



# GOVERNANCE

## ISS: THE GLOBAL LEADER IN GOVERNANCE

Vermont Pension Investment Committee  
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Now more than ever, Governance Matters

[www.issgovernance.com](http://www.issgovernance.com)

A geometric diagram on the left side of the slide. It features a grid of three horizontal and three vertical lines. A triangle is formed by connecting the top-left intersection, the middle-right intersection, and the bottom-left intersection. A horizontal line also connects the middle-right and middle-left intersections. A diagonal line passes through the middle-right intersection, extending from the top-left towards the bottom-right. Another diagonal line passes through the middle-left intersection, extending from the top-right towards the bottom-left. The intersection of these two diagonal lines is at the center of the grid.

## 2016 PROXY SEASON REVIEW

- › Proxy Access
- › Responsible Investment
- › Boards of Directors
- › Executive Compensation
- › Activism

- ✓ Access Dominates Season, Again
  - ✓ Bylaw adoptions soar; shareholder proposal support splits
- ✓ Surge in ES&G Support
  - ✓ Climate risk, diversity and political spending score majorities
- ✓ Boards Boost Responsiveness and Refreshment
  - ✓ Engagement and action quiets resurgent “vote no” campaigns
- ✓ Say on Pay-for-Performance In A Volatile Market
  - ✓ Boards generally stay course in 2016 despite downturn
- ✓ Hedge Fund Activism
  - ✓ Big settlement wave leaves few large-cap contests afloat

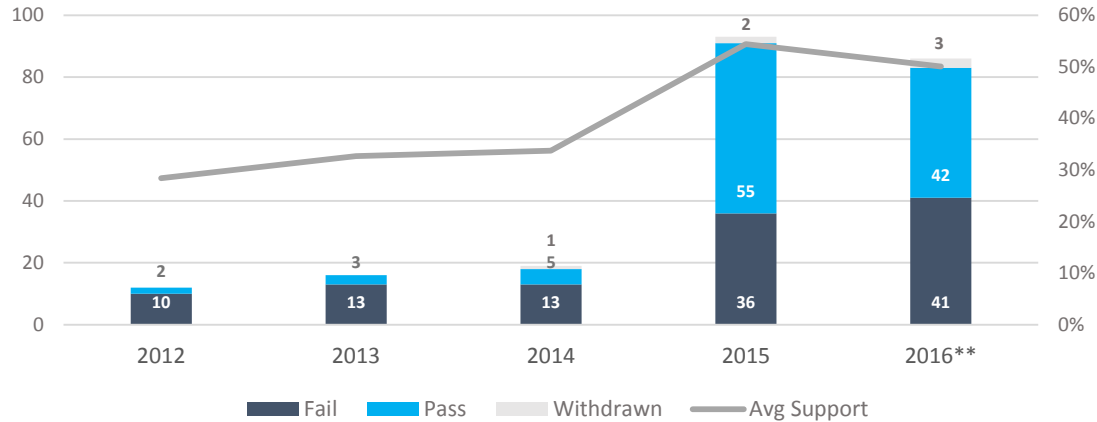


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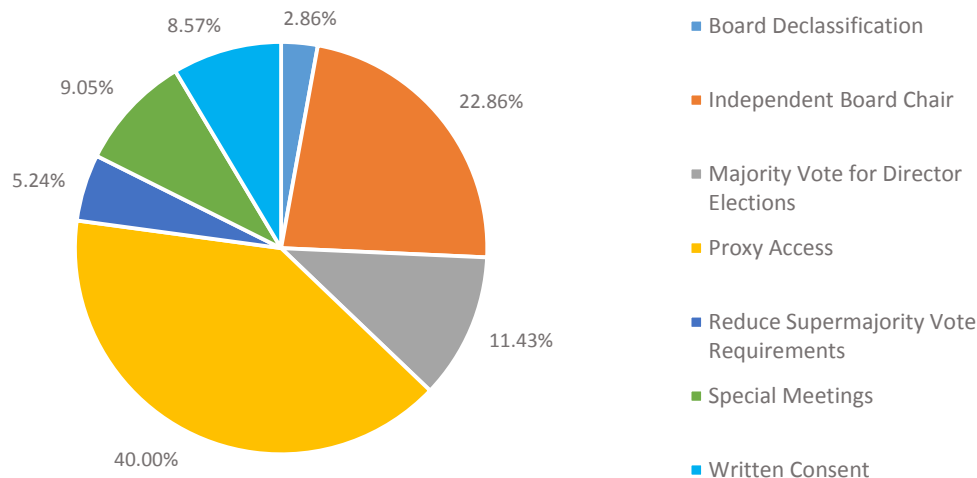
**PROXY ACCESS**

- ✓ Proposal submissions set all-time record (>200 SPs)
  - › New York City funds lead charge w/72 (50% old/50% new)
    - › More than half are withdrawn in wake of settlements
  - › Individual proponents play larger role (100+ proposals )
  - › New battles over “substantially implemented” (i)(10)
    - › Fewer dueling proposal pairs (five vs. seven in 2015)
  
- ✓ Voting Support Splits Based on Board Actions
  - › Overall support: 48.2 percent of votes cast w/30 majorities
    - › Proposals at “Have Nots” average 59.1 percent; 27 majorities
    - › Line-item veto proposals at “Haves” average 36.7 percent
      - › SEC clone rules (3%/three years) drop average support (32.1 percent)
      - › Outliers (5%/three years) attract veto (58.9 percent)

Proxy Access Trend & Average Support Level\*



Governance-Related Shareholder Proposals, 2016 (Q1-Q3)



Proxy access continued its second year as the dominant shareholder proposal. Approximately 40% of the S&P 500 companies currently provide a proxy access right, a large increase since campaigns for proxy access gained prominence in 2015.

