Board-Shareholder Engagement Survey – 2013 Report

October 25, 2013
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Board-Shareholder Engagement

Survey - 2013 Report

Executive Summary

Key Findings

• The majority of survey respondents (60%) state that their companies do not permit Board members to engage directly with shareholders (defined as in-person or via telephone).

• Within companies that do allow direct communication, 65% state that any Board member may speak directly, while 35% state that only certain Board members may speak directly to shareholders.

• Within companies that do allow direct communication, 57% indicate that a member of management is not required to be present during these discussions.

• In general, as market cap increases, so does the likelihood that only certain Board members may speak with shareholders and that management’s presence is required.

• Companies are only slightly more likely (43%) to facilitate indirect communication between Boards and shareholders (defined as e-mail responses to questions via a third-party, such as the IR department or Corporate Secretary’s office), than direct communication (40%).

• The most likely venues for direct interactions between Board members and shareholders are annual meetings (49%), through the proxy voting arms of institutional shareholders (11%), during non-deal roadshows/one-on-one meetings (9%), and at analyst days (8%).

• For those that reported Board-shareholder contact within the last two years, the average number of direct communications over this period was nearly five.

• On average, one out of every five of these communications within the last two years was a result of activist or shareholder proxy proposal activities.
Board-Shareholder Engagement Survey-2013: Purpose and Objectives

In an environment of increased attention on corporate governance following regulations such as Dodd-Frank, there have been a number of news reports of shareholders seeking direct communications with corporate Boards of Directors. Many publicly traded companies have traditionally assigned responsibility for shareholder communications to corporate managements for a number of reasons such as controlling the company’s message through one central voice, and allaying regulatory (i.e. Reg FD) concerns.

However, factors such as the previously mentioned rising corporate governance interest, the evolution of communications mediums including social media, demands by activist shareholders and globalization, among others, appear to be placing emphasis on Boards to engage more directly with shareholders.

This survey was designed to capture details of corporate policies, frequency of communications, and trends concerning shareholder engagement with Boards.

This report presents 2013 survey results from NIRI corporate investor relations practitioner members.

Survey Definitions

“Board” or “the Board”: Board of Directors at a publicly traded company

Corporate Member: NIRI member who works in IR for a publicly traded company

Micro-cap: < $250 million in market-capitalization

Small-cap: $250 million - < $2 billion

Mid-cap: $2 billion - < $10 billion

Large-cap: $10 billion - < $25 billion

Mega-cap: $25 billion +
Board-Shareholder Engagement Survey-2013: Results

Overall
- For the majority of respondents (60%, Figure 1) companies do not permit Board members to speak with shareholders directly (defined as in-person or via telephone).
- Within companies that do permit direct communication, 65% (Figure 1) state any Board member may speak directly, while 35% state only certain members are allowed to speak directly to shareholders.
- Within companies that do allow direct communication, 58% (Figure 1) of IROs stated a member of management is not required to be present.
- In general, as market cap increases, so does the likelihood that only certain Board members are permitted to speak with shareholders, and that management's presence is required.
- Of those where management’s presence is required during these communications, 75% stated the IRO would be in attendance, followed by the CEO (42%), CFO (37%), and General Counsel (11%).
- Companies are only slightly more likely (43%) to facilitate indirect communication (defined as e-mail responses to questions via a third-party, such as the IR department or Corporate Secretary’s office) between Board members and shareholders, than direct communication (40%).

Figure 1: Board-Shareholder Direct Communication
Board-Shareholder Engagement Policies

- The majority of respondents (79%, Figure 2) do not have a Board-Shareholder engagement policy.
- For those that do, 64% (Figure 2) report it is a formal policy, and 68% (Figure 2) state it is part of another policy (e.g. disclosure or communications policy) rather than a separate document.

