EY Center for Board Matters

What directors should know about the 2025 proxy season

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Governance is a shared investor priority in an increasingly fractured proxy landscape

As companies prepare for the 2025 proxy season, the EY Center for Board Matters has identified key areas of investor focus and shifts in the proxy landscape that could impact proxy voting results and shape engagement this year.

These findings are based on conversations we had with governance specialists from institutional investors representing US$55 trillion in assets under management. Based on our conversations with investor stewardship leaders, here are developments to watch heading into proxy season 2025.

1. In a rapidly changing business context, investors' expectations about company priorities are evolving. While climate and talent remain top focus areas, a growing number of investors want companies to prioritize technology, capital strategy and political risk management.
2. Some investors are increasing their focus on board quality and governance, while artificial intelligence (AI) continues to accelerate as an engagement topic.
3. After multiple years of convergence, the investor community is diverging on sustainability stewardship as asset owners and managers adapt to changes in shareholder activism and growing scrutiny from stakeholders in a shifting US political environment.

Leading boards will use these insights in collaboration with their management teams to prepare for shareholder engagement and strengthen their investor communications in 2025.

METHODOLOGY

We spoke with 47 stewardship leaders from the investor community, including representatives from traditional asset managers (47% of all participants), public funds (23%), socially responsible investment managers (11%), labor funds (7%), faith-based investors (6%) and investor consultants (6%). Participants included mostly US-based investors (91%); the rest were international (including from the UK, Europe and Canada). In aggregate, participants represent US$55 trillion in assets under management. Conversations were held in October, November and December 2024. Views shared have been highly aggregated.

> "A growing number of investors want companies to prioritize technology, capital strategy and political risk management.

1 Investors want companies to adapt to a changing context

More investors want companies to adapt to rapid changes in technology, optimize capital strategy and navigate the new political environment.

While climate change and environmental stewardship as well as talent remain top areas that investors want their portfolio companies to prioritize, this year, our conversations with investors revealed increased momentum around key topics. These growing areas of focus include how companies are responsibly seizing opportunities related to technologies such as artificial intelligence (AI), how they are allocating capital to drive innovation and long-term growth, and how they are navigating the new political environment in the US.

Responsibility and opportunity in technology

Around half of investors told us they want companies to prioritize a focus on innovation and evolving technologies in 2025, a significant increase from 29% last year. Investors' interests include how companies are keeping pace with changing expectations related to customer and employee experience, and the returns they are seeing on AI investments, both in terms of financial gains and workforce implications.

Most investors told us they want to understand how companies manage a variety of AI-related risks, including those related to data privacy, misinformation, customer trust, human rights (e.g., inbuilt biases and discrimination, employee monitoring), energy and water consumption, and compliance. AI, particularly the board's oversight of AI and related director competence, is a rising engagement priority. See "Stewardship shifts toward board quality and AI oversight."

Disciplined and long-term capital strategy

In another notable increase, nearly half (47%) of investors want companies to prioritize capital allocation this year, up from 31% in 2024. Some cited expectations for increased deal-making activity this year and said they want to see discipline in those decisions.

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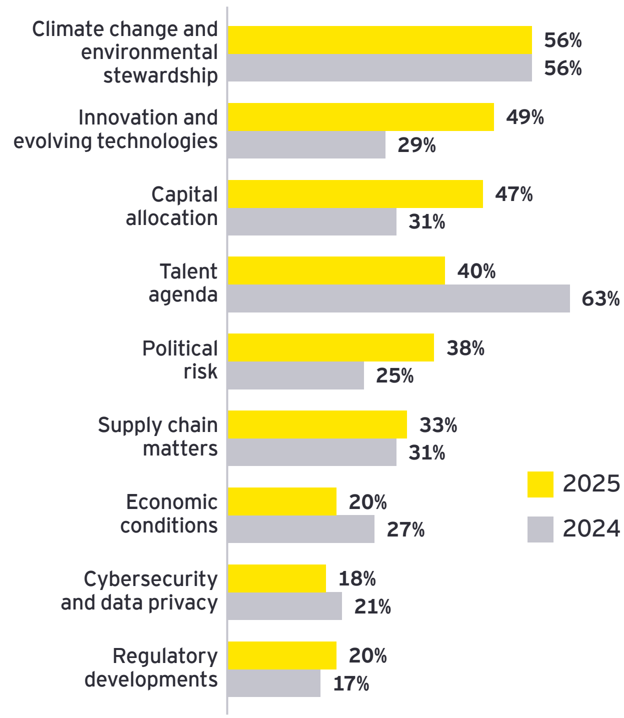
What investors want companies to prioritize in 2025



