

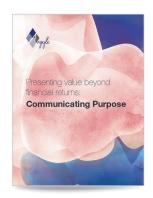
# Corporate Purpose will be a growing theme in 2019

- Corporate "Purpose" was a key theme of Larry Fink's 2018 BlackRock Letter to CEOs.
- Encouraged by this letter, a number of reporters highlighted Purpose in their 2018 proxy disclosures; why does the business exist? What is the mission that sets the strategic direction? What values guide employee behavior? How does the company define success in the broader societal context?

#### TAKEAWAYS

We expect to see more corporations use Annual Reports and Proxy Statements to highlight corporate purpose and how they create value beyond financial returns.

#### FURTHER READING ON THIS TOPIC



## Communicating Purpose: Presenting value beyond financial returns



https://argyleteam.com/resources-page.aspx



### Communicating Purpose in Light of BlackRock's Letter to CEOs



https://argyleteam.com/resources-page.aspx



#### The Purpose of the Corporation Project



http://www.purposeofcorporation.org/en

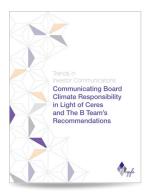
# 2019 will see a continued focus on ESG disclosures

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- Asset managers including BlackRock, Fidelity, State Street and Vanguard, and public pension funds
  including CalPERS, CalSTRS and the NY State Comptroller are publicly advocating for greater corporate
  ESG accountability, including in the area of climate change.
- From proxy statements, investors expect to learn how boards oversee ESG risk, and how management "manages" ESG risk and opportunity to protect and enhance shareholder value. In addition, a number of companies also present "ESG Highlights" (often including some high-level talking points from the most recent sustainability report).
- On October 1, 2018, a group of investors including CalPERS, the NY State Comptroller, three State Treasurers and the UNPRI petitioned the SEC to require rulemaking on this subject.

#### **TAKEAWAYS**

- While ESG reporting remains a work in progress, we expect to see enhanced reporting in proxy statements around board oversight of ESG matters, as well as ESG highlights and, as appropriate, highlevel summaries of progress towards key goals.
- This topic also extends to board composition; as ESG risks evolve and come to the fore, N&CG committees are considering director skill sets and experiences to determine if the board is comprised of people with the optimal mix to oversee ESG issues facing the company.

#### FURTHER READING ON THIS TOPIC



Communicating Board Climate Responsibility in Light of Ceres and The B Team's Recommendations

| https://argyleteam.com/resources-page.aspx



#### 8 Ideas to Enhance Your ESG Reporting



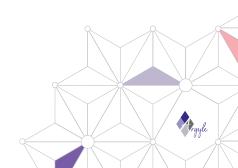
https://argyleteam.com/resources-page.aspx



#### **Investor Petition**



https://www.sec.gov/rules/petitions/2018/petn4-730.pdf



# More than ever before, investors will be focused on board composition

- The NYC Comptroller's Board Effectiveness 2.0 initiative had a strong influence on last year's proxy reporting, which we expect to continue in 2019.
- Investors are increasingly interested in learning how director skills and experiences connect to long-term strategy.
- The mix of skills expected/required of boards to execute their duties is broadening and, as a result, disclosures are evolving. Examples of language used to describe director skills in 2018 proxy statements:
  - ► "Business Ethics/Corporate Social Responsibility" (Grainger)
  - "Ethics/Social Responsibility Oversight" (Leucadia National)
  - ► "Environment/Sustainability" (or similar: Oil & Gas companies and also CF Industries, Wells Fargo, Vornado Realty...)
  - ► "Cybersecurity" (Ameren, Bed Bath & Beyond, Occidental Petroleum, PepsiCo...)
  - "Human Capital Experience" (Intel)
  - ► "Human Capital Management" (Fidelity National, Wells Fargo, Xilinx)
  - ▶ "Human Resources" (Exelon, Whiting Petroleum, Tractor Supply...)
- In addition to skills (and tenure), diversity is a key metric for investors to gauge board balance, with certain investor and proxy advisor voting policies holding boards accountable for a lack of diversity:

	Position on Gender Diversity
Vanguard, BlackRock	Will hold nominating and corporate governance committees accountable for lack of gender diversity on boards. May vote against directors.
Glass Lewis	From 2019, will recommend against nominating and corporate governance committee chairs (and potentially other directors on that committee) of boards with no women (unless a clear rationale and/or a plan to address gender diversity is disclosed).
ISS	Will highlight boards without women in reports.

