Seven Early Takeaways from the 2024 Proxy Season

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With the 2024 US proxy season nearly in the rear-view mirror, a few key trends and takeaways have emerged. Amidst an uncertain regulatory and political landscape, investors have remained supportive of management on average, as indicated by the modest increase in average voting support across management proposals.

Concurrently, the number of companies subjected to activist demands in Q1 2024 increased slightly over Q1 2023, according to The Diligent Market Intelligence Quarterly Snapshot for Q1 2024. It is important for companies to understand what has driven higher levels of shareholder support, as well as activism, and what key topics resonated with shareholders. This will help companies prepare for upcoming off-season engagements with investors and stay ahead of what's to come in 2025. In this article, we share key takeaways from this year's proxy season to help companies filter through the noise.[1]

[1] The analysis covers proxy voting results at S&P 500 companies with annual meetings between January 1 and May 31 in both 2023 and 2024.

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1. **Investors supported seasoned CEOs in key proxy fights**

While the US market has seen a slight uptick in companies targeted by activists, the companies at the center of two of the biggest proxy fights of the season, Disney and Norfolk Southern, saw management successfully stave off attacks against the incumbent board. Neither of Nelson Peltz's candidates won seats on Disney's board. While Ancora won three board seats at Norfolk Southern, the outcome was the same as the settlement offered by the company – amounting to a win for management. In navigating a divisive market, investors signaled their preference for stability, unless there was a robust rationale behind demanding dynamic shifts.

2. **Pay raises approved if backed by strong company performance**

Investors were more supportive of pay raises substantiated by strong performance in 2023. Continuing last year's upward trend, investor support for say-on-pay rose from 89.7% to 90.2%. Median CEO pay rose by 11.3%,[2] a steep increase compared to last year's modest 0.9% bump at the median. Nonetheless, only three proposals failed to receive majority voting support, compared to seven last year. These votes were driven by one-time awards, lowering performance goals and adjustments to incentive payouts – all of which investors regard poorly.

3. **Shareholders showed almost no support on "anti-ESG" agendas**

Despite the headlines and politics surrounding an ESG and DEI backlash, the proxy ballot box tells a different story. Although the number of "anti-ESG" proposals increased by 66% in 2024, they remained unpopular with investors. Average support was only 1.9%, down slightly from 2% last year.While anti-ESG factions may be emboldened by recent regulatory initiatives in red states, their arguments do not appear to resonate with larger institutional investors. Navigating competing and often divisive views on ESG topics will continue to challenge companies, even after the November election.

4. **Governance proposals fare very well**

Many governance proposals received strong support from investors. The number of governance proposals increased slightly in 2024, while average support increased from 32% to 37%. Twenty-four governance proposals received majority support in 2024, more than twice as many as last year. Notably, 10% of governance proposals were not opposed by management. Most of these proposals sought a simple majority vote in board elections. Other winning governance proposals included board declassification, eliminating

[2] Source: Equilar; 2024; Equilar Associated Press CEO Pay Study: S&P 500 CEO Pay Rebounds After Decline in 2022.

supermajority voting and reducing the ownership threshold for shareholders to call a special meeting.

5. Climate proposals receive greater support at smaller companies

The ultimate terms of the SEC's climate disclosure rule remain unclear, and it will be interesting to see investor views on greater disclosure after the rule is finalized. For the 2024 proxy season, the most common environmental proposals were those related to greenhouse gas emissions and decarbonization plans. On average, these proposals received 28% support, higher than the average for all environmental proposals (18%). While no S&P companies saw an environmental proposal receive majority support, GHG emissions target proposals at two companies in the broader Russell 3000 did pass. These proposals have proven to be more additive at smaller companies that are evolving their climate disclosure, as larger companies have been faster to adopt and disclose climate targets.

