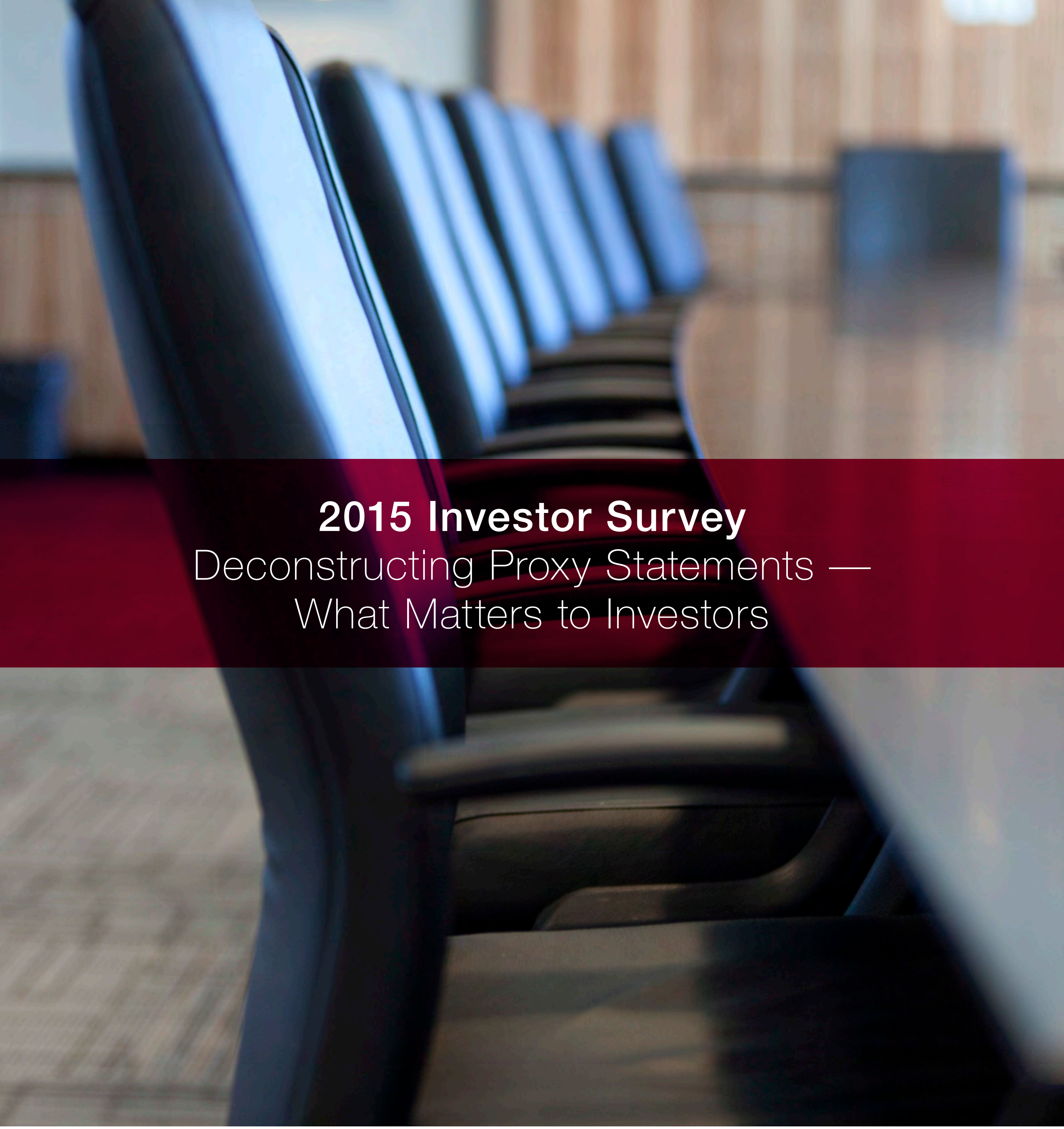

2015 Investor Survey

Deconstructing Proxy Statements — What Matters to Investors

STANFORD BUSINESS GRADUATE SCHOOL OF

RR DONNELLEY

EQUILAR

ROCK CENTER FOR CORPORATE GOVERNANCE STANFORD UNIVERSITY

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Executive Summary and Key Findings

Shareholders Are Dissatisfied with CEO Compensation and Disclosure

Proxies Are Too Long, Difficult to Read

Only 38 percent of institutional investors believe that corporate disclosure about executive compensation is clear and easy to understand.