The basic features of proxy access bylaws are largely standardized along the “3/3/20/20” structure, which enables a group of up to 20 shareholders who have held 3 percent of a company’s stock for 3 years to nominate up to 20 percent of the board.

The focus in proxy access proposals has begun to shift to secondary features, such as the treatment of loaned shares, nominees’ conflicts of interest, and re-nomination restrictions. These are likely to receive increasing attention since the SEC’s decision in July to allow a shareholder proposal seeking to modify secondary features of H&R Block’s existing proxy access bylaw

\* Only accounts for shareholder proposals and excludes those which did not disclose results  
 \*\* Data is only for Q1 – Q3

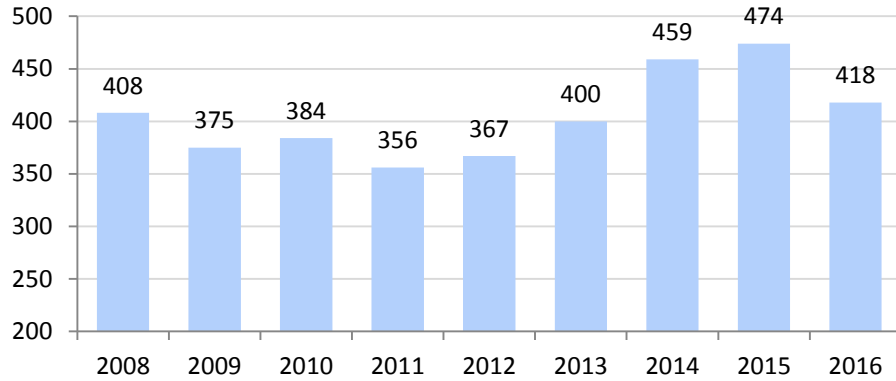
Source: ISS VotingAnalytics



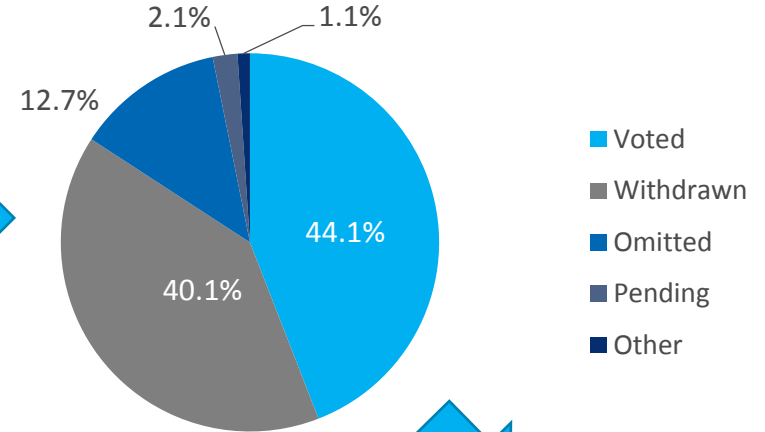
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**RESPONSIBLE INVESTMENT**

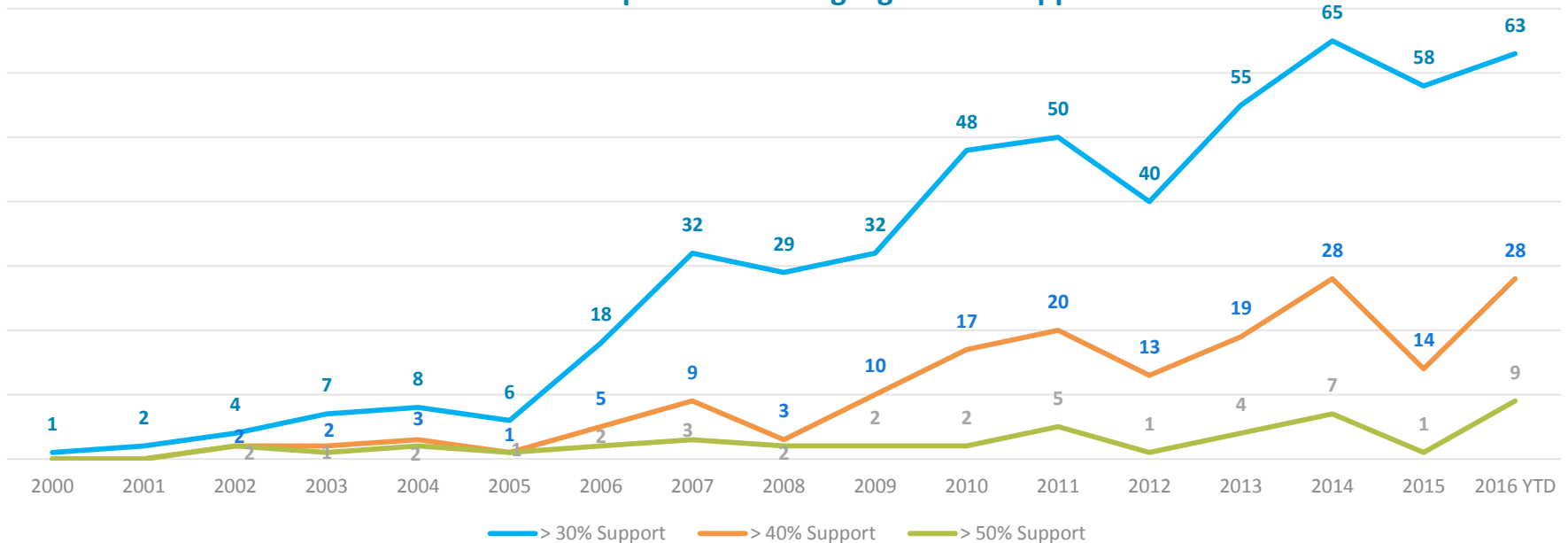
**Total E&S Proposals Filed**  
(as October 1, 2016)



