

M O R R O W  
S O D A L I




ISSUES  
FOR COMPANIES  
IN 2019



# TABLE OF CONTENTS

ISSUES FOR COMPANIES IN 2019	4
BOARD PRIMACY	6
COMPENSATION	8
STEWARDSHIP PRINCIPLES	11
CORPORATE REPORTING	14
ENGAGEMENT	18
ACTIVISM	21
ESG	25
INTEGRATED REPORTING	28
TECHNOLOGY, SOCIAL MEDIA AND RETAIL SHAREHOLDERS	33
REGULATION AND LEGISLATION	35
CONTRIBUTORS	39



Morrow Sodali explores the ten trends currently altering both the expectations of shareholders and the ways that companies are viewed in the marketplace.

# ISSUES FOR COMPANIES IN 2019

2019 will be another year of transformative change in relations between companies and shareholders. Below is a list of ten trends that are altering both the expectations of shareholders and the ways that companies are viewed in the marketplace. In this book we will discuss how companies can respond effectively to each of these trends.

## 1. Board Primacy

After decades of governance reform, the board of directors now has clearly defined responsibilities for which institutional investors hold them accountable, creating a need for greater transparency about board decisions and more direct participation by board members in communications with shareholders.

## 2. Compensation

The perennial governance issue, compensation is viewed by shareholders as a window into the boardroom and even more deeply into the character, values and sustainability of the business enterprise.

## 3. Stewardship Principles

Institutional investors are now exercising fiduciary care in their oversight of portfolio companies and their proxy voting decisions, increasing the importance of the annual meeting and the impact of proxy voting.

#### 4. Corporate Reporting

Institutional investors are looking more deeply into the inner workings of companies and pushing for information that goes well beyond the traditional disclosure framework of quarterly reports and 10Ks.

#### 5. Engagement

In addition to traditional Investor Relations road shows, companies and boards are now expected to conduct governance road shows that reach out to institutional stewardship teams as well as portfolio managers.

#### 6. Activism

Shareholder activism is a mainstay, narrowing its attention on companies with poor performance, suboptimal governance, or unclear business strategy and giving rise to an increased need for greater transparency about business strategy, financial performance and corporate governance.

#### 7. ESG

No longer viewed as “soft” or “moral” issues, environmental, social and governance practices are now defined in terms of financial risk and long-term sustainable performance.

#### 8. Integrated Reporting


The International Integrated Reporting Council (IIRC), a global movement attempting to transform both how companies think and communicate, is beginning to attract the attention of U.S. companies and investors.

#### 9. Technology, Social Media and Retail Shareholders

Companies face new challenges and risks in the form of robo-brokers, millennials investing (and potentially voting) through digital devices, high-frequency trading, cybersecurity concerns and social media commentary on corporate behavior.

#### 10. Regulation and Legislation

The SEC will likely begin a process of restructuring the U.S. proxy system and increasing oversight of proxy advisory firms.



After decades of governance reform, the board of directors now has clearly defined responsibilities for which institutional investors hold them accountable, creating a need for greater transparency about board decisions and more direct participation by board members in communications with shareholders.

## BOARD PRIMACY

It should come as no surprise that board effectiveness and accountability appear at the top of the list of issues shaping relations between companies and shareholders in 2019. Corporate governance reforms and evolving shareholder attitudes have brought corporate boards under intense scrutiny in recent years. In addition to their critical role as strategic advisors to the CEO, directors now have a “day job” that includes a growing list of specific responsibilities for which shareholders and stakeholders hold them accountable.

In preparing to deal with these issues and meet shareholder expectations in 2019, companies and boards should pay attention to the following topics:

1. **Board composition.** In **Morrow Sodali’s 2019 institutional investor survey**, respondents gave highest ratings to board members’ skills and independence as factors affecting shareholders’ decision to support the election of individual directors. Companies should make certain that their directors’ qualifications and contributions are explained in detail in the board profiles, skills matrix and other narratives describing board functions.
2. **Governance Policies and Practices.** Shareholders assign the board primary responsibility for corporate governance policies and practices. Survey respondents rated governance highest in importance when making voting decisions. Our advice to companies and boards is to explain how their governance decisions are linked to their business circumstances, long-term strategy and performance goals. Contextual, performance-based explanations are partic-

ularly important to retain shareholder support when companies face opposition from proxy advisory firms.

3. **Engagement.** Since proving effective in say-on-pay campaigns, engagement has become the favored route for companies to take their case directly to shareholders. Face-to-face meetings or conference calls with directors and senior executives give shareholders a look deep inside the boardroom and an opportunity to get to know the individuals who run companies. Survey respondents indicated that engagement programs help them understand the board's role and policies relating to business strategy, capital allocation, corporate culture, tone at the top, environmental and social practices and long-term sustainability. In just a few years, shareholder engagement has become an established line of corporate communication supplementing Investor Relations programs, corporate reporting and regulatory disclosure.
4. **Shareholder Activism.** After a decade of high-profile initiatives, strategic shareholder activism has achieved a new level of legitimacy. At the same time, companies have learned the important lesson that preparedness and a proactive response can increase their ability to prevent or defuse activism. "Think like an activist" has become shorthand for reducing vulnerability through a fundamentally sound, long-term approach to running the business well. In a market that sees value in activism, the goal for companies and boards is to know, understand and earn the confidence of key investors; manage risk; maintain good corporate governance; monitor trading activity and market value; and be prepared to confidently defend corporate strategy against opportunistic, short-term activists.
5. **Corporate Purpose and Sustainability.** One of the most arresting developments of the past few years is the effort by leading businesses and investors to redefine the purpose of the corporation. This movement parallels efforts to reduce short-termism, recognize so-called "non-financial" risk factors and promote corporate behavior and values that will achieve "sustainability" over the long term. For boards, this trend requires increased attention to corporate culture, ethics, risk mitigation, reputation, environmental practices and social policy, as well as corporate governance and shareholder value.

Given the scope of the board's reach and responsibilities, it is fair to say that Board Primacy is replacing Shareholder Primacy as the dominant factor shaping the character and ultimately the success of publicly traded companies.

*John Wilcox*

The perennial governance issue, compensation is viewed by shareholders as a window into the boardroom and even more deeply into the character, values and sustainability of the business enterprise.

