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2017 PROXY SEASON REVIEW

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Overview

The 2017 proxy season will go down as a turning point for key environmental and social (E&S) initiatives as a result of pronounced shifts in the positions and voting policies of several major asset managers. For the first time, three resolutions on the management of climate change risks won majority support in the face of board opposition, including a landmark vote at the world's biggest oil producer, Exxon Mobil.

Two fund managers—BlackRock and State Street Global Advisors—also vowed to wield their proxy voting power to drive greater gender diversity in boardrooms where engagement efforts have been exhausted. Both firms put their pledges into action this season: two board diversity resolutions won majority support, and between them BlackRock and State Street cast votes against hundreds of nominating committee members.

In contrast, the hot topic of the past two proxy seasons—proxy access—was almost a non-event in 2017. Although over 170 resolutions were filed, only 30% ever reached ballots due to negotiated withdrawals and omissions. By the end of June, the ongoing campaign by the New York City Comptroller and other filers had firmly established access rights at 60% of S&P 500 companies. Private ordering has also solidified "3/3/20/20" as the standard access structure, negating shareholder interest in efforts by retail investors to amend provisions in existing bylaws.

For the most part, no other types of shareholder proposals achieved any appreciable voting momentum this year. While there were record filings of resolutions with social equity themes—board and workplace diversity, gender pay equity, and the Holy Land Principles—only the former gained any additional traction. Similarly, average support for many ubiquitous topics, such as independent board chairs and political spending disclosure, simply held steady year over year (see Table 1).

Proposal volume overall was down from 2016, in large part due to the expansion of engagement between investors and issuers. Resolutions on traditional governance measures, such as board declassification and majority voting, continue to fade from annual meeting ballots. Similarly, concerns over executive compensation have shifted to say-on-pay (SOP) votes, which registered their highest average support and lowest failure rate since 2011. E&S was the only proposal category that had a spike in filings, but about one-third were withdrawn following productive dialogues with issuers.

Relatively few first-time proposals emerged this year. New resolutions with a conservative slant on political risk and religious identity non-discrimination, as well as revivals of some familiar topics—drug pricing, minimum wage reform and enhanced confidential voting—did not withstand ordinary business challenges. However, one standout was a new campaign on the Dakota Access Pipeline's impact on Native American communities, which earned a respectable 26.7% in average support.

Outside of proxy proposals, investors and proxy advisors are zeroing in on new points of contention which they feel compromise shareholder rights, including virtual-only annual meetings, unequal voting stock, and restrictions on amending corporate bylaws. However, the fiercest showdown will be over stricter rules governing shareholders' ability to submit and resubmit resolutions, which are currently under consideration by Congress and the SEC.

This review examines some of the highlights of the 2017 proxy season and looks at the key developments that will shape shareholder agendas for 2018.

Governance

Proxy Access

Corporate adoptions of proxy access continued apace during the past year, resulting in fewer submissions of shareholder proposals and even fewer appearing on ballots compared to 2016, due to negotiated withdrawals and omissions. Currently, 451 companies have access rights, including 60% of the S&P 500 Index. Over three-quarters of their bylaws adhere to market standard parameters whereby up to 20 holders owning 3% of the stock for three years may nominate up to 20% of the board, often with a two-director minimum.

Although many companies, particularly large-caps, have embraced proxy access, over half of the adoptions in the past year have been in response to the filing of shareholder proposals rather than done proactively. The New York City Comptroller's office reported in April that it had withdrawn 70% of its 2017 proposals after the targeted companies adopted or agreed to adopt meaningful proxy access bylaws.[1] This is in stark contrast to 2015—the first year of its Boardroom Accountability Project—when 66 of the 75 resolutions filed went to a vote. Among New York City's 51 withdrawals this year were 43 companies that received first-time proposals and three companies—Kilroy Realty, New York Community Bancorp, and SBA Communications—that agreed to reduce the ownership thresholds in their existing proxy access bylaws from 5% to 3%, along with other revisions.

Changes to investor voting policies have added to the pressure on companies to comply with proxy access requests. This year, Fidelity Investments reversed its longstanding position to oppose proxy access proposals and began supporting those calling for market standard regimes. As a result, targeted companies could no longer count on opposition votes from Fidelity to defeat shareholder resolutions.[2]

Potential backlash against directors has also made issuers more disposed to implementing majority-supported proxy access resolutions. All but a handful of companies responded favorably to last year's majority votes, though three of the holdouts—Old Republic International, Nabors Industries, and Netflix—have a history of resisting majority-supported shareholder resolutions. A fourth company—Spectrum Pharmaceuticals—wanted to continue engaging its shareholders on the matter. At all four firms, many of the incumbent directors received sizable—and in some cases majority—opposition votes. Following its annual meeting, Nabors Industries—which had faced six years of majority votes on proxy access—amended its access policy to adopt a 3/3/20/20 structure. Previously, it only permitted a single 5%/3-year holder to nominate one director.

Corporate gadflies John Chevedden, James McRitchie, Myra Young, and Kenneth Steiner accounted for over half of the proxy access submissions, but two-thirds of their 2017 resolutions sought changes to existing bylaws ("fix-it" proposals) to make them more shareholder-friendly. Most did not survive no-action challenges.

Consistent with 2016, proposals seeking multiple revisions to bylaws (a "proxy access enhancement package") could be excluded as substantially implemented if the targeted company adopted a portion of the changes, the most essential being to reduce a 5% ownership threshold.[3] This year, only one issuer—Oshkosh—fulfilled that condition. In contrast, proposals seeking only a single revision to an access

[1] See the New York City Comptroller's 2017 target list at http://comptroller.nyc.gov/services/financial-matters/boardroom-accountability-project/focus-companies/ and press release at http://comptroller.nyc.gov/newsroom/press-releases/comptroller-stringer-and-nyc-pension-funds-with-50-new-agreements-boardroom-accountability-projects-success-continues/.

[2] See Fidelity Investments' 2017 guidelines at https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/Full-Proxy-Voting-Guidelines-for-Fidelity-Funds-Advised-by-FMRCo.pdf.

[3] The proposed amendments typically included eliminating any share aggregation limit, increasing the board seat cap to 25%, and removing any restrictions on the renomination of access candidates.

bylaw—specifically, to increase the aggregation limit to 40 or 50 shareholders—were excludable under Rule 14a-8(i)(10) so long as the no-action request provided details of the issuer's institutional investor base to show that a higher aggregation limit would not materially impact the availability of proxy access. Two-thirds of the single-issue fix-it proposals were omitted on that basis this year.

Proxy Access Votes

Proposals calling for the initial adoption of proxy access achieved a higher success rate and stronger support than in 2016. Overall, 28 such resolutions came to a vote, receiving 58.2% average support and 18 majority votes (see Table 2). Excluding those that were not opposed by the board—Abercrombie & Fitch, National Oilwell Varco, Nuance Communications, and Waters—average support was 56.3%, up from 49.2% in 2016, and 58% of the resolutions received majority votes, compared to 50% in 2016.

Notwithstanding the backing of Institutional Shareholder Services (ISS), all of the fix-it proposals were rejected by shareholders, with an average of 29.5% support, affirming that investors are reluctant to tinker with proxy access bylaws containing standard provisions.[4] The only corporate movement to raise aggregation caps in line with a retail investor proposal occurred at Broadridge Financial Solutions, which recently increased its limit from 20 to 50 shareholders ahead of its November annual meeting. Other firms made lesser adjustments, including Dun & Bradstreet, which boosted its limit from 20 to 35 shareholders, and PayPal Holdings, which simply mainstreamed its provision from 15 to 20 shareholders.