Figure 2: Board-Shareholder Engagement Policies

Direct Board-Shareholder Communications

- Forty percent of respondents stated a Board member has met with or spoken directly to a shareholder within the last two years.
- For those that reported Board-shareholder contact within the last two years, the average number of direct communications (defined as in-person or via telephone) was 4.85 (Median=2.00, Standard Deviation=4.985).
- Of these interactions, IROs reported that on average one (Median=0.0, Standard Deviation=3.374) out of approximately five was a result of activist or shareholder proxy proposal activities.
The most likely venue for direct interaction between Board members and shareholders was the Annual Meeting (49%, Figure 3). Other methods include the proxy voting arms of institutional shareholders (11%), non-deal roadshow/one-on-one meetings (9%), analyst days (8%), analyst calls (2%), quarterly earnings calls (1%), and Fifth-Analyst Call (1%) (a call specifically for shareholders that companies may hold prior to the annual meetings. Its purpose is to offer a forum for shareholders and board members to discuss relevant corporate governance issues without being subject to filter).

Table 1 details the percent of Board members that participate, on average, in the most popular corporate calendar events.

Figure 3: Member of Your Board Has Engaged Directly With a Shareholder Through Event

Table 1: Percentage of Total Board Member that Participate in the Following Activities

<table>
<thead>
<tr>
<th></th>
<th>Annual Meeting</th>
<th>Analyst Day</th>
<th>Non-deal roadshow/One-on-one meetings</th>
<th>Proxy voting arms of institutional shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>82%</td>
<td>32%</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>100%</td>
<td>12%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Std. Deviation</strong></td>
<td>33.467%</td>
<td>33.307%</td>
<td>26.517%</td>
<td>19.461%</td>
</tr>
<tr>
<td><strong>Mode</strong></td>
<td>100%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>


- Sixty-two percent of respondent’s state that Board participation in the Annual Meeting is required (Figure 4).
- Fifty-six percent Board members are formally trained on Regulation FD or other corporate disclosure matters (Figure 4).
- Sixty-six percent state that there are no restrictions on topics that may be discussed between Board members and shareholders (Figure 4).
The most common frequency of Reg FD/corporate disclosure training was on an as-needed basis (65%), followed by scheduled training (15%), one time only (13%), and before every meeting with a shareholder (7%). Results were similar among all market caps.

For those respondents who stated topic restrictions did apply to Board-shareholder direct interactions, the most commonly cited topics that were open for discussion were: strategic matters, any public or non-material information, governance issues, and executive compensation/compensation topics.

**Process for Handling Requests to Interact with the Board**

- The most likely individual to facilitate an approved shareholder request for a meeting with a Board member is the IRO (61%), followed by the Corporate Secretary (22%), General Counsel (18%), the CEO (17%), and the CFO (9%).
- For those that provided insight into how requests for direct interaction are handled, the majority stated it would be the IRO’s responsibility to facilitate the interaction, and that each request is decided on a case-by-case basis.
Significant Shareholder on the Board

- Sixty-eight percent of respondents reported not having a significant shareholder on their Board of Directors. This percentage was only slightly lower (63%) for non-U.S. headquartered companies.
- For those that did have a significant shareholder on the Board, 73% stated this person was not a member of management. U.S. headquartered companies were more likely to report that a significant shareholder was also a member of management (30%), than non-U.S. headquartered companies (15%).
- For those that did have a significant shareholder on the Board, 67% do not allow Board members to interact directly with shareholders. Additionally, 62% do not facilitate indirect communication (defined as e-mail responses to questions via a third-party, such as the IR department or Corporate Secretary’s office) between Board members and shareholders.
- CEO, Chairman, and President were the most commonly held significant shareholder/management positions cited. Participants were allowed to choose more than one management position.
Qualitative Findings
[Open-ended responses are unedited and taken verbatim from the research.]

“We do not encourage or discourage direct communications between Board members and shareholders, but they are relatively rare and typically only involve pre-existing relationships.” – Micro-cap, Health Care and Social Assistance, headquartered in United States

“We use the engagement as a proactive tool if necessary with large shareholders.” – Mega-cap, Accommodation and Food Services, headquartered in United States

“Our policy is to funnel all information requests from the investment community through our IRO. As VP of IR, I am fortunate to have access to our senior mgmt. team and they are always willing to speak directly with investors if requested. This access is usually sufficient for our investor base.” – Small-cap, Retail Trade, headquartered in United States

“It would be great if there was more interaction, yet this would require additional resources.” – Large-cap, Mining, Quarrying, Oil and Gas, headquartered in Continental Europe

“On several occasions, I received emails trying to contact individual Board members. Since I don’t know the nature of the correspondence I forward them to the Board member and let them decide if they wish to engage with the sender.” – Mid-cap, Mining, Quarrying, Oil and Gas, headquartered in Canada

