

5 noteworthy trends from the 2018 proxy season

90

criteria

238

companies
observed

6th

edition

We have been conducting an annual benchmark study of proxy statements filed by Fortune 250 companies since 2012. We closely examine content and design to highlight year-on-year evolutions. Selected criteria focus on the way investors access information, based on 4 questions:

- How easy is it to access the data?
- How easily can it be compared to peers?
- How accurate is it?
- Is information readily and quickly available?

The findings of our study provide insight into how corporations approach their proxy filings and how they strive to improve disclosure transparency. Although new standards of best practice emerge regularly, our study underlines certain sustained qualities over the years. We find that the best proxies present distinct document structure, clear content, jargon-free, plain language, and enhanced design features.

We are particularly pleased that designed graphics, call-out boxes and other visual elements are now frequently added to the document. These are simple ways to disclose more information more clearly. In addition, effective disclosures provide summary overviews of each major section which draws the reader to the key messages .

The board remains a key focus of the proxy statement. Gender and cultural diversity, risk oversight as well as a new focus on cybersecurity are strong themes from this reporting period. We are also seeing laudable efforts to demonstrate the mix of skills on the board and how each committee contributes to the company's risk management efforts.



LABRADOR
INFORMATION DESIGN

1

Board refreshment continues to climb

Over the past few years, companies have been pressured to focus on board composition and refreshment.

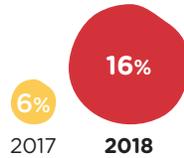
Companies face demands to answer investor concerns over the proper tenure mix, often because low turnover rates impede progress in increasing the presence of women and minorities in the boardroom. Due to heightened focus on board effectiveness, companies are beginning to include additional disclosure on matters like the director nomination and evaluation processes to demonstrate that they are aligning the board with the business. We are always looking for new tools to convey messages. These visuals, which help the reader quickly see if a company is focusing on boardroom refreshment, are easy to create and require very little room on the page.

REFRESHING THE BOARD

Graphic used to illustrate the nomination process

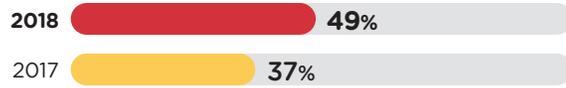


Graphic used to illustrate the evaluation process

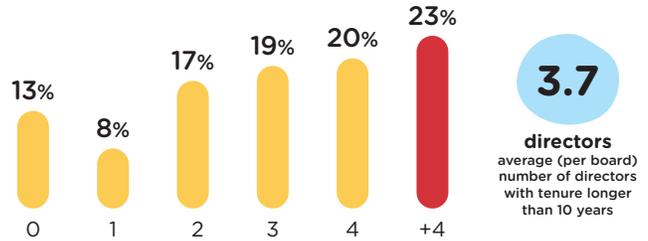


TENURE

Graphic highlighting board tenure breakdown



Directors with tenure of 10 or more years



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This type of disclosure is another way companies can identify their board is right for the current state of the board and business needs.

2

Heightened focus on diversity

With an increase in shareholder proposals for board diversity, companies would be wise to better highlight how they strive for board diversity.

A skills and qualifications matrix can be limited to conventional categories, such as “financial expertise” and “international experience”. However, they can also include more personal or demographic data, such as race and sexual orientation. Some companies shy away from individualized matrices that match particular directors to particular skills, but still disclose how many total directors have a range of particular skills (*i.e.*, 4 are former CEOs and 9 have worked overseas).

SKILLS AND QUALIFICATIONS MATRIX

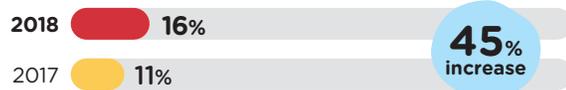
Include individualized skills matrix



Include aggregated skills matrix



Use icons to describe skills and qualifications



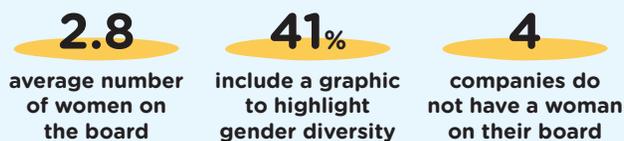
LABRADOR INSIGHT

Highlighting director skills and qualifications helps readers see how a board member fits the company’s strategic needs. A skills matrix is an efficient way to illustrate the board’s diversity of background and experience, and we expect this to become standard when presenting board composition. The small but not insignificant use of icons to describe skills and qualifications is also worth noting. These icons can be repeated in several places other than the skills discussion (such as the committee membership chart and director biographies) for greater impact.

Gender diversity issues remain a concern

This year Amazon adopted the “Rooney Rule,” named for Dan Rooney, former owner of the Pittsburgh Steelers. Under this policy, which Amazon states merely “formalizes a practice already in place,” the Nominating and Corporate Governance Committee will require the pool of candidates considered for all director openings to include women and minorities. While no consensus has emerged to support the use of quotas in the U.S., the investor community, regulators, and lawmakers are pushing for more female representation.

GENDER



3 Information design remains steady

Simple steps like adding a second color or including graphics greatly improves the readability of the document.

