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# EVOLVING SHAREHOLDER ENGAGEMENT LANDSCAPE AND BESPOKE COMPENSATION DESIGN

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*In 2023, at what appeared to be the pinnacle of the ongoing struggle for companies to use customized compensation systems to drive strategy without incurring the wrath of the proxy advisory firms and governance community, I wrote about [Bespoke vs. Homogenous Compensation Systems](#). This piece addressed the importance of regularly engaging with shareholders and how it can lead to greater open-mindedness to compensation policies that may not align with third-party defined “best practices.” Since that time, the macro-economic and geo-political environment has become further complicated, making it even more important for companies to use bespoke compensation design to support strategic initiatives that are unique to each specific organization. The criticality of customized compensation design has never been greater, and shareholder acceptance remains highly dependent on a strong business rationale, transparent and complete disclosure, and an openness to engage in direct discussions by both investors and listed companies.*

*Proactive shareholder engagement takes effort, on both sides, and it pays dividends to all parties. In my experience, issuers who have proactively engaged with investors often find it easier to craft custom compensation programs and rationalize them as consistent with long-term shareholder value goals. But when programs or specific actions differ significantly from established norms, even the most compelling rationale may be challenged as unnecessary or even egregious, thereby making it even more important that a relationship of trust exists between listed companies and the stewardship professionals who make the voting decisions at major investors.*

*Given the mutual benefits associated with regular dialogue between shareholders and issuers as well as the need we have observed for quality guidance in this field across our client base, last year we brought in [Serdar Sikca](#) to help expand our expertise and capabilities associated with investor engagement activities. Serdar began his advisory career with us in 2010 before spending several years at a well-respected shareholder advisory group. In addition to executive compensation strategy & design, he is now working with clients on comprehensive shareholder engagement strategies and contested proxy voting matters related to executive pay.*

*The flurry of activity around investor engagement continues as companies face an ever more uncertain set of challenges, which is why we decided to author the brief update below, as informed by our dialogue with institutional investors as well as clients. As we enter the busy part of the 2025 proxy season and the preparation for early stages of year-end compensation decision making, getting engagement right is more important than ever.*

*Daniel Ryterband, Chairman and CEO*

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## Key Takeaways for Companies

1. As institutional investors embrace more cautious engagement strategies due to regulatory pressure, issuers will likely experience reduced transparency regarding investor priorities and voting intentions. This increases the need for issuers to stay abreast of the latest published investor policy guidelines and to proactively disclose how (and why) programs and policies meet, or differ, from those expectations
2. The onus will therefore fall on companies more than ever to approach engagement meetings in a comprehensive manner and be proactive about bringing up the proverbial 'elephant in the room' (i.e., no questions from investors during the meeting does not necessarily mean they are supportive of a certain executive pay practice / voting item)
3. This shifting dynamic places increased importance on the quality and completeness of proxy disclosures and other investor communication materials (e.g., roadshow presentations, supplemental proxies, talking points). Well-crafted communications can preemptively address shareholder concerns and reduce the risk of adverse votes on executive pay or other voting items

In the aftermath of the February 2025 [SEC guidance](#) related to circumstances where an investor may lose its eligibility to report its holdings under Schedule 13G, and instead having to report under the much more onerous Schedule 13D<sup>1</sup>, many of the largest 'passive' investors such as BlackRock, State Street, and Vanguard temporarily paused private engagement meetings with portfolio companies. Specifically, the SEC's guidance addresses beneficial ownership reporting and expands its interpretation of an active investor to a scope of engagement activities the SEC views as "*influencing control of the issuer*," thereby requiring them to report under Schedule 13D, which puts significantly more regulatory burden on those investors. A direct consequence of the SEC guidance, whether intended or unintended, is that it already has discouraged otherwise passive investors that may own more than 5% of a company's shares from certain engagement activities to avoid becoming ineligible to report under Schedule 13G.

Following this brief pause on engagement meetings with portfolio companies, institutional investors have largely resumed meetings, albeit generally in a less direct and more limited manner than they did prior to the February 2025 SEC guidance. In addition, based on our recent conversations with several institutional investors, it is evident that there is no 'one-size-fits-all' approach when it comes to investors' engagement practices in this new environment.

To help facilitate productive engagement meetings between institutional investors and our clients, which is the ultimate goal for both parties, we detail below some of these nuances related to engagement meetings and how issuers can be best prepared heading into the heart of the 2025 proxy season.

- Certain institutional investors are currently approaching engagement meetings more conservatively than others, resulting in more passive or ‘listen-only’ meetings across all portfolio companies (regardless of whether or not the investor’s position is greater than 5% of a company’s outstanding shares)
  - This new, less-direct style of engagement can involve the investor reading out a ‘disclaimer’ at the beginning of the meeting, typically stating that it does not intend to “*influence the control of the issuer,*” as referenced in the SEC guidance
  - Other changes include *not* providing an agenda (of topics) to the issuer prior to the meeting and/or *not* asking proactive questions on any topic, whether related to executive pay or other matters
- Other investors have modified their engagement practices in less conservative ways – only changing their approach when it comes to engaging with those issuers where they are a 5%+ holder and/or when it comes to the topic of director elections
  - As background, the SEC guidance states that an investor who “*explicitly or implicitly conditions its support of one or more of the issuer’s director nominees at the next director election on the issuer’s adoption of its recommendation*” may lose eligibility to file under Schedule 13G

## Conclusion

As the uncertain economic and political environment is increasing the importance of bespoke compensation design and making it more likely an issuer will diverge from established “best practices,” the evolving regulatory environment is reshaping shareholder engagement dynamics and adding complexity to an area that was already difficult.

As institutional investors recalibrate their engagement approach to avoid extensive disclosure requirements, issuers will face greater challenges in understanding investor sentiment. This underscores the growing importance of robust proxy disclosures and investor-facing materials in aligning with investor policies and securing support on executive compensation matters. Companies that adapt appropriately by refining their communication strategies will be best positioned to successfully navigate this new era of shareholder engagement and proxy voting.

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A web-based version of this blog can be found by clicking [here](#).

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<sup>1</sup> Schedule 13G is generally intended for passive investors, which implies no intent to influence management or control of the issuer. It requires less frequent updates, seeks minimal disclosure detail (mostly identity, ownership percentage, and intent to remain passive), and therefore has a lower regulatory burden on investors. Schedule 13D is generally intended for active investors or those seeking to influence/control the issuer. It requires prompt amendment after any material change, seeks detailed disclosure (such as source of funds, purpose of acquisition, plans regarding control, and any agreements with the issuer), and therefore has a higher regulatory burden on investors.