# COMPENSATION

**Q&A with Susan Choe, Senior Director, and Bill Ultan, Managing Director, of Morrow Sodali's Corporate Governance Consulting Group**

**Since 2011 and the introduction of Say on Pay, how have compensation trends evolved?**

**SC:** *In the early days of Say on Pay, there was a greater perception (and, in some cases, a reality) that the compensation committee and the board were merely rubberstamping the executive pay program and it was much more a “check the box” approach. The focus was more on pay practices, such as providing excise tax gross-ups or single or modified single trigger vesting of equity upon a change of control, but as shareholders have opposed these types of provisions and companies have largely eliminated these so-called “shareholder unfriendly practices” over the years, we saw, and continue to see, a true shift in paradigm. Compensation trends are reflected in three key questions: 1) Is there a true pay-for-performance culture or is it merely a mantra? 2) How does a company’s executive compensation program support its short, medium and long-term strategies? and 3) How effectively is the company’s pay program pivoting along with changes in strategy?*

**BU:** *During the early years of Say on Pay, there was an incredible amount of angst because of the lack of familiarity with how investors and proxy advisory firms would assess this issue. We’re in a far more stable place now; however, there are a number of variables that continue to shift. My concern is that in an effort to secure shareholder approval, executive compensation plans are becoming too homogenous and*



*that compensation committees have to be careful to make sure they are structuring pay programs in a way they think is most effective, even if not checking every box with the proxy advisory firms or institutions. They need to explain their story and articulate the rationale behind it, but still make sure they are keeping the priority focused on the efficacy of the program.*

### What trends do you see around compensation from both a strategic and disclosure perspective?

**SC:** *Shareholder engagement and proxy statements have become the strategic tools through which companies are telling their stories. On the engagement side, in situations where a company has had a low Say on Pay vote, an increasing number of compensation committee chairs are engaging and effectively articulating their compensation decisions as well as their approaches to how they go about rewarding the leaders responsible for driving the success of the business and executing on strategy. In the absence of a low Say on Pay vote, many companies have implemented a year-round shareholder outreach program through which governance and investor relations teams, in conjunction with members from legal, human resources, and sustainability in some cases, are effectively collaborating – so they are able to communicate a much more substantive story and a stronger message to their shareholder base. With regard to disclosure, it has improved dramatically since the early days of Say on Pay. Again, we are seeing companies recognize that the proxy statement is the single most important investor communications tool and utilizing it to ensure that important events and decisions that transpired over the course of the year, in terms of pay decisions as well as strategic direction, are being communicated effectively. In particular, the proxy statement should convey a true message of alignment between how the compensation program supports long-term strategy so that whoever picks up the proxy statement can really understand a company's story. Companies are also utilizing charts, graphs and tables to add a visual component to their presentation so that the story really melds together well.*

**BU:** *It's all about communication. The importance of this proposal goes beyond just the compensation to executives; this is a proposal that is a reflection of the board and provides the outside world with insight into the board's connection to the company's strategy and ability to oversee the execution of that strategy. Communication around this matter has tentacles that shed light on other important aspects of corporate leadership.*

### On a more granular level, can you speak to some of the mistakes companies make with regard to their approach to compensation?

**SC:** *It starts with not being able to own their story and so the communication comes across as if there is some hesitancy or discomfort with their program. It is import-*


*ant that the Company take ownership regardless of external perspectives. Investors want to understand the thinking behind how pay was structured and why the corresponding decisions that were made for the most recent fiscal year make sense and that there is true alignment with a company's long-term goals to best serve its investor base.*

**BU:** *Another common mistake that we find is that compensation committees make decisions before thinking through the ramifications of those decisions. This is particularly true in smaller and mid-size companies that do not regularly interact with shareholders on governance issues and do not face regular challenges on proxy matters. Decisions are made just within their bubble and then they discover that those decisions do not sit well with key shareholders, but it is too late to reverse them. Say on Pay, by its very essence, is a vote on decisions the compensation committee made a year or longer ago, so it is really important to think through those decisions and how they will be perceived by investors and to even vet some of those issues before finalizing them. By taking this approach, compensation committees can feel more confident that they are making the most informed decisions possible.*

**Regarding the role of directors, what are shareholder expectations on the board with respect to engagement on compensation matters and how has this evolved?**

**SC:** *What we've seen in the last few years, especially by the large index funds, is a greater demand for the chair of the compensation committee, or combined with a lead director, to be present during discussions on compensation topics. Investors expect that compensation committee chairs fully understand and are able to articulate the thought process that went into structuring their pay program and how the executives who are driving and executing on the company's strategy are being compensated. Most importantly, they want to better understand why certain decisions were made and the directors responsible for setting pay need to own the fact that they are the ones making these decisions. Being able to communicate the right message to their top holders has become increasingly important for directors.*

**BU:** *This is an issue of preparedness. It should now be the expectation of every public company that a director, whether it is an independent chair, lead director or chair of the compensation committee, is ready and up to the task to speak to shareholders when necessary. We are aware of a number of situations where, unfortunately, companies did not feel comfortable putting a director in front of shareholders. That is a real problem that needs to be addressed. This is not an acceptable circumstance for any public company.*



Institutional investors are now exercising fiduciary care in their oversight of portfolio companies and their proxy voting decisions, increasing the importance of the annual meeting and the impact of proxy voting.

## STEWARDSHIP PRINCIPLES

Stewardship of assets by institutional investors is growing in prominence. This approach is supported by a multitude of market and internationally scoped codes or similar initiatives.

Vanguard, one of the world's largest asset managers, is an example of a US-based institution that is at the forefront of this trend. David Shammai, Morrow Sodali's Director of Corporate Governance - Cross Border, asked W. Robert Main III, Head of Portfolio Company Engagement, Analysis, and Voting at Vanguard about their stewardship program.

*The growing volume of stewardship activity at Vanguard has been widely reported, but how has the program and the approach evolved?*

As a long-term shareholder of publicly traded companies across the globe, Vanguard cares deeply about good governance and has continued to invest in our Investment Stewardship program. Since 2015, the team has doubled in size, and now stands at over 30 team members, including teams in both the United States and Europe. Though the team has grown, which has enabled us to broaden and deepen our advocacy, engagement, and voting activities, the core tenets of our program have remained consistent. Our approach remains anchored to our four principles of good governance – *board composition, executive compensation, oversight of risk and strategy, and governance structures that empower shareholders.*

How do you see the relation between your stewardship activity and the fiduciary duties you owe to the ultimate fund investors? Are they always complementary, for example in cases when there is an ethical dimension to a certain issue, would stewardship approach imply a more powerful imperative to gauge beneficiary preferences?

Our stewardship activity is directly tied to our fiduciary duty to our fund shareholders. At Vanguard our core purpose is, “To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.” One way we further this mission is through our investment stewardship efforts, seeking to maximize the long-term investments of our more than 20 million fund shareholders. Through our years of experience and research on a range of corporate governance matters, we have learned the relationship between ESG issues and long-term financial value is complex. That’s why our team uses the Sustainability Accounting Standards Board (SASB) framework to identify material environmental or societal issues by industry, which informs our engagement and voting approach.

What would be your advice to companies facing several issues here, some are to do with the increased resource that is needed to address investors’ growing appetite for engagement, but also having to cater to much more nuanced variations in the expectations of their investor base?

From our perspective, one element of good company governance is an effective engagement program with shareholders. However, we appreciate that increased demand from investors on a growing list of topics has created some tension with companies. Based on our engagements with more than 700 companies last year, here are a few takeaways from companies that are demonstrating leadership in their engagement practices:

- Companies need to effectively communicate and coordinate internally to ensure the right participants are engaging with investors. This often involves discussions between the corporate secretary or general counsel’s office and with investor relations. For example, when investors seek to discuss topics like executive compensation and board oversight of strategy and risk, companies should expect to involve independent board directors in those discussions.
- Before requesting an engagement, companies should do their “homework.” In other words, seek to better understand the princi-

ples, priorities, and investment approach of their key investors. Most investors make this information readily available on their websites, which should help companies to prioritize engagement and should inform discussions that do occur. If an investor's policy or practice is unclear, companies should ask for clarification.