“Shareholders want to know that the size, structure, and performance targets used in executive compensation contracts are appropriate,” says Professor David F. Larcker of the Stanford Graduate School of Business. “Our research shows that, across the board, they are dissatisfied with the quality and clarity of the information they receive about compensation in the corporate proxy. Even the largest, most sophisticated investors are unhappy.”

“With new pressure from activist investors and annual ‘Say on Pay’ (SOP) votes, it is more important than ever that companies explain to their shareholder base why the compensation packages they offer are appropriate in size and structure,” says Aaron Boyd, director of Governance Research at Equilar.

“Investors are noticing the wide range in quality and clarity among various companies’ proxies. They want companies to communicate and explain, rather than simply disclose,” adds Ron Schneider, director of Corporate Governance Services at RR Donnelley Financial Services. “This represents a significant opportunity for many companies to improve the clarity of their proxies.”

In the fall of 2014, RR Donnelley, Equilar, and the Rock Center for Corporate Governance at Stanford University surveyed 64 asset managers and owners with a combined $17 trillion in assets to understand how institutional investors use the information in corporate proxies to make voting and investment decisions.

Key Findings Include:

Investors are Deeply Dissatisfied with Compensation Disclosure

Less than half (38 percent) of institutional investors believe that information about executive compensation is clear and effectively disclosed in the corporate proxy. Responses are consistently negative across all elements of compensation disclosure. Sixty-five percent say that the relation between compensation and risk is “not at all” clear. Forty-eight percent say that it is “not at all” clear that the size of compensation is appropriate. Forty-three percent believe that it is “not at all” clear whether performance-based compensation plans are based on rigorous goals.

Significant minorities cannot determine whether the structure of executive compensation is appropriate (39 percent), cannot understand the relation between compensation and performance (25 percent), and cannot determine whether compensation is well-aligned with shareholder interests (22 percent). “Corporations must do a better job of articulating the rationale behind plan design,” says Mr. Boyd. “It is not enough that disclosure in the Compensation Discussion & Analysis (CD&A) section of the proxy meets regulatory requirements. Companies should take renewed effort to be clear and concise in explaining their choices.”

Proxies are Too Long and Difficult to Read – Investors Rely on Only a Small Fraction of the Information

Fifty-five percent of investors believe that a typical proxy statement is too long. Forty-eight percent believe that a typical proxy is difficult to read and understand. Investors claim to read only 32 percent of a typical proxy, on average. They report that the ideal length of a proxy is 25 pages, compared to the actual average of 80 pages among companies in the Russell 3000. “Lengthy disclosure does not necessarily equate with clear and digestible disclosure, and can actually impede rather than improve shareholder understanding of governance choices” observes Mr. Schneider. “Plain English language which is well-organized and easily navigated, coupled with simple design elements to draw the reader to key content, are much more effective in conveying information.”

Investors are most satisfied with disclosure relating to director nominee descriptions and qualifications, director independence, and shareholder-sponsored proposals. They believe that disclosure relating to pay ratios (the ratios of CEO pay to median employee pay and CEO pay to other named executive officer pay), corporate political contributions, corporate social responsibility and sustainability, and CEO succession planning are least clear.

Investors Believe the Proxy Voting Process Is a Valuable Exercise…

Eighty percent of investors believe that proxy voting increases shareholder value. Their confidence level that proxy voting increases value averages 7.2 on a scale of 1 to 10, with nearly a quarter of respondents (24 percent) assigning a confidence level of 10. Institutional investors are most likely to read the summary section of the proxy (if included), total compensation tables, and disclosure on long-term incentive plans. Investors also highly value a table highlighting significant changes from the previous year. For proxy voting decisions, investors rely most heavily on disclosure relating to pay-for-performance alignment, performance metrics used in compensation plans, and director independence.

In addition to proxy statements, investors are most likely to rely on internal policies or analysis (73 percent), third-party proxy advisors (63 percent), and direct engagement with the company (58 percent) to make voting decisions.

… However, Portfolio Managers Are Only Moderately Involved in Voting Decisions

Seventy-six percent of institutional investors report that portfolio managers are involved in voting specific proxy items for the companies their organization is invested in. However, among those portfolio managers that do participate in voting decisions, the level of engagement is very low. A typical portfolio manager is involved in only 20 percent of voting decisions. Among large institutional investors with assets under management (AUM) greater than $100 billion engagement is even lower: portfolio managers are involved in only 10 percent of decisions.

