

OPTIMIZER

HELPING PUBLIC COMPANIES—AND THEIR SUPPLIERS—DELIVER BETTER AND MORE COST-EFFECTIVE PROGRAMS

VOLUME 23, NUMBER 1

NOW IN OUR 24th YEAR!

FIRST QUARTER 2017

© CARL T. HAGBERG & ASSOCIATES • P.O. BOX 531, JACKSON, NJ 08527-0531

ISSN:1091-4811

ALL RIGHTS RESERVED

IN THIS ISSUE

EARLY RETURNS FROM THE 2017 MEETING SEASON: HOWLS AND GROWLS RE: VSMS; BEST MATERIALS TO CROSS OUR DESK; A FEW NOTES RE: “DIVERSITY” - AND “OLD WHITE MEN” OVER-POPULATING AGMS...AND THE 2017 FICKLEFINGER AWARD

MORE BIG NEWS IN PROXY-LAND: OKAPI PARTNERS TOPS THE 2016 LEADERBOARD; CAMBERVIEW CLAMBERS UP THE POLE; MORROW SODALI MAKES A BIG AQUITION

“PHANTOM SHARES” CONTINUE TO PLAGUE CAPITAL MARKETS - AND VOTING RESULTS

PWC KEEPS JUDGE OF ELECTIONS JOB AT THE OSCARS

ON THE TRANSFER AGENCY SCENE: AST TAKES ITSELF OFF THE MARKET; CONTINENTAL STOCK TRANSFER CHANGES SYSTEMS VENDORS

OUR LATEST T-A MARKETSHARE STATS SHOW SOME MIGHTY BIG SHIFTS

AS T-As STRUGGLE, DEMOGRAPHICS SAY THERE MAY STILL BE HOPE FOR THE RETURN OF THE INDIVIDUAL INVESTOR

PEOPLE

REGULATORY NOTES AND COMMENT

WATCHING THE WEB

EARLY RETURNS FROM THE 2017 MEETING SEASON

While it's still early-days as we write this, the 2017 season is off to something of a roaring start, with howls of protests from activist investors about “Virtual Only” shareholder meetings.

The loudest and potentially the scariest howling to date has come from **New York City Comptroller Scott M. Stringer**, who oversees \$170 billion of pension fund assets and the votes thereon. He plans to write to each of their portfolio companies to tell them that if they conduct a virtual-only shareholder meeting the NYC funds will withhold their votes from directors who serve on the governance committees...and maybe, they will start to do so this season.

The Council of Institutional Investors, a non-profit group of corporate, public and union pension, employee benefit and endowment funds - whose members control the votes on over three trillions dollars-worth of shares - has an official policy that virtual meetings should be used as a supplement to shareholder meetings, and not as a replacement for in-person meetings. Many of the Council members also seem likely to us to take similar actions to withhold votes from VSM-only companies after a fair warning - or maybe even beforehand.

No howling, but much thoughtful input from **Timothy Smith**, our much esteemed friend of 40+ years, who is the Senior Vice President and Director of ESG Shareowner Engagement at **Walden Asset Management**. Tim has written to senior management and two directors at **ConocoPhillips** - in his unfailingly polite and diplomatic way - pointing out over a half dozen governance “issues” he has with virtual-only meetings, calling them “alarming” and “creating a ‘slippery slope’ (that) encourages other companies to insulate themselves from shareholders...and sends a terrible signal that ConocoPhillips wants to flee from owners, and only allow an electronic or telephone exchange.”

Smith's letter simply requests that the Board “review the decision” to hold a virtual-only meeting this year “and return to an in-person shareholder

cont'd →

meeting in 2018.” We suspect that other companies in the Walden portfolio who hold virtual-only meetings this year will get similar letters from Tim - and likely from other institutional investors too - and we strongly suspect that many institutional investors will end up withholding votes on some directors if their requests are ignored... which would not be a good thing to happen.

We ourselves absolutely love Virtual Meetings - and we are 100% OK with Virtual-Only Meetings at companies that have only routine proposals on the agenda and where, historically, few or no shareholders have shown up. We are, in fact, very concerned that if virtual-only meetings were to be universally outlawed by the governance gurus, it would pull the rug out from virtual meetings altogether - which would be a bad thing.

But at the same time, we absolutely agree that if there are important governance or policy or performance “issues” out there - a company should not hold a virtual-only meeting - unless they are sure that shareholders - and especially shareholder proponents - will be OK with it.

In fact, we have written and advised from the get-go that there is a built-in governance mechanism already in place - courtesy of the worldwide web - whereby, if companies overstep reasonable bounds of propriety, they, and their officers and directors, will be widely criticized by big and small investors alike - and very publicly shamed in the media...and rightly so...We are seeing a bit of the potential for backlash this very season.

So what is a good corporate citizen to do, as we so often ask here and try to answer?

First, we think, is to keep our eyes on the prize, and to recognize that a so-called Hybrid Virtual Meeting, with a live visual feed, is indeed the “gold standard” for shareholder meetings - where every single shareholder can attend or later review the meeting, but still show up in person if they feel they should - as long as they pay their own way.