Source: Analysis by EY Center for Board Matters. Percentages represent the portion of investors who selected the topic as a top three priority.

Many expressed interest in how companies are investing in business model transitions and innovation that will drive long-term growth, including related to disruptive technologies and the energy transition. Some will seek to understand companies' confidence levels around key business targets, and how and when capital will be allocated to reach those milestones.

Investors also want to know the decision rationale for buybacks or dividends and how related opportunity costs were considered. A few noted that, given the wave of hedge fund activism, capital allocation will be under more scrutiny and should be a top focus area for companies.

A new political environment

This year also saw a big jump in the percentage of investors ranking political risk in the top three areas of company focus (38%, up from 25% last year). Investors, in our conversations, touched on a variety of themes, ranging from how companies are building supply chain resilience in the face of volatile geopolitical risks to the consistency of companies' political and lobbying activities with their stated climate goals.

On the topic of diversity, equity and inclusion (DEI) policies and commitments, many investors suggested they are urging companies to stay focused on the business objectives underlying DEI initiatives.

Climate and environmental stewardship and talent strategy

Despite the upcoming changes in the US policy and regulatory environment, investors still consider material risks and opportunities that have an environmental or social dimension as critical to their portfolio companies' long-term performance. How companies are managing risks and opportunities related to climate and natural capital was the most cited area where investors want companies to focus in 2025.

Interestingly, in our survey of directors on what their boards would focus on this year, climate and environmental stewardship ranked at the bottom of board priorities but among the top three areas where boards want to spend more time and have more information and resources.

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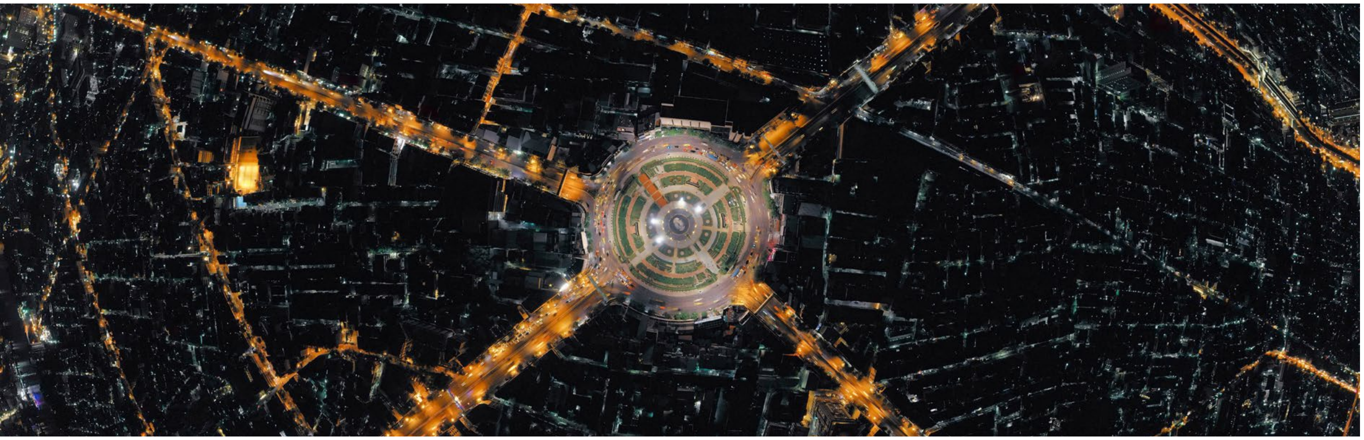

Investors said they want to understand the durability of company business models as natural resource scarcities and the risks from climate change and nature loss intensify. They also want to know how companies are seizing business opportunities related to the energy transition and aligning capital accordingly.