Portfolio managers that participate in voting tend to weigh in on major issues: mergers and acquisitions (89 percent), director nominations in a contested election (82 percent), executive compensation “Say on Pay” (75 percent), and proposals to approve or amend equity compensation plans (70 percent).

Two-thirds of respondents (68 percent) report that portfolio managers are involved in establishing their firm’s proxy voting guidelines.

Proxies Are Less Frequently Used for Investment Decisions

Fifty-nine percent of investors use proxy information for investment decisions. In making investment decisions, they rely most heavily on disclosure relating to performance metrics used in compensation plans, pay-for-performance alignment, the corporate governance profile of the firm (including shareholder rights and anti-takeover measures), and risk oversight.

Investors are Lukewarm that “Say on Pay” Leads to Tangible Improvement

A slight majority (54 percent) of shareholders believes that proxies allow them to make informed votes on executive compensation (“Say on Pay”). A similar percentage (58 percent) believes that “Say on Pay” is effective in influencing or modifying pay practices.

Complaints about disclosure might be related to dissatisfaction with pay practices in general. Only one-fifth (21 percent) of institutional investors believe that CEO compensation among companies in their portfolio is appropriate in size and structure. Twenty-one percent believe that CEO compensation among companies in their portfolio is clearly linked to performance. Only a quarter (26 percent) are able to understand the payouts that executives stand to receive under long-term performance plans.

“These are significantly negative perceptions of executive compensation,” observes Professor Larcker. “’Say on Pay’ is having some effect, engaging shareholders in a discussion about plan design. However, investors are still frustrated with pay levels overall and whether the packages awarded today are justified.”

Review of Findings/Demographic Information

Demographic Information

1. Which of the following most closely describes your organization?

	Percent
Asset manager	78
Asset owner	22

2. What is your role within the organization?

	Percent
Chief Investment Officer	30
Corporate governance/proxy voting director	17
Corporate governance/proxy voting manager	14
Corporate governance/proxy voting analyst	14
Portfolio (fund) manager	8
Portfolio (fund) analyst	5
Operations manager	3
Operations staff	2
Other	8

3. What is the total number of assets that your organization owns or has under management?

	Percent
Less than $100 million	2
$100 million to $500 million	13
$500 million to $1 billion	2
$1 billion to $10 billion	31
$10 billion to $100 billion	21
$100 billion to $250 billion	7
Greater than $250 billion	25

Does not total 100% due to rounding.

4. Approximately how many publicly traded U.S. stocks does your organization hold investments in at a given time?

Results for all respondents	Percent
Less than 100	26
101 to 500	28
501 to 1,000	7
1,001 to 3,000	13
Greater than 3,000	26

Results for funds with >$100 billion in AUM	Percent
Less than 100	0
101 to 500	5
501 to 1,000	5
1,001 to 3,000	21
Greater than 3,000	69

Results for funds with <$100 billion in AUM	Percent
Less than 100	38
101 to 500	38
501 to 1,000	7
1,001 to 3,000	10
Greater than 3,000	7

5. What percentage of these companies have you engaged with in the last year?

Results for all respondents	Percent
Between 0% and 25%	71
Between 26% and 50%	13
Between 51% and 75%	2
Between 76% and 100%	14
Average (Mean)	25

Results for funds with >$100 billion in AUM	Percent
Between 0% and 25%	89
Between 26% and 50%	6
Between 51% and 75%	0
Between 76% and 100%	6
Average (Mean)	14

Results for funds with <$100 billion in AUM	Percent
Between 0% and 25%	63
Between 26% and 50%	16
Between 51% and 75%	3
Between 76% and 100%	18
Average (Mean)	30

Proxy Voting Decisions

6. Are portfolio managers involved in establishing the proxy voting guidelines of your organization?

	Percent
Yes	68
No	32

7. Are portfolio managers involved in voting specific proxy items for the companies your organization is invested in?

Results for all respondents	Percent
Yes	76
No	24

Results for funds with >$100 billion in AUM	Percent
Yes	89
No	11

Results for funds with <$100 billion in AUM	Percent
Yes	71
No	29

7.1. Approximately what percentage of voting decisions are portfolio managers involved in?

Results for all respondents	Percent
Between 0% and 25%	55
Between 26% and 50%	7
Between 51% and 75%	5
Between 76% and 100%	34
Average (Mean)	45
Median	20

Results for funds with >$100 billion in AUM	Percent
Between 0% and 25%	80
Between 26% and 50%	0
Between 51% and 75%	7
Between 76% and 100%	13
Average (Mean)	23
Median	10

Results for funds with <$100 billion in AUM	Percent
Between 0% and 25%	41
Between 26% and 50%	10
Between 51% and 75%	3
Between 76% and 100%	45
Average (Mean)	56
Median	50

Does not total 100% due to rounding.

