Council of Institutional Investors
The Voice of Corporate Governance

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BEST DISCLOSURE: COMPANY-SHAREHOLDER ENGAGEMENT

Although the 2015 proxy season will go down in the history books as ‘the season of shareholder engagement"’ corporate disclosure in this area runs the gamut. A June 2015 study by the EY Center for Board Matters reports that the number of S&P 500 companies that provide information about their engagement activities in their proxy statements jumped from 6 percent in 2010 to 56 percent in 2015. Despite this huge leap, disclosure on the topic has by no means become standardized or boilerplate.

At the suggestion of the CII Corporate Governance Advisory Council, CII surveyed all of its members via the Council's listserv, asking for exemplary disclosures about engagement policies and practices from U.S. or non-U.S. 2015 or 2014 proxy statements. From the survey, which was not scientific or exhaustive, CII staff gathered a selection of what responding members consider exemplary disclosures about this topic. The report is the third in a series of “Best Disclosure” issue briefs that seek to provide investors and companies with approaches to, and examples of, exemplary disclosure.

The following companies were cited as having noteworthy engagement disclosure: Allstate, Chevron, Coca-Cola, Concert Pharmaceuticals EMC, Ford Motors, Manulife Financial, PepsiCo, Prudential Financial and Weatherford International. An analysis found some common elements in these firms' disclosure:

- Half of the companies provide detailed information about the processes they employ to facilitate engagement.
- Three include instructions and/or email addresses for shareholders wishing to engage with the companies.
- Four emphasize their boards' role in the engagement process.
- Three companies say engagement with shareholders is primarily a management responsibility.
- Several companies quantify their engagement activities. For example, Allstate indicates that it met with shareholders representing over one-third of total outstanding shares, while Chevron reports that its engagement team held more than 40 discussions with shareholders representing more than 30 percent of the company's common outstanding stock.
- Others list reforms they made to their governance practices as a result of feedback from discussions with shareholders. EMC amended its governance committee charter to help recruit more diverse director candidates to serve on its board. PepsiCo changed its governance guidelines and committee charters, reformed its executive compensation program to emphasize long-term performance and improved its disclosure of political spending, lobbying activities and sustainability goals and achievements. Prudential Financial adopted proxy access, extended its compensation clawback policy, increased its CEO stock ownership guidelines and reformed other provisions in its executive compensation program.

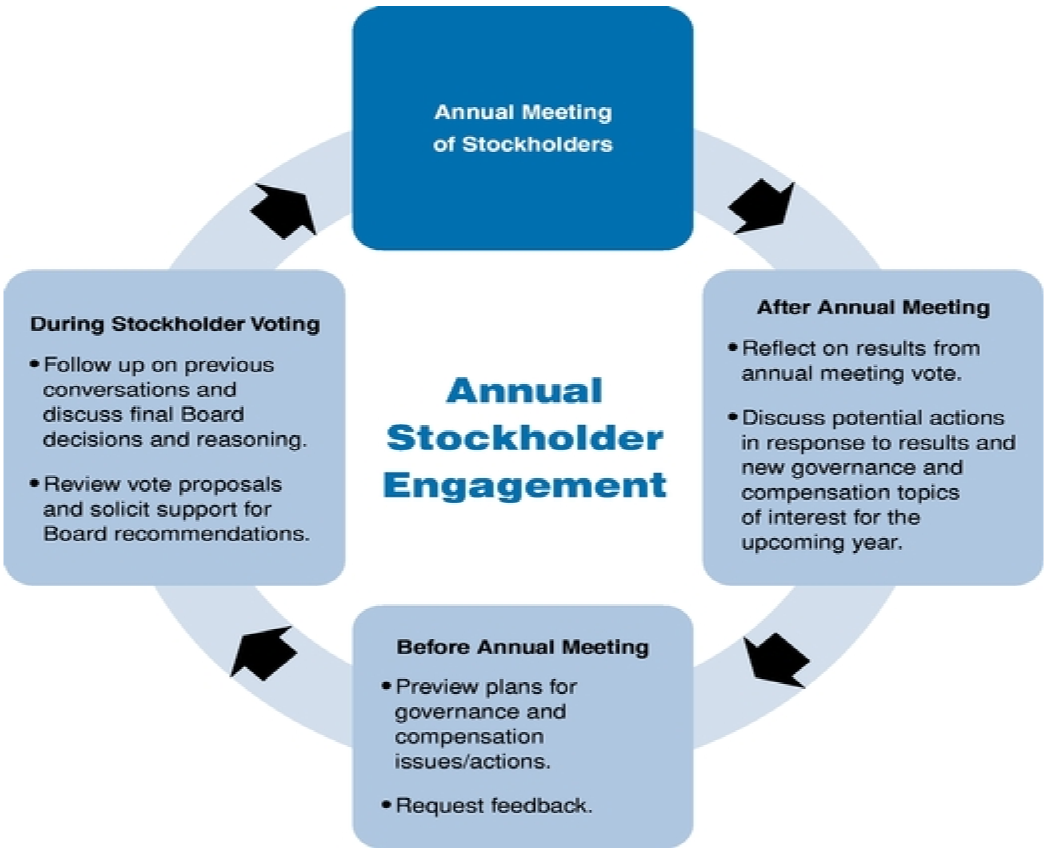
Key elements of the 10 engagement policy disclosures that CII members cite as examples of best practice are discussed in detail below.