**Status of E&S Proposals**



**# of E&S Proposals Receiving Significant Support**





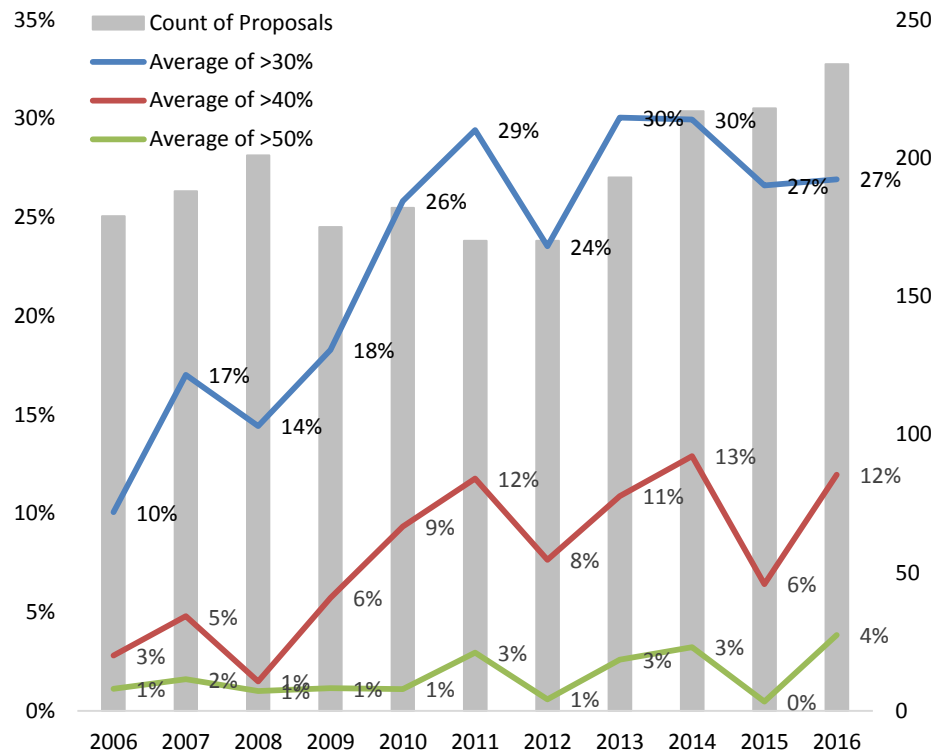
## ✓ Majority Votes Highlight Evolving Investor Views on E&S Issues

- › Political spending debate heats up during contentious campaign season
  - › Majority votes at Fluor (61.9% of votes cast) and NiSource (50.3%)
    - » Four others with support in excess of 40 percent
    - » Also 40%-plus support for lobbying disclosure at Travelers and NRG Energy
- › Climate change votes rise in wake of COP21
  - › “2 degree scenario” stress test proposal receives strong support
    - » Occidental Petroleum (49%), AES (42.2%) and ExxonMobil (38.1%)
  - › Calls for greenhouse gas and other emissions goals draw support
    - » CLARCOR (60.8%) holder request sustainability report with GHG goals
    - » Fluor (42.9%) and HD Supply (41.5%) holders urge setting GHG goals
    - » Methane emission proposal scores majority (50.8%) at WPX Energy
    - » Call for “stranded carbon” risk report backed by 42% at Anadarko
- › Diversity
  - › Call for diverse board nets majority support (52.4%) at Joy Global
  - › Proposal for gender pay gap report wins bid (51.2%) at eBay
  - › Holders back (54.7%) banning sexual orientation/gender identity bias at JB Hunt

## Majority-Supported Shareholder Proposals (2016)

Company	Proposal	Support
Kellogg Company	Animal Welfare (board support)	98.2%
FleetCor Technologies	Board Diversity (no board rec)	72.4%
Fluor Corporation	Political Contribution Disclosure	61.9%
CLARCOR Inc.	Sustainability Report, Including GHG Goals	60.8%
J.B. Hunt Transport Services	Sexual Orientation/Gender Identity	54.7%
Joy Global Inc.	Board Diversity	52.4%
eBay Inc.	Gender Pay Gap	51.2%
WPX Energy, Inc.	Methane Emissions	50.8%
NiSource Inc.	Political Contribution Disclosure	50.3%

## E&S Shareholder Proposals by Support and Number



Source: ISS VotingAnalytics

**2016:** 9 E&S shareholder proposals received majority support

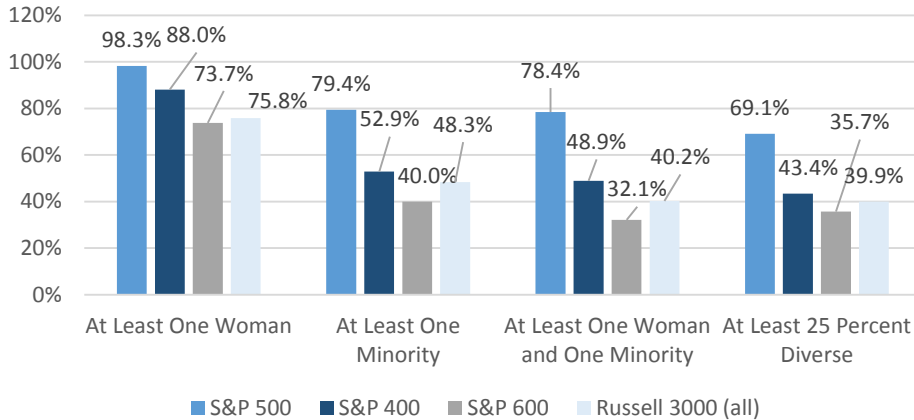
- The Animal Welfare proposal at Kellogg (a laudatory proposal) received board support
- FleetCor Technologies had a management vote recommendation of "None" for the board diversity proposal
- 3 proposals with > 40% support to assess impacts of policies to meet the 2 degree scenario.