If there are shareholder proposals on the ballot, companies could and should try to arrange for shareholders to go to a studio, or to a place with e-conferencing facilities (which many firms or their law firms already have in place, often around the country). Failing that - as we wrote five years ago - no virtual-only meeting should be held in our book if a single shareholder wants to attend, gives the company reasonable prior notice and gets to a company-designated site on their own dime. It’s hugely ironic, by the way, that

public companies themselves urged the SEC to pass a rule that shareholder proposals need not be put to a vote if the proponent fails to show up!

Second, we think, is to recognize that shareholder proponents - and any shareholders that want to be heard - probably have a right to be seen as well as heard when they ask a question if they insist on it. And ideally, the company’s responder should be seen as well as heard too. Also, the questioner should also have the right to ask a proper follow-up question and get a proper answer, just as they would at an in-person meeting. Currently there ARE ways to allow this to happen without the shareholder having to go to a remote location, and we do believe that this can be arranged in a way that companies could still book the savings that come from not having to book a big hall somewhere.

Third, we all need to recognize that only a fool would fail to try to ‘tilt the table a bit’ in favor of friendly questions and comments when the opportunity is there. And only a bigger fool would blithely award a company the full benefit of the doubt here. We are fine with taking questions in advance - and trying to consolidate related questions into a single Q&A item, which can be a very helpful thing indeed - and with taking questions over the Internet in real time. But we feel strongly that the only fair way to take questions at a virtual meeting is to also allow shareholders who may wish to do so to call in and get in a queue, just as they would at an in-person meeting. Then, the Chair could and should alternate the questions among advance questioners, telephone questioners waiting in line and Internet questioners - dividing the time fairly, in proportion to the various sources of pending questions. (A few enlightened companies have promised to publish all of the questions they get from all sources - and to publish all of their answers if there is no time to provide them during the meeting itself - in the interest of providing full transparency.)

Your editor is a member of a “Virtual Meeting Working Group” - heavily represented by institutional investors - that is working toward reviewing, revising and publicizing “best practices” that will allow companies and investors to take the maximum advantage of technology - and to use new technologies as they emerge - while preserving all of the traditional rights of shareholders...We think there is still good and useful work to be done, so stay tuned...

ON A HAPPIER NOTE RE: MEETINGS: SOME OF THE BEST MATERIALS THAT HAVE CROSSED OUR DESK SO FAR

The number-one winner so far, and somewhat to our surprise, is **Bank of America**: The first thing to catch our eye was a big, red, white and blue card, proclaiming that **EVERY VOTE COUNTS** in big bold letters - but, more importantly, promising to “donate \$1 to **Special Olympics** on behalf of every stockholder account that votes.” How could we fail to vote that very day? And we will be asking them how it worked out, betting on a home run, so stay tuned.

The BofA proxy statement was especially well laid out and inviting - with many simple charts that illustrated the most important performance metrics (like TSR and their performance on their top-four strategic goals) and governance metrics (like key stats on director composition, experience and diversity; on shareholder outreach and engagement - like to the top 100 holders with over 50% of shares o/s, percentage of in-person meetings (34%) and board participation (which covered 24% of shares o/s) - all pretty much at a glance... **This is really worth a careful look!** And wow, they had 13 glossy pages of interviews in the AR with the CEO, the Lead Independent Director, some customers and product managers - all of which were actually worth reading!

The frosting on the cake was a 6-page glossy brochure proclaiming that “Our Environmental, Social and Governance leadership is central to our responsible growth strategy and is delivering long-term value to our shareholders” - full of supporting facts and figures. Wouldn't it be great if every public company thought and acted like this?

Another really innovative piece came from GE - telling us that while all their materials would be distributed via internet “to some of our shareholders, including you” - we would be “getting a paper copy of their integrated summary report [that] combines in one concise document the most critical information from our annual report, proxy statement and sustainability website”... AND... “to make it easier for you to vote you will receive a proxy card or voting instruction form.”

Three cheers! At long last...someone is actually getting it - and giving us what we need in order to vote...instead of those useless “Notices” that we rip up unopened when we are ‘stratified out’ of receiving hard copies, as we still have to demand, thanks to the lousy job that the majority of N&A users do of loading materials in a user-friendly way.

THE 2017 FICKLEFINGER AWARD

It's been quite a few years since we handed out our once-annual Ficklefinger Award. With so much focus on good corporate governance practices over the past few years, most public companies are extremely wary of flicking a finger at shareholders, even inadvertently, and most have also become keenly aware of the inevitable consequence of doing so - where the finger turns itself around and fingers the flicker for bad behavior.

This year's winner, **Johnson Controls**, is not only the earliest winner we've ever had, but sadly, it's awarded to a company that had, before its merger with **Tyco International** last September, enjoyed a reputation as being one of the best - and best governed companies anywhere. In fact, its reputation for top quality products and for top-drawer treatment of shareholders, employees and other stakeholders prompted your editor to become a shareholder several years ago, which paid off handsomely for investors, we'd note.

So what in the world prompted the “new” Johnson Controls to take advantage of a loophole in SEC regs when there are mergers and disclose only one month's worth of the compensation

their CEO earned over the 12 month period covered by the 2017 proxy statement? And ouch! The one-day's less than one month's worth (Sept. 2 - Sept. 30) was a jaw-dropping \$46.4 million, mostly due to merger related payouts, as a half-page WSJ story prominently noted.