- Companies should be prepared to discuss topics that are relevant to long term shareholder value creation. At Vanguard, when it comes to sustainability risks, companies should be prepared to discuss the industry risks highlighted by the SASB framework.



Institutional investors are looking more deeply into the inner workings of companies and pushing for information that goes well beyond the traditional disclosure framework of quarterly reports and 10Ks.

## CORPORATE REPORTING

Corporate reporting in today's environment is like a puzzle whose pieces are spread across the table waiting to be fitted together to form a clear picture. While disclosure rules and audit standards still dictate strict and relatively uniform financial reporting requirements, expectations for big-picture corporate reporting have become more complex and open-ended. This results primarily from the introduction into the company narrative of factors referred to collectively as “ESG” (environmental, social and governance practices) or “sustainability” (the ability to create value over the long term). Corporate reporting about these topics (which are sometimes characterized as “non-financial” or “extra-financial”) is now deemed by institutional investors – and increasingly by issuers – to be essential for an accurate picture of a company's culture, risk profile, financial health and long-term outlook. While financial reporting at many companies is still largely a compliance exercise, how a company should “tell its story” now opens the door to nearly unlimited possibilities.

Here are some of the factors that are shaping and will continue to shape corporate reporting for the foreseeable future:

1. Investor demand for more detailed, substantive information about ESG and sustainability will continue to grow. There is no longer any doubt that environmental practices, social policies and corporate governance represent both risks and business opportunities that can have a substantial impact on a company's financial performance. Recent high-profile corporate scandals have drawn further attention to

the risks, confirming the materiality of ESG issues for the analysis of companies' financial health and sustainability.

2. Investors, led by global index funds, have adopted stewardship principles and confirmed that their role as fiduciaries requires them to concentrate on the long-term performance of portfolio companies. They are demanding information relating to corporate purpose, corporate culture, human capital management and reputation management for their investment decisions, their oversight of portfolio companies and their proxy voting decisions.
3. Stakeholders, in addition to shareholders, now define the audience for corporate reporting. Stakeholders are company-specific, generally including customers, employees, suppliers and the communities impacted by the company's business, including foreign operations. In addition, **changes in shareholder demography, new technology and social media** are expanding the audiences for corporate reporting, their means of access and their potential impact on the company's business.
4. Academics and governance advocates are asking whether traditional financial audit standards are sufficient to present a complete picture of a company's financial health and risk profile. The outcome of a debate at the Oxford Union in December 2018 supported the resolution that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) should collaborate with the Sustainability Accounting Standards Board (SASB) to establish ESG reporting standards for corporations. In December 2018, the Australian Accounting Standards Board and the Auditing and Assurance Standards Board published a guidance statement entitled "Climate-Related and Other Emerging Risks Disclosures: Assessing Financial Statement Materiality." This type of guidance is expected to increase disclosure of the financial implications arising from non-financial risk factors. Over time, audit firms' decision to either stick with "pure financial reporting" or adopt "broader financial reporting" will have a lasting impact on corporate reporting globally.
5. Global standard-setting organizations such as SASB and GRI (Global Reporting Initiative) have already developed comprehensive sets of ESG metrics for use by both investors and issuers. In addition to serving as a potential basis for audit standards, the use of standard-

ized ESG metrics allows for greater comparability among companies and industry peers.

6. The IIRC (International Integrated Reporting Council) is gaining support in countries around the world. Its seven guiding principles read like a framework for effective corporate reporting, with particular focus on stakeholder relationships, materiality and a holistic picture of the business enterprise. South Africa mandates integrated reporting and in Japan and Europe integrated annual reports (strategic reports in the UK) are increasingly common. A few companies in the U.S. also publish integrated annual reports. In addition, the IIRC has convened the Corporate Reporting Dialogue, whose purpose is “to strengthen cooperation, coordination and alignment between key standard setters and framework developers that have a significant international influence on the corporate reporting landscape.”
7. Regulators around the world are giving more attention to ESG/sustainability disclosure. The European Commission has strengthened the Shareholder Rights Directive and increased pressure on companies to improve the quality of explanations under the voluntary comply-or-explain governance regime. The EC has also issued regulations regarding the reporting of non-financial information. French companies publish specific information about their non-financial performance. In the U.S., a group of academics and investors representing \$5 trillion in AUM submitted a petition to the U. S. Securities and Exchange Commission on October 1, 2018 specifically requesting rulemaking on ESG disclosure.

With the corporate reporting puzzle pieces still scattered, issuers in different markets have undertaken a variety of measures to meet investor and stakeholder demand for a more meaningful and complete picture of the business enterprise. Many companies now publish detailed reports on a variety of ESG topics such as Corporate Governance, Social Responsibility, Climate Change, Environmental Practices, Codes of Business Conduct, Strategic Vision and more. Separate reports, however, fall short of the ultimate corporate reporting goal of a narrative that combines and integrates financial performance, strategy, ESG policies and sustainability.

In the US, the proxy statement is often the vehicle for companies to address ESG issues. A number of progressive companies have introduced improved graphics and highly creative methods to make proxy statements more readable, more informative and more concise. Innovations such as the board skills matrix and summaries of complex topics such as executive compensation supplement re-



quired disclosures and help reduce reliance on boilerplate. A review of Morrow Sodali clients reveals how the design of corporate proxy statements continues to offer new and creative ways to present information clearly and effectively.


Issuers understand that **corporate reporting is fundamental to their relations with shareholders** and their preparedness to deal with market challenges. Companies are building internal resources and providing more information on ESG and sustainability. They are also working to increase internal collaboration and coordinate their communication strategies. Companies increasingly recognize that basic IR and shareholder relations activities such as ownership profiling, market surveillance, investor engagement, proxy solicitation, governance road shows, board evaluation and activism preparedness can help them understand both the audiences they serve and the issues they need to address in their corporate reporting.

## CONCLUSION

---

When the dust settles, corporate reporting that fully incorporates material ESG and sustainability issues will be more detailed, more customized, more company-specific. It will be shaped by materiality standards that depend less on one-size-fits-all regulatory compliance and more on business fundamentals, market conditions and strategic goals. A communication regime that includes fit-for-purpose disclosures will enable each company to tell its own unique story.

*John Wilcox*



In addition to traditional Investor Relations road shows, companies and boards are now expected to conduct governance road shows that reach out to institutional stewardship teams as well as portfolio managers.

## ENGAGEMENT

In addition to traditional Investor Relations roadshows focused on financial performance, companies and boards are now expected to conduct governance and sustainability roadshows that reach out to institutional stewardship teams as well as portfolio managers.

For issuers, these engagements require the commitment of significant resources internally, including valuable board time. For investors, the expansion of stewardship activities means that even for those who increased the internal resources (see [Stewardship Principles](#)), the escalating demand on capacity is forcing them to be more selective and raise expectations on the content and quality of engagements.

Based on Morrow Sodali's experience assisting companies with planning and organization of governance and ESG roadshows, we note factors that are key to successful engagements.

### CLEAR OBJECTIVE

---

Starting with coherent strategic thinking internally, the company should define and communicate the objective of the engagement. It could be to showcase a new strategic direction, or developments in the business that are related to material ESG themes, or it could be part of an ongoing dialogue with investors about relevant issues. Historically, most roadshows were scheduled in anticipation of a forthcoming shareholders meeting, but we find that many shareholders are grow-

ing reluctant to take meetings – given that their voting policies are published in detail – purely on this basis, especially during the annual meeting season.

