

VIRTUAL SHAREHOLDER MEETINGS

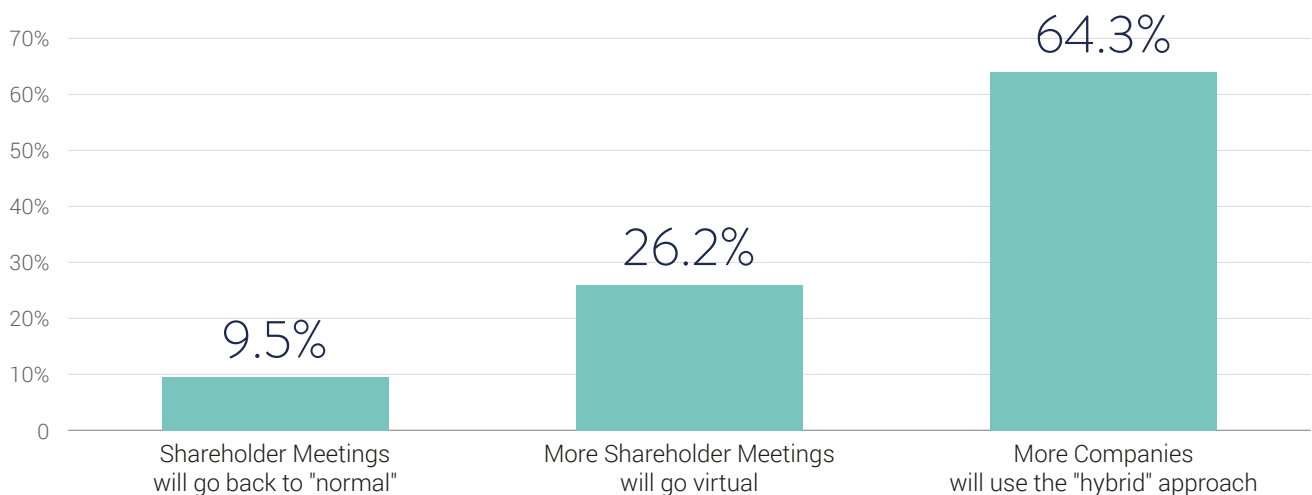
In our first US Lighthouse Edition in August of 2019 we touched on the mechanics and process of a Virtual Shareholder Meeting (VSM). Little did we know about 6 months after that issue was published that we would be thrown into a pandemic leaving most public companies scrambling to adapt to a VSM format for their **shareholder meeting**. This was a big change in a very short period of time and presented challenges for both public companies and the service providers who were now compelled to hold a virtual shareholder meeting.

COVID-19 changed the landscape for most shareholder meetings in the U.S. for the 2020 proxy season. Fortunately, the SEC provided guidance for conducting a meeting in light of COVID-19 early on in the proxy season, making it easier for most companies to switch to the virtual format. The SEC issued guidance allowing that if a company had

already mailed and filed its definitive proxy materials they would be able to notify shareholders of any changes to the meeting by either issuing a press release announcing the change, filing the announcement as DEF14A on EDGAR or at the least taking all necessary steps to inform other proxy service providers and the appropriate national securities exchange.

Both ISS and Glass Lewis, taking the pandemic into consideration, said they would not recommend negatively against a company that plans on going to a virtual only format during the pandemic.

In a recently released publication by Proxy Insight, it asked a group of investors (58 Asset Managers, 12 Asset Owners, 7 research/advocacy groups, 6 law firms, 1 government/regulator and 1 union group) if they expect



SOURCE: Proxy Insight

shareholder meetings to change once the crisis was over. The survey showed 9.5% of investors expect shareholder meetings will go back to “normal” (e.g. – in person shareholder meeting), 26.2% stated that they expect more shareholder meetings to go virtual in the future while an overwhelming 64.3% expect more companies will use a hybrid (e.g. – combined physical and virtual) format moving forward.