“SEC rules do not call for the company to file additional information about Mr. Molinari's compensation after the merger, which we did not,” a company spokesperson, Fraser Engerman, wrote in an email to the WSJ.

Then, in a second flick of the finger, the spokesman suggested that interested parties could figure it out for themselves - by going back to the 2015 numbers, then researching subsequent equity awards, and then making an estimate based on vesting and expiration dates - where, the Journal noted, the company does not provide values for them!

A flip of the bird to you, Engerman, and a big thumbs up to WSJ reporter Theo Francis, for fingering the facts for us. (P.S. We called our broker and sold the few shares of our Johnson Controls stock we'd kept after the Tyco merger emerged... the next business day.)

A FEW NOTES RE: “DIVERSITY” AND THE PREVALENCE OF “OLD WHITE MEN” AT SHAREHOLDER MEETINGS...

In our last issue we predicted that “diversity” would be a hot topic during the 2017 Meeting Season, and we are indeed happy to see a much overdue and much increasing focus here. We noted the new initiatives at State Street, and at several of the public pension funds - and many of the proxy statements we’ve seen to date have greatly sharpened their disclosures regarding ‘diversity programs’ at all levels of the company.

We were especially pleased to see a new initiative at **Facebook** - where they are asking their outside law firms to have at least 33% of the talent assigned to them to be women - and we got a good chuckle out of it, since Facebook itself is far behind in terms of its own goals for hiring and promoting women, since, women are still greatly under-represented in the labor pool at high-tech companies, as they are at many law firms.

But when it comes to diversity on the corporate governance scene, and especially at Shareholder Meetings, your editor can say this bluntly, since he is one himself: The vast majority of Inspectors of Election at Shareholder Meetings are “old white men”...as are the majority of the outside lawyers we typically work with, to tell the whole truth.

So, while we normally don’t tout our own services in the OPTIMIZER, please permit us to brag a bit about our own Team of Inspectors at CT Hagberg LLC: Currently, 22 of our 47 Inspectors are women. (It was 24 of 48 last year, until two of our Inspectors took sabbaticals to travel the world.) And ouch, another of our star Inspectors now is teaching at a law school full time.

Of the 25 men on active duty this year, only 15 are “old white men” - using your editor’s yardstick of 67 ½ years of age to qualify for the title - although all of them are quick-witted, young-at-heart and still pretty quick on their feet in every way.

It’s been no small trick to find not just diverse Inspectors but the many relative youngsters in our group, since it takes a long while for most folks to

gain the expertise one needs to have. And yes, like at old-school law firms and old-time transfer agents, women were often not at the head of the line for such prominent assignments. In a field that has historically been populated mainly by “old white men,” we are especially proud to have 22 women, two African Americans, two Asian Americans and one Hispanic person on our Team - and we are 100% committed to increasing the ‘diversity’ of our Team going forward.

So, dear readers - and especially those of you with late-season meetings - it is not too late to check out our Team of Inspectors at www.inspectors-of-election.com - with a view toward maybe adding diversity to your lineup of meeting officials. And if you know of anyone who fits our need for superior expertise and a calm and cool countenance where shareholder meetings are concerned - and where diversity in age, gender and ethnicity is considered a plus - and where white hair is valued too for the gravitas it often adds - please let us know.

THE SHAREHOLDER SERVICE **OPTIMIZER**

is published quarterly by

CARL T. HAGBERG & ASSOCIATES

SUBSCRIPTION PRICE:

\$300 per year print/\$250 e-edition

Questions, comments or letters to the editor about material in this newsletter are also most welcome.

ALL RIGHTS RESERVED: Reproduction or transmission of this newsletter, in part or whole, by any means whatsoever, is prohibited unless the permission of the editor is first obtained. Such requests are welcome and permission will be liberally granted.

P.O. Box 531, Jackson New Jersey 08527-0531

Telephone (732) 928-6133 Fax: (732) 928-6136

E-mail: cthagberg@aol.com

www.OptimizerOnline.com

BIG NEWS IN PROXY-LAND: OKAPI PARTNERS TOPS THE 2016 LEADERBOARD...

In something that may come as quite a surprise to proxy-watchers - and to some proxy firms themselves - OKAPI Partners (which, by the way, took a star turn in our recent Special Supplement) was the top proxy solicitor in 2016, ranked by the number of disclosed activist situations in which the firm was hired by either an activist or the target company. This, according to a recent report from Fact Set SharkRepellent.

2016: TOP PROXY SOLICITORS			
	Retained by Company	By Activist	Totals
OKAPI Partners, LLC	3	23	26
Innifree M&A Incorporated	16	4	20
D.F. King & Co., Inc.	9	5	14
Morrow & Co., Inc.	7	7	14
MacKenzie Partners, Inc.	10	3	13
Georgeson, Inc.	7	3	10
InvestorCom, Inc.	0	9	9

Source: FactSet SharkRepellent

Although “past results are no guarantee as to future returns” as the saying goes, Okapi passed up long-term market leaders in the proxy-fight space, Innisfree and MacKenzie Partners, by a rather surprising margin in 2016, in terms of deals booked - thanks to Okapi’s popularity with activists. The relatively recent entry of other kinds of “professional governance advisors” into the traditional proxy-solicitation space may also be playing a role here too, in what could prove to create some really big revisions to the leader-boards going forward. We must say that the big point Okapi made in our Special Supplement - that their extensive work with activists gives them very special and useful insights into their thinking - certainly resonated with *us*.