## MAPPING OF SHAREHOLDERS

---

When the primary purpose of a roadshow relates to a shareholder meeting, whether to improve voting quorum or to canvass support, it makes sense to prioritize outreach by holdings. Companies should always consider investors' voting policies and should follow up on issues raised during previous engagements. However, when the engagement agenda is focused on ESG developments, companies may wish to cast the net wider, and target those investors that are long-term oriented and known to be focused on these issues. The guiding principle here should be to speak with existing shareholders, but also reach out to targeted shareholders the company wishes to have (or wishes to own more stock).

## DECIDING WHO TO SPEAK WITH - LOCATION, TEAM MEMBERS

---

Many institutional investors are making efforts to link internally their investment and stewardship teams. Companies should reach out to both investment and stewardship teams, as appropriate, but it is up to the investor to decide who is best to lead a specific engagement. We recommend that companies do their homework and ensure they are including all the appropriate contacts and positioning the engagement campaign so as to make it easier for the investors to decide who should be involved.

A key question for companies is whether members of the board of directors should be involved and if so, which directors are needed to address relevant issues. In addition, should members of management be included or not? For example, on compensation issues, investors may want to talk primarily to board compensation committee members. In other cases, HR should be included. The demands on investor resources mean that increasingly they view it as important to have direct dialogue with directors (see our Institutional Investor Survey 2019 more on why and how to do this) as well as relevant members of the management team (e.g. HR representatives on issues of human capital management).

On a practical note, Morrow Sodali often comes across companies who apply a strong home bias in targeting their investors. Our experience indicates that cross-border ownership is increasingly common even in controlled companies. In those cases, we recommend roadshow itineraries should include markets where investors are located (e.g. London, Paris, Netherlands), regardless of where the company is domiciled.

## EXTENSIVE PREPARATION

---

Evolving stewardship responsibilities and regulatory requirements mean that the information investors are publishing about their voting and stewardship policies is more extensive than ever. We recommend that companies conduct meticulous preparation in advance of meetings, and tailor the meeting agenda and materials to meet investors' preferences. Because investors' time and resources are limited, engagements should do more than rehash publicly stated positions. The goal is to conduct an informed and informative dialogue.

Anecdotal evidence shows that, at times, preparation is needed just to secure some meetings. At Morrow Sodali, we are aware that some of the large investors have updated their access processes to ensure that requests for engagement pass a threshold of demonstrating preparedness as a condition to them being considered.

## FOLLOW UP

---

This is perhaps stating the obvious but thinking about the next meeting and the next engagement means that companies have to maintain credibility and follow up as agreed. For example, when a consultation process culminates in new proposals, it is important to go back to the relevant investors and communicate the rationale for the chosen course of action – i.e. even, and perhaps especially, if the company felt it was not able to fully adopt the preference of the particular investor(s).

### Why this is important?

Executing an effective investor engagement draws on precious corporate resources including valuable management and board time. It is important therefore that companies fully consider the benefits. Most immediately, this includes strengthening of the relationships with long-term minded owners – those shareholders most companies would wish to have more of. Regular face-to-face meetings with investors can be a critical part of this. Additionally, with the current level of activism, we find that for some clients, especially in Europe, the ability to draw on support from long-term shareholders has been a key component of activism defense. More fundamentally, there are several pieces of academic research suggesting that engagement enhances value, presumably by enhancing communication and helping to close any possible disconnects between valuations and prices.

*David Shammai & Kiran Vasantham*

Shareholder activism is a mainstay, narrowing its attention on companies with poor performance, suboptimal governance, or unclear business strategy and giving rise to an increased need for greater transparency about business strategy, financial performance and corporate governance.

# ACTIVISM

## DIRECTOR STRANGELOVE OR: HOW I LEARNED TO STOP WORRYING AND PREPARE FOR SHAREHOLDER ACTIVISM

There is no debate that over the last decade shareholder activism has grown into its own animal. Rarely does an activism panel conclude these days without one of the panelists mentioning that activism has become its own asset class, which at this point is as clichéd as pointing out that no company is immune to pressure from an activist. A simple Google News search for “proxy fight” will take you down a rabbit hole from which you may never emerge. This growth in activism awareness has spawned a massive increase in various advisors, all of whom claim that they possess the key knowledge to best guide the Board and management, and yet lost in all of this is the corporate issuer’s perspective on what it all means to **their unique situation**.

Every advisor wants the Board and management team’s ear on how they can help with institutional shareholder engagement, often times because they have some valuable piece of “inside information” on how these institutional holders think. Many corporate issuers have lined up advisors across multiple areas of expertise for their “in case of emergency” or doomsday scenario. While I believe that it is critical to have such a plan in place, I feel many corporate issuers fail to take the proper next step, which is to understand how shareholder activism, or a proxy contest would play out at **their specific company**.

Taking that next step is the answer to any issuer's most frequently asked question: **How can we best prepare to deal with the threat of activism?**

I believe an effective response to shareholder activism must be based on a firm understanding of four key factors:

1. A complete analysis of the issuer's shareholder profile from a **voting control** perspective.
2. The complexities of proxy solicitation mechanics in a **contested director election** versus a standard annual meeting.
3. A detailed **cost analysis** of running a contested campaign from both company and activist perspectives.
4. A regularly updated solicitation action plan that demonstrates a path to victory.

## THE SHAREHOLDER PROFILE

---

First, it is important to remember that your shareholder profile is ever changing. Understanding who and how many shares can be voted at any given time is the foundation for every activism defense plan. To that end, conducting regular studies of your top institutional holders and making necessary adjustments for stock loans, sub-advisory relationships, and short selling are critical. Once voting control is established, it is important to review the institutional holder component to determine the degree to which of the top holders are influenced by one of the proxy advisory firms, or whether they make voting decisions based on their own internal proxy voting policies or guidelines.

Next, it is important to establish the retail ownership profile. While this portion of a company's shareholder profile typically votes less than a third of the time, they are most often supportive of the company when they do cast a vote. The vote from this category is never more critical than when a company finds itself in a close vote. Establishing who your top retail holders are and conditioning them to vote is an exercise that issuers should never neglect.

Once the voting control profile is created from an institutional and a retail perspective, we can then create a scorecard to track various outcomes. The Board and management team should be briefed with this type of review often, perhaps quarterly, as it is a good insurance policy against the threat of activism.

## THE MECHANICAL COMPLEXITIES

---

Most corporate issuers have a consistent year over year plan for how they complete all the necessary tasks leading up to an annual meeting of shareholders. Those tasks are often divided among several team members across the legal and IR departments. Many issuers also retain outside mail and tabulation houses to complete mailings efficiently.

This strategy works well for a standard annual meeting where the issuer conducts one mailing to shareholders and perhaps a targeted follow-up mailing prior to the meeting date. However, in a contest for board seats, it is critical for the Board and management to understand that all these decisions are now **strategic** ones. The approach for completing these tasks should no longer be on auto-pilot as there can be undesirable and costly repercussions for using the year over year plan.