Proxy Access Outlook

Looking ahead, the private ordering of proxy access will continue in the S&P 500 universe where adoptions are forecast to reach as much as 75%-80% of the index next year. However, as campaigns migrate downstream to small and mid-cap firms, the pace of adoptions will likely start slowing, as has occurred with other governance reforms.

Meanwhile, fix-it proposals are undergoing a makeover in view of the high degree of omissions this year. A new version solely aims to raise aggregation caps, but this time to allow an unlimited number of shareholders to form a nominating group. The proposal has already survived a no-action challenge by H&R Block on substantial implementation grounds, so issuers should expect more of them next year.

It still remains to be seen what circumstances will trigger the use of proxy access and how likely it will be successful. The sole attempt—by GAMCO Investors at National Fuel Gas—was promptly disqualified because of the nominator's history of trying to influence control of the company.

With that uncertainty in mind, some companies are implementing alternative safeguards. This year, several Maryland real estate investment trusts (REITs), which are often in the crosshairs of union activists, countered the adoption of proxy access—or the prospect of adopting it—with additional protective measures. Pebblebrook Hotel Trust, which implemented proxy access in 2016, concomitantly granted shareholders the right to submit bylaw proposals, but only if they meet the same 3/3/20 eligibility criteria.[5] Two other REITs—Senior Housing Properties Trust and Hospitality Properties Trust—reclassified their boards shortly before or after their 2017 annual meetings

[4] This was further highlighted at Cummins and Williams-Sonoma where competing management and shareholder proposals offered a choice between a 20- or a 50-shareholder aggregation limit. Investors overwhelmingly backed the management resolutions.

[5] Pebblebrook Hotel Trust's eligibility requirement runs counter to ISS's 2017 policy regarding shareholders' ability to amend the bylaws. However, the company based its provision on extensive investor feedback, which shielded the directors from potential voting backlash.

where proxy access proposals won substantial majority support.

Director Votes

With newly established proxy access rights still untapped, shareholders are relying on traditional measures—director votes and "vote no" campaigns—to register their dissatisfaction with individual board members or entire boards. This season, the number of directors receiving significant negative votes—in the 30% and 40% ranges—remained largely consistent with the first half of 2016. However, far fewer directors faced majority opposition compared to last year—51 versus 70—signaling that companies are effectively heading off issues of serious concern to shareholders.

The highest no-confidence votes were primarily attributable to compensation practices, attendance at board and committee meetings, director independence, and responsiveness to past shareholder votes. Where opposition reached over 50%, companies with majority voting and/or director resignation policies—eight in all—promptly addressed the underlying concerns following their annual meetings, particularly where they involved only an isolated matter such as attendance or overboarding. However, the boards of three companies—Hospitality Properties Trust, Nabors Industries, and Senior Housing Properties Trust—continued to sidestep longstanding shareholder angst over pay and governance and rejected director resignations for a third consecutive year.

Few companies experienced any sizable repercussions this year arising from a new ISS policy to oppose governance committee members if shareholders do not have the right to amend the bylaws. ISS reportedly recommended against over 200 directors at Russell 3000 firms on this basis.[6] Where this factor came into play, only 14 governance committee members—primarily chairs—received dissenting votes in excess of 40%, including four where opposition exceeded 50%. Most of the affected companies were Maryland REITs, and in a number of cases there were additional reasons behind the negative votes relating to governance, pay, attendance, overboarding and board responsiveness.

S&P 500 board members encountered significant pushback from shareholders this year. According to ISS, shareholders cast 20% or more of their votes against 102 S&P 500 company directors—the most in seven years. However, in only 14 cases did dissenting votes reach over 40%, and half of these were one-off situations: fallout at Wells Fargo over the consumer account fraud and a "vote no" campaign at Mylan over the EpiPen pricing controversy and high executive pay.

Apart from Mylan, most of this year's "vote no" campaigns failed to generate significant traction. Several efforts were handicapped by high insider ownership, including union attempts to unseat two long-tenured directors at Urban Outfitters and a protest vote at Red Rock Resorts, which went public last year with dual-class stock and other adverse governance provisions. In one of the more unusual campaigns, the New York City Pension Funds took aim at NRG Energy director Barry Smitherman, in part for his alleged history of climate change denial. However, the effort fell flat and Smitherman was reelected by 92% of the votes.

Dual-Class Stock

Snap's unprecedented issuance of non-voting stock in its recent initial public offering (IPO) unleashed a firestorm of protest from investors over multi-class capital structures that accord founders perpetual control of their companies. Notwithstanding Snap's successful IPO, investors are reopening the debate over unequal voting rights on a number of fronts.

At the urging of the Council of Institutional Investors (CII), index providers S&P Dow Jones, FTSE Russell, and MSCI launched consultations this spring seeking input from users and other stakeholders on whether to exclude non-voting shares from their benchmarks.

[6] See Sullivan & Cromwell's 2017 Proxy Season Review at https://www.sullcrom.com/2017-proxy-season-review.

Based on the responses, S&P Dow Jones and FTSE Russell recently announced the changes below.[7] The MSCI review runs until Aug. 31.

- S&P Dow Jones will no longer add companies with multiple share class structures to the S&P Composite 1500 and its component indices (S&P 500, S&P MidCap 400, and S&P SmallCap 600). Existing index constituents will be grandfathered and not affected by this change. No modifications are being made to the methodologies of the other S&P Dow Jones indices.

- FTSE Russell will require developed market constituents of all of its indexes to have over 5% of their voting rights in the hands of unrestricted (free-float) shareholders. The rule will take effect for new constituents, including IPOs, in September. Existing constituents will have a five-year graced period to change their capital structures to meet the hurdle. FTSE Russell will review the level of the threshold and the sanction for non-compliant companies annually.

CII members have also appealed to the Senate Banking Committee and major securities exchanges to enact rules prohibiting the listing of companies with two or more classes of stock with unequal voting rights. To date, the New York Stock Exchange has not issued any public statements in response. However, Nasdaq released a report in May that endorsed multi-class stock as a way of encouraging entrepreneurship, innovation and wealth creation in the U.S. economy by "establishing multiple paths entrepreneurs can take to public markets."[8]

As an additional step, CII has approached individual companies, such as Blue Apron Holdings, that plan to go public with multiple classes of stock, as well as initiated discussions with investment banks and law firms that are behind these structures. At a minimum, CII is pushing for five-year sunset provisions or for holding a shareholder vote every five years—on a one share/one vote basis—on continuing the differential voting rights structure.

The proxy advisors have also been cracking down on recent IPOs with multi-class stock structures or other unfavorable governance provisions, such as classified boards and supermajority voting requirements to amend the charter or bylaws. According to Cooley LLP, as of mid-May, ISS had recommended against virtually all director elections at newly public companies with these features, while Glass Lewis recommended against governance committee members in cases where the company had been public for over a year. Other than a few IPO spinoffs from public companies, Cooley had not observed any firms adopting sunset clauses or committing in advance to submitting these provisions for shareholder approval.

At established companies, shareholders are having more success at deterring the creation of unequal voting stock than in abolishing it where it already exists. Greenlight Capital's controversial proposal to split General Motors stock into dividend and capital appreciation shares with disparate voting rights suffered a stunning defeat with only 7.8% support. And in June, a lawsuit from the California Public Employees' Retirement System (CalPERS) compelled IAC/Interactive to abandon its plan to issue a new class of non-voting stock.