“I believe these communications should be limited, and only relate to governance issues and CEO/Board performance and long-term strategy. Other than these high-level issues - which generally can be satisfied with the investor just sending an inbound written communication - meetings between the Board and financial community are not productive for either party.” – Mid-cap, Manufacturing, headquartered in United States

“The increase in the number of our investors being hedge funds with their very active portfolio managers has resulted in a hefty increase in these kinds of interactions.” – Small-cap, Information, headquartered in United States

“We do not encourage engagement between Board and Shareholder, however it happens occasionally and we do not have a policy against it.” – Micro-cap, Manufacturing, headquartered in United States

“Historically we have received virtually no requests. While our board attends our stockholder annual meeting, on average we have had literally only 1 to 2 shareholder attendees, usually individual shareholders with small positions. Any requests for meetings would be handled on a case by case basis.” – Large-cap, headquartered in United States

“Shareholders are invited to email concerns or questions to the Board member via a hot line that is monitored by the General Counsel. We actually receive few emails but the ones we do receive have been successfully handled by the GC’s office or other management.” – Large-cap, Retail Trade, headquartered in United States
Appendix A: Survey Methodology

All NIRI corporate members were invited to participate in this electronic survey through direct e-mail invitations from September 11 to September 25, 2013. The survey inquired about Board-shareholder corporate engagement policies, number of requests for Board-shareholder interaction and number of meetings between Board members and shareholders. The survey also collected demographic information. It yielded a response rate of approximately 13%. In charts and tables, numbers may not total 100% due to rounding.

<table>
<thead>
<tr>
<th>Survey Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey sponsor</td>
</tr>
<tr>
<td>Survey data collection supplier</td>
</tr>
<tr>
<td>Population represented</td>
</tr>
<tr>
<td>Sample size</td>
</tr>
<tr>
<td>Mode of data collection</td>
</tr>
<tr>
<td>Type of sample</td>
</tr>
<tr>
<td>Data collection dates</td>
</tr>
<tr>
<td>Margin of sampling error (total sample)</td>
</tr>
<tr>
<td>Margin of sampling error (key sub-groups)</td>
</tr>
<tr>
<td>Data weighted</td>
</tr>
<tr>
<td>Contact for more information or to request the survey instrument or data set.</td>
</tr>
</tbody>
</table>

About the National Investor Relations Institute

Founded in 1969, the National Investor Relations Institute (NIRI) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts and other financial community constituents. The largest professional investor relations association in the world, NIRI’s more than 3,300 members represent over 1,600 publicly held companies and $9 trillion in stock market capitalization.

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Appendix B: Board-Shareholder Engagement Survey-2013 Demographics

Market Cap Size

<table>
<thead>
<tr>
<th>Size</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Micro-cap</td>
<td>10%</td>
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</tr>
<tr>
<td>Mid-cap</td>
<td>30%</td>
</tr>
<tr>
<td>Large-cap</td>
<td>20%</td>
</tr>
<tr>
<td>Mega-cap</td>
<td>15%</td>
</tr>
</tbody>
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Company Primary Exchanges/Trading Markets

<table>
<thead>
<tr>
<th>Market</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYSE Euronext</td>
<td>60%</td>
</tr>
<tr>
<td>NASDAQ OMX</td>
<td>40%</td>
</tr>
<tr>
<td>Non-U.S.</td>
<td>10%</td>
</tr>
<tr>
<td>OTC Bulletin Board/Pink Sheets</td>
<td>10%</td>
</tr>
</tbody>
</table>
Company Headquarters
- Asia: 11%
- Canada: 89%
- Middle East: 4%
- South America: 2%
- U.K.: 1%
- Continental Europe: 1%

Company Industry
1. Agriculture, Forestry, Fishing and Hunting
2. Mining, Quarrying, Oil and Gas Extraction
3. Utilities
4. Construction
5. Manufacturing
6. Wholesale Trade
7. Retail Trade
8. Transportation and Warehousing
9. Information
10. Finance and Insurance
11. Real Estate and Rental and Leasing
12. Professional, Scientific, and Technical Services
13. Educational Services
14. Health Care and Social Assistance
15. Arts, Entertainment and Recreation
16. Other Services