In a proxy contest, the Board and management team should expect as many as four or five mailings to shareholders, each with another voting instruction form or proxy card and a letter to shareholders. The dissident campaign will likely produce a similar number of mailings. At the end of the contest process, your shareholders will likely receive eight to ten proxy cards between both campaigns.

The contested nature of the solicitation also means that the Board and management team will need to spend significant time lobbying top shareholders for their support.

## THE COST ANALYSIS

---

If you think the cost of a standard annual meeting is high, then you might want to sit down before looking at your proxy contest bill. The last ten to fifteen years have seen many issuers changing their annual meeting approach to reduce the cost of mailing and tabulation. The rise of notice and access, moving away from elaborate annual reports and mailing packages, and the push for electronic voting have all contributed to the reduction of annual meeting costs. Most issuers can effectively stay within the expected budget for a standard annual meeting.

In a proxy contest, however, those budgets need to be drastically revised. Conducting a share range analysis of the issuer's profile to determine the number of shareholders and shares within certain target ranges is an important evaluation. From that analysis it is possible to calculate the potential cost of the various mailings and advise the Board and management team on what to expect from a budgeting perspective. This should be done well in advance of a potential threat of shareholder activism.

## THE SOLICITATION PLAN

---

Once the Board and management team have a firm understanding of the shareholder profile, the mechanics of a proxy contest, and the cost of the contested meeting, they should focus on the strategy and necessary steps for best soliciting their shareholder base. Experience shows that preparation during peace time is the best way to lay out a solicitation plan if faced with a proxy contest.


It is important for the Board to select the best representatives to communicate with shareholders during a proxy contest. They should understand that in addition to in person meetings and conference calls with institutional shareholders, board members will also be presenting their case to proxy advisors directly. They will also be involved in the writing and reviewing of shareholder letters that accompany each mailing. The contested annual meeting demands much more of a hands-on approach from the Board and management team than a standard annual meeting.

In proxy contests, the goal is to offer up an effective solicitation plan and to execute on that plan/timeline in delivering the vote. To achieve that goal, it is necessary to use all available information on the profile to effectively target unvoted holders and to demonstrate a path to victory for the Board and management team.

Reviewing all four key elements in times of peace will provide you with a strong level of understanding for how to deal with the threat of shareholder activism. The steps involved in being prepared act as an insurance policy against having to scramble after the threat has materialized. If you go through the steps necessary and no threat emerges, then we will all be smarter for having gone through the exercise and you can breathe a sigh of relief. Again, there is no need to worry, just be prepared.

***Michael Verrechia***





No longer viewed as “soft” or “moral” issues, environmental, social and governance practices are now defined in terms of financial risk and long-term sustainable performance.

## ESG

### INTEGRATION OF “ESG” FACTORS IN INVESTMENT DECISION MAKING, THE NEXT PHASE?

The integration of extra financial factors in investment decision-making is no longer viewed within mainstream investment as a “soft” or purely ethical issue. Environmental, social and governance practices are now defined in terms of financial risk and long-term sustainable performance.

Multifold initiatives recently evolved into concrete regulatory outcomes and in our view, this will mark a milestone in the evolution of the area. Whilst perhaps so far, the most regulation-prolific market in this area has been Europe, the regulatory momentum is by no means confined to that region (for example, market scale initiatives are also underway in Canada and Australia). Going forward, we believe that “ESG integration” will be a fact of life in mainstream investment featuring a growing compliance-based dimension.

From the perspective of issuers, this means that articulating their ESG performance case to their investors will become an ongoing need. In other words, demonstrating base-level ESG performance will become almost a threshold requirement for investment by large mainstream international investors.

## EUROPEAN COMMISSION SUSTAINABLE FINANCE ACTION PLAN

---

Several weeks ago, the **European Commission** took a significant step in its action plan for financing sustainable growth. The plan is a follow up on the recommendations of the High-Level Expert Group (HLEG) on Sustainable Finance, which were submitted to the Commission in January last year.

The action plan is ambitious in its breadth, outlining ten reforms in three areas. The implementation of several elements could each, and certainly overall, herald significant changes. For example, there will be an EU established classification system for sustainability activities. Standards and labels will be issued for green financial products. The recommendations contained in the plan span the breadth of many sustainability areas, and the full length of the investment chain. Thus, ratings and research firms will be required to integrate ESG and so will investment advisers. Finally, at the corporate level, sustainability disclosure and sustainability accounting rule-making will be encouraged, as will corporate governance measures to attenuate short-termism in capital markets.

### WILL THIS MATTER TO COMPANIES OUTSIDE EUROPE?

---

Whilst the immediate impact of this bundle of measures will be felt in Europe, we believe that it is unlikely that some changes will not ripple out more broadly. The investment industry is an international one. Some of Europe's largest investors are regional arms of groups headquartered in the US for example. Equally for corporates outside of Europe, European investors may represent a substantial proportion of their shareholder base so any broadening of their stewardship activity will again have a cross-border impact. Finally, the inclusion of intermediaries and of other players, benchmark providers notably, is likely to impact issuers and investors outside Europe.

### WHAT SHOULD COMPANIES DO?

---

In our view, surprisingly perhaps, these developments represent an exciting opening for those forward-looking companies who see the value of engaging regularly with their investors.

It takes the rationale of engagement from the ballot and extends it to “buy and sell” decisions. Demonstrating to investors leading ESG performance, whether

by reference to a market or to an industry, may well result in the company being more attractive to genuine long-term investors. It could make it easier for those investors to hold the stock and perhaps even unlock access to funds not otherwise available to ESG “laggards.” Finally, it would have the benefit to companies of moving the discussion from mitigating ESG risks to demonstrating how they are seeking positive impact or ESG upside.

What is yet to be determined is whether the continued integration of ESG assessments into investment disciplines is a near-term phenomenon or a long-term commitment – we may not know the answer to this question until ESG “best performers” are shown to sustainably outperform those that are not.

Furthermore, ESG performance does not, at least at the present level of maturity, lend itself to standardization of approach, whether with respect to reporting or even some basic question of measurement of performance. It means that the value of engagement is greater, as it offers companies the opportunity to clarify context and share their way of thinking. This will continue to remain the case for some time, even – and perhaps more so – as regulation evolves.

*David Shammai*



The International Integrated Reporting Council (IIRC), a global movement attempting to transform both how companies think and communicate, is beginning to attract the attention of U.S. companies and investors.

# INTEGRATED REPORTING

Integrated Reporting (represented by the symbol <IR>) is a long-term issue for companies rather than an immediate concern for the 2019 proxy season. This is particularly true in the U.S., where integrated reporting has been undertaken by only a few companies.

## BACKGROUND

---

The issues that are driving the integrated reporting movement are already deeply embedded in today's global financial markets. They reflect the fundamental shift from industrial to service-based economies in developed countries, where intangibles now represent 80% of companies' value (up from 20% of their value 30 years ago).<sup>\*</sup> This shift to value creation based on intangibles, technology and intellectual capital is further reinforced by the stewardship principles adopted in recent years by institutional investors (including the giant index funds). The agenda that these long-term investors bring to their oversight of portfolio companies and their proxy voting decisions is increasingly focused on the following issues:

- Long-term business strategy
- Sustainability goals

---

<sup>\*</sup> See: <https://www.oceantomo.com/intangible-asset-market-value-study/>, cited in The Conference Board Working Group Report on Integrated Reporting.