Another surprise here was how well DF King did - even while officially “on the block” during much of 2016, as part of the potential sale or recapitalization of parent company AST, a deal that has since been pulled back. And most readers have probably never heard of InvestorCom at all - essentially a one-man band that specializes in fights that are picked by mostly tiny, one-or-two-man-band activists in search of quick rewards from plucking very-low-hanging corporate fruit.

FactSet also reported on the reported fees involved, noting that D.F. King & Co got the largest reported fee of \$2 million, having been retained by **Canadian Pacific Railway**, which made an unsolicited bid to acquire **Norfolk Southern Corporation** - and Innisfree received the second largest disclosed fee of \$1 million, when they were hired by **Sanofi** when they launched an unsolicited, non-binding proposal to acquire **Medivation**. Okapi was not far behind, with a disclosed fee of \$900,000 as activist **Frederic Eshelman** targeted **Puma Biotechnology**. But, as we’ve noted on this subject before, while the “proxy solicitation” fees get disclosed, the “advisory fees” - which are typically where the biggest money is - do not need to be disclosed, and rarely if ever are...

SPEAKING OF PROXY ADVISORS...CAMBERVIEW PARTNERS KEEPS GROWING - AND RAISES ITS PROFILE BIG-TIME

The formerly secretive-seeming advisory firm recently revamped its website, noting that it has 140+ public company clients - including 40 of the Fortune 100 and seven of the top-ten - and cites its involvement in \$500 billion of “Complex and Contested” M&A deals since its founding in 2012.

The big website revamp and reveal follows the hiring of **Eric Sumberg** in late December - a former media guru for NY City Comptroller **Scott Stringer**, and prior to that, for NY State Comptroller **Thomas Di Napoli** - when, as noted in our last issue, CamberView founder and CEO **Abe Friedman** told the press that “Eric will be instrumental in helping CamberView effectively tell its story in the marketplace. A+ for Sumberg, we’d say. The new website lists, and shows mighty impressive bios of 43 partners, advisors and associates - where CamberView continues to add some very talented heavy hitters...See our **PEOPLE** column for news on the latest newbies.

MORROW SODALI MAKES A SPLASH TOO THIS QUARTER... WITH A BIG ACQUISITION IN AUSTRALIA...

Fast on the heels of the acquisition of Morrow and Co. - and a string of good new-hires too - Morrow Sodali announced on March 21 that it has acquired a majority interest in leading Australian proxy solicitation and corporate governance firm Global Proxy Solicitation (GPS):

*“GPS, which has been the market leader in Australian proxy and governance services since 2007, will become the Australian arm of Morrow Sodali’s global business which combined serves more than 700 corporate clients in over 37 countries, with aggregate market capitalization in excess of US \$5.5 trillion... Founded in 2007 by **Maria Leftakis** and **Julian Lavigne**, GPS advises boards of directors and executive management teams on issues related to corporate governance, annual and special shareholder meetings, proxy campaigns, shareholder activism, initial public offerings and the conduct of multinational equity, debt and merger transactions. Since 2007 the firm has developed and executed more than 500 campaigns for transactions valued at over \$600 billion” the press release noted.*

“The addition of Australia to our global network is an important milestone. This transaction with GPS reinforces Morrow Sodali’s leadership position as a

*global consultancy and offers a great opportunity in terms of its future continued development worldwide,” said **John Wilcox**, Chairman of Morrow Sodali, whose CEO, **Alvise Recchi** added that “Working with Australia’s largest listed companies, GPS will strengthen our offering to new and prospective clients around the world. Global investors are becoming more outspoken and demanding. With our combined reach into the principal capital markets [we are] positioned to identify, understand and engage with these investors so that we can advise companies on the accelerating governance and shareholder demands they face.”*

Maria Leftakis - a former founding Managing Director of **Georgeson Australia** - will serve as CEO Australia of Morrow Sodali. “With more than 20 years’ experience in proxy solicitation, strategic advice and execution of mergers and acquisitions, AGMs, proxy fights and other extraordinary transactions, Maria has been adviser on most of Australia’s largest deals” the press release noted. John Wilcox, as most readers will know, has had a strong Georgeson connection too. Prior to founding Sodali, he served as Senior Vice President and Head of Corporate Governance at TIAA-CREF and prior to that, he was Chairman of Georgeson & Company.

PwC KEEPS JUDGE OF ELECTIONS JOB AT THE OSCARS... AFTER THE BIGGEST VOTE-REPORTING FLUB EVER...

We were happy, and not entirely surprised to see that **PricewaterhouseCoopers** got to keep their 83-year-old gig as the vote counters at the Oscars...since mistakes DO happen to all of us.

And while their excuses were weak (Tweeting while judging???) and they were unbelievably slow to react once they knew they'd screwed up, the Oscar staff didn't do a bang up job on envelope design and labeling either...

And wow, talk about having belts, suspenders and now surgical tape to hold up one's pants, they added a *third inspector* for future Oscar events to be "fail safe"... even though nothing really is.