Proxy proposals, on the other hand, have proven futile in prodding founder-controlled companies to recapitalize their multi-class stock. This season, nine such proposals were submitted, mostly by individual investors, eight of which were reprisals—including for the 13th consecutive year at Ford Motor. Average support, at 29.3%, remained consistent with previous years, despite the fact that at some companies, such as

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[7] See the S&P Dow Jones and FTSE Russell changes at https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/560954_july2017usmethodologyupdatesprmulti.pdf?force_download=true and http://www.ftse.com/products/downloads/FTSE_Russell_Voting_Rights_Consultation_Next_Steps.pdf.

[8] See Nasdaq's report at http://business.nasdaq.com/media/Nasdaq%20Blueprint%20to%20Revitalize%20Capital%20Markets_tcm5044-43175.pdf.

Alphabet, estimated support from non-insider shareholders reached as high as 99%. According to Proxy Insight, average support for the proposals was 69% when excluding founder influence.

Ultimately, shareholders may have to make a compelling economic argument in order to convince company founders to unwind multi-tiered stock. Such was the case at Forest City Realty Trust which collapsed its decades-old dual-class structure in the face of chronic underperformance and persistent agitation by hedge fund Scopia Capital Management.

Virtual Meetings

The rapid rise of virtual-only annual meetings over traditional in-person events, particularly at large-cap companies, has sparked criticism from some shareholders who contend that e-meetings limit their ability to directly engage and confront boards and managements. This year alone, Broadridge Financial Solutions expects about 250 companies to convene online-only meetings, compared to 154 in 2016 and just 26 in 2012.

Various investors—mainly individuals—have tried to slow the cyber meeting trend by submitting proposals asking companies to reinstate physical meetings. However, proxy proposals on this topic, including four this year, continue to get omitted on ordinary business or technical grounds. As a result, the New York City Pension Funds adopted a tougher stance by declaring that they would vote against governance committee members at a virtual-only annual meeting. The new policy applies to S&P 500 firms in 2017 and all other companies thereafter.[9] It is yet unclear whether this approach will have any meaningful effect since most institutional investors and proxy advisors have not taken a position on virtual-only meetings.

Issuers planning to go the e-meeting route should consider a hybrid format whereby remote communications supplement, rather than supplant, an in-person meeting. Investor groups such as CII, CalPERS, and the California State Teachers' Retirement System (CalSTRS) endorse hybrid meetings. Alternatively, issuers can dispel negative publicity and investor objections over cyber meetings by employing various safeguards and best practices suggested in the "Guidelines for Protecting and Enhancing Online Shareholder Participation in Annual Meetings," developed by Broadridge and various corporate and investor organizations.[10]

Environmental & Social

Climate Change

Two thousand seventeen has been a breakthrough year for climate change resolutions with three registering majority votes for the first time at Exxon Mobil, Occidental Petroleum, and PPL. The proposals, which deal with the business impact of the Paris Agreement's 2° Celsius limit on global warming, saw average support surge to 45.4% from 38% last year. The most pronounced increase was at Exxon, where voting support rocketed to 62.1% from 38.1% in 2016.

The landmark outcome is attributable to a shift in voting by several large asset managers. BlackRock—which had opposed the resolutions in 2016—designated climate change as one of its engagement priorities for 2017-18 and announced that it would vote against directors and in favor of shareholder proposals where dialogue with issuers failed to resolve its concerns. BlackRock took the additional step of explaining its reversal of opinion at Exxon and Occidental in proxy

[9] See the New York City Pension Plans' 2017 voting guidelines at http://comptroller.nyc.gov/wp-content/uploads/documents/NYCRS-Corporate-Governance-Principles-and-Proxy-Voting-Guidelines_April-2016-Revised-April-2017.pdf and its press release on virtual-only meetings at https://comptroller.nyc.gov/newsroom/comptroller-stringer-virtual-only-meetings-deprive-shareowners-of-important-rights-stifle-criticism/.

[10] See http://media.broadridge.com/documents/Broadridge-Guidelines-For-Shareholder-Participation-Report.pdf.

voting bulletins.[11] It plans to issue additional bulletins on other high-profile proxy proposals—primarily at companies that have been unresponsive to its "engage first" approach—on the day of the annual meeting or shortly thereafter.

While voting records won't be known until Form N-PX filings are released in August, media reports suggest that State Street, Vanguard Group, and Fidelity Investments supported the 2° C. proposals as well. Like BlackRock, State Street has made climate change a priority in its engagement with issuers and has shifted its proxy voting in recent years to support more climate-related shareholder resolutions—46% in 2016, compared to only 20% in 2015 and 13% in 2014. Fidelity and Vanguard, which have historically voted against or abstained on most E&S resolutions, also revised their voting guidelines for 2017. Fidelity will support shareholder proposals calling for reports on sustainability, renewable energy, and environmental impact issues where it believes such disclosures could provide meaningful information to investors without unduly burdening the company. Likewise, Vanguard eliminated the use of abstentions on E&S proposals and will support those that have a "logically demonstrable linkage" to long-term shareholder value.

Fund managers have also been under pressure in recent years to explain disparities between their stated positions on climate change and their voting records on climate-related resolutions. This season, the Bank of New York Mellon, Franklin Resources, and T. Rowe Price Group were subject to proxy voting review proposals, though they averaged only 6.7% support—in line with prior years. Others are pending at two Vanguard index funds with November annual meetings.

[11] See BlackRock's proxy vote summaries on Exxon Mobil and Occidental Petroleum at https://www.blackrock.com/corporate/en-br/literature/press-release/blk-vote-bulletin-exxon-may-2017.pdf and https://www.blackrock.com/corporate/en-br/literature/publication/blk-vote-bulletin-occidental-may-2017.pdf. It has issued additional bulletins on Chevron, Mylan, Royal Dutch Shell, and Santos. See https://www.blackrock.com/corporate/en-br/about-us/investment-stewardship/voting-guidelines-reports-position-papers.

Additional resolutions were withdrawn at BlackRock and at JPMorgan Chase, both of which amended their voting policies.

More efforts are underway to promote transparency around proxy voting on climate change issues. This year, the United Nations-backed Principles for Responsible Investment (PRI) launched a proxy vote declaration platform to allow investors to share their proxy voting decisions on proposals filed or co-filed by PRI signatories.[12]

Outlook on Climate Change Proposals

Looking ahead, the successful vote at Exxon, coupled with the Trump administration's withdrawal from the Paris Agreement, is reinvigorating shareholder activists to forge ahead with their climate change advocacy and press portfolio companies to stay the course on reducing carbon emissions. A number of businesses, primarily in the technology and retail sectors, are already joining alliances with investor groups, universities, and state and local governments to continue pursuing ambitious climate goals despite the rollback of environmental regulations at the federal level.[13]

However, climate risk proposals could be a tougher sell next year at energy companies whose investors stand to benefit substantially from the Trump administration's "energy dominance" strategy, which not only scales back regulations but promotes the production of oil, natural gas, and coal for export around the world. Nevertheless, proponents will likely refile their resolutions with a view that the Paris goals extend decades into the future during which time the regulatory and political landscape in the U.S. could shift dramatically.

[12] See the PRI platform at https://www.unpri.org/page/pri-launches-proxy-voting-declaration-system and PRI's analysis of the 2017 proxy season at https://www.unpri.org/news/proxy-season-2017-analysing-the-trends.
[13] See the "We Are Still In" initiative at http://wearestillin.com/.