7.2. What voting decisions are portfolio managers most frequently involved in? (select all that apply)

	Percent
Merger/acquisitions	89
Director nominations – contested	82
Executive compensation ("Say on Pay")	75
Equity compensation plans	70
Shareholder proposals	66
Charter or bylaw amendments	50
Other management proposals	50
Director nominations – uncontested	48
Auditor ratification	34

8. What information sources does your organization rely on to make proxy voting decisions? (select all that apply)

	Percent
Proxy statement	83
Internal policies or analysis	73
Third-party proxy advisor	63
Direct engagement with company	58
Third-party research or data	47
Company website	36
Other investors	22
Media	10
Other	14

9. In general, do you believe that proxy voting increases shareholder value?

Results for all respondents	Percent
Yes	80
No	5
Don't know	15

Results for funds with >$100 billion in AUM	Percent
Yes	94
No	6
Don't know	0

Results for funds with <$100 billion in AUM	Percent
Yes	73
No	5
Don't know	22

10. How confident are you that proxy voting increases shareholder value? (Scale of 1 to 10 with 10 being extremely confident and 1 being not at all confident)

Results for all respondents

Average (Mean)	7.2
% with confidence level of 10	24%

Results for funds with >$100 billion in AUM

Average (Mean)	7.8
% with confidence level of 10	33%

Results for funds with <$100 billion in AUM

Average (Mean)	6.9
% with confidence level of 10	20%

11. Is the data and analysis collected for proxy voting purposes shared with portfolio managers for use in investment decisions (i.e., a decision to buy or sell a stock)?

Results for all respondents	Percent
Yes	59
No	34
Don't know	7

Results for funds with >$100 billion in AUM	Percent
Yes	50
No	39
Don't know	11

Results for funds with <$100 billion in AUM	Percent
Yes	63
No	32
Don't know	5

Use of Proxies

12. What three sections of a company's proxy are you most likely to look at first (pick any three)

	Percent
A summary at the beginning of the proxy (if included)	45
The summary compensation table	43
The CD&A discussion of long-term incentives or equity awards	38
The description of directors'/nominees' skills and qualifications	26
A summary at the beginning of the CD&A (if included)	24
Any description of shareholder engagement efforts	24
The director/nominee biographies	24
The CD&A discussion of annual bonus/annual incentive	19
Any description of risk oversight	14
The description of the board committees	7
The severance and change-in-control benefits table(s)	7
The grants of plans-based awards table	5
Any discussion of the auditor selection and oversight process	3
Other	21

13. Which of the following sections of the proxy does your firm read and rely on to make *voting* decisions? (select all that apply)

	Percent
Pay for performance alignment	64
Director independence	62
Performance metrics	62
Director nominee descriptions, their quality, qualifications and skills	59
Corporate governance profile (including shareholder rights and anti-takeover measures)	59
Compensation philosophy	48
Related person transactions	45
Risk oversight	43
Peer group benchmarking	41
Investor engagement	36
Company opposition statements for Rule 14a-8 proposals	34
Succession planning (CEO and director)	33
Proponent supporting statements for Rule 14a-8 proposals	33
Realized/realizable pay	33
Board evaluation process	28
Clawbacks	28
Corporate social responsibility or sustainability profile	24

Question 13 continues on the next page

13. Which of the following sections of the proxy does your firm read and rely on to make *voting* decisions? (select all that apply) *continued*

Ratio of CEO/other named executive officer (NEO) pay	22
Political contributions	19
Ratio of CEO/median employee pay	12
Other	7
None of these	14

14. Which of the following sections of the proxy does your firm read and rely on to make *investment* decisions? (select all that apply)

	Percent
Performance metrics	40
Pay for performance alignment	34
Corporate governance profile (including shareholder rights and anti-takeover measures)	33
Risk oversight	29
Compensation philosophy	26
Peer group benchmarking	22
Director nominee descriptions, their quality, qualifications and skills	19
Related person transactions	19
Director independence	17
Succession planning (CEO and director)	17
Investor engagement	14
Corporate social responsibility or sustainability profile	12
Board evaluation process	10
Clawbacks	10
Realized/realizable pay	7
Ratio of CEO/other Named Executive Officer (NEO) pay	5
Political contributions	5
Proponent supporting statements for Rule 14a-8 proposals	5
Company opposition statements for Rule 14a-8 proposals	5
Ratio of CEO/median employee pay	3
Other (please specify)	16
None of these	29

15. On average, how clearly and effectively is information disclosed in the following sections?

Director nominee descriptions, their quality, qualifications and skills

	Percent
Very	56
Somewhat	41
Not at all	4

Director independence

	Percent
Very	41
Somewhat	56
Not at all	4

Board evaluation process

	Percent
Very	6
Somewhat	73
Not at all	21

Risk oversight (risks including business model, sustainability/environmental, regulatory, compensation, cyber security, etc.)

