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ADVISORY OVERVIEW

Shareholder Engagement: Timing, Tips, and Strategy

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Shareholders' ESG expectations are rapidly evolving, and companies must evaluate their engagement practices to keep up. Companies can engage their stakeholders through ESG reports, proxy statements, and earnings calls, but the most effective mechanism for building strong relationships with and understanding the expectations of key stakeholders is to directly engage with them during the proxy "off-season." These conversations can help companies understand investor ESG priorities and proxy voting policies while simultaneously providing companies an opportunity to articulate the rationale behind their corporate governance, executive compensation, and sustainability practices.

Effective shareholder engagement focuses on receiving direct feedback from stakeholders on company practices which can increase stakeholder goodwill. Companies should target shareholders holding a significant number of their outstanding shares. Many target their 25 largest institutional investors. Companies will not secure meetings with every investor they reach out to, however, merely extending an invitation demonstrates that the company values shareholder feedback and will be well received.

TIMING

The fall and winter, collectively the "off-season" are the optimal times for shareholder engagement. Alliance recommends that companies initiate their outreach in the late summer/early fall. Doing so affords companies the benefit of reviewing institutional investors' voting disclosures from the company's last shareholders' meeting (provided they held the meeting before June 30th). It also permits ample time to solicit shareholder feedback prior to filing the proxy statement for the next annual meeting. Some investors and proxy advisory firms shut down their engagement window in March, so companies should endeavor to have their calls completed by the end of February. This allows time to process the shareholder feedback before filing their annual meeting proxy statement.

ENGAGEMENT TEAM

Identifying the team who will meet with stakeholders is an important step in the shareholder engagement preparation process. This team should include subject matter experts in each of the company's governance, compensation, and sustainability practices. Often this includes general counsel or the corporate secretary, head of human resources, and head of ESG/sustainability/corporate social responsibility. Companies should assess the talents of their planned engagement team to determine if a less senior member would be best suited to answer questions about a particular topic.

A representative from the company's investor relations team should also participate in the meetings to leverage their existing relationships with investment side personnel. The investment side is increasingly participating in engagement calls to discuss compensation and ESG issues. The IR team can also be helpful in facilitating meetings at institutional investors where the investment team is influential in the proxy voting process, compensation, and sustainability practices.

Board members are a welcome addition to the engagement team, and some institutional investors may specifically request an independent board member participate in a meeting, however, board members are not required to be on engagement calls. Investors want to know that their messages will be relayed to the board through the senior management personnel at the meeting, but generally do not require that they have direct conversations with the board. If a company is responding to widespread shareholder concerns about a particular issue (e.g., responding to a low SOP result) some companies will proactively offer board member participation to entice shareholders to engage. This assists in obtaining a wide range of shareholder feedback (because some investors are more likely to accept an engagement offer if a board member will participate in the meeting) from which they can respond, which in turn, demonstrates company responsiveness to shareholder feedback.

Companies should also consider who should not attend these meetings. Shareholders will often be reluctant to discuss, and may even decline an opportunity to engage on, executive compensation if a CEO participates, so it is generally advisable to exclude CEOs. A handful of investors including the largest index funds (BlackRock, Vanguard, and SSGA) prohibit advisors from participating in their engagements, so companies should be mindful that their advisors may not participate in all meetings.

PREPARATION

Preparation for shareholder engagement meetings is crucial to their success. Companies should prepare by reviewing relevant proxy voting policies and understanding some of the investor's practices/points of emphasis. Some large institutional investors will publish documents outlining their engagement practices/policies, stewardship priorities, and ESG expectations. These can provide a wealth of information on focus areas for the shareholder and help companies anticipate discussion points in advance of the meeting. Companies should consider potential investor questions, conduct practice meetings with their advisors, and review their messaging in advance of their first engagement meeting. This is particularly valuable for companies that are newer to ESG/compensation/governance engagements. Prior to meeting with a stakeholder, companies should request names and titles of participants to help identify potential focus areas based on their backgrounds. Properly preparing for engagements allows for deeper, more thoughtful conversations, and demonstrates to stakeholders how seriously the company takes the engagement process (and by proxy shareholder feedback).

After a company has completed a wave of calls, the engagement team should identify themes that came up in multiple calls. These themes should be summarized and relayed to the board. The company should also keep notes on how many investors it reached out to, engaged with, and the feedback received, so this information can be disclosed in the next annual meeting's proxy statement. Companies should have advisors review the proxy statement to ensure that it meets investor and advisory firm expectations.