If you haven't reviewed our widely-read article on this in the last issue, now's a good time to do so, since there ARE many parallels, and lessons to be learned re: shareholder meetings. It's on our website, www.OptimizerOnline.com

"PHANTOM SHARES" CONTINUE TO PLAGUE CAPITAL MARKETS - AND VOTING RESULTS: WILL BLOCKCHAIN PROVIDE THE ANSWER?

Back in September, Delaware Chancellor **J. Travis Laster** gave a speech to the Fall Meeting of the **Council of Institutional Investors** called "**The Block Chain Plunger: Using Technology to Clean Up Proxy Plumbing and Take Back the Vote.**" Do Google it up.

We meant to point it out earlier, as one of the very best explanations of Block Chain technology we've ever read, but a lot of the speech was rather esoteric - and sort of apologetic, and rightly so we think, about Laster's narrow and strictly technical ruling on the **Dole** appraisal matter - where a lot of people who should have received settlement proceeds did not, and likely never will.

But then, a March 22 **DeakB%k** column by **Stephen David Solomon** provided what we think is a much better summary of the case, and a better analysis of the larger problem behind this miscarriage of justice: Bottom line, a \$115.7 million settlement was reached - or \$2.74 a share over the \$13.50 per share that was originally paid out. But lo and behold - while there were 4,662 people and entities, with 49,164,415 shares who had claims to the money, there were only 36,793,758 shares of Dole stock that were officially outstanding on the closing date of the deal! And no one can really tell who to pay...due to a huge spike in short sales in the days before the closing - but also due to the fact that no one knows who the borrowers and lenders were - OR which of them are really entitled to the dough... thanks to laws that were adopted when all securities were

represented by paper stock and bond certificates. While this is partly due to deficiencies in the systems of banks, brokers, securities lenders - and borrowers - and DTCC too...as Laster and Solomon point out. But the law itself is not clear on how the entitlements are actually established in a 'book-entry-only' environment - as we pointed out long years ago in our many article about "Phantom Shares" that get created, and actually enter the marketplace as if they are real.

We thought that Phantom Shares - and over-voting of proxies too - had mostly gone away, thanks to a few tweaks in SEC regs - AND to more careful share-lending practices on the part of institutional investors...

But NO...As the Solomon article pointed out, in most class action cases, many claims go unclaimed due to the small amounts involved, so no one is ever the wiser if the books and records are screwed up. Same with proxy voting, we'd add, where thanks to increasingly low voting behaviors, most votes cast by brokers for their clients never go over 100% - so no one is the wiser here either...

Both Laster and Solomon also pointed out that there are no economic incentives to FIX the problem....so, maybe, a move to Block Chain technology that will take all of the middlemen and clearinghouses out of the picture entirely is the only answer in sight. We are all for it!

ON THE TRANSFER AGENCY SCENE:

Pacific Equity Partners, Australia's largest private equity firm, which owns American Stock Transfer and Trust Company (AST) announced in January that it had pulled the sale of AST, its longest held asset, which it purchased from the founding Carfunkel family in 2008, and has decided to retain the company... The bids from interested parties did not reflect PEP's "view of the world," as **Bloomberg News** reported, just as we, and many other observers had opined would happen from the get-go.

As Bloomberg also noted, AST is the largest stock transfer agent in the US by number of corporate issuers and, while it "has proved to be one of its more challenging investments of recent years...PEP has recently told its own investors that it is pretty upbeat about AST's outlook in the post-Trump world of rising interest rates and a management team that it reckons 'is doing a great job.'"

Aside from its big client base, AST seems to have maintained its position as a major player in the small-company world very nicely while up-for-sale, and, as noted in our article on proxy solicitors, its **D.F. King** unit has actually been a stand-out during this time. Both businesses are very strong in Canada too, we'd note. Very important these days, both AST and DFK have strong benches of good and highly knowledgeable people, and its recently refreshed and re-focused website seems to describe a pretty good plan for going forward in an increasingly tough environment...so stay tuned.

Meanwhile, Continental Stock Transfer & Trust Company announced in January that it has engaged TS Partners, Inc. as their new software partner and will convert its records to its TranStar system, "to provide enhanced solutions for shareholder record keeping, plan services and issuer/shareholder access." The changeover from the system that **SunGard** (now owned by **FIS Global**) had long provided to Continental - and which their previous marketing materials had been describing as the industry's "state of the art" - is expected to be concluded this spring.

There are several interesting implications surrounding this move, given the intensely competitive marketplace for T-A services:

For one thing, TranStar is the main "engine" behind the **Broadridge** stock transfer servicing systems...while the

old SunGard system continues to be the main "engine" behind the **Wells Fargo Shareowner Services** operation.

For another thing, over the past few years, TS Partners - which was founded in 1985, and which does not publicly disclose very much information about itself - has been making hay at the expense of the old SunGard system - where the management has been trying to implement a new version of the system, and to get their existing clients to convert to it. SunGard, lost its biggest public-company client last year, ex Wells Fargo, that is - **Aflac**, which maintains its own shareholder records - to TS Partners. Since then, FIS has lost a few other in-house issuer clients to M&A deals, and to other competitors. And Wells Fargo announced early-on that they do not plan to convert to the "new SunGard version"...So the size of, and the revenue derived from the old SunGard platform has shrunk significantly...in a line of business that continues to shrink, with no clear end to the shrinking in sight.

