



Seven for 17: Tactical Approaches to Proxy Season 2017

Guidance for Public Companies

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As most public companies approach the start of Proxy Season 2017, investor voting policies and the hottest trends in corporate governance are important content that highlight issues companies will face at their annual meetings. Equally important are the practical considerations for how to navigate the proxy advisors, engage with investors, react to activists, and position boards for successful voting outcomes.

The landscape has changed in 2017. Most of the fundamental views in governance are out on the table. Say on Pay as a ballot item is over five years old, director independence has been around over a decade, and Sarbanes-Oxley drove significant changes in audit committees nearly fifteen years ago. What has evolved recently is the way in which companies interact with the governance community. A thoughtful approach and clear messaging to the various constituents that will influence proxy season outcomes are as important as the issues underlying the narrative. Here are “seven for seventeen” – seven helpful hints for the 2017 proxy season, along with do’s and don’ts for a successful season.

1. Revisit your proxy advisor outreach plan

Both ISS and Glass Lewis have new staff in key roles, with changes in research leaders over the past year. As the governance community has expanded and many proxy advisory leaders have served in their roles for over a decade, departures have accelerated and will likely continue. In addition, ISS has undergone several ownership changes in recent years, and the focus on being a governance data provider has become a different value proposition for both customers and employees. Institutional knowledge and opinions may not carry the same weight as in the past, and you may, in some cases, be meeting with less experienced staff than you did last year. Don’t rely on your past messaging to resonate with proxy advisory firms. With new staff at both major proxy advisors, do review and refresh your narrative to ensure the messaging is clear and concise.

2. Leverage the benefits of potential regulation to engage with ISS and Glass Lewis

With the new Trump Administration, regulation of proxy advisors may gain traction. Proxy advisors have more incentive to engage actively with the governance community, especially corporations, so they don’t alienate companies and add fuel to the arguments supporting regulation. Don’t assume that proxy advisors are not open to thoughtful discussion on the issues. Do understand and participate in their engagement channels. ISS has many approaches to engaging with its research team, and it is important to understand what works and what is not as effective when reaching out to their staff.

3. Laser-focus your investor approach

Many investors are pressed for time and struggle with the resources to engage. Even the large investors have staffing constraints and must increasingly quantify which engagement requests to accept. Their willingness to engage may also be influenced by their portfolio holdings and their policy interests. Don't treat engagement casually or assume that what worked in the past is optimal. Do establish year-round communication channels, make your reasons for engagement clear, and follow up on any agreed-upon action items.

4. Be ready to pivot on regulation

Changes are coming at the SEC. With vacancies at the Commission and the departure of Mary Jo White, new personnel and regulatory changes are forthcoming. The Republican Congress and the Trump Administration already have Dodd-Frank in their sights to repeal or amend key provisions, including the CEO Pay Ratio Disclosure, with general industry advice to carry on for the moment and prepare for inclusion of the ratios in the 2018 proxy material. Don't be caught off guard if new regulations are implemented or repealed, or if expectations for rolling back provisions in Dodd-Frank do not materialize. Do stay on top of changes at the SEC.

5. Think activism every day

Activists have had mixed success, with much coverage of the winners and losers from the past year. Both groups remain highly incentivized, and they will remain part of the landscape. An activist attack is not only an opportunity for the activist to create change, but it will be used as a calling card for them to gain more investors for their funds. Investor backlash to excessive share buybacks and quick settlements for board seats is trending in 2017, and investors expect boards to carefully consider any actions in a strategic context. Don't settle too quickly. Do consider all activist approaches seriously, ensuring that a vulnerabilities assessment and scenario planning are included in the board's must-have toolkit.

6. Invest in your board

Board vulnerabilities abound. Serving as a board member is a part-time job that requires a full-time commitment, and can lead to exposure to law suits from cyberattacks, audit issues, or a multitude of other risk factors. Directors must have access to the requisite resources, information, and support needed to fulfill their fiduciary duty while recognizing that in some cases, this includes knowing how to communicate most effectively in meetings with investors and proxy advisors. Don't exclude directors from engagement meetings, since the meetings can be more successful with the participation of articulate, independent directors. Do work with directors, particularly board leaders, to be more visible in the governance community.

7. Monitor social media

Monitor the messaging – it matters. Beyond the traditional journalists and news outlets, social media can influence the voting outcome in profound ways, not just the Presidential election or the new Administration’s penchant for late night Twitter messages. It is important to remember that the information being disseminated by other parties does not have to be true; it just has to be compelling for a social media audience. Don’t assume that the traditional news outlets tell the whole story. Do track social media, and consider that your investors and proxy advisors will be exposed to its content.

