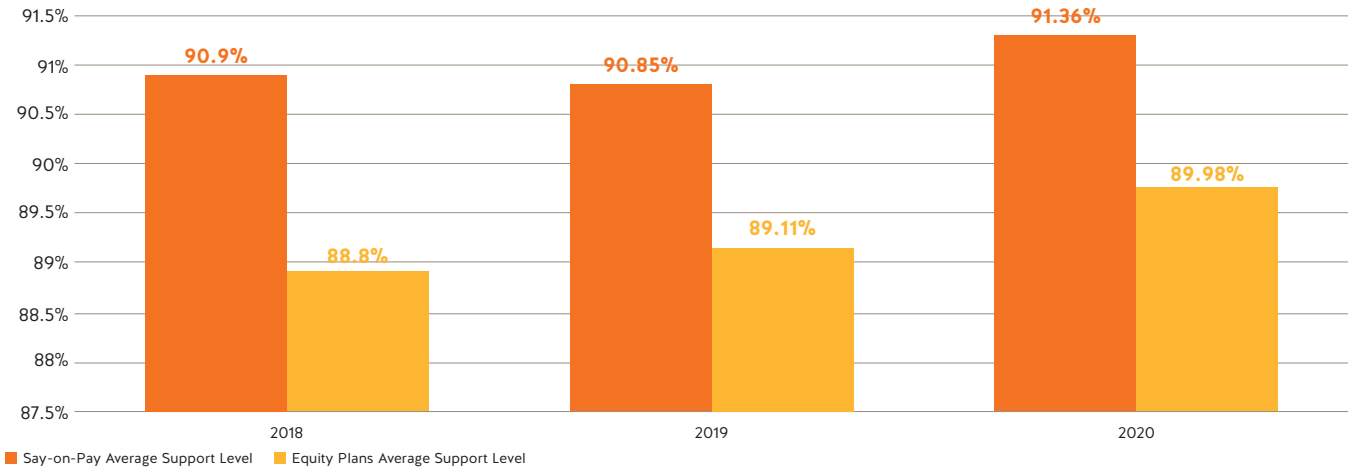


91%

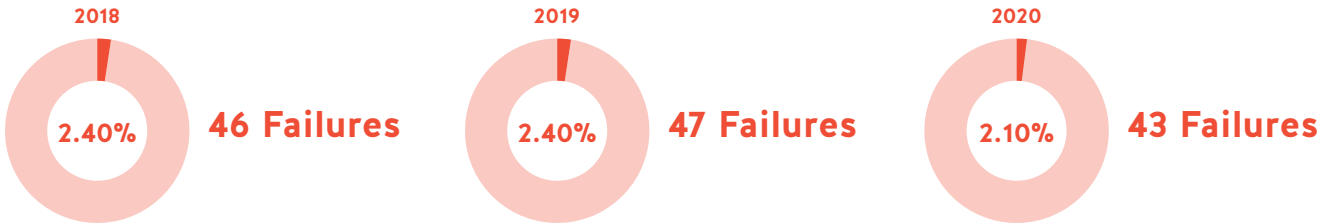
average support for
Say-on-Pay proposals



AVERAGE SUPPORT (SAY-ON-PAY & EQUITY PLANS)



SAY-ON-PAY FAILURE RATE



● Percentage of Total

COVID-19 AND ITS EFFECTS ON THE PROXY SEASON

COVID-19 heavily shapes this year's proxy season with major impact on the annual meeting process.

This year's proxy season has been heavily shaped by the COVID-19 pandemic and its impact on the annual meeting process. Various market players have stepped in to update policies or provide guidance in a time of transition—from the SEC jumping in to provide relief and guidance for issuers, to state governments issuing emergency orders to allow for virtual shareholder meetings, to proxy advisory firms issuing updated policy guidance for meetings taking place during the pandemic, we've observed a number of changes across the entire proxy landscape. As we head into the fall engagement season, it's also worth noting that large investors have made public statements indicating companies should be ready to discuss COVID-19 implications during off-season engagements, including updates on strategic planning and employee management. The following is a summary of key updates in areas that we've identified as rapidly changing as a result of the pandemic.



Broadridge reported hosting 860 virtual meetings through May 22 compared to 125 virtual meetings during the same time frame in 2019.