Because climate risk disclosures are inconsistent across companies, some investors, such as BlackRock and CalPERS, are urging issuers to follow guidelines developed by the Group of 20's Financial Stability Board in its Task Force on Climate-Related Disclosures.[14] The guidelines provide a standardized methodology for analyzing corporate risks and strategies under various carbon-constrained scenarios that investors can use to benchmark companies. Chevron used a similar framework in its 2017 climate risk management report which prompted the withdrawal of a 2° C proposal.[15]

Board Diversity

Diversity activists continued to make strides this year in urging companies to improve the gender and racial mix of their boards. Of the record 37 resolutions filed, over 60% were withdrawn after the targeted firms agreed to improve their recruitment of women and minorities. Average support on those voted rose to 27.7% from 24.8% in 2016, and two proposals received majority approval, including at COGNEX and Hudson Pacific Properties, where support reached 84.8%—an all-time high.

Building on their success at large-cap firms, proponents are increasingly drilling down to the next tier of companies. The Amalgamated Bank/LongView Funds, for example, reported that since the 2014-15 proxy season, it has deepened its campaign to midsize firms, including seven resolutions in 2017 which were largely withdrawn. However, plenty of targets remain. According to ISS, 28% of mid- and small-cap Russell 3000 firms have no female directors, compared to only 1% of the S&P 500 universe.

Beyond company commitments, shareholders are now demanding results. BlackRock and State Street announced in March that they were stepping up their board diversity advocacy through engagement and letter-writing. If progress was not made within a reasonable timeframe, they would use their proxy voting power to drive change by voting against nominating committee members.[16] Both firms began putting this policy into practice this proxy season. According to its latest investment stewardship report, BlackRock supported eight out of nine board diversity proposals during the second quarter of 2017, and also voted against members of the nominating committees at five of the companies.[17] State Street reported that it voted against the chair or most senior member of the nominating committee at 400 companies that had all-male boards, including 394 U.S. firms.

A number of public pension plans and social investment funds are taking a similar approach. In the past year, the Massachusetts Pension Reserves Investment Management Board (PRIM) and Rhode Island State Investment Commission adopted policies to vote against director nominees if less than 30% of the board is gender and racially diverse.[18] Calvert Investments also amended its proxy voting policies in August 2016 to oppose nominating committee members if they failed to include diversity in director searches. Other funds, such as Pax World, have had longstanding policies to oppose board slates unless they include at least two women.

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[14] See the Task Force's guidelines at https://www.fsb-tcfd.org/publications/final-recommendations-report/.

[15] See Chevron's report on managing climate change risks at https://www.chevron.com/-/media/chevron/shared/documents/climate-risk-perspective.pdf.

[16] See BlackRock's 2018-2017 engagement priorities at https://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/engagement-priorities. See SSGA's "Guidance on Enhancing Gender Diversity on Boards" at https://www.ssga.com/investment-topics/environmental-social-governance/2017/guidance-on-enhancing-gender-diversity-on-boards.pdf.

[17] See BlackRock's Q2 2017 Investment Stewardship Report at https://www.blackrock.com/corporate/en-br/literature/publication/blk-qtrly-commentary-2017-q2-amers.pdf. According to Bloomberg, between 2012 and 2016 BlackRock supported only two board diversity resolutions and opposed 98.

[18] PRIM's prior policy, dating to 2015, called for 25% board diversity. Based on this policy, PRIM has since voted against board nominees in 65% of director elections.

In a parallel effort, Congressional Democrats are reviving calls for board diversity rulemaking by the SEC. Through letters and renewed legislation—the Gender Diversity in Corporate Leadership Act of 2017 (H.R. 1611)—they have petitioned the SEC to mandate proxy disclosures of the gender, ethnic, and racial composition of company boards.[19] According to Equilar, only 12.8% of S&P 500 firms voluntarily provided these details about their board members and nominees in their 2016 proxy statements.

Workforce Diversity

In addition to board-level initiatives, efforts to promote workforce diversity accelerated this year, with double the number of proposals filed as in 2016. Largely sponsored by Trillium Asset Management at financial services firms, the resolutions request a breakdown of employees by race and gender across major EEOC-defined job categories and disclosure of the company's policies and programs for increasing diversity in the workplace.

Half of the 2017 resolutions were ultimately withdrawn after the companies agreed to publicize their workforce diversity data. Support for the resolutions voted saw a resurgence, averaging 28.8%—the strongest level since 2012—and two proposals reached new highs: 36.4% at Travelers Companies and 36.9% at T. Rowe Price Group, where the board made no recommendation.

The push for equal employment opportunities for women and minorities has coincided with a scale-back in resolutions calling for non-discrimination policies based on sexual orientation and gender identity. Because many companies now offer such protections, only eight resolutions were filed in 2017, all of which were either withdrawn or, in the case of Cato, omitted as substantially implemented.

Interest in effective workforce management is picking up steam in advance of next year's proxy season. In early July, a coalition of 25 investors led by the UAW Retiree Medical Benefits Trust (the "Human Capital Management Coalition") submitted a rulemaking petition to the SEC calling for comprehensive disclosure of companies' human capital management, practices and performance. The petition outlines nine broad categories of information deemed fundamental to human capital analysis, including workforce diversity and pay equity policies, which can impact firm performance. Under current SEC rules, companies are only required to report their employee headcount.[20]

Compensation

Say on Pay

Companies enjoyed record support for executive compensation in the first half of 2017, validating the effectiveness of their ongoing outreach with shareholders. Across all companies, average SOP support was 92%, up from 91.3% in the first half of 2016, while the rate of failure dipped to 1.2% from 1.6% last year—the lowest level since SOP was first introduced in 2011. The percentage of companies receiving over 90% support (78.1%) was higher than in any other prior year, while the proportion receiving less than 70% support (6.8%)—ISS's threshold for enhanced scrutiny—remained on par with 2016.

Among the 31 failures were 28 Russell 3000 constituents, including three in the S&P 500 Index: Bed Bath & Beyond, ConocoPhillips, and Mylan (see Table 3). Mylan, which also faced a director "vote no" campaign over its EpiPen pricing scandal, registered the lowest SOP approval at 16.5%. Fourteen of the companies had experienced failed SOP votes at least once in the past, and one firm—Tutor Perini—has seen its executive compensation voted down every year since 2011.

Direct engagement between issuers and investors is also lessening the impact of negative proxy advisor

[19] See https://meeks.house.gov/media/press-releases/rep-meeks-sends-letter-improving-corporate-board-diversity-disclosures-sec.

[20] See the Human Capital Management Coalition's rulemaking petition at https://www.sec.gov/rules/petitions/2017/petn4-711.pdf.

recommendations. Through June, ISS advised against 12.4% of SOP proposals, roughly in line with the first half of 2016 at 11.6%.[21] Average SOP support at those companies was 23.4% lower than at companies that received a favorable ISS recommendation. In past years, ISS influenced as much as 28% of the vote.

Say on Pay Frequency

SOP frequency votes also returned to ballots this year at companies that held their last frequency vote in 2011. The results confirmed an overwhelming preference by both issuers and investors for annual pay votes.

Through June, 85% of boards recommended holding yearly pay votes and shareholders approved annual frequencies at 89% of companies. In many cases where shareholders did not follow the board's recommendation, the votes were close. However, shareholders soundly rejected the continuation or adoption of triennial frequencies at 10 companies with troublesome pay practices, reflected in failed or low (less than 70%) SOP votes this year.

Pay Disparity

Coinciding with their diversity initiatives, shareholder proponents honed their compensation-related resolutions on gender pay equity and CEO/worker pay disparity—the only compensation topics that significantly gained in number this year.

