THOUGHT LEADERSHIP FROM FW COOK

A PLAYBOOK FOR PROXY PUSHBACK

Facing a challenged executive pay vote? Here's how your board should approach shareholder engagement.

WITH THE 2025 PROXY SEASON in full swing, most calendar year-end companies have already filed or are gearing up to file their 2025 proxy statements, laying the groundwork for their upcoming annual general meeting (AGM). While the vast majority can expect high levels of investor support for management-supported ballot items, each year a significant number of issuers find themselves bracing for the possibility of a challenging vote. For some, this contested environment will have been anticipated; for others, it may come as an unwelcome surprise.

"Among the former category, hopefully company management and independent directors are aware of the likelihood that there will be some investor pressure on executive pay due to issues such as a perceived pay-for-performance misalignment or decisions related to an off-cycle equity grant due to company-specific retention considerations," says Serdar Sikca, a principal at FW Cook. "However, every year there are several issuers who don't see this coming, who are frankly a little bit blindsided when the proxy advisor recommendations are published."

Whether anticipated or seemingly out of nowhere, news of a potentially problematic vote kicks off an intense period of investor outreach during which issuers scramble to meet with a number of investors and campaign for support in a compressed time window, often as little as two weeks. In the best of cases, boards will have had an inkling heading into 2025 proxy season that prior 2024 pay actions were likely to prompt scrutiny and done some advance preparation, which is critical.

"Those are companies that prepared (external) presentation materials and (internal) talking points and Q&A in advance, preferably around when the decisions were made back in 2024 or certainly by the first quarter of 2025," says Ken Sparling, a managing director at FW Cook, who describes a "hoping for the best but preparing for the worst" strategy. "They will have prepared to explain to a reasonable investor why they took the action they did and will have put together an investor targeting plan." Companies for whom the challenge came as an unwelcome surprise will need to move swiftly to develop an investor outreach plan and all related materials concurrently.

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PROXY CHALLENGE PREP

Identifying which shareholders to approach is a critical first step, one informed by the shareholder register. "Companies need to look at their shareholder base carefully to ensure that their engagement efforts will yield the largest ROI in a condensed time period, while reaching a critical mass to swing the vote favorably," says Sikca. "Who are our largest shareholders and what is their recent voting history? Which shareholders do we have pre-established relationships with? At the end of the day, it becomes an exercise that is a healthy combination of art and science." Once a list of investors is assembled, we find that providing background information outlining each institution's stewardship priorities on executive pay and corporate governance issues, as well as detailed voting track record, can be very helpful for clients, especially independent directors, as they prepare for a constructive dialogue.

Preparation for proxy season engagement also entails creating and refining messaging to articulate how executive compensation decisions align with business strategy and shareholder value creation. Developing supplemental proxy filings and focused investor presentations that distill and reinforce the rationale for shareholder support is also crucial. Investor materials prepared for proxy season engagement should be more concise and to the point, compared to those prepared for off-season engagement, following the annual meeting.

"Ideally, these ought to be a five- to seven-page presentation meant to support a discussion around these very pointed topics," explains Sparling, who says the materials are typically provided to investors a day or two in advance of a meeting. "Companies need to recognize that these meetings are taking place during a very busy period with institutions that are invested in thousands of companies, where they're trying to make informed voting decisions. Investors are naturally thinking, 'Don't make me read 20 slides before you get to the elephant in the room.' You need to highlight right out of the gate the issue that's bringing about potential opposition and frame the case for shareholders to support you."

During the meetings, shareholders want to hear from directors who were responsible for critical decisions. Select board members, such as the compensation committee chair and/or lead director, should be prepared to take an active role in investor meetings, often leading the conversation. "While management and outside advisors will certainly be doing plenty of heavy-lifting in the preparation,

Forging a Recovery Plan for 2026

Companies experiencing a relatively low investor support on executive pay this proxy season should prioritize post-AGM engagement strategies that cultivate trust, align expectations and avoid surprises in the next voting cycle.

- **Gather feedback:** Meet with large shareholders and potentially the research arms of the proxy advisors to understand the rationale behind investor votes and recommendations.

- **Address concerns:** As appropriate, evaluate and implement adjustments to executive compensation structures, policies or disclosures in response to feedback.

- **Enhance communications:** Ensure that the rationale behind the compensation program, including any modifications made in response to investor feedback, are well-articulated in future engagements and proxy materials.

- **Emphasize board-shareholder dialogue:** Nurturing relationships outside of proxy season can foster trust, align expectations and build credibility with investors.

the responsibility of convincing a shareholder who may be on the fence can often fall on independent directors," says Sikca. "Investors will not expect directors to answer every single question in its entirety, but the most effective directors in these vote solicitation meetings are those who can speak to the key topics under the board's purview at a fairly detailed level (especially on executive pay and corporate governance matters)."

Companies should also be aware that large institutional investors often vote late in the process. "In case there is a vote that comes in that's unexpectedly negative, there might be a way for the company to follow up with those investors," notes Sikca, who advises tracking vote attribution reports. "However, at that point it can be logistically difficult to change the vote, which is why we really don't want to wait until votes are coming in to react."

POST PROXY ENGAGEMENT

In the event of an unfavorable vote outcome, companies should continue their engagement efforts by reaching out to a wide range of shareholders who both supported and opposed their pay program, shortly after the annual meeting.

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Ideally, this off-season outreach should be scheduled to complement the board calendar, with investor meetings taking place prior to scheduled boardroom discussions on executive pay and governance issues (usually in fall/winter) in order to inform relevant board decisions. "The goal is to circle back and get perspectives on both sides so the board has a holistic view of the source of support for the compensation program and the source of any opposition," explains Sparling. "That feedback can then be used to craft an appropriate response that will be viewed as acceptable by the shareholders in future votes."

Absent the time constraints of meeting during proxy season, investor engagement taking place during the off-season can and should be broader in content, covering matters including, but not limited to, latest business strategy, effective board oversight, succession planning, director refreshment, ESG issues, in addition to addressing compensation program concerns. The opportunity to discuss an investor's decision should be viewed as an opening for establishing regular dialogue with investors and proxy advisors, says Sparling, who sees engagement opportunities as a silver lining of a challenging vote. "It forces you to take the temperature of your shareholder base and figure out where there is alignment and support for compensation decisions," he explains. "Once you open that channel for feedback, it can kickstart healthy ongoing engagement, which in turn helps you build trust and cultivate a stronger relationship with your shareholders."

Serdar Sikca is a principal at FW Cook who advises clients on executive compensation strategy and shareholder relations.

Ken Sparling is a managing director at FW Cook who advises companies on executive and non-director pay.

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