- Environmental and social policies as well as corporate governance (ESG)
- Non-financial risk factors and growth opportunities
- Corporate purpose and corporate culture
- Human capital management
- Board composition, accountability and transparency
- Corporate reporting that presents a fully integrated, holistic picture of the business enterprise
- Direct engagement with shareholders outside of traditional disclosure and reporting practices
- Long-term financial performance rather than short-term stock price movements
- Strategic shareholder activism
- Stakeholders as well as shareholders

Demand for companies to deal with this agenda will continue to fuel interest in integrated reporting and its underlying principles of integrated thinking and integrated management.

## WHAT IS INTEGRATED REPORTING?

---

The International Integrated Reporting Council (IIRC), which leads the global movement, defines integrated reporting as:

*“[A] process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.”*

*Integrated reporting brings together material information about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the organization demonstrates stewardship and how it creates value, now and in the future.*

*But integrated reporting isn’t just a reporting process. It’s founded on **integrated thinking**, or systems thinking. Integrated thinking drives an improved understanding of how value is created and enhances decision-making by boards and management. The more integrated thinking is embedded in daily operations, the more naturally this information will be expressed in internal and external communications. On this basis, integrated thinking and integrated reporting are mutually reinforcing.*

The IIRC web site ([www.integratedreporting.org](http://www.integratedreporting.org)) is the starting point for companies considering a move to integrated reporting. Its most important feature is the integrated reporting framework, which explains the fundamental concept of sources of capital and their contribution to financial performance and long-term value creation.

## OBSTACLES TO <IR>

---

There are obstacles to integrated reporting that must be considered before the practice can achieve widespread acceptance. The most frequently mentioned concerns are as follows:

- There is no standard model for an integrated report.
- Without standardized models, integrated reports lack the comparability that financial market professionals rely on to conduct peer comparisons and calculate relative value.
- Materiality of environmental and social risks will vary substantially in different industries and require evaluation on a company-by-company basis. Materiality is best determined by the companies themselves, further complicating peer comparisons.
- Although sustainability metrics have been developed by groups such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and others, they are applied differently by different companies and different industries in different countries.
- Companies' internal organization and reporting lines often work against integrated reporting. Departmental structures, budgets and specialization can discourage the internal collaboration that is required for effective <IR>.
- Regulation can be an obstacle, particularly in rules-based jurisdictions such as the United States, where communication outside regulatory guidelines can increase liability. South Africa leads on the regulatory front with its requirement for all listed companies to adopt integrated reporting on a comply-or-explain basis.
- Audit firms are grappling with the question of whether their standards should be expanded to include ESG, sustainability and non-financial risk factors. Pending decisions by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), auditors provide an assessment of these factors in addition to their review of a company's financial picture.

It is important to recognize that departure from standardized reporting – which may be viewed by investment analysts as an obstacle because it impedes peer comparisons and calculation of relative value – is in fact one of the primary goals that companies hope to achieve through integrated reporting. Proponents of <IR> argue that the value of an integrated report outweighs the inconvenience and extra effort it imposes on securities analysts.

## POTENTIAL BENEFITS OF <IR>

---

Recognizing that the <IR> movement is rooted in fundamental changes in thinking, management and culture, proponents of <IR> recognize two categories of potential benefits—internal and external. Because <IR> is still in an early stage of development, these benefits are largely theoretical, supported by logic more than data.

The potential internal benefits include the following:

- Improved teamwork, collaboration and elimination of internal silos;
- Strengthened corporate culture fostering pursuit of a clearly articulated corporate purpose and long-term goals;
- Deeper involvement of the board in setting long-term strategy;
- Clear explanation of business strategy that creates unity and efficiencies among disparate divisions and subsidiary operations throughout a company;
- Greater visibility for the board of directors and senior management leading to closer ties with all levels of employees;
- Inclusion of stakeholder interests in strategic planning.

The potential external benefits:

- <IR> meets the growing demand from institutional investors for an integrated picture of the business;
- <IR> explains how the company creates value for stakeholders as well as shareholders;
- <IR> rationalizes in business and financial terms a broad range of “hot topics” such as climate change, social issues, boardroom decisions, sustainability;
- <IR> provides substantive content for engagement and governance road shows;
- <IR> increases board transparency and strengthens shareholder support for board policies;
- <IR> encourages proxy voting on the merits and reduces the incidence of box-ticking;
- <IR> reduces the likelihood of a company being targeted by opportunistic shareholder activists.


## CONCLUSION

---

The future of integrated reporting is closely linked to developments in corporate governance, climate change, social issues, sustainability, corporate reporting, investor stewardship, regulation and the various other issues discussed in this **Morrow Sodali series of Issues for Companies in 2019**. Our advice to client companies is to keep a close eye on these developments, monitor the activities of leading companies in their home markets and evaluate examples of integrated reporting. If current trends continue, it is likely that obstacles to integrated reporting will be reduced and demand will increase. Over the long term, companies should be able to realize the benefits – both internal and external – from adopting integrated thinking and reporting principles that will enable them to tell their own unique stories to all the audiences they need to reach.

*John Wilcox*





Companies face new challenges and risks in the form of robo-brokers, millennials investing (and potentially voting) through digital devices, high-frequency trading, cybersecurity concerns and social media commentary on corporate behavior.

# TECHNOLOGY, SOCIAL MEDIA AND RETAIL SHAREHOLDERS

## YOU'VE GOT MAIL: THE EVOLUTION OF COMMUNICATING WITH RETAIL SHAREHOLDERS

“You’ve got mail” was the most effective call to action of the digital age. Not long ago internet “surfers” who heard those three simple words rushed to their mailbox to see what might be waiting. Electronic mail was new and exciting, and it made one thing abundantly clear: paper mail was boring.

That same period found corporate issuers struggling to communicate with retail shareholders through physical mailings and telephone call campaigns. It was customary for companies to print elaborate (and expensive) annual reports and proxy material packages, hoping that it would stand out amidst the sea of junk mail. As printing and mailing costs continued to rise, companies that maximized e-delivery of proxy material realized significant savings.


It is no secret that retail shareholders are traditionally poor voters. In a standard proxy solicitation, where a company conducts one mailing to shareholders with no follow-up, we expect to see less than a third of the retail community register a vote. That said, when retail holders **DO** vote, they most often tend to support the company. For that reason, it has long been a goal of the corporate issuer to cost effectively increase the vote participation from this category. Since the late ‘90s several tools have become available to accomplish this goal such as Telephone & Internet voting, direct phone voting, and the ability to conduct Notice & Access

campaigns. Many companies took the position that if retail holders are not going to vote, then at least we aren't paying as much to reach them.

Over the last few years, however, retail solicitation strategies have changed. The extremely close vote, and extensive news coverage, at the Proctor & Gamble proxy fight demonstrated just how vital retail shareholders can be. The retail shareholder needs to be **conditioned** to vote over time. In order to do that effectively, we've seen companies use a portion of the savings from utilizing Notice & Access to reinvest in targeted follow-up mailings and telephone call campaigns to unvoted retail holders. Companies that successfully condition retail shareholders **reinvest** in these areas year after year and this type of retail engagement also increases awareness from an activism standpoint. If a retail shareholder receives a phone call or voice message from a company over a period of years and then suddenly from an activist in a subsequent year, it raises a red flag that something is different and attention must be paid.