Continental's President and Chairman, **Steven Nelson** seems to be placing a mighty heavy bet on his future in a rapidly shrinking industry. "We believe that the TS Partners alliance allows us to offer a more robust, automated and responsive array of services to our customers; and we feel confident that we will be able to leverage this arrangement for significant near and long-term growth," their press release announced. Continental is also relocating its entire operation to a larger and much newer and nicer building, at 1 State Street Plaza.

As we've been saying since we launched the OPTIMIZER in 1994, "The dealin's are far from done in this critically important, ruthlessly competitive but ever-shrinking space...so stay tuned for more, we guarantee."

The All New **OptimizerOnline.com**

Our new website is designed to expand and better deliver our premium content to you, including our Online Directory of Pre-Vetted Service Providers, interviews with industry experts, a searchable database on topics from A to Z, plus an archive of past issues... all available with a few clicks.

WWW.OPTIMIZERONLINE.COM

AND YES, THERE IS MORE NEWS ON THE T-A FRONT... THE LATEST NUMBERS ON TRANSFER AGENT MARKET SHARE - SOME OF WHICH SIMPLY DID NOT ADD UP... WITHOUT A BIT OF MASSAGING.

As we have also been saying for many years now, T-A Market Share is absolutely the number-one decider of who the survivors in this business are likely to be.

And just in time for this issue, a reader - who is a securities analyst that covers the TA world - sent us an updated chart of TA market share that his firm put together, as of year-end 2016 - based on the agents' own SEC filings.

Some of the numbers simply did not add up for him - or for us - until we did a bit of digging and a bit of massaging....

Here's our own updated version of Transfer Agent Market Share - starting with the numbers we reported as of the end of September, 2015 - followed by the T-A reported numbers as of year-end 2015 and 2016 - followed by our own estimates... followed by our NOTES and commentary as to how and why we think our own 2016 adjusted numbers add up.

The numbers show a 10% decline in shareholders of record between September 2015 and January 2017. More alarming, if one is a transfer agent, there has been decline of 9.7 million

shareholder records in total - a 23% decline - between March, 2013 when we published our last full survey and year-end 2016.

There is also an important "sleeper issue" here, in that the numbers, as published, include several million accounts that are actually closed, but that have not yet been purged from the live files. This is OK with us as long as the transfer agents are still billing for them - which they are entitled to do for a reasonable period of time. But after 18 months or so, they really should not be included as a measure of market share, unless the issuers are happy with the idea of keeping them as open and "billable" accounts.

Very important to note, the industry has been experiencing an annual 5% shrinkage in shareholder accounts of record, that is not fully reflected in the numbers the TAs report - due to what we call "secular attrition" - as older paper-based holders pass away, others decide to simplify and consolidate their stock portfolios beforehand, and their heirs opt, almost universally, to move inherited shares to brokerage accounts - or to sell out altogether.

TRANSFER AGENT MARKET SHARE

(Shareholders in millions, as reported by the agents themselves for 2015 & 2016, with adjustments to 2016 numbers made by The Shareholder Service OPTIMIZER)

AGENT	A/O 9/15	Per Agent: yr-end 2015	Per Agent: yr-end 2016	Our Estimates
CPU	19.0 (52.5%)	18.2	16.6	16.6 (51%)
WFB	6.7 (18.5%)	9.2	11.1	7.7 (24%)
AST	4.2 (11.6%)	3.9	3.8	3.7 (11%)
CONT'L	1.7 (5%)	1.665	1.88*	1.7 (5%)
BRDRGE	2.81**	1.5	1.7	1.6 (5%)
ALL OTHERS	1.75 (12.5%)	1.5	1.25	1.2 (4%)
TOTALS:	36.2	36	36.3	32.5

NOTES:

CPU (Computershare): CPU lost several large accounts to competitors and several others due to M&A activities in 2016, for a net loss of approximately 1.6 million shareholder accounts. They still have 51% of the total market - based on shareholder accounts, and on gross revenues too we feel sure - and they are still more than twice the size of the number-two agent where, together, they have 75% of the total market, ranked by shareholders of record.

WFB (Wells Fargo Shareowner Services) acquired roughly 1 million shareholder accounts from competitors during 2016 and lost relatively few due to M&A activities. We believe that the disparity between the

numbers we reported as of September 2015 and their TA-2 filings for 2015 and 2016 are likely due to the addition of ADR accounts into their base numbers, and perhaps to some double-counting of DRP/DSPP accounts which we have reported separately in a chart below. In any event, WFB picked up 5 1/2 points of market share between September 2015 and December, 2016 by our reckoning.

AST lost 2 large accounts in 2016, but held its own surprisingly well during a year when their business was officially up for sale. They continued to garner 40% of the IPOs, and this year, they won the Snap Inc. account, which did not come with many registered holders - and will have essentially no voting holders to service

come annual meeting time - but which carries some nice bragging rights.