6. Investors are generally satisfied with political disclosures

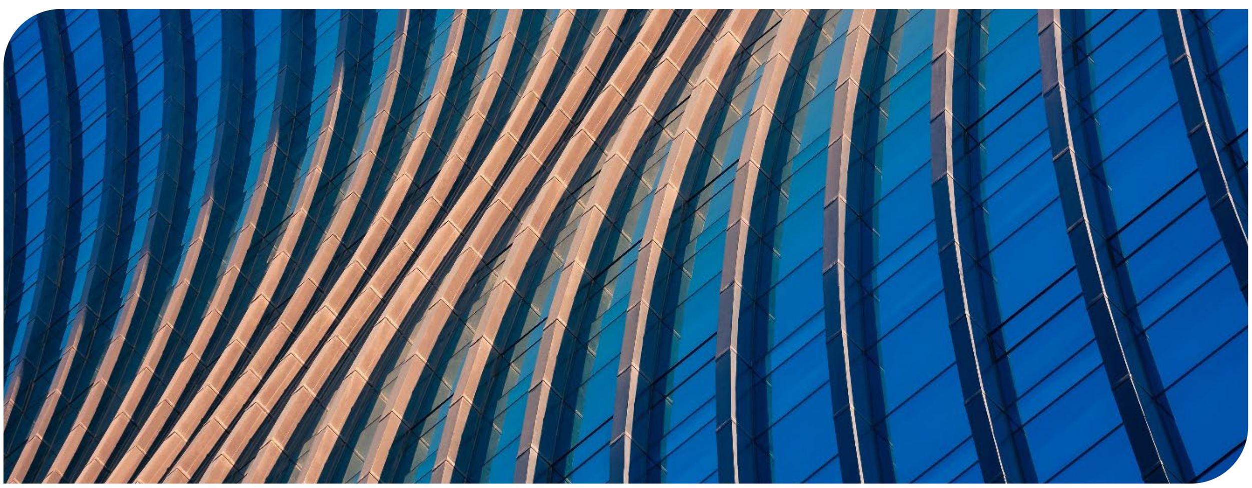
The number of social proposals declined slightly in 2024, and the average level of support dropped 23% to 18%. One social proposal seeking a report on political contributions received majority support. Political activity proposals seeking reports on lobbying, political spending and the congruency between a company's stated values and their political activity represented about one-third of all social proposals. Proposals focused on employee rights were also common, particularly with respect to diversity, equity and inclusion and collective bargaining.

7. Key governance concerns drive investor opposition to directors

Significant voting opposition to directors is rare, but investors opposed nominees when they had governance concerns. Investors and proxy advisor support for directors remained high in both 2023 and 2024. Average support rose from 95.9% to 96.4%, likely bolstered by Institutional Shareholder Services' slightly lower rate of withhold recommendations (2% compared to 2.5% in 2023). Fewer directors received less than 70% vote support in 2024, compared to the prior year. Multi-class share structures were the biggest driver of low director support, including for the only two directors that received less than majority support. Over-boarding and attendance issues were also common reasons behind lower votes.

Conclusion

Investors were generally more aligned with management than they have been in the past few years, even as a few high-profile proxy fights grabbed headlines. Director support levels and say-on-pay votes saw a slight uptick. Fewer directors received low or failing support. Political uncertainty and potential legal challenges have caused some large investors to avoid taking bold stances on certain environmental and social issues. Nevertheless, material environmental and social issues remain key areas of focus for both investors and corporations. More than 90% of S&P 500 companies that published their annual sustainability report in 2024 continue to use the terms “ESG” and “DEI” throughout the report and, often, in their proxy statements.[3] With a continued focus on shareholder value proposition, coupled with stakeholder materiality, alignment between shareholder votes and management is driven by strong performance and robust engagement between companies and investors. As such, it is important that companies and their boards maintain an open dialogue with investors on a variety of governance and ESG topics and consider their feedback when possible.



[3] Source: Teneo’s analysis of S&P 500 companies with published 2024 ESG Reports as of May 31, 2024.

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