NACD CHAPTER PROGRAM SUMMARY

NACD NEW ENGLAND CHAPTER

EVENT TITLE: Hot Topics for the Upcoming Proxy Season
EVENT DATE: 9/12/2024
EVENT TIME: 8:00am ET

PROGRAM SUMMARY:

NACD's New England and Philadelphia chapters co-hosted an in-depth panel discussion addressing the critical issues and trends that are set to dominate the 2025 proxy season. Moderated by Gloria Larson, the event brought together governance experts Matt DiGiuseppe and Bryan Keighery, who provided their insights into the evolving dynamics of shareholder proposals, executive compensation, director elections, and activism. As the 2024 proxy season closed, key shifts in shareholder voting and engagement were examined, with a strong emphasis on how boards should prepare for the coming challenges in governance, environmental, and social matters.

The discussion opened with an overview of trends observed during the 2024 proxy season. Shareholder proposals, especially those focused on environmental and social issues, continue to play a significant role. However, the number of such proposals has decreased slightly compared to previous years. The panelists noted that while the volume of shareholder proposals remains high, companies are increasingly resolving these issues through direct engagement with investors before proposals reach a vote, signaling a shift toward more collaborative problem-solving.

A significant observation was the declining support for environmental and social proposals, particularly those centered on environmental, social, and governance (ESG) issues. In contrast, traditional governance proposals, such as those relating to board structure and voting rights, saw a resurgence in support. This indicates a return to core governance issues as a priority for many investors. The panelists underscored the importance of monitoring these trends closely, as governance structures like classified boards and super-majority voting, which had been sidelined in recent years, are now being reconsidered by shareholders.

The conversation then shifted to director elections and executive compensation, which remain priority issues for boards. Director election support dipped slightly, with more directors receiving less than 90% approval, a trend boards need to address through enhanced investor engagement and transparent governance. Say on Pay votes, however, have stabilized, with support levels returning to pre-pandemic norms. The panelists stressed that while companies are seeing more favorable results on Say on Pay votes, boards must remain vigilant in ensuring their executive compensation programs are aligned with shareholder expectations and are adequately disclosed.

The panel highlighted the growing scrutiny of compensation committee chairs, with shareholders increasingly focusing their attention on the directors responsible for executive pay decisions. This shift allows shareholders to express their dissatisfaction with compensation practices without voting against the entire Say on Pay proposal. The panel discussed how companies could leverage this development to improve engagement with shareholders by ensuring clear and proactive communication about compensation decisions.

The inclusion of ESG metrics in executive compensation programs was another hot topic. It was noted the risks and rewards of tying executive pay to ESG performance, particularly as not all investors agree on the importance or appropriateness of these metrics. The panelists advised boards to carefully consider the design of compensation programs that incorporate ESG goals, ensuring they are clearly linked to long-term value creation.

Another key area of discussion was shareholder activism. While activist campaigns have not resulted in more proxy fights, the threat of activism remains strong, with activists increasingly reaching settlements with companies before disputes become public proxy contests. The introduction of the universal proxy card has, in many cases, facilitated these settlements by opening up channels of communication between activists and boards. The panelists agreed that boards should remain proactive in engaging with activists to avoid public disputes, as activism continues to influence company behavior and governance practices.

Emerging governance issues, particularly around the use of artificial intelligence (AI), were also a central focus of the discussion. As AI becomes an integral part of corporate operations, investors are starting to demand greater transparency around how companies are governing and overseeing the use of this technology. The panelists emphasized that boards must take steps to ensure robust governance frameworks are in place to manage the risks and opportunities associated with AI. They advised boards to hold regular discussions on AI and other emerging technologies, ensuring that both management and directors are educated on the implications of these developments.

The conversation also touched on the evolving landscape of political and social proposals, which have seen decreased support from shareholders in recent years. Proposals related to corporate political spending, lobbying, and civic engagement, which peaked in popularity in 2021, have seen diminished traction. The panelists speculated that the increased transparency around corporate political activities may have satisfied many investors, reducing the need for such proposals. However, they warned that companies should remain vigilant, as political and social issues are likely to resurface in future proxy seasons, particularly as regulatory landscapes evolve.

On the topic of diversity, equity, and inclusion (DEI), the panelists noted a "tale of two cities" scenario. While many investors continue to push for greater transparency and progress on DEI initiatives, there has also been some pushback from certain stakeholders, particularly in light of political opposition to ESG-related efforts. The panelists advised boards to maintain their focus on DEI as a long-term value driver, emphasizing that talent management and inclusion are critical to organizational success. Boards should be prepared to communicate their DEI strategies clearly to shareholders and explain how these efforts contribute to the company’s overall performance.

As the event drew to a close, the panelists reflected on the overarching theme of transparency and engagement. Whether addressing governance issues, executive compensation, or ESG concerns, the panelists emphasized that clear communication with shareholders is essential. By being proactive and transparent, boards can build stronger relationships with investors and navigate the complex proxy landscape more effectively.

Looking ahead to the 2025 proxy season, the panelists identified several key areas for boards to focus on: continued attention to governance structures, enhanced engagement around executive compensation, preparation for activist challenges, and increased oversight of emerging technologies like AI. By addressing these issues proactively, boards can position their companies for long-term success while maintaining strong investor relations.

KEY TAKEAWAYS:

- **Shareholder Proposals and Voting Trends:** Shareholder proposals, particularly on ESG issues, are slightly declining in number and support. Governance proposals are seeing a resurgence, indicating a shift back to core governance priorities.
- **Director Elections and Executive Compensation:** Director election support has slightly decreased, while Say on Pay votes have stabilized. Shareholders are focusing more on compensation committee chairs, signaling the importance of clear communication and alignment on executive pay decisions.
- **Governance Practices and Activism:** Traditional governance issues, such as classified boards and super-majority voting, are back in focus. Activist campaigns are being settled more frequently, often before public proxy fights escalate.
- **Emerging Topics, AI and DEI:** Boards need to ensure they have appropriate oversight of AI and other emerging technologies, with regular education and discussion sessions. DEI remains a priority despite increasing scrutiny and political pushback.
- **Engagement and Transparency:** Transparent communication with shareholders is key to maintaining strong relationships, mitigating activism, and ensuring investor alignment on key governance and compensation issues.

MODERATOR:

Gloria Larson, Lawyer, Public Policy Expert, Boston Business Leader

SPEAKER(S):

Matt DiGuiseppe, Managing Director, PwC Governance Insights Center

Bryan Keighery, Partner, Morgan Lewis

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