Despite dropping down the agenda since 2024, reflecting other priorities rising, talent is another engagement topic that is still on investors' minds. Investors are interested in how companies are managing and investing in the workforce as a source of innovation and value creation, and what metrics companies are using to measure the success of human capital strategies.

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QUESTIONS FOR THE BOARD TO CONSIDER

- How is the board overseeing the durability of the company's business model over the long term as various megatrends shape the landscape, including rapidly evolving technologies, accelerating climate risk, nature loss and changing workforce dynamics? Do communications to investors demonstrate that the company is intentionally reviewing its business model and challenging its resilience?
- How are the company's capital allocation choices driving long-term strategy and growth? How effectively is the company communicating that alignment, particularly related to targets or goals it has made public? Does the company demonstrate transparency, integrity and conviction across its commitments?
- How is management using scenario planning to develop responses to different potential geopolitical scenarios, as well as considering responses to public pressure from political activists? How effective is the company and board's governance of political risk, and how are material business outcomes guiding related decision-making?

2 Stewardship shifts toward board quality and AI oversight

More investors said they would focus on board quality and effectiveness and the governance of emerging technologies in engagement this year.

While climate-related risks and opportunities and DEI remain top engagement priorities, our conversations with investors show a surge of attention this year on board quality and effectiveness and how boards are governing AI.

A refocus on board quality and effectiveness

Board quality is an evergreen focus area for investors. Still, this year, 40% highlighted board composition and effectiveness as one of their engagement priorities for 2025, which is triple the 13% that cited this topic last year. Some investors characterized this marked shift as a "back to basics" focus on governance. They emphasized that they are seeking to understand that directors are truly independent, informed, engaged, exercising their authority and holding management accountable.

Investors are also focused on the relevance of director skills and experience and generally think disclosures about board composition are not sufficiently company specific. They would like companies to provide a better narrative around how director qualifications align to the strategy. A few investors cited examples of new company disclosure approaches that acknowledge different layers of expertise on the board and indicate the level of expertise or capability each director brings. Investors said those disclosures give them deeper insight and can inform engagement discussions on how the board is intentionally evolving and planning for successions. To that point, some said they are looking more closely at director tenure, particularly in the context of changing technology oversight needs.

AI oversight

AI oversight has rapidly become a key priority for investors in just two years, with 36% citing the topic as an engagement priority in 2025, up from 19% last year. Beyond the 36% who are prioritizing engagement on AI, investors generally expect AI to be a subject

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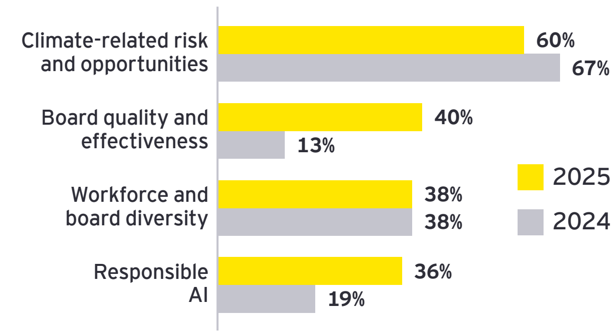
Topics investors will prioritize in their engagements with companies in 2025



Source: Analysis by EY Center for Board Matters. Percentages represent the portion of investors raising the topic as an engagement priority for 2025.

