Enhancing Shareholder Engagement:

Tips from 2engage™

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Importance of Shareholder Engagement

In today's corporate governance environment, shareholders increasingly desire a forum and opportunity to communicate with companies on a wide range of matters that go beyond typical topics such as executive compensation. Shareholders are also now seeking to understand how the board and management are thinking about environmental, social and governance (ESG) matters as well as other issues. Highlighting its importance in a recent speech, U.S. Securities and Exchange Commission Chairman Jay Clayton remarked that shareholder engagement is a hallmark of our markets.

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Now more than ever, institutional investors and other shareholders seek engagement to ensure their voices are heard and that companies (and their boards in particular) are responsive to shareholder concerns and priorities. In its most effective form, shareholder engagement is a proactive process utilized by companies on an ongoing basis throughout the year. Engagement should not be done solely in a crisis. In cases where it is done well, engagement with shareholders can have positive results and drive meaningful change. If engagement has been consistent, a company will be able to engage quickly and effectively if an emergency arises because the shareholder will be familiar with the company's representative(s), current initiatives, governance structure and business challenges. Consistency is vital in building long-lasting, genuine, and meaningful relationships with shareholders. In this white paper, we review shareholder engagement best practices and include engagement tips for 2018 and beyond.

Off-Season Engagement

Off-season engagement typically occurs in late Summer, Fall, or even Winter.

It is critical for companies to include off-season engagement in their shareholder outreach strategy. Outside of the busy proxy season, shareholders and companies can nurture relationships while also examining key issues. Outcome from these meetings also could help inform the direction of a shareholder's own initiatives and voting policies as well.

Company executive compensation teams can relay off-season engagement feedback to the board and compensation committee meetings at which compensation adjustments and strategy will be discussed. Raising shareholder feedback during these meetings helps to ensure that boards are not caught off guard by any surprises or backlash like negative vote recommendations against board members.

Off-season engagement also gives shareholders the opportunity to weigh in on important decisions a company may be considering for the upcoming year or provide feedback on previous annual meeting voting. Shareholders may also voice concerns on certain matters such as executive compensation, shareholder initiatives, or ESG issues.

While regular contact is good, companies should refrain from requesting frequent meetings just for the sake of engaging.

Companies that have already met with a shareholder twice in one year, or had a regular check-in, should touch base to inquire whether there is an issue worth discussing further, and if not, indicate that the company will reach out at another time.

In some instances, a company may need to meet with a shareholder beyond the norm to discuss a pressing matter, or after the proxy statement is filed, at which a shareholder will welcome such engagement. However, if no pressing issue is facing the company, engagement may only take place once every two years, instead of annually. Companies also should ask a shareholder directly how much contact is desired.

Disclosure of Shareholder Engagement

Several companies consistently improve engagement disclosure in proxy statements in order to demonstrate responsiveness to shareholder concerns. Proxy advisors include a specific interest in shareholder engagement disclosure and board responsiveness to shareholders in their voting policies.

Shareholder engagement disclosure should provide information regarding: (i) topics discussed; (ii) the level of outreach conducted year-over-year (percent of outstanding shares contacted); (iii) how often and when; (iv) action taken by the board to address shareholder concerns; and (v) the level of director involvement.

In the proxy statement, disclosure regarding shareholder engagement typically appears in the proxy summary, main governance section, Compensation Discussion & Analysis, or letter to shareholders.

Additionally, be aware that some shareholders do not engage as a matter of policy, or have guidelines on how they choose to engage with a company. If a shareholder is consistently non-responsive, it may be a reflection of many circumstances, so it is best to double-check its guidelines which may shed light on the shareholder's engagement policy.

Companies may also use the off-season period to follow up with proxy advisors on any negative recommendations that were received as well as any other important matters worth raising. Conversations held at this time with proxy advisors allows companies the opportunity to receive constructive feedback and incorporate relevant changes to: proxy disclosure; governance structure; or executive compensation programs prior to the next proxy season and subsequent proxy advisor recommendations.

Meeting Attendees

The attendees from management in shareholder engagement meetings vary from company to company. Management should select persons who are well suited to discuss: (i) the overall business environment and strategy of the company; (ii) the governance structure of the company and board of directors; and (iii) the executive compensation program, among other things. The company should be prepared to speak to how these matters align to create long-term shareholder value. Of note, governance teams are now partnering more closely with their investor relations and corporate social responsibility representatives in engagement meetings due to the growing interest from shareholders to discuss ESG issues in greater depth.

Scheduling Meetings

An e-mail to a shareholder is an acceptable means for scheduling a meeting. The initial e-mail requesting a meeting should state who will attend the meeting from the company. Prior to an engagement meeting, follow up within 48 hours to determine whether the list of shareholder attendees has changed and if so, be prepared to bring to the meeting the appropriate company attendees.