**2015:** 1 E&S shareholder proposal received majority support

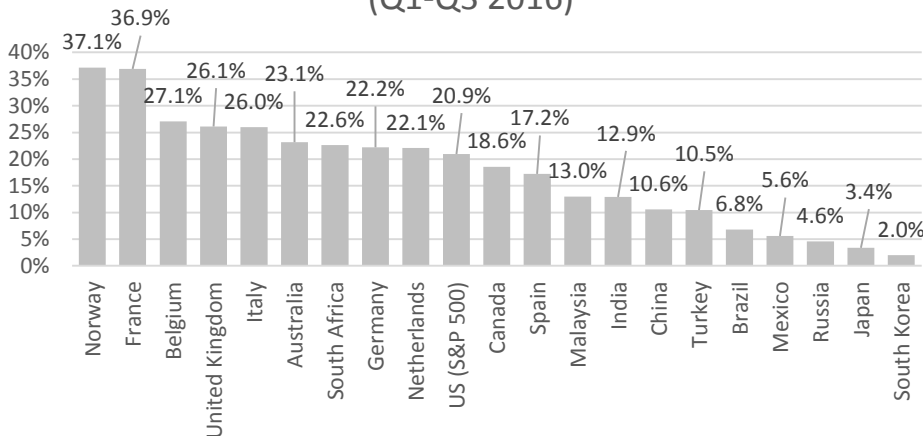
**2014:** 7 E&S shareholder proposals received majority support

Source: ISS VotingAnalytics

### Board Diversity Statistics By Index (Q1-Q3 2016)



### Women on the Board by Main Index (Q1-Q3 2016)



Source: Board and Governance Data from ISS Analytics

### US trends - 2016

- **Companies with at least 1 diverse director** range from 95% (Utilities) to 64% (Energy)
- **Companies with female CEOs** range from 14% (Utilities) to 3% (Energy)
- **Overall diversity** ranges from 30% (Utilities) to 13% (Energy)
- **Average % of Women on the Board for S&P 500** increased from 16% (2011) to 21% (2016)
- **Average % of Women on the Board for Russell 3000** increased from 9% (2011) to 14% (2016)

Market	Target	Source
India	At least 1 Woman (2015)	Companies Act, 2013 and SEBI
Malaysia	30% in decision-making roles (2016)	Governance Code
Belgium	33% (2017)	Company Law
Netherlands	30% (2013)	Law (comply or explain)
France	40% (2017)	Law and Governance Code
Germany	30% (2016)	Law and Code of Best Practice
Norway	Varies - at least 40%	Law
Italy	33% (2018)	Company Law
Spain	30% (2020)	Law (comply or explain)
Turkey	25% (Company Discretion)	Governance Code
United Kingdom	33% for FTSE 350 (2020)	UK Government Guidance



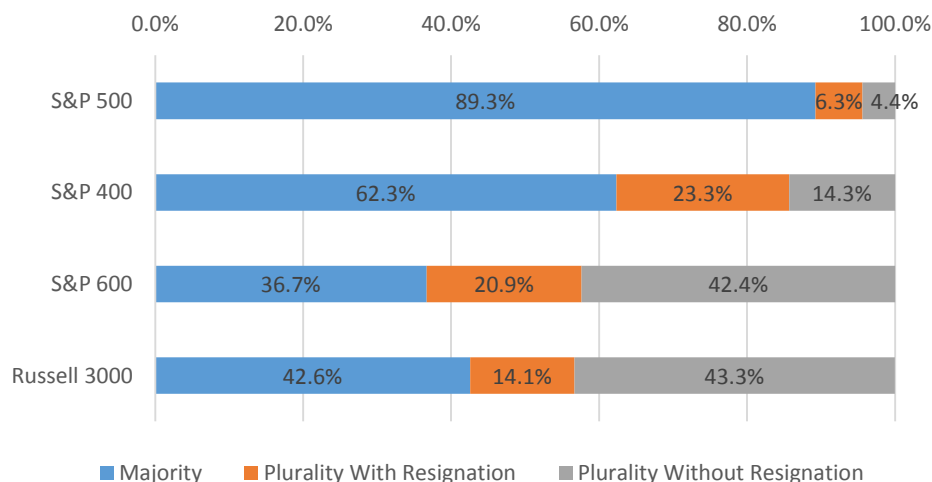
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**BOARDS of DIRECTORS**