As a follow-on to last year's successful campaign at technology companies, Arjuna Capital and Pax World—joined this year by the New York City Pension Funds—asked firms in the financial services, insurance, healthcare, and telecommunications sectors to report on whether they had a gender pay gap, the size of the gap, and their policies and goals for reducing it. A broader version submitted by Zevin Asset Management at Colgate-Palmolive and TJX Companies extended to pay disparities based on gender, race and ethnicity.

About half of the companies complied with this year's requests, prompting withdrawals. The remaining resolutions registered 12.9% support on average, down from 16.9% in 2016 when a proposal at eBay won majority backing. Undeterred by the results, Arjuna Capital plans to refile the proposals next year and is reported to be in talks with several retail firms to release their data without a formal shareholder resolution.

As in past years, union pension plans and other proponents advanced resolutions requesting reports comparing senior executive and employee pay and whether there should be adjustments in the event of downsizings. However, these continued to draw only single-digit support. A new variation this year asked six companies to take into account the pay grades and salary ranges of all employees when setting target amounts for CEO compensation. These were largely withdrawn except at SL Green Realty where the proposal received 3.2% support.

Pay Ratios

As it stands, the CEO pay ratio rule is unlikely to be revoked ahead of its 2018 implementation date. The Financial CHOICE Act of 2017, which overhauls the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, passed the U.S. House of Representatives on June 8 but faces long odds in the Senate in its current form. The CHOICE Act would repeal the pay ratio rule along with other compensation mandates, such as the disclosure of employee and director hedging and holding periodic SOP votes, except in years when there has been a material change in executive pay.

There is still an outside chance that the SEC could delay the effective date of the rule. In a recent speech, Commissioner Michael Piwowar indicated that this is still under consideration given unexpected difficulties issuers are having in meeting the compliance deadline. He urged interested parties to continue submitting comment letters.

[21] Glass Lewis has not yet published statistics on its 2017 SOP recommendations.

With the 2018 proxy season fast approaching, calendar-year companies should continue to ready their pay ratio disclosures for next year's proxy statements. They should also monitor how mainstream investors and proxy advisors, who primarily focus on pay for performance, plan to incorporate the ratios into their SOP reviews. A Bank of America Merrill Lynch analysis suggested that investors could attach more importance to how a company's pay ratio evolves over time. A widening differential could be an early warning indicator of the kind of runaway pay practices that occurred before the 2008 financial crisis.

While issuers should prepare for potential fallout, early corporate disclosures indicate that the numbers may not be as eye-popping as activists allege. According to Winston & Strawn, seven companies that voluntarily disclosed their pay ratios in their 2017 proxy statements calculated figures ranging from 6:1 to 79:1.[22] Similarly, half of respondents to a 2016 Mercer survey came up with CEO/worker pay ratios of less than 200:1—well below the 347:1 statistic touted by the AFL-CIO, which has been called out for selectively using the total compensation of the highest paid CEOs in the S&P 500 Index.[23]

Aside from assembling disclosures, issuers should stay apprised of efforts by state and local governments to levy tax surcharges on publicly-traded companies whose reported pay ratios exceed certain thresholds. At the end of 2016, Portland, Oregon passed an ordinance that will impose a 10% surtax on public companies covered by the city's business license tax if their pay ratio is at least 100:1. The surtax rises to 25% if the ratio exceeds 250:1. Other jurisdictions, including San Francisco, Massachusetts, Rhode Island, Illinois, and Minnesota, are considering similar measures in the form of additional taxes or fees.

Shareholder Proposal Reform

For issuers and shareholders alike, the most far-reaching governance component of the CHOICE Act is the overhaul of Rule 14a-8 eligibility requirements, which were last revised in 1998. The bill would raise the ownership threshold for submitting a shareholder proposal to 1% for three years, doing away with the $2,000 threshold and extending the holding period from the current one year. Resubmission thresholds would be increased from 3% to 6% support on the first submission, from 6% to 15% on the second submission, and from 10% to 30% on the third submission. The bill would also prohibit "proposals by proxy" whereby a shareholder authorizes another individual to file a resolution on his behalf.

Corporations and business organizations have long argued that the shareholder proposal process has been abused by special interest activists to advance social and political agendas that have little connection to shareholder value.[24] Often these investors have minimal stakes in their targeted companies and their campaigns have a limited success rate. According to a 2016 paper by Stanford University's Rock Center for Corporate Governance, most shareholder proposals receive only minimal support—29% on average over the past 10 years—and only a handful of subject matters routinely elicit majority support.[25] All of this comes at a real cost to companies and other public shareholders—an estimated $87,000 per proposal according to the U.S. Chamber of Commerce, including

[22] The companies reporting CEO pay ratios included First Real Estate Investment Trust of New Jersey, Gencor Industries, Novagold Resources, Northwestern, Noble Energy, Range Resources, and Texas Republic Capital.

[23] See Mercer's survey at https://www.mercer.com/newsroom/ceo-to-employee-pay-ratios-lower-than-expected-new-mercer-survey-finds.html. See the American Enterprise Institute's report on pay ratios at http://www.aei.org/publication/on-the-afl-cios-inflated-347-to-1-ceo-to-worker-pay-ratio-and-the-statistical-legerdemain-used-to-produce-it/.

[24] See the recommendations of the Business Roundtable and the U.S. Chamber of Commerce at http://businessroundtable.org/resources/responsible-shareholder-engagement-long-term-value-creation and http://www.centerforcapitalmarkets.com/wp-content/uploads/2013/08/023270_CCMC-SEC-Shareholder-Proposal-Reform-Report_Online_Report.pdf?x48633.

[25] See the Stanford University study at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2821755.

the costs of submitting no-action requests, preparing rebuttals for the proxy statement, engaging with shareholders, and on occasion challenging them in court.

If enacted, the CHOICE Act thresholds would dramatically alter the shareholder proposal landscape by disqualifying some of the most prolific filers—state employee pension plans, social investment funds, trade unions, and corporate gadflies. The greatest impact would be felt by retail proponents since institutional investors of all stripes have often been able to accomplish their objectives through direct dialogue with issuers.[26]

Unsurprisingly, the prospect of more rigorous 14a-8 eligibility requirements has ignited outrage from investor groups. Some are warning of unintended consequences. CII pointed out that if sidelined from submitting proxy proposals, frustrated shareholders could cast more votes against directors or back hedge fund activists. The reforms could also draw traditionally passive investors into sponsoring shareholder resolutions or being co-opted into submitting proxy access nominees. Nevertheless, some level of reform seems inevitable, which could be accomplished through SEC rulemaking in the absence of Congressional action. SEC Chair Jay Clayton recently said that the Commission will take a close look at the growth of shareholder proposals and the costs they are imposing on ordinary investors.

Looking Ahead

In preparing for the 2018 proxy season, issuers should be particularly attentive to the policies and voting records of their major shareholders in view of the shifts that occurred this year on key E&S issues. The staunchier positions taken by major asset managers on board diversity and climate change could prompt other institutional investors and the proxy advisors to follow suit when they update their voting guidelines for next year. ISS's newly released policy survey suggests that it is contemplating revisions relating to board diversity, multi-class stock, and virtual-only annual meetings.[27]

Large-cap companies will continue to be the primary focus of proxy access campaigns. Those that have not yet adopted access rights should consider whether to do so preemptively, taking into account the likelihood of a shareholder proposal receiving majority support. Fix-it resolutions are also expected to resurface. Therefore, companies that currently have proxy access bylaws should monitor no-action letters and grounds for omitting new proposal variations that arise.

