2017 NORTH AMERICA AGM SEASON PREVIEW

As the 2017 AGM season gets underway, we give an overview of the key issues facing North American issuers and their investors. This document accompanies our North America 2017 Proxy Season Preview Webinar (see Appendix).

BOARD OF DIRECTORS

Over an extensive engagement season, we have observed a strong focus on board makeup and performance from both investors and issuers. Investors increasingly expect clear disclosure of the processes that are in place to ensure that the board has an appropriate mix of experience, perspectives and skillsets to set the company's strategic direction and oversee management.

Within this context of board makeup, director tenure is an area that is drawing particular attention, with investors seeking regular refreshment and a mix of tenures to guard against entrenchment by balancing the knowledge and experience of longer serving directors with fresh eyes. Refreshment is also being promoted as a means of drawing from a wider pool of directors and increasing diversity on the board.

There are a variety of approaches to maintaining a strong board and promoting refreshment, including director age and tenure limits. In addition, regular board evaluations provide a means for boards to assess whether they are performing well. There are a variety of approaches to evaluations, from anonymous, externally-led surveys to internal discussions, and we have observed an increase in the level of disclosure provided regarding both the evaluation process and related findings, which we expect to continue.

PROXY ACCESS

Following a breakthrough year in 2016, proxy access is now an accepted market practice, with an accepted market-standard structure: a 3% ownership threshold and a 3-year holding requirement, allowing shareholders to nominate up to 20% of the board, and a group limitation of 20. With roughly half of S&P 500 companies having already adopted proxy access, large-cap holdouts may be targeted. In addition, we also expect investors to submit "fix-it" resolutions that focus on refining existing bylaws to further expand the franchise and increase the proportion of the board that shareholders can nominate.

INITIAL PUBLIC OFFERINGS

Snapchat's recent IPO highlights a trend in new listings: governance structures that minimize the influence of independent shareholders. While the lack of voting rights for Class A shares at Snapchat represents the thin end of the wedge, many companies appear reticent to open up to change after going public, and are including strict restrictive provisions in their bylaws such as classified boards and supermajority voting requirements.

SHAREHOLDER INITIATIVES

Support for shareholder resolutions seeking additional disclosure on how companies plan to mitigate the impact of climate change on their operations increased significantly during 2016. This trend should continue, particularly for oil and gas companies, and we expect targeted issuers to engage extensively in the run up to meetings.

Similarly, the issue of gender pay equity has risen in prominence, including significant support for a resolution at eBay seeking a report on the company's policies and goals to reduce the pay gap. Concerns over pay equity have largely been focused on the tech sector, however during the 2017 season we expect financial institutions to come under increased scrutiny.

We also expect shareholder resolutions on the topic of corporate political spending and disclosure. This issue has evolved from simply requesting information on direct candidate donations, to a broader interest in indirect political spending, particularly payments to lobbyists made via membership and trade associations. Many issuers have already expanded their disclosure in this area, however laggards, and those with controversial political spending, are likely to be targeted.

In the context of the recent U.S. presidential election, several of the expected areas of shareholder focus are tied to an uncertain regulatory environment or are otherwise somewhat politically charged. As most shareholder resolutions were submitted prior to November, we do not expect the election to have a significant impact on the spread of resolutions put forward; however, regulatory changes and the overall political environment may affect voting patterns on certain proposals.

COMPENSATION

Support for say-on-pay ("SoP") proposals remains high, with failed votes uncommon. Targets of shareholder voting appear to be outliers in both the design and operation of their compensation programs.

Nonetheless, issuers recognize that executive compensation remains a hot button issue and are increasingly taking steps to preempt opposition, primarily through transparency and communication. Engagement has expanded, with outreach programs now common even when the upcoming meeting does not appear to be particularly contentious. In addition, we have observed many companies providing more detailed and nuanced information regarding pay decisions in their proxy statements.

One area where we expect disclosure to increase during the 2017 season is in relation to metric selection and related adjustments. With investors looking for more than a boilerplate explanation of how executives are being incentivized, companies are going into more detail in defining specific metrics and explaining their relevance to strategy. Additionally, investor interest in adjustments to incentive metrics has grown. In particular, significant volatility in the currency markets has yielded a variety of approaches to how foreign exchange is accounted for under incentive plans and impacts payouts. Even when adjustments are not contentious, failing to provide a clear explanation of their rationale and methodology may draw investor ire.

The 2017 season marks the return of the triennial SoP companies, which elected to hold votes every three years rather than annually. Many of these companies are small and opted for the triennial structure in order to avoid the associated administrative burden; however based on our observations from the last round of votes in 2014, a significant number of triennial SoP companies have engaged or maintain concerning pay practices.

Compensation is another area where regulatory uncertainty may have an impact on proxy season. With tough talk on Dodd Frank from the new administration, it is unclear whether progress on a number of developing rules will continue. The long-awaited final rule on Dodd Frank clawback provisions is notable among those in limbo.

GLASS LEWIS

APPENDIX

The Proxy Season Preview Webinar accompanying this document may be found at http://www.glasslewis.com/2017-season-preview-north-america/.

Show notes

- Introductions. [00:15]
- Overview of Glass Lewis Engagement in 2016. [01:17]
- Board Refreshment and Diversity. [04:58]
- United States: Corporate Governance policy updates for 2017. [08:27]
- Canada: Policy updates for 2017. [12:27]
- Shareholder Initiatives: Trends for 2017. [13:45]
- Shareholder Initiatives: Policy updates for 2017. [20:54]
- Integration of Sustainalytics data into Glass Lewis proxy papers. [21:51]
- Executive Compensation: Marketplace trends. [23:21]
- Executive Compensation: Policy updates for 2017. [29:05]
- Updates to Glass Lewis equity plan analysis for 2017. [30:40]
- Wrap-up and Glass Lewis issuer portal. [32:01]

Further information on Glass Lewis.

- Glass Lewis 2017 Policy Guidelines
  http://www.glasslewis.com/guidelines/
- Glass Lewis engagement policy
  http://www.glasslewis.com/engagement-policy/
- Meetyl engagement platform
  https://meetyl.com/