

## Glass Lewis Shares Recommendation Rates for 2020 Proposals

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On October 8, 2020, Glass Lewis (GL) released [reports](#) providing its overview of the 2020 proxy season. These reports cover selected shareholder vote results and trends, market and regulatory developments, and whether GL was supportive of proposals on various topics submitted to shareholder votes during the 2020 proxy season. On a selected basis, the reports also provide GL's rationale for its 2020 voting recommendations on company-specific proposals. Companies may find these new reports, particularly the information specific to GL's practices and recommendations made, worth considering as they prepare for the upcoming 2021 proxy season.

Two reports cover shareholder meetings at U.S. companies occurring from January 1, 2020 to June 30, 2020: (1) [2020 Proxy Season Review](#) for the United States and (2) [2020 Proxy Season Review Shareholder Proposals](#). The latter includes information related to both the United States and selected markets outside the United States. For a number of topics, the reports provide GL's support rate for a topic, i.e., the percentage of proposals GL recommended a "for" vote, and the average vote support the same topic received from shareholders.

The following are examples of the data and information GL has provided on the U.S. market, with a focus on GL's recommendation rate (either against or in support) on various proposal topics and selected services GL offers to companies.

### MANAGEMENT PROPOSALS

#### Boards

*Five (5) Most Common Reasons GL Recommended a Director Withhold/Against Vote.* For S&P 500 companies the most common reasons were (1) affiliate/insider on a committee; (2) overboarding; (3) no lead director; (4) ongoing compensation concerns; and (5) adoption of exclusive forum provision. In comparison, the most common concerns at Russell 3000 companies were (1) affiliate/insider on a committee; (2) no lead director; (3) insufficient board independence; (4) IPO governance concerns; and (5) overboarding.

*Board Diversity.* In 2020, GL began noting in its company proxy research reports a company's use of skills matrices because GL believes the use of skills matrices is an efficient way to communicate to its clients the qualifications and characteristics of each director as well as the diversity of the whole board.

*Director Elections.* GL recommended support for 90% of director nominees in the 2020 proxy season, compared with 88% in 2019 and 87% in 2018. GL states that, on average, 94.5% of shareholders voted in support in 2020.

#### Compensation

*Say-on-Pay.* In 2020, GL recommended in favor of 84.3% of say-on-pay (SOP) proposals, while average shareholder support was 89.7%. GL's against rate for SOP proposals increased slightly in 2020 (15.7%) compared to 2019 (14.1%) and 2018 (14.8%). GL tends to vote against SOP proposals that ultimately fail, but not in all cases—GL voted against 69% of failed SOP proposals in 2020, down from 73.7% in 2019 and 82.7% in 2018.

As part of its SOP assessment, GL uses a pay-for-performance (P4P) grading system with a scale from "A" through "F" to compare a company's pay percentile ranking against its performance percentile ranking. The P4P grade informs GL's ultimate vote recommendation, but additional qualitative factors are also considered. In 2020, GL supported 97.7% of

SOP proposals for companies that received an “A” grade, 96.2% of “B” grades, 94.4% of “C” grades, 71.9% of “D” grades and 40.2% of “F” grades.

The most common reasons that GL gave a negative recommendation against a SOP proposal were: (1) P4P disconnect (42.5%); (2) other concerning pay practices—e.g., negative changes to program design, use of upward discretion or other items not in shareholders’ interests (23.9%); (3) excessive grants (11.3%); (4) structural concerns (11.1%); and (5) insufficient response to shareholders (9.1%).

*Equity Plans.* The number of failed equity plan proposals increased in 2020 (11 proposals compared to only 5 in 2019). The rate GL recommended against equity plans proposals, though, remained relatively unchanged (14.8% in 2020 versus 14.5% in 2019). GL’s most common reasons for voting against an equity plan proposal were: (1) repricing/buyout provisions (40.1%); (2) evergreen provision (37.7%); (3) plan cost (22.8%); (4) pace of granting (14.8%); and (5) dilution (10.5%).

*Golden Parachutes.* Shareholder support for golden parachute proposals remained lower than support for other compensation proposals (76.2% in 2020 versus 79.8% in 2019). GL recommended against 31.4% of 2020 golden parachute proposals, down from 41.3% in 2019. Common indicators of unsuccessful golden parachute proposals were: (1) excessive compensation arrangements; (2) expanded change-in-control benefits; or (3) excise tax gross-ups.

## SHAREHOLDER PROPOSALS

In the United States, the GL support rate for all shareholder proposals combined was 58% in 2020, remaining relatively unchanged from 2019 (57%). Among environmental, social, governance and compensation categories, GL’s support rate rose significantly only for environmental-related proposals in 2020 (48%) compared with 2019 (20%). However, the firm believes this was “largely a function of the types and targeting of the proposals that went to a vote in the last year, as opposed to any significant shift in [GL’s] policies or approaches.” Nonetheless, GL states that its support rate was 59% for climate-related proposals, up from 43% in 2019. With regard to the other categories—compensation, social and governance—the support rate changed little: compensation (17% in 2020 versus 22% in 2019); social (51% in 2020 versus 55% in 2019); and governance (66% in 2020 versus 68% in 2019).

In addition, GL has seen a notable decline in compensation-related shareholder proposals over the past 5 years (86 in 2015 down to just 29 in 2020). In 2020, compensation-related proposals generally covered the following topics: (1) prohibiting accelerated vesting of shares following a change in control; (2) implementing bonus deferral policies; (3) increasing disclosure relating to or expanding the scope of clawback policies; (4) linking compensation to sustainability; and (5) increasing disclosure relating to or modifying metrics used in executive compensation plans. The decline in shareholder proposals on compensation may be linked to shareholders’ increasing comfort with evaluating companies’ compensation programs through the say-on-pay process. Still, GL expects that investor concerns and shareholder proposals may increase in the coming years as investors assess the negative impacts of the COVID-19 pandemic and consider whether companies have sufficiently linked pay with performance and whether they incentivize and reward sustainable corporate performance.

## SERVICES AND PROGRAMS FOR COMPANIES

### Issuer Data Reports

GL offers a company the ability to review its Issuer Data Report, or IDR for free. To qualify, a company must register with GL for this service and make its proxy materials available at least 30 days prior to the shareholder meeting date. The IDR for each company contains the key data points that GL uses to inform its analysis and proxy voting recommendations, such as information regarding board composition, governing documents, compensation practices, summary compensation data and equity plans. Over 700 U.S. companies checked their respective IDR for errors and omissions.

### Self-Disclosed Peers

Over 1,300 U.S. companies submitted their self-disclosed peers, which disclosures serve as one source of information GL considers when determining the company’s GL peer group. This year, GL instituted a new peer group methodology that we discussed [here](#).

### Report Feedback Statement

In 2020, GL instituted this service where a company can provide feedback to GL’s proxy research report and have GL deliver the company’s unedited response statement, called a Report Feedback Statement, to its investor clients in a re-issued GL proxy research report. We discussed this service previously [here](#). GL states that over 500 U.S. companies committed to having Report Feedback Statements. GL also adds that over 10% of companies disagreed with the proxy

advisor's position. GL does not specify the number of Report Feedback Statements GL received nor the number included in GL research reports.

As a side note, on August 6, 2020, GL issued a [press release](#) stating that it believes that as a result of the firm's business practices, this Report Feedback Statement, its IDRs and the voting platform it provides to its investor clients, GL is well-positioned "to meet the SEC's expectations," or in other words, the SEC's recently finalized proxy advisory firm regulations with which proxy advisors must comply by December 2, 2021 which we described previously [here](#).

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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