Barring any intervening action by Congress or regulators, CEO pay ratios are poised to be the most controversial topic of 2018. In preparing their disclosures, issuers should stand ready to address adverse reactions from shareholders, proxy advisors, employees, and the media. They should also avail themselves of the opportunity to continue submitting comment letters to the SEC on compliance burdens.

Finally, companies should keep in mind that most of the 2017 shareholder resolutions were filed prior to the 2016 elections. As the Trump administration proceeds with its economic and deregulatory agenda, shareholders will be reshaping and likely stepping up their campaigns for 2018. With an active annual meeting season ahead, Alliance Advisors will keep issuers apprised of key developments as they materialize.

[26] According to the Manhattan Institute, a handful of individual gadfly investors and their family members sponsored nearly one-third of all shareholder resolutions between 2006 and 2016. See https://www.manhattan-institute.org/html/proxy-monitor-2016-report-9297.html.

[27] See ISS's 2018 policy survey at https://www.surveymonkey.com/r/ISS_2018_Annual_Policy_Survey

Table 1: 2016 & 2017 Shareholder Proposals

Governance Proposals	2016 Submitted	2016 Voted On[1]	2016 Majority Votes[2]	2016 Average Support[2]	2017 Submitted	2017 Voted On[1]	2017 Majority Votes[2]	2017 Average Support[2]
Declassify board	17	8	7	81.5%	16	8	5	61.1%
Director removal	2	2	0	9.0%	0	0	0	
Majority voting	23	20	17	76.5%	18	13	9	66.7%
Proxy access	216	84	42	50.5%	171	50	18	45.0%
Poison pill	2	1	1	69.7%	4	0	0	
Cumulative voting	1	1	0	10.9%	2	2	0	9.8%
Enhanced confidential voting	0	0	0		14	2	0	4.7%
Virtual meetings	0	0	0		4	0	0	
Supermajority voting	29	16	10	59.6%	23	12	11	71.1%
Voting requirements	11	8	0	7.7%	12	10	0	9.1%
Dual-class stock	13	12	0	27.5%	11	9	0	29.3%
Special meetings	22	19	4	41.8%	27	23	4	41.9%
Written consent	19	17	1	41.3%	16	14	3	45.5%
Amend bylaws	4	2	1	49.2%	4	3	2	63.8%
Other anti-takeover	2	2	2	70.6%	1	1	1	89.0%
Independent chairman	61	50	1	30.7%	52	42	0	30.1%
Lead director	0	0	0		1	1	0	5.6%
Board independence, tenure and size	4	1	0	35.6%	1	0	0	
Auditor tenure	15	0	0		0	0	0	
Reincorporate to Delaware	0	0	0		1	0	0	
Maximize value	14	9	1	26.8%	10	5	1	13.2%
Stock repurchases, dividends	19	17	0	3.7%	5	3	0	5.1%
Miscellaneous governance	19	4	2	45.8%	16	2	0	1.5%
Total Governance	**493**	**273**	**89**		**409**	**200**	**54**	

Compensation Proposals	2016 Submitted	2016 Voted On[1]	2016 Majority Votes[2]	2016 Average Support[2]	2017 Submitted	2017 Voted On[1]	2017 Majority Votes[2]	2017 Average Support[2]
Severance pay	4	4	1	36.0%	2	1	0	36.0%
Accelerated vesting of equity awards	17	15	0	31.6%	6	5	0	29.6%
Revolving door payments	6	5	0	23.7%	5	4	0	28.3%
Clawbacks	6	6	0	14.3%	7	6	0	13.9%
Retention of equity awards	13	12	0	17.6%	4	3	0	29.8%
Performance-based awards	1	1	0	6.7%	0	0	0	
Performance metrics	6	4	0	16.6%	0	0	0	
CEO/worker pay disparity	6	3	0	5.8%	12	6	0	4.4%
Gender pay equity	13	5	1	16.9%	29	13	0	12.9%
Minimum wage reform	7	0	0		6	0	0	
Pay caps	3	1	0	2.8%	1	0	0	
Link pay to social issues	14	9	0	8.4%	11	8	0	11.5%
Proxy policy congruency – compensation	2	1	0	4.4%	3	3	0	3.8%
Miscellaneous compensation	7	1	0	0.6%	11	1	0	8.1%
Total Compensation	**105**	**67**	**2**		**97**	**50**	**0**	

E&S Proposals	2016 Submitted	2016 Voted On[1]	2016 Majority Votes[2]	2016 Average Support[2]	2017 Submitted	2017 Voted On[1]	2017 Majority Votes[2]	2017 Average Support[2]
Animal welfare	8	4	1	27.9%	6	4	0	8.2%
Board diversity	36	9	2	24.8%	37	9	2	27.7%
Charitable contributions	1	0	0		5	5	0	
Charitable contributions - liberal	0	0	0		1	1	0	3.7%
Charitable contributions - conservative	1	0	0		4	4	0	2.7%
Environmental	155	85	2		161	71	4	
Coal	0	0	0		2	2	0	36.8%
Hydraulic fracturing	6	4	0	20.7%	3	1	0	38.7%
Fugitive methane	13	5	1	32.0%	13	4	0	30.0%
Environmental impact - water	7	2	0	19.8%	3	2	0	14.7%
2-degree scenario report	8	7	0	38.0%	19	16	3	45.4%
Other climate change report	17	12	0	22.6%	8	2	0	33.0%
GHG emissions reduction	20	11	0	20.8%	23	8	0	24.7%
Finance and climate change	0	0	0		4	2	0	5.7%
Energy efficiency and renewable energy	26	10	0	24.8%	14	6	0	17.5%
Oil and gas transport risks	0	0	0		1	0	0	
Nuclear	1	1	0	4.3%	1	0	0	
Miscellaneous climate change	0	0	0		1	0	0	
Palm oil and deforestation	6	2	0	24.6%	8	3	0	19.7%
GMOs	3	0	0		0	0	0	
Nanomaterials	3	1	0	3.8%	2	0	0	
Recycling	11	7	0	19.9%	15	6	0	23.5%
Toxic substances	5	2	0	7.1%	7	3	0	15.4%
Board environmental risk committee	2	1	0	6.5%	1	0	0	
Director with environmental expertise	3	3	0	19.6%	4	3	0	13.3%
Miscellaneous environmental	3	0	0	28.1%	0	0	0	
Sustainability report	18	15	1	31.8%	23	10	1	32.1%
Board sustainability committee	0	0	0		2	0	0	
Proxy policy congruency - climate change	3	2	0	6.5%	7	3	0	6.7%
Employment/discrimination	18	8	1		43	11	0	
Workplace diversity	7	4	0	27.0%	17	7	0	28.8%
EEO - conservative view	1	0	0		8	0	0	
EEO - sexual orientation	6	1	1	54.7%	8	0	0	