Board Practice	Russell 3000 (2010-2016)			S&P 1500 (2016)		
	2010	2013	2016	S&P 500	S&P 400	S&P 600
Average Director Tenure	8.3	8.6	8.3	8.6	9.2	9.2
Average Board Independence	74.6%	75.8%	76.9%	83.4%	80.5%	78.4%
Classified Board (% of Companies)	40.4%	41.2%	44.9%	13.5%	40.8%	47.5%
Combined CEO/Chair (% of Companies)	45.8%	42.6%	38.0%	52.0%	39.0%	34.9%
<b>Shareholder Rights Practices</b>						
Poison Pill (% of Companies)	20.0%	11.2%	5.8%	2.9%	8.0%	5.9%
Poison Pill without Shareholder Approval (% of Companies)	18.9%	10.0%	4.8%	2.3%	6.1%	5.5%
Supermajority for Mergers (% of Companies)	30.2%	20.4%	16.1%	17.3%	21.8%	17.4%
Supermajority Bylaws or Charter (% of Companies)	60.2%	60.2%	60.9%	46.7%	61.3%	61.9%
Right to Call Special Meeting - Threshold of 25% or Less (% of Companies)	23.5%	26.7%	28.9%	48.0%	26.3%	28.7%
Right to Act by Written Consent (% of Companies)	30.1%	27.6%	26.4%	27.6%	27.9%	27.8%
Controlled Companies (% of Companies)	7.3%	8.7%	9.7%	3.8%	4.2%	4.3%
Companies with Differential Voting Rights (% of Companies)	7.2%	7.9%	8.9%	6.9%	6.4%	7.3%

The above statistics represent a snapshot of governance practices and shareholder rights related topics by year and index. The graphic below on the left summarizes vote standard practices for director elections. The graphic below on the right breaks down the number of outside boards occupied by directors in the 24,223 public company directorships at R3000 companies that held shareholder meetings in Q1-Q3 2016.

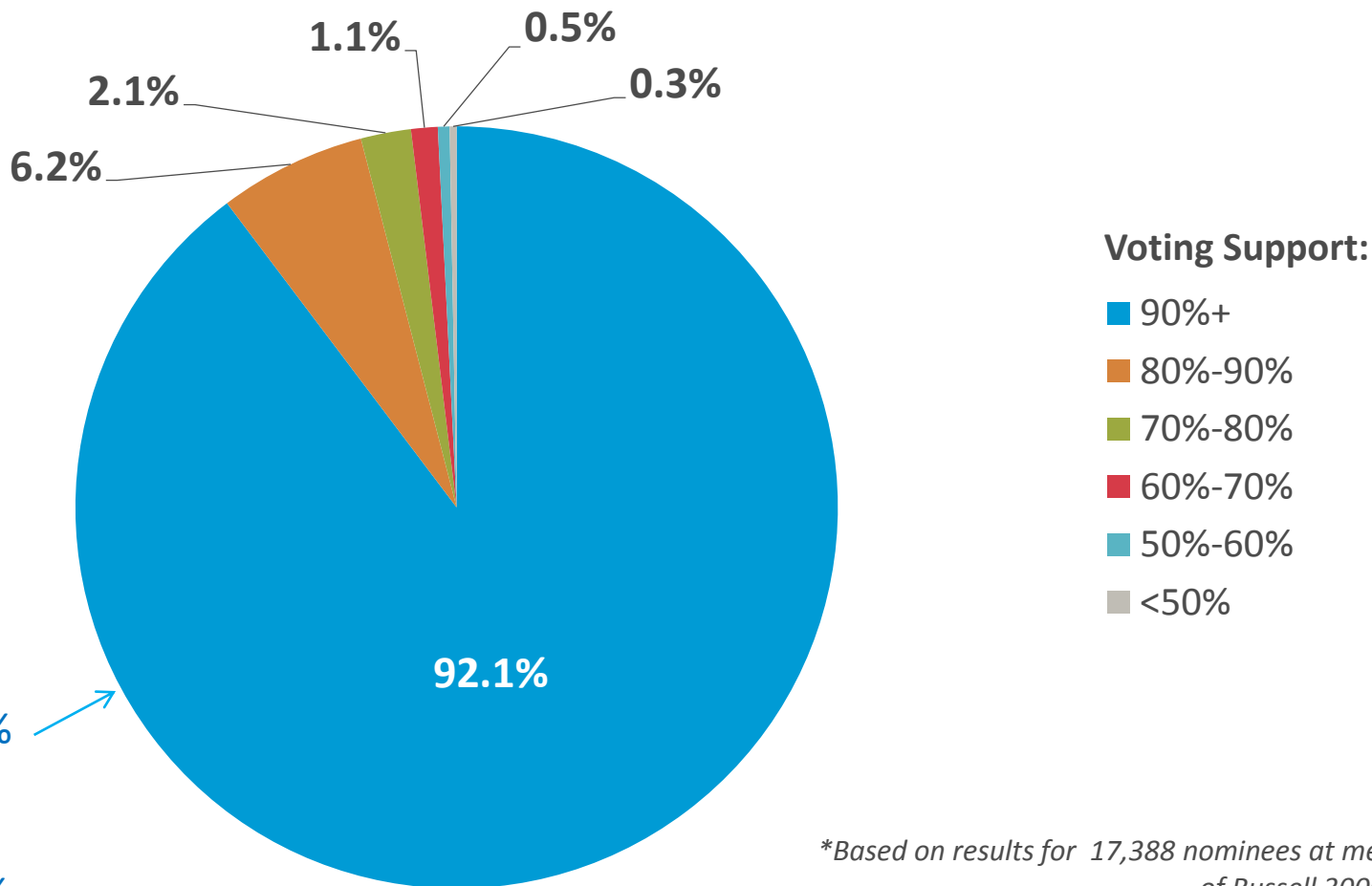
## Vote Standard on Director Elections by Index



Source: Board and Governance Data from ISS Analytics

Director Overboarding Russell 3000			
Number of Public Boards	Number of Directorships		
	Non-CEO Director	CEO of Company	CEO of Other Company
0	11,621	1,815	23
1	4,648	639	645
2	2,646	150	307
3	1,149	17	65
4	302	1	19
5	57	3	13
6	22	0	1
7+	18	3	8