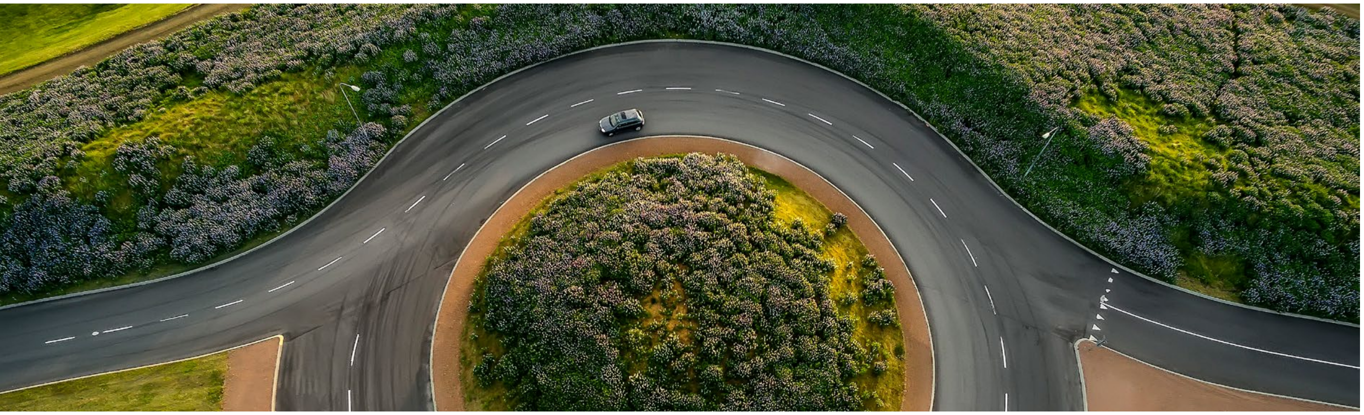
of discussion and are considering related questions for companies. Importantly for board members, AI oversight is the leading topic of interest (69%): Investors want to know how boards are governing AI, including how they are cultivating the acumen needed to effectively oversee management's strategy and inform risk oversight and capital allocation.

Where AI is fundamental to a company's strategy (e.g., AI developers), many investors said they expect to see some level of AI expertise in the boardroom. Otherwise, they are generally more focused on how boards are accessing external expertise and upskilling through ongoing training and education. Based on our [2024 research], over a quarter (26%) of Fortune 100 companies cited AI in at least one director biography or in the boards skills matrix; just 8% disclosed that AI had been a recent subject of board education or training.

Nearly all investors said they are agnostic about where AI oversight resides in a board's committee structure; however, they do want to know how oversight of technology is structured and the board's rationale behind that approach. For boards with technology committees (13% of S&P 500 companies), investors are interested in the related skills of directors serving on that committee, as well as how the board is ensuring engagement by all directors on technology-related matters, to avoid oversight becoming siloed. For boards without technology or risk committees (78% of S&P 500 companies), some investors did raise concerns about the audit committee being overloaded.

Climate risk and opportunities

Climate-related risks and opportunities remain the most cited investor engagement focus in 2025. A key theme this year is that many investors will be asking companies how they will achieve decarbonization goals (including capital allocation alignment) and how they are progressing on interim targets. For companies that change or miss interim targets, investors said they will seek to understand if the strategy has changed or if those commitments were not fully thought through in the C-suite, which would trigger broader governance concerns. They also acknowledged that the path to decarbonization will not be linear and encouraged companies to communicate the challenges they are facing.



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Workforce and board diversity

Workforce and board diversity also remain a top focus, with 38% of investors telling us they will prioritize engagement with companies on those topics in 2025, similar to last year. We asked investors if their expectations have changed regarding corporate DEI programs, and nearly all (93%) said they have not.

While a few said their expectations were minimal to begin with, most shared the view that attracting and retaining a diverse workforce is essential to being an employer of choice, securing top talent and avoiding the costs of unwanted turnover. Investors also acknowledged that companies may seek to reframe their disclosures to avoid language that has become politically polarized. Investors indicated they are encouraging companies to navigate this complex terrain with a clear focus on value creation and to disclose information about the workforce, including diversity data, that demonstrates their credibility and allows investors to assess the effectiveness of their talent management.