E&S Proposals	2016 Submitted	2016 Voted On[1]	2016 Majority Votes[2]	2016 Average Support[2]	2017 Submitted	2017 Voted On[1]	2017 Majority Votes[2]	2017 Average Support[2]
Miscellaneous employment/discrimination	4	3	0	4.6%	9	4	0	5.4%
Proxy policy congruency - non-discrimination	0	0	0		1	0	0	
Finance	4	1	0		5	1	0	
Tax risk and policy	2	1	0	4.2%	0	0	0	
Student loans	0	0	0		1	0	0	
Business standards	0	0	0		4	1	0	21.9%
Indemnification	1	0	0		0	0	0	
Miscellaneous finance	1	0	0		0	0	0	
Health	11	2	0		22	3	0	
Health - conservative	1	0	0		0	0	0	
Drug pricing	1	0	0		11	0	0	
Childhood obesity	3	0	0		0	0	0	
Board expertise - product safety	0	0	0		2	1	0	6.8%
Antibiotics and factory farms	5	2	0	17.7%	7	2	0	31.3%
Miscellaneous health	1	0	0		2	0	0	
Human rights	61	35	0		66	26	0	
Country selection/divestiture - conservative	5	5	0	2.1%	4	2	0	1.3%
Country selection/divestiture - liberal	8	4	0	3.8%	5	2	0	14.7%
Holy Land Principles	9	9	0	3.9%	21	12	0	3.5%
Human trafficking	5	0	0		1	0	0	
Human rights mediation/tobacco workers	8	6	0	4.4%	5	2	0	4.8%
Code of conduct	1	1	0	4.0%		0	0	
Vendor code of conduct and human rights in supply chain	8	2	0	25.1%	7	2	0	20.5%
Worker safety	6	4	0	17.3%	4	1	0	28.1%
Human right to water	0	0	0		3	0	0	
Internet and phone privacy, net neutrality, internet affordability	4	1	0	11.0%	5	1	0	1.1%
Board committee on human rights	3	2	0	2.1%	1	1	0	6.0%
Director with human rights expertise	0	0	0		1	0	0	
Prison communications/inmate rights	2	1	0	21.5%	4	0	0	
Indigenous people	0	0	0		5	2	0	26.7%

E&S Proposals	2016 Submitted	2016 Voted On[1]	2016 Majority Votes[2]	2016 Average Support[2]	2017 Submitted	2017 Voted On[1]	2017 Majority Votes[2]	2017 Average Support[2]
Miscellaneous human rights	2	0	0			0	0	
Military sales	1	1	0	6.0%	1	1	0	4.0%
Political	114	76	2		101	61	0	
Political - conservative	2	0	0		11	1	0	1.9%
Grassroots lobbying	53	43	0	24.6%	50	37	0	25.8%
Indirect Lobbying	4	2	0	17.6%	1	0	0	
Public policy advocacy	5	1	0	21.2%	2	1	0	26.6%
Incorporate values	2	2	0	6.5%	0	0	0	
Incorporate values - conservative	5	3	0	4.1%	0	0	0	
Contributions - CPA	37	21	2	32.1%	31	17	0	28.2%
Non-deductible political expenditures	6	4	0	36.3%	4	3	0	26.6%
Advisory vote on political spending	0	0	0		2	2	0	6.4%
Tobacco	3	2	0		6	2	0	
Tobacco advertising and education	0	0	0		2	1	0	2.6%
Teen smoking (smoke-free movies)	0	0	0		1	0	0	
E-cigarettes	2	1	0	6.6%	0	0	0	
Miscellaneous tobacco	1	1	0	18.2%	2	1	0	3.6%
Firearms	3	1	0	8.2%	0	0	0	
Total Environmental & Social	**415**	**224**	**8**		**453**	**194**	**6**	

Total Proposals (All)	**1,013**	**564**	**99**		**959**	**444**	**60**	

Source: SEC filings, proponent websites, and media reports.

1. Includes floor proposals; excludes proposals on ballots that were not presented or were withdrawn before the annual meeting. 2016 figures are for the full year and 2017 figures are for the first half of the year.
2. Based on votes FOR as a percentage of votes FOR and AGAINST.

Table 2: 2017 Proxy Access Votes (through June 30)

Adopt Proxy Access	Proponent	2016 Vote[1]	2017 Meeting Date	2017 Vote[1]
Abercrombie & Fitch Co.[2]	New York City Pension Funds		15-Jun	82.3%
Charles Schwab Corp.	New York City Pension Funds		16-May	61.3%
Charter Communications, Inc.	IBEW		25-Apr	43.6%
Cigna Corp.	John Chevedden		26-Apr	50.7%
Columbia Sportswear Co.	Myra Young		13-Jun	25.7%
Crown Castle International Corp.	New York City Pension Funds		18-May	86.6%
Genomic Health, Inc.	James McRitchie, Myra Young		15-Jun	43.2%
GGP Inc.			17-May	55.3%
Hospitality Properties Trust	New York City Pension Funds		15-Jun	84.8%
Humana Inc.	New York City Pension Funds		20-Apr	76.3%
International Business Machines Corp.	New York City Pension Funds		25-Apr	59.4%
Kinder Morgan Inc.	New York City Pension Funds		10-May	58.6%
Martin Marietta Materials, Inc.	New York City Pension Funds		18-May	72.5%
Minerals Technologies Inc.	New York City Pension Funds		17-May	87.5%
Monster Beverage Corp.	New York City Pension Funds	43.4%	19-Jun	40.7%
Nabors Industries Ltd.[3]	New York City Pension Funds	60.4%	6-Jun	66.8%
National Oilwell Varco[4]	New York City Pension Funds		17-May	98.4%
Netflix, Inc.	New York City Pension Funds	71.8%	6-Jun	54.1%
Nuance Communications, Inc.[4]	Kenneth Steiner		30-Jan	89.5%
Old Republic International Corp.	CalPERS	74.4%	26-May	74.6%
PACCAR Inc.	New York City Pension Funds	45.2%	25-Apr	49.6%
Senior Housing Properties Trust	New York City Pension Funds, UAW		18-May	78.7%
Swift Transportation Co.	John Chevedden		24-May	30.1%
T-Mobile US Inc.		23.6%	13-Jun	19.9%
Tyson Foods, Inc.			9-Feb	21.7%
Universal Health Services, Inc.	New York City Pension Funds	8.9%	17-May	8.3%
Waters Corp.[4]	New York City Pension Funds		9-May	89.3%
Williams-Sonoma, Inc.	James McRitchie, Myra Young		31-May	19.4%
Average support (all)				**58.2%**
Average support where board opposed				**56.3%**

Amend Proxy Access Bylaw – Multiple Revisions	Proponent	2016 Vote	Date Bylaw Adopted	Owner-ship %	# Holders	Owner-ship Years	# of Nominees	2017 Meeting Date	2017 Vote
AES Corp.	John Chevedden		25-Nov-15	3%	20	3	20%	20-Apr	32.7%
Apple, Inc.[5]	James McRitchie	32.7%	21-Dec-15	3%	20	3	20%	28-Feb	31.9%
AT&T Inc.	Myra Young		18-Dec-15	3%	20	3	2 directors or 20%	28-Apr	30.4%
Kellogg Co.	James McRitchie		19-Feb-16	3%	20	3	2 directors or 20%	28-Apr	18.2%
QUALCOMM, Inc.[6]	James McRitchie	46.9%	7-Dec-15	3%	20	3	2 directors or 20%	7-Mar	31.7%
SciClone Pharmaceuticals, Inc.[7]	James McRitchie	88.2%	23-Feb-17	3%	20	3	2 directors or 20%	8-Jun	28.3%
Starbucks Corp.	James McRitchie	57.4%	13-Sep-16	3%	20	3	2 directors or 20%	22-Mar	28.3%
Walgreens Boots Alliance, Inc.	John Chevedden		14-Oct-15	3%	20	3	20%	26-Jan	25.4%
Walt Disney Co.	James McRitchie		28-Jun-16	3%	20	3	20%	8-Mar	26.9%
Whole Foods Market, Inc.	James McRitchie	39.8%	26-Jun-16	3%	20	3	20%	17-Feb	36.6%
Average support									**29.0%**