*Continental Stock Transfer reported 1.88 million shareholder accounts at year end - an increase of 215,000 over their own 2015 numbers - a number we can't account for, except to note that the accounts they did acquire, following the closure of Illinois Stock Transfer by the SEC and the R&T sale to CPU - and a nice account they got from SunGard when a client outsourced their in-house operation, but which will be merged away in a few months - seem to have carried over at least as many closed accounts as open ones, and probably more. Continental also handles reorg processing for two large financial institutions where shareholder

records will reside on both their clients' records and their own for a time.

**Broadridge: The number we reported for 9/15 was overstated, as their 2015 TA-2 filings now indicate, but they too basically held their own in terms of market share.

It should also be noted that market share percentages based on shareholders of record are not necessarily indicative of the agents' share of total industry revenue. Agents with the largest share of larger, dividend-paying companies, with higher than average service requirements, and DRPs/DSPPs, will usually have much larger gross revenues than agents that focus primarily on small companies.

MORE BAD NEWS FOR TRANSFER AGENTS:

Dividend reinvestment and Direct Stock Purchase Plan participation also declined markedly - by 8.8% from 2014 through 2016 - as shown in the chart below, although Wells Fargo and Broadridge gained share in a shrinking market due to “higher end” new client acquisitions

DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN PARTICIPATION; 2014 - 2016

PLAN AGENT	2014	2015	2016
Computershare	6.14	5.89	5.05
Wells Fargo Shareowner Services	1.83	1.90	2.51
AST	.73	.64	.53
Continental ST	nil	nil	nil
Broadridge	.34	.35	.56
TOTALS (millions)	9.04	8.78	8.65

Source: Transfer Agent TA-2 Filings

DESPITE ALL THE BAD NEWS FOR T-AS, DEMOGRAPHICS TELL US THERE MAY STILL BE HOPE FOR THE RETURN OF THE INDIVIDUAL INVESTOR

Our initial attempts to interest Transfer Agents in cooperating to provide consolidated statements of DRP and DSPP accounts - and of ALL “registered positions” for that matter - on a quarterly basis, to shareholders who consent to e-delivery of all shareholder materials, has generated little enthusiasm among most TAs to date.

This, despite our contention that this would provide not only the only way forward for them, but would represent a major growth opportunity in what, otherwise, is a constantly shrinking business.

Stubborn as we are, we are determined to push on with this, at least for a while, because we DO think that the marketplace is ripe for a major resurgence of individual investment in individual stocks - if TAs could sharpen their product offerings - and their marketing programs. We feel that there is compelling evidence to back our claim.

- For starters, let’s note that the total number of U.S. households has doubled since 1970 - from about 63 million to 125.8 million at year-end 2016.

- The U.S. population has grown by roughly 117 million people since then - from just shy of 209.5 million in 1970 to approximately 326.5 million people today. And with individual investment in individual stocks now so low, almost all of them are, theoretically, potential new investors.
- Let’s remember too that individual investors owned roughly 70% of all equities back in the 1970s...And that over 50% of all households owned shares directly through 1999, while today, direct stock ownership by U.S. households has shrunk to the low and fast-shrinking teens.
- Let’s think a bit bigger for a second, and remember that in the late 1960s there were so many investors, and so many daily trades, that the industry suffered a “paperwork crisis” that forced service providers to adopt new and better technologies that, lucky for them, were coming to market just in time.

cont’d →

- Here's another startling stat: In March, the census bureau announced that in 2014 there were 69.5 million grandparents in the U.S. And what better gift could a grandparent give, we'd argue, than shares of stock in well-run U.S. companies?
- Even more noteworthy, we think, the U.S. economy is undergoing the biggest transfer of wealth from one generation to the next in history: As we have often noted here, most of what we call the "depression-era and post-WW-II savers and investors" are fast dying off - along with the "registered shareholder accounts" they were so proud to own. And now, their heirs - the 75.4 million "baby-boomers" - the youngest of whom turned 50 in 2014, while the oldest are now well into their 60s - are looking to put their own financial affairs in better order, and hoping to finance a decent retirement. Those who were smart enough to invest in stocks - and to hold them, rather than sell in the dot-com bust or the 2008 financial industry panic - have been able to do that very thing.
- So, bottom line, we are looking at the biggest pool of potential investors - with the biggest pool of investable assets - EVER. And yes, with the possible exception of mint-condition vintage baseball cards, U.S. stocks have been the best investments ever - at least for "buy and hold investors" who focused on owning sound and well-managed companies and who systematically reinvested the dividends.
- The biggest and most important demographic factor was brought home to us big-time with the recent **Snap** IPO, which, with zero-earnings, was a complete sellout at \$17 per share - well above the \$14- \$16 targeted range. It valued the company at \$26 billion which, as the NY Times noted, "Stretches the limits of valuation": A sure sign in our experience that individuals are hungry to invest in stocks. Despite the many warnings from Warren Buffett that "index investing" is best, individual investors still want to own stocks in companies they believe in. And actually, Buffet himself is the main believer in buying stocks in companies whose products are much admired and much in demand, and whose management knows how to manage, and to treat its customers, employees and fellow citizens well. And, he's been the best advertiser ever in doing so.