	Percent
Very	16
Somewhat	66
Not at all	18

Succession planning (CEO and director)

	Percent
Very	2
Somewhat	63
Not at all	35

Corporate governance profile (including shareholder rights and anti-takeover measures)

	Percent
Very	19
Somewhat	73
Not at all	8

Compensation philosophy

	Percent
Very	21
Somewhat	72
Not at all	8

Pay for performance alignment

	Percent
Very	16
Somewhat	80
Not at all	4

Clawbacks

	Percent
Very	14
Somewhat	68
Not at all	18

Ratio of CEO/other NEO's pay

	Percent
Very	22
Somewhat	38
Not at all	40

Question 15 continues on the next page

15. On average, how clearly and effectively is information disclosed in the following sections?
continued

Ratio of CEO/median employee pay	Percent
Very	12
Somewhat	31
Not at all	57

Realized/realizable pay	Percent
Very	16
Somewhat	63
Not at all	22

Peer group benchmarking	Percent
Very	24
Somewhat	65
Not at all	12

Performance measures	Percent
Very	13
Somewhat	79
Not at all	8

Investor outreach and dialogue	Percent
Very	0
Somewhat	72
Not at all	28

Corporate Social Responsibility or sustainability profile	Percent
Very	12
Somewhat	53
Not at all	35

Political contributions	Percent
Very	10
Somewhat	50
Not at all	40

Related person transactions	Percent
Very	22
Somewhat	75
Not at all	4

Shareholder supporting statements for Rule 14a-8 proposals	Percent
Very	32
Somewhat	62
Not at all	6

Company opposition statements for Rule 14a-8 proposals	Percent
Very	32
Somewhat	62
Not at all	6

16. Please name a company or companies that, in your opinion, do an exemplary job of clearly disclosing proxy information?

Note: edited for clarity

Pfizer (3)
Governance summary; Compensation and metrics; Meeting items

Apple (2)
Compensation; Information about employee contribution to the company

The Coca-Cola Company (2)
Director qualifications and value add to the board; Compensation

ExxonMobil (2)
Disclosure of compensation practices and framework

Allstate
Board construction; Board evaluation; Pay for performance

Bunge
Detailed explanations of performance alignment with pay

Express Scripts
Executive compensation discussion

General Electric
Board composition; Succession planning

Prudential Financial
Director nominees

Prudential PLC
Remuneration report is detailed and concise

SVB Financial Group
They use graphics, tables and charts effectively

The J. M. Smucker Company
Clear table of content; Clear vote tabulation calculation; Clear equity compensation plan table; Clear formatting of proxy

Whole Foods
CEO pay

WPP
Detailed explanations of performance alignment with pay

Abbott Laboratories

Pepsico

Proctor & Gamble

Time Warner

17. To what extent do you agree with the following statement: "The typical proxy statement is too long?"

	Percent
Strongly agree	16
Agree	39
Neither agree nor disagree	34
Disagree	11
Strongly disagree	0

18. To what extent do you agree with the following statement: "The typical proxy statement is difficult to read and understand?"

	Percent
Strongly agree	15
Agree	33
Neither agree nor disagree	36
Disagree	16
Strongly disagree	0

19. Approximately what percent of a typical proxy statement do you read?

	Percent
Results for all respondents	32
Results for funds with >$100 billion in AUM	18
Results for funds with <$100 billion in AUM	38

20. What would be the ideal length of a company proxy?

	Pages
Results for all respondents	25
Results for funds with >$100 billion in AUM	33
Results for funds with <$100 billion in AUM	21

21. Which of the following elements make proxy statements easier to read or navigate? (select all that apply)

	Percent
Plain English language	82
List of significant changes from previous year	75
Summary proxy at the beginning of document	70
Section headings and sub-heads	47
Detailed table of contents	44
Graphs	37
Size and style of font	18
Page headers and page footers	16
Color	12
Two column text	7
Other	11
None of these	2

22. Are there any other features or elements that would make the proxy statement a more useful resource for you?

Note: edited for clarity

Standardization across industries and markets.