Amend Proxy Access Bylaw – Single Revision	Proponent	2016 Vote	Date Bylaw Adopted	Owner-ship %	# Holders	Owner-ship Years	# of Nominees	2017 Meeting Date	2017 Vote
Alaska Air Group, Inc.[8]	John Chevedden		9-Dec-15	3%	20	3	2 directors or 20%	4-May	23.3%
Baxter International, Inc.[8]	John Chevedden		18-Dec-15	3%	20	3	2 directors or 20%	2-May	28.2%
Crown Holdings, Inc.[8]	John Chevedden		29-Jan-16	3%	20	3	2 directors or 20%	27-Apr	28.4%
Cummins Inc.[8]	John Chevedden	31.6%	11-Oct-16	3%	20	3	2 directors or 20%	9-May	34.2%
Edison International[8]	John Chevedden	36.4%	10-Dec-16	3%	20	3	2 directors or 20%	27-Apr	34.2%
Fiserv, Inc.[8]	John Chevedden	25.6%	3-Feb-16	3%	20	3	2 directors or 20%	24-May	24.5%
Flowserve Corp.[8]	John Chevedden	45.4%	14-Dec-15	3%	20	3	2 directors or 20%	18-May	19.3%
Huntington Ingalls Industries, Inc.[8]	John Chevedden		28-Jan-16	3%	20	3	2 directors or 20%	3-May	35.6%
Kansas City Southern[9]	James McRitchie, Myra Young	26.8%	14-Oct-15	3%	20	3	2 directors or 20%	4-May	28.8%
Kate Spade & Company[8]		22.6%	19-May-16	3%	20	3	2 directors or 20%	6-Jun	20.6%
NCR Corp.[10]	Myra Young	52.7%	11-Oct-16	3%	20	3	2 directors or 20%	26-Apr	22.2%
Stericycle, Inc.[8]	John Chevedden	35.4%	10-Feb-16	3%	20	3	2 directors or 20%	24-May	29.1%
Average support									**27.4%**
Average support – all amend bylaw proposals									**29.5%**

Management Proposals	Owner-ship %	# Holders	Owner-ship Years	# of Nominees	2017 Meeting Date	2017 Vote
Barnes Group Inc.	3%	20	3	20%	5-May	Pass
Calpine Corp.	3%	20	3	2 directors or 25%	10-May	Pass
Cummins, Inc.[11]	3%	20	3	2 directors or 25%	9-May	Pass
Cypress Semiconductor Corp.	3%	20	3	2 directors or 20%	Written consent	Pass
Eaton Corp. plc	3%	20	3	2 directors or 20%	26-Apr	Pass
Eversource Energy	3%	20	3	2 directors or 20%	3-May	Pass
FirstEnergy Corp.[12]	3%	20	3	20%	16-May	Fail
Invesco Ltd.	3%	20	3	2 directors or 20%	11-May	Pass
PayPal Holdings, Inc.[13]	3%	20	3	20%	24-May	Pass
Pentair plc	3%	20	3	2 directors or 20%	9-May	Pass
Williams-Sonoma, Inc.	3%	20	3	2 directors or 20%	31-May	Pass
Willis Towers Watson plc	3%	20	3	2 directors or 20%	13-Jun	Pass

Source: SEC filings.

1. Votes on the shareholder proposals are calculated as FOR votes as a percentage of FOR and AGAINST votes.
2. The Abercrombie & Fitch board supported the proposal. Management proposals failed to obtain the requisite 75% support in 2015 and 2016.
3. Following the 2017 annual meeting, Nabors Industries amended its proxy access policy to adopt a 3/3/20/20 structure.
4. The National Oilwell Varco board supported the proposal. The Nuance Communications and Waters boards made no recommendation on the proposal.
5. Apple amended its bylaw on Dec. 13, 2016, to include recallable loaned shares, eliminate minimum voting requirement for renomination, limit the circumstances under which the maximum number of candidates is educed, extend the timeframe for candidates to provide information to the company, and limit board discretion in interpreting the bylaw.
6. The proposal at QUALCOMM asked to change the aggregation limit to an unlimited number of shareholders.
7. The proposal at SciClone Pharmaceuticals asked for no aggregation limit below 50 shareholders and a board seat cap of the greater of two directors or 25% of the board.
8. The proposal only asked to change the aggregation limit to 50 shareholders.
9. The proposal at Kansas City Southern asked to change the aggregation limit to either 40 or 50 shareholders.
10. The proposal at NCR asked to change the aggregation limit to 40 shareholders.
11. A non-binding management proposal passed at Cummins in 2016. The bylaw permits a two-director minimum if the board size is less than eight.
12. The proposal required 80% approval. A management proposal at FirstEnergy also failed in 2016.
13. PayPal's proposal was to raise the aggregation limit in its existing bylaw from 15 to 20 shareholders.

Table 3: Failed Say-on-Pay Votes (through June 2017)

Company	Meeting Date	Vote*	Previous Failed Votes*	Index
Nuance Communications, Inc.	30-Jan-17	33.5%	2015, 2013	R1000
Microsemi Corp.	14-Feb-17	45.4%		R2000
Immunomedics, Inc.	3-Mar-17	38.4%		R2000
Sprouts Farmers Market, Inc.	2-May-17	43.3%		R1000
American Axle & Manufacturing Holdings, Inc.	4-May-17	38.8%		R2000
Pain Therapeutics, Inc.	4-May-17	47.9%		
Patriot Scientific Corp.	4-May-17	31.2%	2016, 2015, 2014, 2013	
Whitestone REIT	11-May-17	43.1%		R2000
ConocoPhillips	16-May-17	32.2%		R1000, S&P 500
Medifast, Inc.	18-May-17	42.2%	2014	R2000
Senior Housing Properties Trust	18-May-17	46.0%	2016	R1000
Atlas Air Worldwide Holdings, Inc.	24-May-17	32.9%	2016, 2013	R2000
NII Holdings, Inc.	24-May-17	23.3%		R2000
Sanchez Energy Corp.	24-May-17	47.8%		R2000
Tutor Perini Corp.	24-May-17	42.3%	2016, 2015, 2014, 2013, 2012, 2011	R2000
Endologix, Inc.	31-May-17	40.5%		R2000
Rockwell Medical, Inc.	1-Jun-17	25.9%		R2000
SL Green Realty Corp.	1-Jun-17	42.8%	2015	R1000
IMAX Corp.	6-Jun-17	30.0%		R2000
Nabors Industries Ltd.	6-Jun-17	44.0%	2016, 2014, 2013, 2012, 2011	R1000
New York Community Bancorp, Inc.	6-Jun-17	49.7%	2014	R1000
Spectrum Pharmaceuticals, Inc.	13-Jun-17	43.9%	2015, 2014, 2013	R2000
SeaWorld Entertainment, Inc.	14-Jun-17	42.6%		R2000
Hospitality Properties Trust	15-Jun-17	48.0%		R1000
Universal Insurance Holdings, Inc.	15-Jun-17	47.0%		R1000
ImmunoCellular Therapeutics, Ltd.**	16-Jun-17	59.0%		
FleetCor Technologies, Inc.	21-Jun-17	37.4%	2014	R1000
Argan, Inc.	22-Jun-17	45.4%	2015	R2000
Mylan N.V.	22-Jun-17	16.5%	2012	R1000, S&P 500
PHH Corp.	28-Jun-17	36.3%		R2000
Bed Bath & Beyond Inc.	29-Jun-17	43.9%	2016	R1000, S&P 500

Source: SEC filings.
*Calculated as the number of FOR votes as a percentage of FOR and AGAINST votes.
**Received less than majority support after counting abstentions.