Two last things make us hopeful that TAs will catch on, and try to grab a golden ring: Public companies are starting to realize that having a strong and stable base of individual investors is not just good for business, it is an important and effective way to counter-balance approaches from activist "investors" with very short-term business horizons. Second, TAs face a real threat that some other group of financial service providers will get smart here - and use technology to snatch away the entire, old-school TA business model, which, as noted above, seems to be floundering - and replace it with something easier and more convenient for investors than those drippy DRIPs...and much cheaper to run besides.

PEOPLE

CamberView Partners, which has been coming out of the media closet of late, and continuing its steady addition of talent, announced in January that that **Bob McCormick**, the widely respected former Chief Policy Officer of **Glass Lewis** had signed on with them as a Partner. And in February, they announced that former SEC Commissioner **Troy Paredes** has signed on as a Senior Advisor.

Sean Di Somma, who'd served a brief stint as VP Sales and Business Development at Canada's **Kingsdale Advisors** NYC startup, signed on as a Director at fast-growing **Morrow Sodali** in January. Earlier, Sean was an SVP at **Alliance Advisors**, and prior to that, was a Director at **AST Fund Services**.

Dorothy Flynn, a former Director of Shareholder Services at **The Walt Disney Company**, and prior to that, the CFO of **The Keane Organization**, signed on in January as a VP

and General Manager at **Broadridge Corporate Issuer Solutions**. A great move all around, we'd say.

Gary A. La Branche, a 35+year Association Professional has been appointed Chairman and CEO of the **National Investor Relations Institute (NIRI)**. He sure seems to us to be just what the doctor ordered to re-grow NIRI membership, reinvigorate NIRI programs and to help the IR profession and IR professionals achieve the greater prominence they deserve to have. Gary served almost nine years as President and CEO of the **Association for Corporate Growth**, and has held similar positions at the **Association Forum of Chicagoland** and at **ASAE - The Center for Association Leadership**. Gary also has significant experience with e-learning and certification programs, thanks to a 3-year stint as the CEO at **CertiLearn**.

REGULATORY NOTES ...AND COMMENTS

ON THE HILL:

What to say here? The GOP's promise to "repeal and replace" the Affordable Health Care Act seems to have collapsed, despite their big majority - with no alternative plans on the table so far. The promised overhaul of the tax code seems to be in a state of disarray too, on both sides of the aisle. This jeopardizes promised moves that would encourage companies to re-patriate profits held offshore, as well as promises for massive infrastructure improvements, and yes, tax cuts too, that would, if realized, boost the U.S. economy in a big way. Let's hope that the White House - and the Congress - can get their act together!

AT THE SEC:

As expected, the SEC adopted a T+2 settlement cycle for securities transactions, shortening the cycle by one day. Broker-dealers will be required to comply with the amended rule beginning on Sept. 5, 2017, which is good news.

But with the new SEC chair not yet seated as we write, and with two other vacancies, plus the expectation that the two still-serving commissioners will also be replaced, the SEC seems to be pretty much in a state of suspended animation right now. Nonetheless, SEC Acting Chairman **Michael Piowar** told the press that "We're not going to sit by and do nothing in the meantime. We have an important mission we need to continue." He is seeking detailed new comments on "any unexpected challenges that issuers have experienced as they prepare for compliance" with the pay ratio rule, and "whether relief is needed," directed the staff to reconsider the rule's implementation based on comments submitted, and "to determine as promptly as possible whether

additional guidance or relief may be appropriate." Piowar has also called for new comments on the conflict minerals provisions, where change is virtually certain to occur, and a good thing, we say...And, reportedly, he is asking for a new staff review of Reg. NMS (re: "National Market Systems.") Wow! All of these 'reviews' seem to us a lot like "after-school detention" for "bad behavior."

IN THE COURTHOUSE:

The now fully-staffed Supreme Court will decide whether to overturn a 2016 ruling by a federal appeals court in New York that publicly traded companies can be sued by private litigants in class action suits for omitting "known trends and uncertainties" in filings to shareholders. Hearings will begin in the fall and a ruling is expected by mid-summer 2018. While a reversal would likely reduce the number of class action suits, which will be good news for public companies, the SEC will still be able to bring cases against them not just for material misstatements but for material omissions in corporate filings.

WATCHING THE WEB:

The most horrifying web-watching of the year has been the video of a United Airlines passenger being dragged off a flight, kicking and screaming, while other passengers screamed in horror... and instantly posted vivid videos on the web using their cellphones. What an IR and PR disaster for United! Maybe every public company needs to issue reminders to employees about how easy it is to instantly disseminate videos that capture bad corporate conduct these days...and that "Big Brothers" are literally watching and recording...and posting.

QUOTES OF THE QUARTER

"The wealthy are accustomed to feeling that their lot in life is to get the best food, schooling, entertainment, housing, plastic surgery...you name it. Their money, they feel, should buy them something superior compared to what the masses receive.

The financial 'elites' - wealthy individuals, pension funds, college endowments and the like - have great trouble merely signing up for a financial product or service that is available as well to people investing only a few thousand dollars. Can you imagine an investment consultant telling clients, year after year, to keep adding to an index fund replicating the S&P 500? That would be career suicide. Large fees flow to these hyper-helpers if they recommend small managerial shifts every year or so."

Warren Buffett in his 2017 Annual Report to Berkshire Hathaway shareholders