Avoid or eliminate the use of boiler plate, legal, and compliance-oriented language and narrative. Simple, direct explanations and discussion are best.

Narrative that effectively tells the story the company is trying to convey (i.e., compensation philosophy).

Less legal language. Proxy statement should be perceived as a document to clearly inform your investors.

Candid comments from independent directors both for and against proposals.

Provide context. It doesn't need to be lengthy but describe the process for refreshing the board, setting pay metrics or deciding what actions to take in response to engagement.

More details of the long-term strategic vision for the organization.

Additional context around compensation. A big sticking point for us is that we want to see better disclosure, not more disclosure. When a company goes outside the standard compensation structure of long-term performance vesting-awards, we need to know why.

A generic format for the CD&A would make remuneration information easier to understand and digest, and for better company comparisons.

Enhanced disclosure of incentive metrics, targets, and actual performance. Explanation of why certain metrics are chosen. Enhanced disclosure on executive stock ownership, including requirements and actual shares held.

Be specific about how you weight each performance metric (ROI, sales growth, etc.) in executive compensation contracts.

More clearly defined executive pay thresholds and 'golden parachutes.'

Dilution calculation of equity compensation plans on a basic and diluted outstanding percentage.

The proxy advisors do a great job of distilling compensation related information down to less than a page. It would be great if companies would do the same.

23. Is there additional information that is not typically included in the proxy statement but which you would like companies to disclose to help inform your voting decisions?

Note: edited for clarity
More narrative on how the company's governance is informed by its strategic goals. These things are really the literature that accompanies a ballot. We've lost sight of what the proxy is for. It's become a catch-all for 'non-financial' information.
A description from the independent chair or lead director in the form of a letter describing what the main activities of the board were and how they ensured that the interests of outside long-term share owners were met.
What are the reasons why directors are on this board, and how do they contribute every year to oversight of the company's strategy.
Skills matrix and clear information on board composition.
Changes that have been made to the organization over the last 5-10 years, why, and what the outcome was.
Board expectation for company performance.
All votes from the previous annual meeting and special meetings.
Better description of pros and cons for each proposal.
Some treatment of forward-looking board deliberations on issues that may not have been acted on but that were considered and evaluated. For example, shareowner proposals considered but not acted on, or management proposals that are under review for future action.
History of compensation, annual and long-term compensation benchmarks, and performance relative to benchmarks.
Status of outstanding performance-based equity awards; i.e., give us a sense of whether or not the outstanding awards will vest given the company's current performance.
Justification of discretionary payments, components, awards.
Insider buying and selling in the previous year.
Statistics on worker salaries.
Political contributions.
Ratings by an independent firm, such as credit ratings.

24. How do you prefer to access proxy statements? (Select all that apply)

	Percent
Proxy advisor voting platform	39
SEC website	32
Company website	26
Hard copy by mail	25
Broadridge ProxyEdge platform	23
Other	12

Disclosure of Executive Compensation in Proxies

25. In general, do you believe that information about executive compensation is clearly and effectively disclosed in proxy statements?

	Percent
Yes	38
No	48
Don't Know	14

26. On average, how clear and effective are proxy statements in helping you to understand the following?

Alignment between executive compensation and shareholder interests	Percent
Very	5
Somewhat	73
Not at all	22

Relation between executive compensation and company performance	Percent
Very	4
Somewhat	71
Not at all	25

Relation between executive compensation and risk	Percent
Very	2
Somewhat	33
Not at all	65

Whether the size of the executive compensation package is appropriate	Percent
Very	4
Somewhat	48
Not at all	48

Whether the structure of the executive compensation package is appropriate	Percent
Very	2
Somewhat	59
Not at all	39

Whether performance-based compensation plans are based on rigorous goals	Percent
Very	6
Somewhat	52
Not at all	43

Does not total 100% due to rounding.

27. In general, do you believe that that disclosure in the proxy statement allows your organization to make informed decisions regarding "Say on Pay?"

Results for all respondents	Percent
Yes	54
No	21
Don't know	25

Results for funds with >$100 billion in AUM	Percent
Yes	69
No	31
Don't know	0

Results for funds with <$100 billion in AUM	Percent
Yes	48
No	18
Don't know	35

Does not total 100% due to rounding.