#### **TAKEAWAYS**

- We expect to see more disclosures around director qualifications, including:
  - Skills sought by the board and how the identified skills align with corporate strategy and evolving risks.
  - Experience sought in connection with a potential new director.
  - Experience recently added to the Board
  - How individual skills were acquired by directors.
- Investors encourage companies to provide disclosures that are more proactive and transparent in discussing approach to composition and the "strategic evolution" of board skills.
- Opaque disclosure is a disservice to investors who want more diversity on boards and may invite shareholder proposals on the issue.

#### FURTHER READING ON THIS TOPIC



Communicating Board Skills in Light of the NYC Comptroller and NYC Pension Funds National Boardroom Accountability Project Campaign—Version 2.0



https://argyleteam.com/resources-page.aspx



#### "Best Practices" in Board Matrices



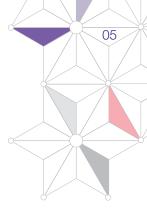
https://comptroller.nyc.gov/wp-content/uploads/2018/08/NYC-Comptrollers-Office-Matrices-Compendium-8-2018-FINAL.pdf



#### NYC Comptroller and NYC Pension Funds National Boardroom Accountability Project Campaign — Version 2.0



https://comptroller.nyc.gov/services/financial-matters/boardroom-accountability-project/boardroom-accountability-project-2-0/



# Investors are looking for broader disclosures around evolving areas of board oversight

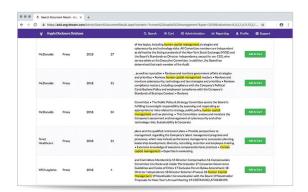
# Oversight of Corporate Culture and "Human Capital Management"

- 2018 saw high-profile CEO departures and scrutiny from the media and investors of how boards oversee corporate culture.
- Increasingly, we are hearing investors state that they consider oversight of corporate culture to be a key board responsibility to promote a healthy workplace.
- Investors want to understand board commitment on this topic, and what mechanisms are in place to enable them to be effective in their oversight role.
- Moreover, among other catalysts (including shareholder proposals), social disquiet and gender pay gap regulations in the UK have fueled interest in disclosures that discuss "human capital management."
- "Purpose" and diversity and inclusion disclosures tell part of this story, and there is a clear appetite to learn about board oversight of corporate culture and human capital management from proxy disclosures.

#### TAKEAWAYS

- We expect to see disclosures around corporate culture in "Purpose" messages, in letters from leadership and in presentations of strategy.
- In addition, we anticipate a growth in "organizational wellness disclosures." What is the role of the board and its committees in this area, and what are the mechanisms by which assessments of culture are communicated to, and considered by, the board?

#### FURTHER READING ON THIS TOPIC



On-demand text and graphic benchmarks of "Corporate Culture" and "Human Capital Management" disclosures



https://add.argyleteam.com



#### EY Center for Board Matters, "The board's role in corporate culture"



https://www.ey.com/Publication/vwLUAssets/ ev-the-boards-role-in-corporate-culture/\$FILE/ ey-the-boards-role-in-corporate-culture.pdf

#### KPMG, "Board oversight of corporate culture"



https://boardleadership.kpmg.us/content/ dam/boardleadership/en/pdf/2018/boardoversight-of-corporate-culture.pdf



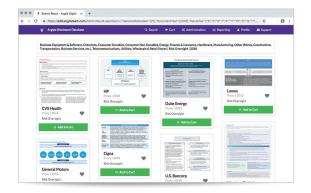
### Oversight of Cybersecurity

- In February 2018, the SEC published updated interpretive guidance to assist public companies in preparing disclosures about cybersecurity risk, incidents and oversight.
- In April 2018, the SEC's Enforcement Division's new "Cyber Unit" announced the first enforcement proceeding (against Yahoo!) based on disclosure related to a cyber incident.
- With a growing number of data breaches and attention on data security, cybersecurity has become an issue for every board.