Allstate (source)

The 2015 proxy statement was the first in which the company provided detailed information about its engagement practices. Allstate identifies when engagement takes place (before and after annual meetings and during shareholder votes), whom it involves (the chairman and CEO with shareholders representing more than one-third of total outstanding shares, and with proxy and investor advisory firms) and the topics discussed (current governance and executive compensation topics as well as any other topics or trends shareholders wish to share).

The proxy disclosure also explains that the shareholders' input is reported to the nominating and governance committee, which in turn refers specific issues to other relevant board committees for further consideration. The company also reports that it conducts investor surveys to gain perspectives on its shareholders' concerns.

Allstate's engagement procedures are mapped out in the proxy statement in the flow chart below.



Chevron (source)

The company discloses a general policy on its engagement philosophy (below), and the number of engagements with shareholders in the previous year. In its 2015 proxy statement, Chevron reports that an engagement team consisting of senior executives, subject matter experts on governance, compensation and environmental and social issues, and, when appropriate, its lead independent director, held more than 40 discussions with shareholders representing more than 30 percent of the company's common stock outstanding.

More broadly, the company says it has developed and follows an annual plan and process to map out its engagements and to proactively address important issues. The plan and process are overseen by an engagement steering committee composed of senior executive officers.

Chevron also discloses that in the previous year, the engagement team met with many of the proponents who submitted shareholder proposals to discuss their concerns. Any feedback gathered by the team was shared with the board and its relevant committees.

> *Your Board believes that fostering long-term and institution-wide relationships with stockholders and maintaining their trust and goodwill is a core Chevron objective. Chevron conducts extensive engagements with key stockholders. These engagements routinely cover governance, compensation, social, safety, environmental, human rights, and other current and emerging issues to ensure that the Board and management understand and address the issues that are important to our stockholders.*

Coca-Cola (source)

In its 2015 proxy statement, the company says it communicates regularly with it shareholders on a variety of topics throughout the year to ensure it is addressing their questions and concerns and to seek input and provide perspective on company policies and practices.

Coca-Cola also provides instructions on how shareholders can communicate with directors. All shareholder mail is reviewed by the office of the secretary and then forwarded. Specifically, letters sent to a particular director are forwarded to that director, mail addressed to outside directors or non-employee directors is forwarded to the lead independent director and correspondence sent to the board is delivered to the board chair and lead independent director.

To emphasize its commitment to responding to shareholders' views on executive compensation, Coca-Cola's proxy statement says that in addition to the annual say-on-pay vote, the company's compensation committee "will continue to engage with shareowners and consider the results from this year's and future advisory votes on executive compensation as well as feedback from shareowners."

Concert Pharmaceuticals (source)

The company is very specific about how shareholders may communicate with the board. Concert discloses on its Web site that generally the CEO and the CEO's designees speak for the company. However, individual board members may sometimes meet with shareholders, but only with the knowledge of and, absent unusual circumstances, only at the request of, the company's senior executives. The board chair or the lead director or the chair of the nominating and corporate governance committee are, with the advice of the company's legal advisers, primarily responsible for monitoring communications with shareholders.

EMC (source)

The company explains that management has the primary responsibility for shareholder communications and engagement. The proxy disclosure says management provides regular updates to the board on shareholder feedback, and the board takes this feedback into consideration when overseeing company strategy, formulating governance practices and designing compensation.

EMC's proxy disclosure indicates directors are available for dialogue when appropriate and the lead director is available for direct communication if requested by major shareholders. In addition, the company reports that it has a policy of responding to any shareholder proposal that receives a majority vote.

