

2019 Proxy Season Lessons

Intensification of focus on ESP proposals, steady say-on-pay votes, and lower director support levels correlated with ISS recommendations

director
PRACTICES & CAPABILITIES

On September 12, Marc Treviño and Melissa Sawyer presented a webinar program titled “Lessons From the 2019 Proxy Season” on lessons learned from the 2019 proxy season and advance planning for 2020, including:

2019 Proxy Season Lessons
Corporate Governance
Executive Compensation
Mergers & Acquisitions

- Rule 14a-8 shareholder proposals
- Compensation-related considerations
- Analysis of ISS negative recommendations against directors
- Potential developments for 2020

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The ability and willingness of shareholders to influence corporate management and structure have steadily increased over the last decade. Corporate governance and shareholder activism represent increasingly complex and critical areas of focus for public companies.

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[Part 1—Rule 14a-8 Shareholder Proposals](#)
[Part 2—Analysis of ISS Negative Recommendations Against Directors](#)
[Part 3—Companies Maintain Strong Say-On-Pay Performance](#)

Part 1—Rule 14a-8 Shareholder Proposals

In Part 1, we focus on environmental, social and political (ESP) proposals. A comparison of 2018 and 2019 shareholder proposals reveals:

SUMMARY OF 2018-2019 SHAREHOLDER PROPOSALS

Type of Proposal	Shareholder Proposals Submitted		Shareholder Proposals Voted On		Average % of Votes Cast in Favor		Shareholder Proposals Passed	
	2019 YTD	2018	2019 YTD	2018	2019 YTD	2018	2019 YTD	2018
ESP	323	387	146	139	28%	26%	9	8
Governance-related	303	335	195	234	37%	37%	41	31
Compensation-related	52	66	30	42	24%	23%	2	0
Total	678	788	371	415				

- Although total submitted ESP proposals decreased, voted ESP proposals
 - sharply increased as a percentage (to nearly half),
 - received record levels of support (over 30% average support) and
 - passed in record number (nine).
- Half of workplace diversity proposals reached a vote and shareholder support remains high (almost 40%)
- 9 out of 10 top submitters submitted double-digit ESP proposals

Download: [Rule 14a-8 Shareholder Proposals](#)

Part 2—Analysis of ISS Negative Recommendations Against Directors

Part 2 discusses ISS recommendations which continue to correlate with lower director

support levels.

- Directors average 97% shareholder support with ISS in favor and 79% if not (level with 2018), although almost all directors win over 50% shareholder support
- S&P 500 directors identified for excessive non-audit fees or poor attendance receive the lowest average shareholder support (55% and 63%, respectively)
- Outside of the S&P 500, Russell 3000 directors receive the lowest average shareholder support for non-responsiveness to shareholder concerns or excessive non-audit fees (58% and 60%, respectively)

Download: [ISS Negative Recommendations Against Directors](#)

Part 3—Companies Maintain Strong Say-On-Pay Performance

Part 3 delves into the continued strength on say-on-pay votes and equity compensation. The following table compares the 2018 and 2019 say-on-pay voting results for meetings at S&P 500 and Russell 3000 companies through June 30, 2019.

	Russell 3000		S&P 500	
	2019	2018	2019	2018
Percentage passed (majority support)	97%	97%	99%	98%
Percentage with >70% support	91%	91%	93%	93%
Percentage with ISS "Against" recommendations	13%	13%	11%	9%
Average support with ISS "For" recommendations	95%	95%	93%	94%
Average support with ISS "Against" recommendations	65%	66%	65%	63%

- Public companies continued to perform strongly on say-on-pay, with support levels averaging over 90% and less than 3% of companies receiving less-than-majority support.
- Fewer than half of the companies who received less-than-majority support last year achieved over 70% support this year, suggesting low say-on-pay votes have become stickier.
- ISS negative recommendations on say-on-pay highlight the continued importance of the pay-for-performance assessment category, with the most important factor continuing to be the alignment of CEO pay with Total Shareholder Return (or TSR) in relation to the ISS-determined peer group.
- The most important qualitative factor was performance standards that are not deemed sufficiently rigorous by ISS or clearly explained.

Download: [Say-on-Pay Votes and Equity Compensation](#)