Virtual Meetings

As a result of the social distancing requirements of COVID-19, federal and state directives and the subsequent relaxation of regulatory requirements surrounding meeting logistics, companies flocked toward virtual meeting formats this year for their annual shareholder meetings. Broadridge reported that it hosted 860 virtual meetings between January and May 22 of this year, compared to only 125 virtual meetings during the same time frame in 2019.

Although it remains to be seen whether companies will continue en masse to utilize this new approach, some investors and advisory firms have raised some concerns about the widespread adoption of virtual meetings in a post-pandemic world. ISS, for example, has encouraged boards to commit post-pandemic to return to in-person or “hybrid” meetings, or to place the matter in front of shareholders to decide. CII also expressed hope that companies who adopted virtual meetings in light of the pandemic “will make it clear that this decision is a one-off, tailored for current circumstances.”

In a letter to the Chair of the SEC’s Investor Advisory Committee, CII also identified the following problems observed at virtual meetings in 2020:

- Shareholders having difficulty logging in to meetings, including issues with faulty control numbers
- Inability to ask questions in some cases if the shareholder had voted in advance by proxy
- Shareholders unable to ask questions during the meeting
- Lack of transparency on questions asked by shareholders, making it possible that company officials “cherry-pick” which questions to respond to
- Conflicting channels for shareholder participation, with shareholder proposal proponents required to be on a line separate from one used for the general Q&A
- At least one company prohibiting a shareholder proponent from speaking on behalf of its proposal

Poison Pills

In an attempt to strengthen anti-takeover measures following sudden share price declines caused by COVID-19, over 40 companies have adopted poison pills this year (compared to the 25 poison pills in effect at the end of 2019), which strikes a parallel to the adoptions observed following the 2008 fiscal crash.

The sudden surge in adoptions has led advisory firms to publish emergency guidance on the issue. Glass Lewis, for example, has stated that if a company adopts a poison pill as a result of the downturn caused by COVID-19 but does not limit the duration of the pill to one year or less and fails to disclose the associated rationale, then it will recommend against all board members who served at the time of the pill's adoption. ISS's updated approach is to consider poison pills with a duration of less than a year on a case-by-case basis, taking into account the board's rationale for the adoption of a poison pill, the existence of imminent threats, the specific provisions of the pill and whether the company has committed to seek a shareholder vote for any renewal of the pill.

Executive Compensation Changes

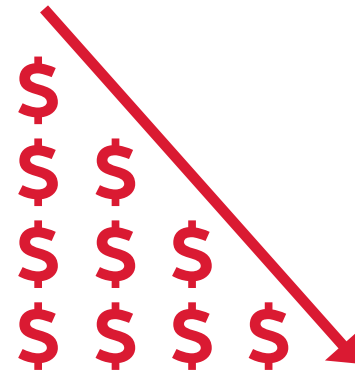
Companies are making various adjustments to executive compensation as a result of COVID-19, with changes ranging from cutting executive and/or director compensation to demonstrate aligned interest with shareholders to adjusting metrics and resetting triggers to reflect the volatility in the market. At May 15th, approximately a quarter of the S&P 500 had already published executive compensation-related responses to the pandemic in various filings.

Many companies that already made pay decisions at the start of the pandemic are likely waiting until payout determinations to assess whether adjustments are necessary, and many of those that had not yet made decisions in early 2020 chose to delay until the impact of COVID-19 was further realized.

For those that took responsive action early, pay actions appear to center on salary reductions as opposed to the loss of incentive plan compensation. According to research recently published by Semler Brossy, salary reductions for CEOs

have typically been 20% or greater, and roughly half of companies who have announced adjustments have cut their CEO's salary by 50% or more. Unsurprisingly, as one of the sectors with the largest declines in market cap, over 50% of Consumer Discretionary companies in the Russell 3000 have announced pay changes.

As we work our way through the calendar year, we expect to continue to see an increase in the number of companies making various changes to pay as a result of the pandemic. Because of this, we anticipate an increase in shareholder concerns regarding dilution, burn rates, changes to vesting periods and performance hurdles, and quality of disclosure regarding the exercise of board discretion. ISS has encouraged boards to provide contemporaneous disclosure to shareholders of their rationales for making such changes and has emphasized that it is generally not supportive of changes to midstream long-term awards since they cover multi-year periods.



Roughly half of companies who
have announced adjustments have
cut their CEO's salary by





50%
or more.