27.1 What additional information would help your organization make informed decisions on "Say on Pay"?

Note: edited for clarity

Contextualize it. I cannot recall reading a proxy and walking away with a full appreciation of the link between the pay structure, where the company wants to go, and how it will get there. Instead, it's a bunch of discrete information that's disconnected and too long. It forces the reader to fill in the blanks.

Plain English narratives that put compensation data into proper context.

How the executive compensation is tied to long-term company strategy.

How compensation is tied to long-term financial metrics.

More treatment on the efficacy of incentive plan design, development of performance objectives, and award decisions over several time periods (not just the last annual cycle).

More information about the relationship between compensation and risk; More information about the performance thresholds and associated compensation.

We need context for decision-making, performance and goal setting.

It would also be helpful to see realized/realizable pay data using a consistent definition.

Better benchmarking and shareholder interest alignment discussion. We also use a proxy advisory firm to help evaluate the proposals. However, proxy advisory firms tend to have their own agenda as it relates to 'yes' or 'no' recommendations.

More metric-based information on individuals and the sectors of the business that they control. The information is often too general and is applied to all executives as a group.

Compensation comparisons with peers.

Comparable data for industry.

A more generic format for CD&As, reducing a company's ability to excurse from the topic.

28. To what extent do you agree with the following statement: "CEO compensation among our portfolio companies is appropriate in terms of both size and structure?"

	Percent
Strongly agree	0
Agree	21
Neither agree nor disagree	49
Disagree	21
Strongly disagree	9

29. To what extent do you agree with the following statement: "CEO compensation among our portfolio companies is clearly linked to performance?"

	Percent
Strongly agree	0
Agree	21
Neither agree nor disagree	44
Disagree	32
Strongly disagree	4

30. On average, do you believe that the companies in your portfolio choose appropriate peer companies for the sake of benchmarking compensation?

	Percent
Yes	54
No	20
Don't know	26

31. Please rank the following pay definitions in terms of their usefulness to you in evaluating the relation between executive pay and performance? (rank of "1" represents the most useful)

	Average Rank
Realized pay	1.9
Realizable pay	2.0
Expected value of pay (on grant date)	2.1

32. On average, how clear and effective are proxy statements in helping you to understand the following?

Value of compensation granted during the year	Percent
Very	29
Somewhat	65
Not at all	6

Value of pay that an executive can currently realize (e.g., by exercising vested equity awards)	Percent
Very	15
Somewhat	56
Not at all	29

Value of pay that an executive actually realized during the year	Percent
Very	23
Somewhat	62
Not at all	15

33. On average, do you believe that current disclosure practices about the potential payouts to executives under long-term performance plans is clear and effective?

	Percent
Yes	26
No	56
Don't know	19

34. In general, what percentage of a CEO's compensation should be performance-based?

	Percent
Mean	65
Median	70

35. Do you believe that "Say on Pay" votes are effective in influencing or modifying executive compensation practices?

Results for all respondents	Percent
Yes	58
No	26
Don't know	15

Results for funds with >$100 billion in AUM	Percent
Yes	88
No	12
Don't know	0

Results for funds with <$100 billion in AUM	Percent
Yes	44
No	33
Don't know	22

35.1 Please Elaborate

Note: edited for clarity

Shareowner voting on Say on Pay ballot items has caused most boards to focus on improving their compensation practices. Investor voting serves as a referendum, albeit an advisory one, that has led in most cases to incremental improvements in executive compensation.

It forces companies to engage more often and attempt to move their pay structure towards a more acceptable level.

We are beginning to see companies take SOP more seriously. In cases where a slight majority was received on the vote, we are seeing more companies reaching out to discuss what changes we would like, to improve the vote outcome.

There has been a noticeable increase in attention paid to investors views on the reasonableness (and transparency) of compensation since the advent of Say on Pay. When we actually get to speak to a compensation committee member, they often reflect that they didn't fully understand how their compensation practices — not compensation values — stacked up to those of other firms.

Say on Pay is a messaging tool, and getting a low vote on Say on Pay is embarrassing — especially since the vast majority of companies get very high votes on these resolutions. We've seen companies reach out proactively to investors about pay design, and we've definitely seen companies make changes to pay structures to avoid a low vote (especially after receiving a low vote). That said, many of these changes are to get the proxy advisory firms' recommendations.

Say on Pay combined with engagement has been very effective at driving change.

It causes companies to make a legitimate effort to rationalize pay through good data, metrics, and appropriate peers.

Pay keeps rising despite no votes.