## 2016 Average Support for R3K\* Nominees: 95.9% (Votes Cast)



More than 90% of nominees have drawn support of 90% or more

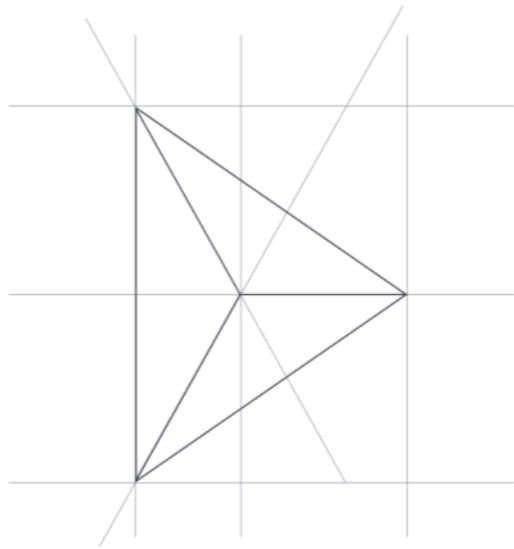
*\*Based on results for 17,388 nominees at meetings of Russell 3000 firms As of Oct. 15, 2016*

*Data does not include abstentions*  
Source: ISS Voting Analytics

# 2016 U.S. Review: Spotlight on CII's Responsiveness Recidivists



Company (QuickScore)	Recidivist Activity	2016 Update
<b>Carriage Services (10 unchanged)</b>	MSoP fails to receive majority support for 2 consecutive years.	MSoP passes (67.3 %), but support remains in “red” zone. Nominee Fingerhut receives 72.9%.
<b>Cogent Communications (7 down from 9)</b>	MSoP fails to receive majority support for 3 consecutive years.	MSoP barely passes (54.1%). Nominees Brooks (61.4) and Weingarten (61.4) receive low support.
<b>Healthcare Services Group (4 down from 5)</b>	Directors fail to receive majority support for 2 straight years (McCartney, McFadden, Briggs, McBryan, Moss, Frome and Wahl) or 3 consecutive years (Casey and Ottaviano).	Nominee Ottaviano fails to reach majority support (36.9%) for 4 <sup>th</sup> consecutive time. Other nominees receive support below 70%.
<b>Mack-Cali Realty (4 down from 9)</b>	MSoP fails to receive majority support for 2 consecutive years.	Support (>95%) and big drop in QS risk reflects improvements in pay programs.
<b>Masimo (10 unchanged)</b>	MSoP fails to receive majority support for 2 consecutive years.	Third consecutive failed vote (42.4 %) on MSoP. Nominee Reynolds receives support from 63.4%.
<b>Monster Worldwide (2 down from 5)</b>	MSoP fails to receive majority support for 2 consecutive years.	Support for MSoP tops 90% of votes cast.
<b>Nabors Industries (10 up from 9)</b>	Access proposal receives majority support for 3 consecutive years and 2 directors, Yearwood and Linn, fail to receive majority support for 3 and 2 consecutive years, respectively.	CtW Vote No campaign. Serial sub-majority support for directos Wolf (2X), Linn (3X) and Yearwood (4X). Another majority vote for access. Failed MSoP.
<b>Netflix (10 unchanged)</b>	Proposals requesting simple majority vote and annual elections receive majority support for 3 and 4 consecutive years, respectively.	CtW Vote No campaign. All nominees receive 30%-plus No votes. Majority support for all four shareholder proposals on ballot.
<b>Spectrum Pharmaceuticals(10 unchanged)</b>	MSoP fails to receive majority support for 3 consecutive years and director Krassner falls short of majority support for 2 straight years.	Pending. June 28.
<b>TCF Financial (5 down from 7)</b>	MSoP fails to receive majority support for 2 consecutive years.	MSoP passes with support from 71.2% of votes cast. Nominee Bigos receives 30.1 % support due to poor attendance.
<b>Texas Roadhouse (4 down from 6)</b>	Proposal requesting declassified board receives majority support for 3 consecutive years.	Annual board elections reestablished. All nominees elected with 99%-plus support.
<b>Tutor Perini (8 up from 6)</b>	MSoP fails to receive majority support for 5 consecutive years.	Board loses on MSoP for record 6 <sup>th</sup> year in a row with 42 % support. Close calls for nominees Arkley, Klein and Snyder.
<b>Vornado Realty Trust (8 down from 9)</b>	Shareholder proposal requesting independent board chair receives majority support for 3 consecutive years.	Board declassified, but no change in leadership. Less than 70% support for nominee Beinecke.