TRENDS IN INVESTOR BEHAVIOR

Overboarding

This proxy season, we saw investors continue to move toward stricter overboarding policies, which affected a fair number of directors up for reelection in 2020. In a significant update, State Street Global Advisors (“State Street”) amended its director overboarding policy for the 2020 proxy season to align with BlackRock and Vanguard’s more restrictive policies. Notably, Vanguard only recently tightened its own overboarding guidelines in 2019.

The chart below details the maximum number of public company boards a director can serve on before he/she is considered overboarded at several of the larger institutional investors:

 Institutional Investors/ ISS/GL	 Public Company CEO	 Public Company NEO	 Non-Executive Director
BlackRock	2 total boards	Applies only to CEO	4 total boards
Vanguard	2 total boards	2 total boards	4 total boards
State Street	2 total boards	2 total boards	4 total boards, 3 total boards for board chairs or lead directors
Northern Trust	2 total boards	Applies only to CEO	4 total boards
Invesco	3 total boards	Applies only to CEO	6 total boards
J.P. Morgan	3 total boards	Applies only to CEO	4 total boards
BNY Mellon	3 total boards	Applies only to CEO	6 total boards
CalPERS	2 total boards	2 total boards	4 total boards
CalSTRS	2 total boards	Applies only to CEO	4 total boards

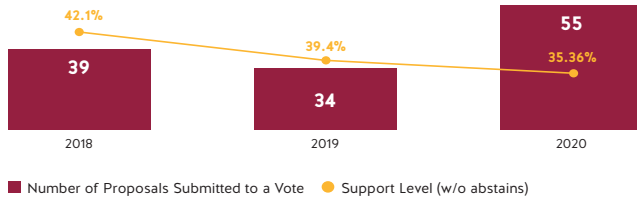
Continued Focus on Diversity

In October 2019, the New York City Comptroller's office launched Boardroom Accountability 3.0 by sending letters to 56 companies seeking the implementation of a form of "Rooney Rule," requesting a policy requiring the consideration of qualified women and racially/ethnically diverse candidates for director and CEO nominations. Ultimately, the Comptroller's office submitted shareholder proposals at 17 of the targeted companies. Following these submissions, 13 companies went on to implement Rooney Rule policies. Of the four companies where the proposal was subsequently not withdrawn, one received majority support.

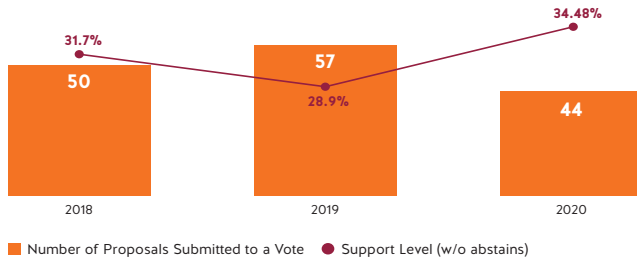
Investors across the board have been strengthening their stance on board diversity, and many now include quotas in their voting guidelines. BlackRock, for example, expects to see at least two women on each board and may vote against board members if it believes a company has not adequately accounted for diversity in its board composition. State Street has also recently updated its voting guidelines for the 2020 proxy season to state that it may vote against all members of the nominating committee in cases where there is a historical lack of women on the board. Proxy advisory firms have also updated policies to reflect this push. For the 2020 proxy season, ISS began recommending against the nominating committee chairs of boards of Russell 3000 companies with no female directors. Glass Lewis continued to do the same following a policy update in 2019.