EMC also provides specific information about engagements with shareholders. The company says in 2014 it spoke with representatives from its top institutional investors, mutual funds, public pension funds, labor funds and socially focused funds, representing about 36 percent of its outstanding shares. The topics discussed included:

- strategy and performance
- corporate governance matters such as board composition and refreshment, succession planning and board leadership structure
- executive compensation
- sustainability initiatives

EMC also discloses that in 2014, its lead director engaged with shareholders in person and by telephone about board diversity. As a result, EMC reports, the board amended the governance committee's charter to state that the committee would actively identify and recruit diverse candidates as part of the search process for board members.

EMC's proxy statement also includes the graphic below to guide shareholders on how they should communicate with the board.

Concerns or complaints about EMC's accounting, internal accounting controls, auditing or financial matters can be sent directly to the **Audit Committee** in either of the following ways:

By mail	***By e-mail***
EMC Audit Committee, c/o Alertline PMB 3767, Suite 300 13950 Ballantyne Corporate Place Charlotte, NC 28277	AuditCommitteeChairman@emc.com

Questions or concerns about compensation matters can be sent directly to the **Leadership and Compensation Committee** in either of the following ways:

By mail	***By e-mail***
EMC Leadership and Compensation Committee, c/o Alertline PMB 3767, Suite 300 13950 Ballantyne Corporate Place Charlotte, NC 28277	CompensationCommitteeChairman@emc.com

Communications can be sent directly to the **non-management directors** in either of the following ways:

By mail	***By e-mail***
EMC Non-Management Directors, c/o Alertline PMB 3767, Suite 300 13950 Ballantyne Corporate Place Charlotte, NC 28277	nonmngtdirectors@emc.com

Ford Motors (source)

The company's disclosure, which is short and to the point, offers instructions on how to communicate with the board as a whole, the non-employee directors as a group or the presiding independent director. It notes that these communications may be anonymous. The audit committee receives any communications dealing with accounting, internal controls or auditing matters. All other communications are sent to the nominating and governance committee. Ford promises to acknowledge the receipt of all communications that include a return address. A more detailed description of how shareholders can communicate with the company is posted on the Ford Web site. To allow for in-person dialogue, the company says it strongly encourages all of its board members to attend the annual meetings.

Manulife Financial (source)

This Canadian company has a shareholder engagement and communication policy that delineates specific topics on which the board should be involved from others that are the purview of management.

The company specifies that the corporate governance and nominating committee is responsible for overseeing the engagement policy as well as for reviewing it and recommending any changes to the board. The committee also receives regular reports from management on its communications with shareholders, concerns and questions submitted to the investor relations department and corporate governance matters.

Manulife's corporate secretary is in charge of reviewing communications and meeting requests addressed to the board, any board committee or any individual director. Any communications alleging misconduct by management or legal, ethical or compliance issues are referred to the board chair and the chair of the conduct review and ethics committee.

The board, the appropriate board committee or director considers each request for a teleconference, in-person meeting or other form of communication on a case-by-case basis. Factors considered include:

- Whether the matter relates to a topic of broad concern that can be discussed publicly
- Whether the matter could have a material impact on the company's performance or stock price
- The size and/or number of shareholders making the request
- The willingness of the group to invest the time required to prepare for such communication

The policy also clarifies that all board-shareholder meetings must be limited to the pre-determined topics identified in the meeting's agenda.

PepsiCo (source)

The 2015 proxy statement provides the following specific examples of reforms that PepsiCo has implemented as a result of input from shareholders.

- Introduced in 2012 a new 100-percent performance-based, long-term incentive program.
- Improved its disclosure on the Web site of public policy priorities, political spending and lobbying activities.
- Enhanced its disclosure of sustainability goals and achievements by issuing an updated Sustainability Report and companion Global Reporting Initiative Report.

The company's proxy statement also discloses that PepsiCo met with shareholders to discuss:

- Portfolio strategy
- Capital allocation
- Corporate governance
- Transparent public disclosure
- Executive compensation
- Sustainability and corporate social responsibility initiatives

PepsiCo explains its corporate governance guidelines require the presiding director to be available for consultation and direct communication if requested by major shareholders, and that discussions sometimes occur without management present.

The company reports that it also hosts meetings with stakeholders in partnership with Ceres to engage on human rights, sustainable agriculture, risk management, environmental impact and sustainability reporting.