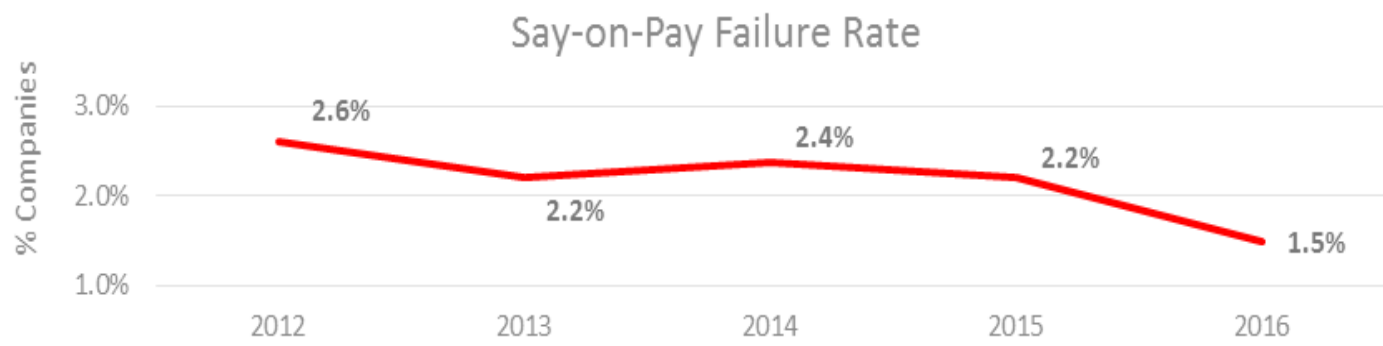
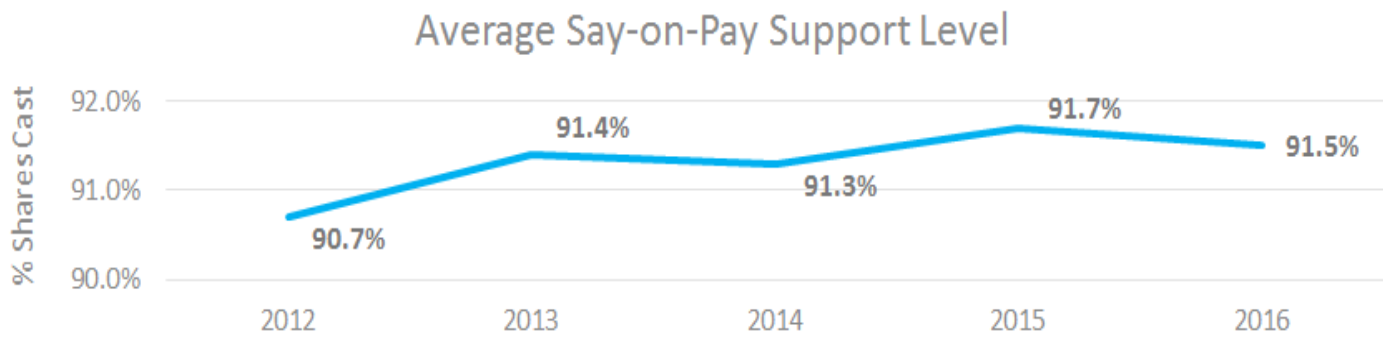