Many companies provided services for a VSM format (e.g. – Broadridge, Mediant Communications, Computer-share, Continental Stock Transfer and Trust and American Stock Transfer and Trust to just name a few) though Broadridge handled the vast majority of VSMS in 2020. Recently, Maryellen Andersen from Broadridge posted a paper on the Harvard Law School Forum of Corporate Governance where she spoke in more detail regarding the jump in Broadridge VSMS for the first half of 2020. Though she states that the jump in VSMS was primarily due to the COVID-19 pandemic, she also says “VSMS were expected to increase modestly year-over-year as familiarity with them grows among companies and shareholders, and as the greater shift toward digital communications unfolds”.

Key Metrics for VSMS Held between January 1, 2020 through May 22, 2020

- Total Number of Meetings: 860 (in 2019 Broadridge hosted 125 VSMS in the same timeframe)
- Average Duration of Meetings: 22 minutes
- Average Attendance: 59 shareholders and guests
- Average Number of Shareholders voting “Live” at the meeting: 4 (highest 178)
- Average Number of Questions from Shareholders: 6 (highest 316)
- Shareholder Proposals: 132 Meetings had one or more shareholder proposals

Over 80% of the proposals were presented by the proponent ‘live’ over a telephone line. At other times, a proponent’s pre-recorded message was played, or the proposal was read aloud by a company official on behalf of the proponent.

SOURCE: Broadridge Financial Solutions



Even though VSMS provide more access for shareholders to attend the meeting, shareholder activist investor John Chevedden received an e-mail from AT&T letting him know that he wouldn't have a chance to speak at the 2020 Annual Meeting which was held virtually. Mr. Chevedden had a shareholder proposal on the agenda for AT&T regarding independent board chair. He, as well as other proponents, were asked to provide written comments to be read by the management team during the meeting. Even though his proposal was read by the company he was quoted as saying "Companies are trying to take advantage of COVID-19 and silence voices." He also publicly stated that he had some difficulties at other annual meetings this year for companies such as the Goodyear Tire & Rubber Co., where he believes he was cut off as he spoke and Bank of New York Mellon Corp., where he said the company would not take his questions. Bloomberg recently spoke to shareholder advocate James McRitchie who believes not having a face-to-face shareholder meeting can negatively affect the governance process. He stated that VSMS "have become an easy way to discourage shareholder communications" and added "there are many instances where I have resolved issues with management through face-to face discussions at a meeting."

In a paper written by the Council of Institutional Investors (CII) titled "Shareholders Face Obstacles to Participation in Virtual Annual Meetings", it noted various issues shareholders have with the virtual annual meeting process. Ed Durkin with the United Brotherhood of Carpenters mentioned that the Computershare VSM platform only allowed record holders or asset managers to ask questions during the meeting but did not provide the same right to beneficial holders. When Mr. Durkin reached out to Computershare he was told that beneficial holders must have a legal proxy in order to ask questions at the meeting. This process was different for beneficial holders that used the Broadridge platform which allowed beneficial holders to ask questions at the VSM. In an e-mail to Computershare, Mr. Dunkin said, "The proxy delegation required under your policy for beneficial shareholders to simply ask questions at the meeting is a restriction on shareholder rights."

Based on our experience with clients' virtual meetings, the vast majority ran smoothly without any issues. While there were concerns that more holders would attend the meetings and ask questions of management due to the virtual nature of the meeting, that did not materialize. Most companies had a similar number of questions asked as they had at previous in person meetings. Also, in these virtual meetings we saw that shareholder proponents were generally reasonable and only presented their proposals without any grandstanding.

It is unclear how COVID-19 will impact shareholder meetings in 2021 but if this virus continues to persist early next year, we may see another wave of VSMS for the 2021 proxy season. Most companies should be in a better position from their VSM experience this year should they be forced to conduct another VSM for the coming proxy season. In the interim, companies should also consider which meeting format is the best option for the company and its shareholders in the future as we come out of the pandemic. Morrow Sodali will continue to monitor the situation closely and we will keep our clients informed of any relevant updates to the meeting format process for the coming proxy season.