More recently companies and activist shareholders have utilized social media campaigns to support their solicitation effort. While these are important campaigns from the standpoint of doing everything to raise awareness, they are still indirect campaigns. Where they are most useful is in determining which messages resonate with people who are viewing these social media posts. Knowing what material works, or doesn't work, with individuals is crucial in appealing to retail shareholders. However, the most effective campaign will always be to directly communicate with shareholders, and provide them with an easy way to vote by proxy card, telephone or the internet. Providing that call to action directly, and repeatedly, will result in the shareholder executing their vote.

*Michael Verrechia*



The SEC will likely begin a process of restructuring the U.S. proxy system and increasing oversight of proxy advisory firms.

## REGULATION AND LEGISLATION

We have intentionally listed regulation as the last topic in our series of **Issues for Companies in 2019**. This decision is based on our conviction that the actions of companies and shareholders, rather than new laws and regulations, will be the most important factor shaping the evolution of corporate governance and institutional investor relations. After more than three decades of governance reform, the basic legal requirements for governance and disclosure are clearly established in the major financial markets, allowing companies and investors to focus on the substantive issues we have discussed in this series.

Make no mistake – lawmakers have not lost interest in regulating listed companies. On the contrary, politicians – often reacting to corporate excesses or populist movements – continue to look for ways to influence the behavior of corporations and restrain the power of institutional investors. However, regulatory initiatives based on politics have a history of unintended consequences and unpredictable economic impact. A notable recent exception is Japan, where governance and stewardship reforms advanced by Prime Minister Shinzo Abe are specifically designed to increase the global competitiveness of Japanese companies and improve the performance of the Japanese economy.

In the U.K., the Financial Reporting Council (FRC) continues to set a high standard for regulatory oversight of corporate governance and investor stewardship. In July 2018 the FRC published a new Corporate Governance Code with revised Guidance on Board Effectiveness that took effect on January 1, 2019. It is too early to assess the impact of the revised code, but the provisions are less prescriptive

than expected and leave room for flexibility in companies' governance practices and reporting, particularly in controversial areas such as provision s172 on employee consultation. One of the code's most significant features is its emphasis on the board's responsibility for long-term value creation and corporate culture. These provisions address many of the important substantive issues relating to sustainability that top of the list of priorities for both companies and investors in the UK.

The European Commission's revised Shareholder Rights Directive (SRD II) has also introduced reforms that are aligned with the substantive goals of companies and institutional investors – a focus on sustainability and long-term economic growth, greater transparency by both companies and investors and additional technical requirements to facilitate communication and share voting. It remains to be seen whether these reforms, particularly those relating to greater shareholder involvement in director remuneration, will have the intended impact.

In the United States, the Securities and Exchange Commission has turned its attention once again to proxy system reform. However, no action has been taken following the high-profile roundtable convened by the Commission in November 2018 to discuss proxy mechanics, shareholder proposals, retail shareholders and proxy advisory firms. The introduction of federal legislation to regulate proxy advisors has produced little more than a polarizing debate. Even if action is eventually taken, these reforms deal mostly with process. Their potential impact on the issues of greatest concern to companies and shareholders – the content of corporate reporting, ESG and sustainability – remains uncertain.

Most regulators, particularly those overseeing voluntary comply-or-explain governance systems, recognize the limits of what they can accomplish by means of rules and standard-setting and often repeat the call for companies and investors to honor the “spirit” as well as the “letter” of the law.

As we have suggested throughout this series, the future of governance and shareholder relations is in the hands of those directly involved – listed companies and institutional investors. It is also worth noting that in the future the influence of retail holders is likely to become a more meaningful factor, as technology and social media facilitate investment and the exercise of ownership rights by individual investors.

For now, the issues we have highlighted will continue to dominate the governance agenda and require greater attention from companies in 2019 and beyond:

- Board primacy
- Executive and director compensation
- Stewardship
- Corporate reporting
- Engagement
- Activism
- ESG and non-financial performance metrics
- Technology
- Integrated reporting
- Regulation

***John Wilcox***



# CONTRIBUTORS



## JOHN WILCOX

NEW YORK

*Chairman*

[j.wilcox@morrowsodali.com](mailto:j.wilcox@morrowsodali.com)

+1 212 825 1600

Mr. Wilcox has served as Morrow Sodali's chairman since 2006. From 2003 to 2008 he was Senior Vice President and Head of Corporate Governance at TIAA-CREF, one of the world's largest private pension systems. Prior to joining TIAA-CREF he was chairman of Georgeson &

Company, the U.S. proxy and investor relations firm.

During his career he has specialized in corporate governance, capital markets regulation, director education, cross-border standard-setting and investor communication. He is the author of treatises on proxy voting, shareholder communications and board responsibility. His articles and white papers have appeared in *The London Financial Times*, *The New York Times*, *The New York Law Journal*, *Directors & Boards*, *The American Lawyer*, *Insights, Pensions & Investments*, *The Corporate Governance Advisor*, the *Harvard Law School Forum on Corporate Governance and Financial Regulation*, the *Journal of Law and Contemporary Problems* and other professional publications and blogs. He has testified before Congress and regulatory agencies in markets around the world on matters relating to securities regulation and is on the faculty of a variety of director education programs.

Mr. Wilcox received a B.A. from Harvard College, where he was a member of Phi Beta Kappa, an M.A. from the University of California, Berkeley, where he studied as a Woodrow Wilson Fellow, a J.D. from Harvard Law School and an LL.M degree from New York University Graduate School of Law.



## WILLIAM ULTAN

STAMFORD

*Managing Director*

[w.ultan@morrowsodali.com](mailto:w.ultan@morrowsodali.com)

*Corporate Governance*

+1 203 658 9449

Bill Ultan is a Managing Director at Morrow Sodali and a member of the firm's Senior Leadership Team. As manager of the firm's Corporate Governance Consulting Group with over 30 years of experience in the field, Bill has guided companies through a wide range of governance and

takeover challenges, including contentious shareholder proposals and compensation-based initiatives, proxy contests, tender offers, and other corporate control matters. He previously was a senior member of the firm's Stock Surveillance and Proxy Solicitation departments.

Bill's vast experience has been gained through years of observing shareholders and proxy advisory firms, assessing compensation practices and governance policies, and analyzing voting results and solicitation strategies. He prepares many strategic assessments and counsels officers and directors of public companies across a diverse range of industries and market capitalizations.



## SUSAN CHOE

LONDON

*Senior Director  
Corporate Governance*

s.choe@morrowsodali.com

+44 207 355 0614

Susan is Senior Director of the US Corporate Governance Consultancy at Morrow Sodali. She brings a depth of knowledge and experience to help companies assess and strategically manage their corporate governance, executive compensation, ESG and shareholder engagement imperatives. She also advises companies on prevailing trends, market practices and overall investor climate on key emerging governance and compensation topics to help minimize the risk of shareholder activism.