## AGENDA

## COMPENSATION

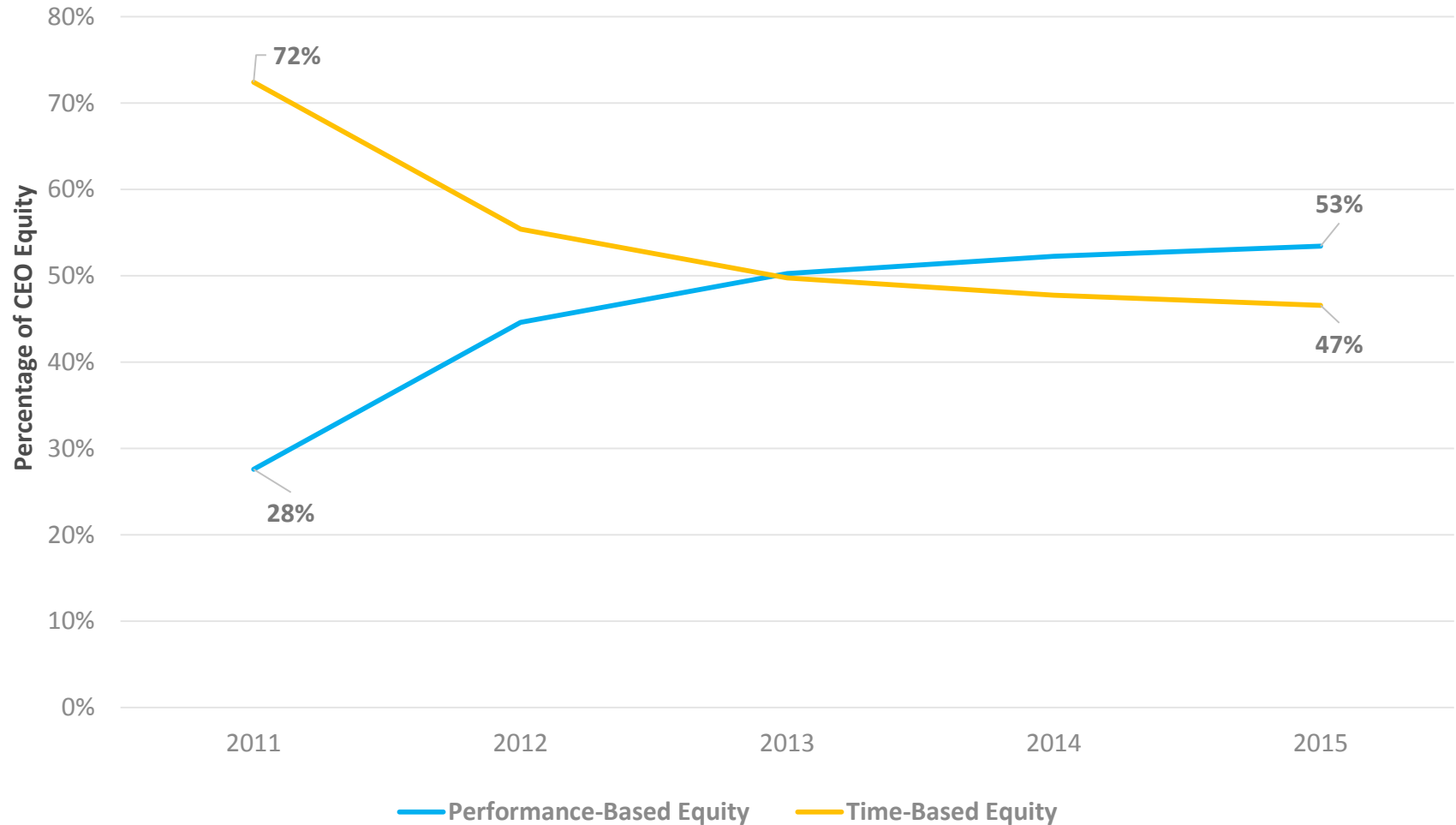


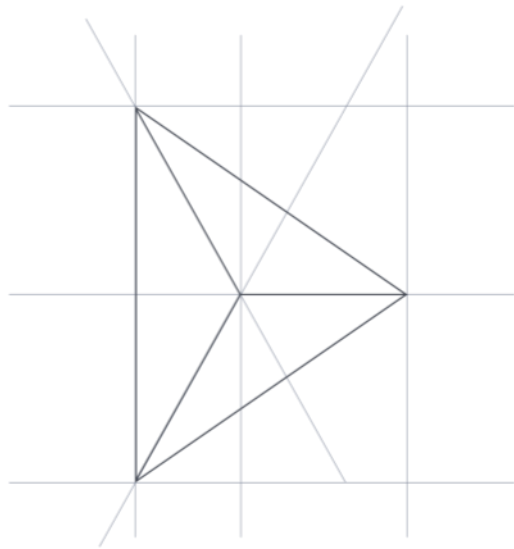
- › 2016 Proxy Season Median CEO Pay (excluding pension changes)
  - › S&P 500: \$10.52 million (up 1% from \$10.40 million in 2015 season)
  - › Russell 3000: \$3.25 million (nearly unchanged from 2015 season)



Reflects Russell 3000, including S&P500

## CEO Performance-Vested vs. Time-Vested Equity (S&P 500)

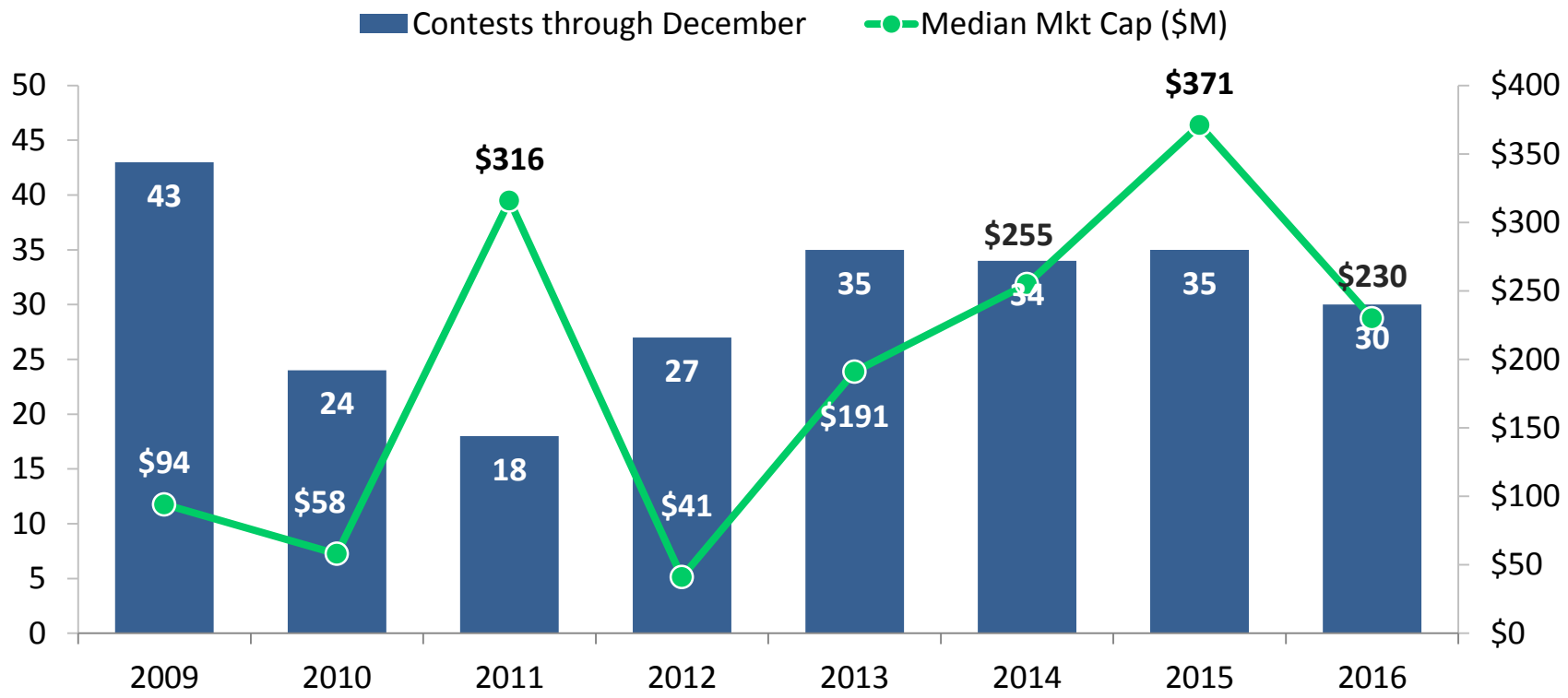




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**ACTIVISM**

# Settlements Slow Contest Pace; Size Drops



Source: ISS Data – 2009-2015 data through December; 2016 data through September.

<u>Dissident "Win Rate"</u>	<u>&lt; \$100M</u>	<u>\$100M-\$1B</u>	<u>&gt; \$1B</u>	<u>Total</u>
2016 YTD	67%	44%	40%	50%
2015	60%	46%	36%	47%

\$ Amounts above represent Market Capitalization

## THANK YOU

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