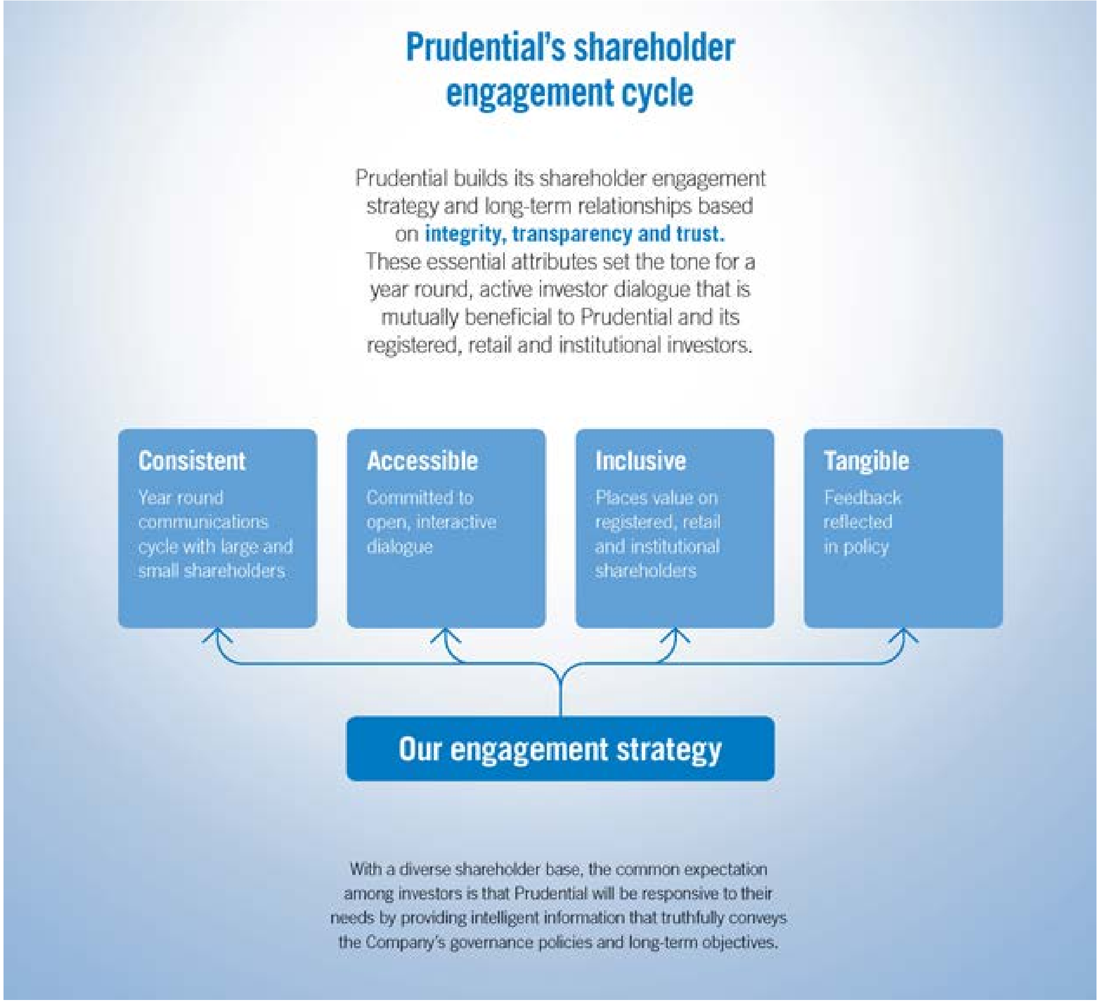
Prudential Financial (source)

The section of the company's proxy statement dealing with engagement and outreach focuses on how Prudential responded to shareholders' concerns about its executive compensation. Prudential cites the following changes to its compensation program as responses to these engagements:

- Extended its clawback policy to cover all incentive-based awards, material financial restatements and misconduct (including failure to report)
- Included a robust disclosure policy if these events occur
- Implemented a relative performance modifier for its 2015 performance shares program
- Increased its CEO stock ownership guidelines
- Significantly reduced potential discretion in determining annual incentive awards for its named executive officers

Prudential also reports that it took the initiative to adopt proxy access after consulting with its shareholders.

The company's proxy statement displays the following graphic illustrating its shareholder engagement process.



Weatherford International (source)

In its proxy disclosure, the company notes that since its 2014 annual meeting, it reached out to 73 percent of its shares and held discussions with 64 percent. As a result of the feedback it gleaned, Weatherford reports that it made the following changes to its executive compensation:

- Ended the practice of entering into employment agreements with future executive officers
- Changed how its 2015 performance units are measured to reflect a monthly average share price versus a one-day share price
- Tied its 2015 annual cash incentives to relative peer performance
- Planned to put to a shareholder vote an amendment that would prohibit buying out underwater stock options and stock appreciation rights without shareholder approval