APPENDIX

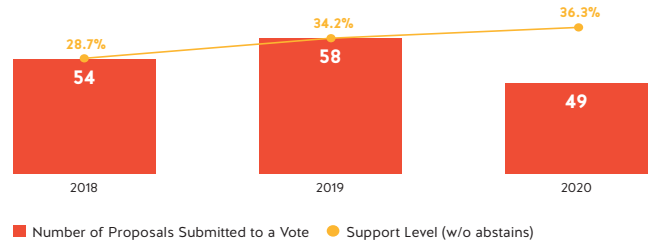
WRITTEN CONSENT



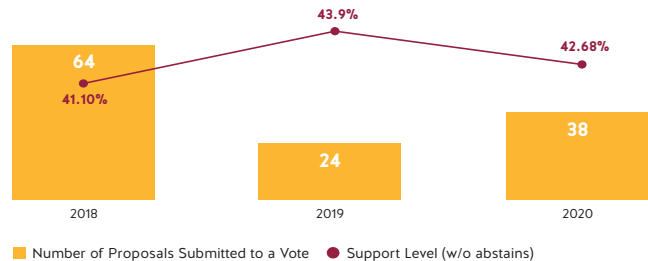
REQUIRE INDEPENDENT BOARD CHAIR



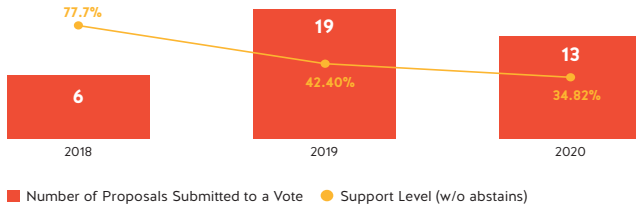
POLITICAL CONTRIBUTIONS/ LOBBYING



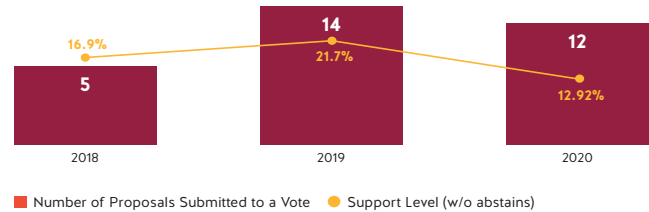
CALL SPECIAL MEETING



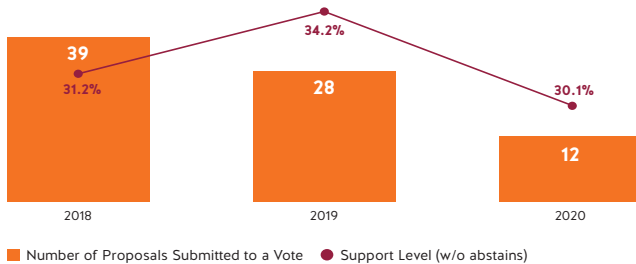
MAJORITY VOTE FOR EOD



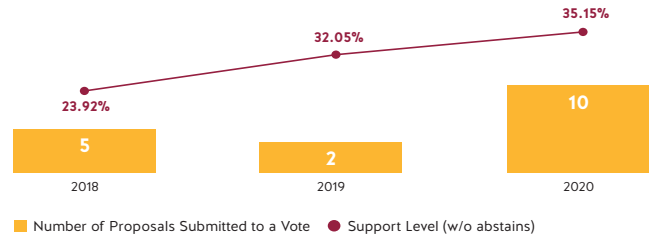
GENDER PAY GAP



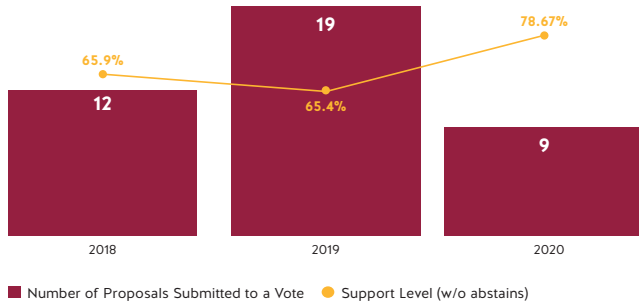
PROXY ACCESS



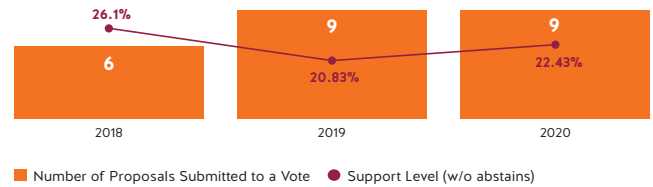
CLIMATE CHANGE REPORTING



REDUCE SUPERMAJORITY



COMMUNITY-ENVIRONMENTAL IMPACT



IT'S BEEN OUR PLEASURE TO PREPARE THE DEBRIEF FOR OUR CLIENTS AND COLLEAGUES.

Here are some next steps you can take:

- ▶ Schedule a more detailed review using the contact information below
- ▶ Request additional booklets to share
- ▶ Request additional information about this booklet's contents

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