Prior to relocating to our London offices in the Fall of 2018, Susan was based in our New York City headquarters. Before joining the firm, Susan served as Director in the Corporate Governance and Executive Compensation Consulting Practice at Aon Hewitt. In that role, she advised primarily US-listed large market capitalization company boards and senior leadership on executive pay plans and associated governance matters, and at times, FTSE 100 companies on similar topics.

Her knowledge and experience in corporate governance began at ISS, where she served as a Lead Advisor of the ISS consulting arm, helping large public companies navigate the challenges of the proxy advisory firm's policies; and prior, as a senior member of the ISS US Research Executive Compensation team. Earlier in her career, she served as an actuarial consultant in the Actuarial Risk Consulting and Management Practice at Aon plc.



## DAVID SHAMMAI

LONDON

*Corporate Governance Director  
Cross Border*

d.shammai@morrowsodali.com

+44 207 3550 618

David Shammai is a Corporate Governance Director, Cross-Border, focusing on the firm's growing corporate governance activities across Europe/UK, the US and Australia.

Prior to joining Morrow Sodali in February 2018, Mr. Shammai was with APG Asset Management, one of the world's largest fiduciary fund managers, where he served as a senior corporate governance specialist involved in voting, formulation of policy and company engagement with its portfolio of listed companies. Previously, David held senior consulting and corporate positions at KPMG and the Royal Bank of Scotland Group plc.

Mr. Shammai is currently a member of the Standing Advisory Group of the Public Company Accounting Oversight Board. He is a former member of the Corporate Governance Advisory Board of the Council of Institutional Investors (CII) and is frequent speaker at corporate governance events with a particular interest in the incorporation of sustainability and governance factors in the investment process. David's academic background is in law and accountancy from Tel Aviv University and the London School of Economics.





## KIRAN VASANTHAM

LONDON

*Director Investor Engagement*

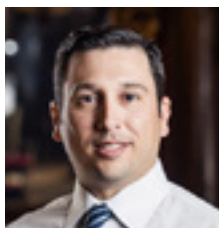
k.vasantham@morrowsodali.com

+44 207 3550603

Kiran has over 13 years' experience in investor relationship management and leads our EMEA and LATAM client investor engagement strategies around corporate governance, responsible investment (ESG), event driven and activist situations. His relationships with global institutional investors and boutique investors bring us a wealth of expertise, knowledge and access to corporate governance specialists, ESG analysts and portfolio managers.

His extensive track record in corporate advisory, combined with his deep institutional investor expertise, corporate engagement experience and strong global networks help our clients navigate increasingly complex governance challenges, engagement strategies and M&A activity. Kiran is the author of our Institutional Investor Survey, our publication focusing on forward-looking investors trends around Corporate Governance, ESG and Activism.

Kiran has from time to time represented select activist shareholders. This experience and perspective has proven to be an invaluable insight for his corporate clients. Some of the most notable situations in which Kiran has assisted include Schneider Electric's board renewal, Whitbread/Elliott's activism situation and Repsol ESG engagement activities.



## MICHAEL A. VERRECHIA

NEW YORK

*Managing Director*

m.verrechia@morrowsodali.com

*Activism & Contested Situations*

+1 212 300 2476

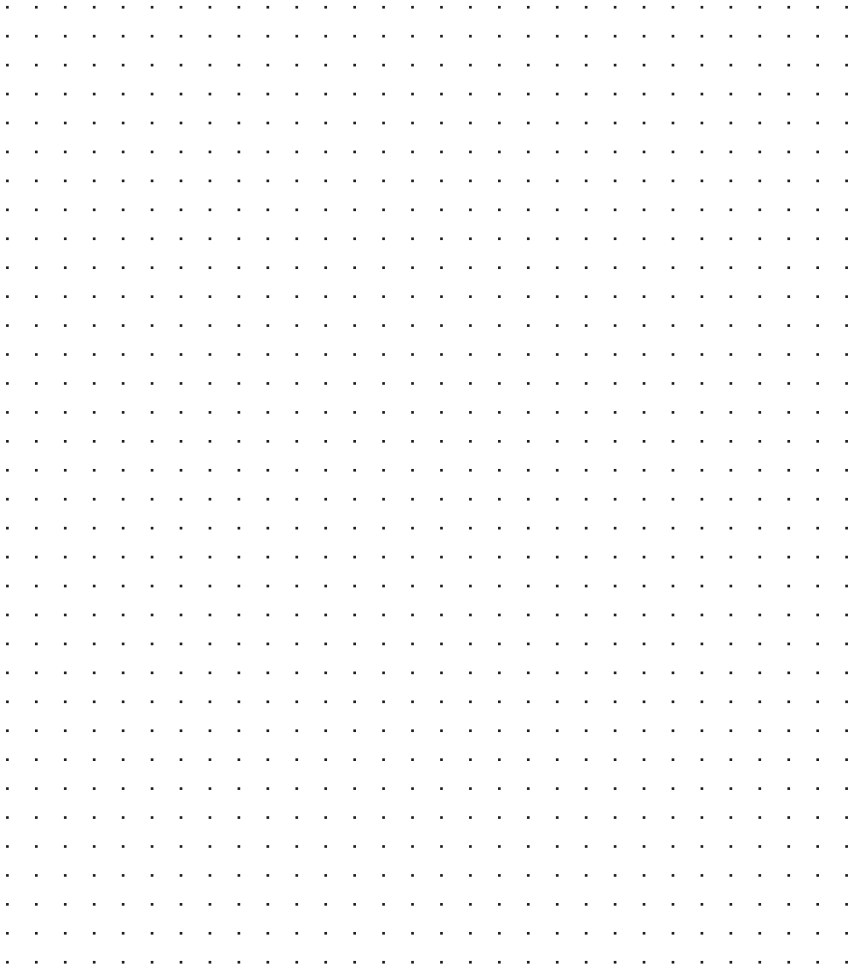
Mike is Managing Director of the Activism & Contested Situations Advisory Group at Morrow Sodali. He is also a member of the firm's Executive Committee. With 20 years of experience, Mike provides strategic counsel in matters of shareholder activism in contested director elections, mergers and acquisitions, corporate governance, and proxy solicitation.

Several contested situations in which he has served include Newell Brands/Starboard, Olympus Corporation/ValueAct, Natus Medical/Voce Capital, Blackwells Capital/SuperValu, Anheuser Busch/InBev, Martin Marietta Materials/Vulcan Materials, Mylan Labs/Icahn, SodaStream International/Teleios, Caesarstone Ltd./ Kibbutz Sdot-Yam, Sotheby's Inc./Third Point, Breedon Partners/H&R Block and Ranger Governance/Computer Associates.

In the last year, Mike has also provided guidance to issuers in some of the largest successful M&A transactions including Connecticut Water Service/SJW Group, Pfizer/Medivation salesforce.com/MuleSoft & Demandware, Monsanto/Bayer, RiteAid/Walgreens and Time Warner/AT&T.







NEW YORK  
LONDON  
SYDNEY  
BEIJING

FRANKFURT  
JOHANNESBURG  
MADRID  
MEXICO CITY

PARIS  
ROME  
SAO PAULO  
STAMFORD

[morrrowsodali.com](http://morrrowsodali.com)