#### **TAKEAWAYS**

- We expect to see strong communication around risk oversight in shareholder engagement decks and proxy disclosures.
- In addition, while disclosures in prior years focused on the allocation of risk management, some companies are publishing more robust disclosures around the risk assessment process and highlighting categories of risks discrete to their business (for example, boards of healthcare companies may disclose how they are addressing the opioid crisis).

#### FURTHER READING ON THIS TOPIC



#### On-demand text and graphic benchmarks of "Risk Oversight" disclosures



https://add.argyleteam.com

#### EY Center for Board Matters "The evolving role of the board in cybersecurity risk oversight"



https://www.ey.com/Publication/vwLUAssets/ey-the-evolving-role-of-theboard-in-cybersecurity-risk-oversight/\$FILE/ey-the-evolving-role-of-theboard-in-cybersecurity-risk-oversight.pdf





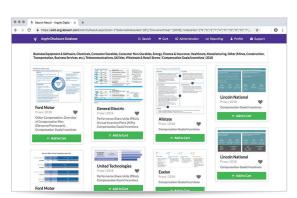
# On executive compensation, "pay-for-performance" remains a priority for investors

- The influence of ISS remains strong; Say on Pay support is 31% lower at companies that receive an "Against" recommendation from the largest proxy advisor.
- So far this year, 55 Russell 3000 companies (2.7%) have failed Say on Pay.
- Investor expectations around compensation disclosures are straight-forward: a plan which is simple to understand, and driven by performance metrics and goals that align clearly with strategy.
- ISS guidelines, and investors generally, expect disclosures around stockholder engagement following low Say on Pay results (including a summary of feedback and responsiveness).

#### **TAKEAWAYS**

- Companies should focus on clear and concise disclosure about how strategic priorities drive compensation programs to support long-term value creation, and this begins with presenting strategy is clear terms.
- Explaining how paid compensation is "warranted" in light of performance remains the principal disclosure goal.
- Investors want to understand the alignment of incentive metrics with strategy, and how individual performance is evaluated in the context of established objectives.
- Particular attention should be paid to demonstrating the rigor of goal setting. In addition to focusing more on the goal setting process, we expect additional disclosures validating that the set goals are appropriately challenging.
- Regardless of Say on Pay support levels, it is becoming standard for companies to disclose feedback from stockholders on their compensation program and efforts to address concerns.

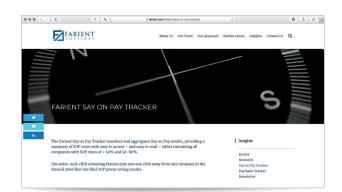
#### FURTHER READING ON THIS TOPIC



On-demand text and graphic benchmarks of Compensation disclosures



https://add.argyleteam.com



#### Farient Say on Pay Tracker

https://farient.com/insights/say-on-pay-tracker/



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## Semler Brossy 2018 Say on Pay and Proxy Results



https://www.semlerbrossy.com/say-on-pay/

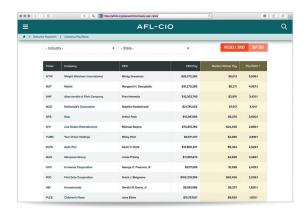
# **Pay Ratio**

• While Pay Ratio focused attention on median employee compensation, it did not generate the media focus anticipated by many.

#### **TAKEAWAYS**

- In 2018, most Pay Ratio disclosures were published immediately after the compensation tables.
- Companies with a Pay Ratio or median employee compensation that is out of line with peers should be prepared to respond to questions from investors during off-season engagement, and may consider enhancing Pay Ratio disclosures in 2019.
- Review peer Pay Ratio disclosures to inform whether any changes to proxy statement disclosures are necessary.

#### FURTHER READING ON THIS TOPIC



## The AFL-CIOs website lists every published CEO Pay Ratio



https://aflcio.org/paywatch/company-payratios



