



GIBSON DUNN

**Disclosure
Effectiveness for
Small & Mid-Caps**

Aaron Briggs | June 28, 2019

Why this matters

Annual meetings harder due to regulatory developments & shifting investor dynamics



No guarantee investors will meet with you



No guarantee investors will spend a lot of time trying to understand your proxy story



As a small/mid-cap the odds may be against you

Say on pay No broker discretionary voting for directors
Majority voting for directors Passives increasingly "active" on ESG issues
Shifting ISS/GL goalposts

~70% of large asset managers engage with
<25% of their portfolio co's each year
–Stanford Rock Center "Deconstructing Proxies"

State Street Example as of Q4 '16

Based on 10/24/16 WSJ article: "Meet the New Power Brokers"

9 governance analysts

9k portfolio companies

2 approx. # of hours spent on each company annually

30 approx. # of minutes spent on each co. during proxy season

5 questions for better disclosures

1 Short

Are you using more words than you need?

- More words = more time = investors more likely to stop reading
- Take fresh look at each sentence & be ruthless ... Berkshire '18 proxy = 24 pgs

2 Skimmable

Can the reader get the “gist” from a 5-minute scan of your proxy?

- Bold, active headings break up text & preview section/paragraph
- E.g., “Why the board believes its leadership structure is appropriate”

3 Logical

Does the flow of information make sense?

- Highlight most important info up front (hint: not 5 pages of meeting Q&A)
- Group related info together (e.g., AC report + auditor fees + auditor proposal)

4 Layered

Six words: do you have a proxy summary?

- If answer is no, stop reading this & draft one immediately (see next page)
- Single biggest boost you can give your proxy ... doesn't have to be fancy

5 Audience-focused

Who are you writing for? Likely lots of folks...

Retail (can a 10-yr old understand it?), **ISS/GL** (does it check all the boxes?), **employees/media** (does it provide appropriate context?), **SEC** (is it balanced?), **Institutional shareholders** (figure out what they want to know & provide it)

None of these improvements require a lot of resources...

7 steps to build a proxy summary

- 1 Disclaimer** Essentially: “you should read the rest of the proxy too before voting”
- 2 AGM logistics** Date + time + location + record date + how to vote + voting items (including board recommendations & cross-references)
- 3 Performance** Business highlights + recent performance across key metrics + strategy update
- 4 Board** Nominee info (e.g., name, age, tenure, job, committees) + overall composition (e.g., experienced, independent, tenure mix, diverse)
- 5 Governance** Investor-friendly governance practices + recent enhancements
- 6 Compensation** Key decisions + program changes + “summary” summary comp table
- 7 Other** What’s not covered above that’s critical to your story (e.g., auditor info, investor outreach, succession planning, turnaround)?

If investors read only the summary, what should be in it?

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Questions?