Some shareholders are willing to meet via telepresence technology. During an engagement meeting, explore alternative options to engage. Board directors have demanding travel schedules, or a company may want to trim costs on travel in line with sustainability and budget goals. Telepresence may be a viable option worth considering when exploring alternative ways to engage.

Discussion Topics

For companies that may be facing an especially challenging issue and need to get in front of a shareholder, it is advisable to be specific and not generalize the reason a meeting is being requested as this could signal to the shareholder that you are reaching out for a routine check-in. If potential topics are not presented in a clear fashion so that the shareholder can easily see the value in a meeting, a shareholder may defer to a later date, push an in-person meeting to a telephone call, or decline the meeting. Being precise with your communication initially also avoids excessive "back and forth" or unnecessary communications.

Engagement Materials

A brief information slide deck is a good tool to use as a guide for the engagement meeting. Some shareholders welcome a walk-through of a slide deck, while others use it only as a basis for discussion. At the beginning of the meeting, ask which approach is preferred. Be mindful not to seem too scripted or rehearsed.

If you have additional material for review, send the information ahead of the meeting in enough time for the shareholder to have time to read it over. Lastly, check in a few days before the meeting to ensure the shareholder has received all materials to be discussed at the upcoming meeting.

Director Participation

Many companies have a director join and support the company's engagement efforts. If this approach is implemented, the chosen director should be well-coached and fully capable of addressing executive compensation and key governance concerns, as well as trending social and environmental matters. Some companies keep two or three directors fully engaged, while in some cases, companies may choose to keep only the lead independent director or one director engaged and on a stand-by basis throughout the year.

Background Research

Prior to any meeting, be sure you have done your research on your shareholder base. Research any recent publications and voting policy updates. Also, investigate whether shareholders have formed a coalition or partnered with other large institutional investors on governance matters that may impact your company.

When preparing for an engagement meeting, most companies research policies, positions and other shareholder information, including: (i) individual biographies; (ii) voting history; (iii) proxy advisor alignment; (iv) current shareholder rank ownership/ position; (v) any media or noteworthy press; (vi) summary of key takeaways from previous meetings; and (vii) proxy voting guidelines.

Shareholder proxy voting guidelines provide clarity on how a shareholder will vote on a particular matter. It is prudent for a company to be clear on any updates to a shareholder's

Proxy Advisor Engagement

If possible, periodically use the off-season and regular season to touch base with Institutional Shareholder Services (ISS) and Glass Lewis.

Both ISS and Glass Lewis will let you know if engagement is desired. It is advantageous to stay in touch and maintain the relationship year-over-year. In any meeting with a proxy advisor, be proactive in assisting them in understanding your business operations and executive management's alignment of corporate strategy with performance and executive compensation.

Be sure to engage with Glass Lewis before its blackout period which begins on the date the notice of your annual meeting of shareholders is released and ends on the date of your annual meeting of shareholders.

proxy voting guidelines and thought process concerning those guidelines. Do not presume that because a shareholder voted one way previously that they will vote the same way currently. During off-season engagement and prior to your annual meeting, confirm there has not been a change in a shareholder's voting position. Also, pay close attention to any press and media articles that may reveal a shareholder's shift away from a former position.

Follow-Up

After your meeting, send a thank you note and follow up on any post action items stemming from the meeting. If a director participated, the director may also wish to send a thank you note (written or email) to the shareholder.

The board should be updated on the positions and issues important to the company's shareholder base.

Finally, keep the board of directors and management apprised through periodic reports regarding the off-season and regular season engagement progress and outcomes.

Conclusion

Companies are using various creative methods (graphic design and detailed description) to describe their shareholder engagement efforts in proxy statements. At 2engage, we assist companies with proxy statement and annual report content strategy and design, among many other offerings.

2engage believes that shareholder engagement will continue to play a critically important role in corporate governance and will be a primary focus area for the 2018 proxy season. As companies and shareholders continue to build meaningful relationships—consistency, communication, transparency and enhanced disclosure of engagement efforts will be key. As you continue to engage with your stakeholders, our hope is that these tips will equip you with the tools essential to sustaining a successful and thoughtful engagement program.

About 2engage

2engage is a responsive, customer focused firm that offers a full range of SEC Reporting, Financial Print Services, and Corporate Governance solutions to assist companies in engaging their investors, employees and customers through the multichannel preparation and execution of their communications. Our practice is built upon creative professionals who possess sharp business acumen, can develop strategy and thoughtful design, and deliver implementation best practices.

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