Several companies included graphics to illustrate complex subjects such as long-term incentive plans, depicting payout scenarios as well as a breakdown of the long-term incentives actually awarded. We expect this practice to grow since it conveniently demonstrates a link between pay and performance.

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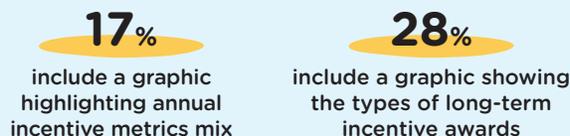
Graphics are a great way to emphasize business results, especially when there is a positive story to tell. There are three things to keep in mind, though:

1. you should be **reasonably consistent with the metrics** you highlight from year to year, even if the numbers aren’t always rosy;
2. be sure to **link business highlights to specific components** of the pay program; and
3. if you use non-GAAP figures, we suggest **highlighting the corresponding GAAP numbers** in graphical form as well.

PERFORMANCE HIGHLIGHTS



PAY MIX



PAY VS PERFORMANCE

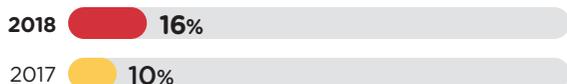


4 Shareholder engagement now a commonplace

The benefits of corporate engagement with shareholders are mutual: shareholders serve as healthy challengers to company policies, and companies learn from investors and bolster mutual trust through dialogue.

With the importance of engaging with shareholders comes the necessity of communicating about those efforts. Companies that summarize the key insights gained and the responsive actions taken can make a strong contribution to investor support.

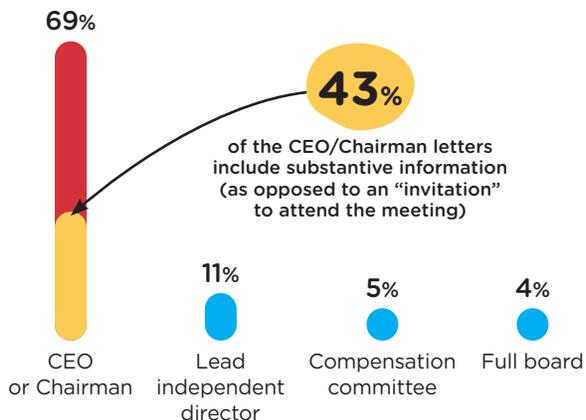
SHAREHOLDER ENGAGEMENT GRAPHIC



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Including this information in the proxy helps drive home the point that a company is paying attention to what the investment community thinks, ultimately fostering a closer relationship. Companies should illustrate information rather than describing it (the percentage of investors that participated in a dialogue, or key investor concerns and the company’s responses to them). These draw more attention to their shareholder engagement efforts.

● LETTERS WITHIN THE PROXY STATEMENT



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Including a letter in proxy statements is a practice that has nearly doubled over the past two seasons. A well-written letter placed at the beginning of the document is an effective way to introduce the reported year, engage shareholders on specific topics, and set the tone of the document. Unfortunately, companies do not often take advantage of this page as another place to reinforce business highlights, governance decisions, or other company news. Even though only twelve companies included a letter from the compensation committee, we see this as a technique that could be readily incorporated into many CD&As. This can be particularly useful for companies who wish to highlight changes to the program or issues with shareholder support.

5 ESG topics on the rise

Some of the largest institutional holders, such as BlackRock, State Street, and Vanguard, have decided to make their voices heard on environmental, social and governance (ESG) issues.

BlackRock's investment stewardship priorities expressly state that "ESG factors relevant to a company's business can provide essential insights into management effectiveness and thus a company's long-term prospects."⁽¹⁾

Also, "green investing" is growing in importance, with investors voting on beliefs rather than just financials, and firms like Invesco creating ESG-focused funds. ESG principles need to be part of a long-term strategy, and oversight of these issues should be addressed in the proxy.

We believe companies will start adding "ESG expertise" to the list of qualities they want represented on their boards. But it is equally critical for companies to identify and describe their specific sustainability risks and explain how the board addresses those risks.

● ENVIRONMENTAL, SOCIAL AND GOVERNANCE

37%
include a section on ESG matters

6%
use graphics to highlight key ESG metrics

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Addressing ESG issues is important, especially since a growing number of shareholder proposals request deeper disclosure in this area. Even companies that produce a standalone Sustainability Report should think about including a call-out box or a section in the proxy statement to highlight key information. If nothing else, provide a link to the Sustainability Report within the proxy statement.

Cybersecurity: the 2018 buzzword

Over the past year we saw a few companies encounter large financial (and reputational) losses due to cybersecurity incidents. In response, investors are pushing for disclosure on how the board is overseeing risks associated with specific business operations and how the company manages consumer or customer information.

While companies in specific (often highly-regulated) industries require different internal controls with regard to cybersecurity, investor focus remains high in all industries.

17%
include a graphic to show the relationship between management and the board while overseeing risks

63%
mention cybersecurity as a specific risk-management concern

⁽¹⁾ Comptroller Stringer, NYC Funds: Unprecedented Disclosure of Corporate Boardroom Diversity Following Groundbreaking Campaign <https://comptroller.nyc.gov/newsroom/comptroller-stringer-nyc-funds-unprecedented-disclosure-of-corporate-boardroom-diversity-following-groundbreaking-campaign/>