Additionally, a few investors suggested that the recent strike-down by the 5th U.S. Circuit Court of Appeals of Nasdaq's board diversity disclosure requirement may increase investor engagement efforts around board diversity. Notably, among the top 15 asset managers[1] with proxy voting guidelines available as of January 13, 2025, all consider board diversity in their election of directors.

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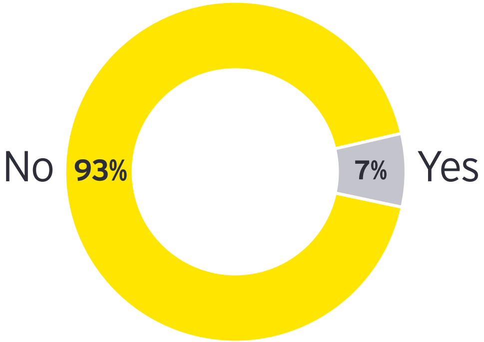
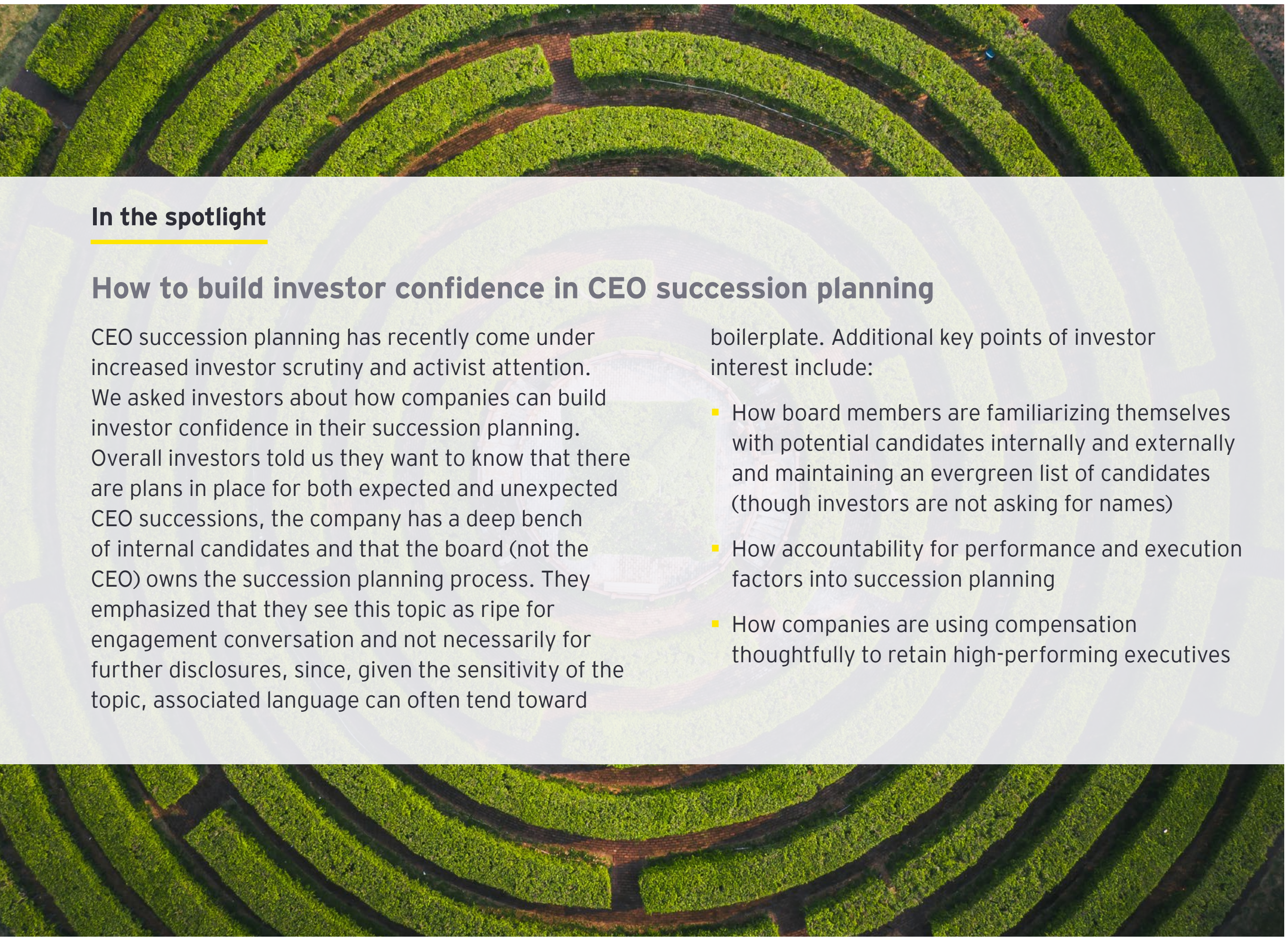
Have your expectations changed regarding company DEI efforts?