Pay continues to go up, regardless of performance. Boards are smart enough to structure pay packages that don't seem blatantly egregious, but when the board has so much discretion over pay there is always going to be abuse.

There is often investor apathy associated with pay of large public companies. Additionally, the executive pay practices are often too difficult to understand for many unsophisticated investors.

Say on Pay is potentially effective but not currently because shareholders don't seem to be savvy enough. Two examples: (1) shareholders seem to not realize that pay can be perfectly aligned with performance, yet still be too high. (2) Even if a company pays in line with peers, it's still often too high because we have a ratcheting-up problem where the peer median increases every year.

Unless a majority of shareholders vote against, then I don't believe it will prompt any change.

No. Say on Pay votes are advisory in nature and do not have to be adhered to by the company.

Binding votes on incentive plan adoptions/amendments and voting power with respect to director elections are more effective means of influencing pay.

Many of these changes are only to get the proxy advisory firms' recommendations.

Lots of companies now work with proxy third party research companies to meet guidelines.

36. At what level of "Say on Pay" approval should companies make changes to their compensation practices?

Results for all respondents	Percent
Mean	58
Median	60

Results for funds with >$100 billion in AUM	Percent
Mean	64
Median	75

Results for funds with <$100 billion in AUM	Percent
Mean	54
Median	51

37. The JOBS Act (Jumpstart our Business Startups Act) of 2012 provides companies deemed to be Emerging Growth Companies with relief from certain proxy disclosure requirements. Should small companies have lesser disclosure requirements than large companies?

	Percent
Yes	41
No	44
Don't know	15

38. Companies registered under the JOBS Act are not required to hold "Say on Pay" votes. Should these companies voluntarily hold "Say on Pay" votes even though they are not required to?

	Percent
Yes	56
No	24
Don't know	20

39. Companies registered under the JOBS Act are not required to include a Compensation Discussion and Analysis (CD&A) section in their proxies. Should these companies voluntarily include a CD&A section even though they are not required to?

	Percent
Yes	70
No	15
Don't know	15

40. Is there anything else about proxy statements that you would like to tell us?

Note: edited for clarity

Any shortening of the statement that provides meaningful information instead of fluff is just not going to happen in a rules-based regime. Principles-based is much better.

Proxies are only marginally useful instruments in terms of the investment decision process, but they are very useful to understanding policy.

Proxy statements are generally very good but more transparency is always welcome.

Regulations should not be so overwhelming to prohibit companies from being a public company. Some companies now say it is so expensive to be a public company to meet requirements. That money could be paying employees instead.

Small companies should not be exempted from disclosure requirements (notwithstanding that the definition of a 'small' company is a bit absurd).

The ratcheting-up problem is a serious issue in our view. The solution may be to move toward "well-governed" peer groups. In other words, we toss out peers that didn't get high approval numbers on their own SOP and put extra weight on peers that have large influential shareholders. More ambitiously we could try to look to private equity or closely held companies for pay information if such info is available. In general, the idea is to benchmark companies only against well-governed peers rather than all companies in the same industry and size range.

Executive compensation can be a motivator to better performance or a detractor depending on whether the compensation is based on long or short-term goals.

Many small companies overpay the CEO who is often the founder. Investors have a tough time dealing with this until it fails or goes down.

Stock buyback activity vs. options granted should be 'crystal clear.'

The more color, bold headers and less Times New Roman font used, the better.

Methodology

Results are based on the survey of 64 investors conducted between September 2014 and December 2014 to understand how institutional investors use the information in corporate proxies to make voting decisions.

Asset managers and owners responding have a combined $17 trillion in assets under management.

About the Authors

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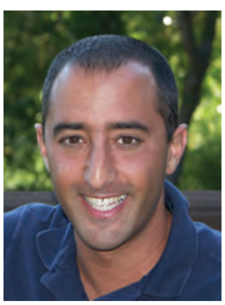

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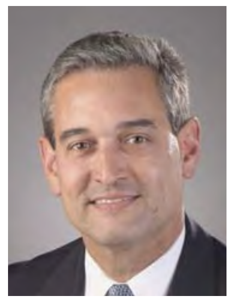

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Ron has advised senior management, the C-suite and boards of public companies of all sizes, industries and stages of growth facing investor activism, as well as challenging and sensitive proxy solicitations involving corporate governance, compensation and control issues.

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About RR Donnelley

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The Arthur and Toni Rembe Rock Center for Corporate Governance is a joint initiative of Stanford Law School and the Stanford Graduate School of Business. The Center was created to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, policy makers, practitioners and regulators can meet and work together.

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