Along with these tactical approaches to Proxy Season 2017, investors and proxy advisors will expect that all of the engagement and disclosure will tie back to strategic imperatives and the creation of long-term value for shareholders, particularly in a year when the geopolitical climate is anything other than what was anticipated. BlackRock CEO, Larry Fink, was clear in his 2017 letter to CEOs of BlackRock’s portfolio companies: “As BlackRock engages with your company this year, we will be looking to see how your strategic framework reflects and recognizes the impact of the past year’s changes in the global environment.” With the continuous impact of political changes, market developments, regulatory attention, and intensified shareholder demands, the challenges for CEOs and boards to navigate Proxy Season 2017 will be intense. But agile adaptation, with a focus on both the strategic and the tactical, can go a long way towards leveraging the new challenges and changes to benefit companies and their shareholders.

About Teneo and Teneo Governance

Teneo Governance helps CEOs and boards navigate the constantly evolving global business environment by addressing a wide range of governance, compliance and proxy voting issues. Our team understands the companies' perspectives, the boards' needs, and investors' viewpoints and policies.

Teneo Governance is one of the 12 divisions of Teneo, a global advisory firm that works exclusively with the CEOs and leaders of the world's largest and most complex companies, providing strategic counsel across their full panoply of key objectives and issues. Our teams integrate the disciplines of strategic communications, investment banking, management consulting, business intelligence, talent development, digital analytics, corporate governance, government affairs and corporate restructuring to solve for the most complex business and reputational challenges and opportunities. The Firm was founded in June 2011 by Declan Kelly, Doug Band and Paul Keary and now has more than 550 employees located in 14 offices around the world.



About the Authors



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AWARDS AND RECOGNITION

Directorship 100: Most Influential People in the Boardroom Community, National Association of Corporate Directors (2008 – 2012)

MEMBERSHIPS

AND AFFILIATIONS

Advisory Counsel, Harvard Corporate Governance Forum

Markets Advisory Council, Council of Institutional Investors

Dr. Martha L. Carter is a Senior Managing Director and Head of Teneo Governance. She leads Teneo's corporate governance division, advising CEOs and boards of public and private companies on corporate governance best practices, activism defense, executive compensation, shareholder engagement, strategy, and other matters that come to the board. Dr. Carter currently sits on the Advisory Council of the Harvard Corporate Governance Forum and the Markets Advisory Council at the Council of Institutional Investors (CII).

Prior to joining Teneo, Dr. Carter was the Head of Global Research at Institutional Shareholder Services (ISS) and Chair and Founder of the ISS Global Policy Board. During her 13 years at ISS, Dr. Carter led Global Research's team of 160 corporate governance analysts in 10 offices worldwide. Under Dr. Carter's leadership, the research team provided institutional investors with corporate governance research and proxy voting recommendations on more than 38,000 companies in 115 markets. In addition, the team produced corporate governance studies and white papers.

Dr. Carter has been quoted in media around the world and has been a speaker for numerous corporate governance events. She has also written articles for a number of well-recognized publications, including: NYSE: Corporate Governance Guide (2014 and 2015); International Foundation of Employee Benefit Plans Benefits Magazine (2011); ICGN Yearbook (2009); and Financial Analysts Journal (2003).

Earlier in her career, she held positions at NASDAQ, The Federal Home Loan Banks, IBM, and Touche Ross.

Dr. Carter also held numerous academic appointments teaching finance courses. She holds a Ph.D. in finance from George Washington University, an M.B.A. in finance from The Wharton School, University of Pennsylvania, and undergraduate degrees in mathematics and French from Purdue University.



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Member, Society of
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Charter Member, ISS
Governance Exchange
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Board of Directors, Margot
Music Fund, Inc.

Karla Bos is a Managing Director with Teneo Governance. Ms. Bos has over 20 years' experience in the financial and legal services industry, with an emphasis on corporate governance. She has a successful track record of developing and managing efficient, compliant systems within fast-paced, rapid-growth, service-intensive companies. Ms. Bos is also an experienced public speaker, having developed and presented a number of sophisticated business proposals to C-suite and board level audiences.

Prior to joining Teneo, Ms. Bos was Director, Investment Proxy Research at Fidelity Investments, where she led a team of analysts responsible for corporate governance and proxy voting operations for Fidelity Management and Research Co. and its affiliated advisers, whose assets under management exceed \$2 trillion. Her responsibilities in this role included: thought leadership, vote analysis, issuer engagement, liaison with investment professionals, and development of and compliance with proxy voting guidelines. Her team conducted hundreds of engagements annually and voted more than 7,000 shareholder meetings in over 60 global markets.

Previously, Ms. Bos served as Vice President, Proxy Voting at ING Investment Management, where in 2004, she created a new department within a mutual fund platform to manage proxy voting and corporate governance activities for 220 funds, with \$100 billion in assets, covering 7,000 shareholder meetings, in 60 global markets annually. In 2010, she expanded the scope of this department to administer proxy voting operations for institutional and wrap account business, with no increase in head count.

Earlier in her career, Ms. Bos held a variety of roles, including: Research Analyst, Hunter Wise Financial Group, LLC; Legal Assistant, Styling Technology Corporation; Legal Assistant, Corporate Securities Practice, Gammage and Burhham PLLC; Financial Sales Assistant, Bowne of Phoenix; and Public Relations Associate at both Martz & Wadas and Klute Communications.



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