Source: Analysis by EY Center for Board Matters.

[1] Based on ADV Ratings' list of the largest asset managers in the US ranked by AUM. Proxy voting guidelines were available for 11 of the 15 top asset managers; in all but one case those guidelines were for 2024.



In the spotlight

How to build investor confidence in CEO succession planning

CEO succession planning has recently come under increased investor scrutiny and activist attention. We asked investors about how companies can build investor confidence in their succession planning. Overall investors told us they want to know that there are plans in place for both expected and unexpected CEO successions, the company has a deep bench of internal candidates and that the board (not the CEO) owns the succession planning process. They emphasized that they see this topic as ripe for engagement conversation and not necessarily for further disclosures, since, given the sensitivity of the topic, associated language can often tend toward boilerplate. Additional key points of investor interest include:

- How board members are familiarizing themselves with potential candidates internally and externally and maintaining an evergreen list of candidates (though investors are not asking for names)
- How accountability for performance and execution factors into succession planning
- How companies are using compensation thoughtfully to retain high-performing executives

QUESTIONS FOR THE BOARD TO CONSIDER

- How is the board staying fit for purpose and how do shareholder communications demonstrate the alignment between the board's portfolio of skills and the company's strategy? Are there opportunities for management to enhance disclosures related to director qualifications, ongoing education for directors, and board succession planning to provide deeper insight into how the board is staying relevant and proactively planning to address emerging gaps?
- Regarding AI, how is the board equipping itself to oversee a space where most directors do not have relevant experience? How effectively is the company communicating the board's ongoing training and education around AI and emerging technologies, including how it is accessing external specialists? Do disclosures make clear where oversight of AI resides in the board's committee structure?
- How is the company changing its disclosures or commitments related to environmental and social matters? Is management having candid, robust conversations with shareholders to provide clarity and demonstrate credibility around related efforts that drive financial value and advance the long-term strategy?

3 Investors are diverging as the activism landscape evolves

Shareholder activism tactics are shifting and divisions among investors are emerging relative to sustainability and stewardship.

Investors are united in their continued focus on financially material environmental and social matters. Nearly all (95%) affirmed their continued attention in 2025 to how companies manage financially material sustainability-related risks and opportunities (which some rephrased simply as business risks and opportunities).

However, divisions are emerging relative to how different investors approach stewardship related to sustainability and, in some cases, how they define materiality. At the same time, activism tactics are changing in ways that put more focus on director accountability.

Shareholder proposal landscape reflects diverging investor views

A number of asset managers have publicly commented on their views that the quality or supportability of environmental- and social-focused shareholder proposals has declined over the past three years, characterizing many proposals as being overly prescriptive, redundant, immaterial or negatively aligned to economic outcomes for investors. We asked investors about their views on the perspective that the quality of shareholder proposals has declined, and most (64%) agreed with this premise and echoed these criticisms.

Some of these investors (largely asset managers) voiced strong opposition to proposals that push for strategic or operational changes. They emphasized that it is not their job as investors to tell companies how to run the business and characterized some of the proposals as values-driven (vs. financial value-driven) and thus without a clear relationship to shareholders' fiduciary responsibility.

A few suggested that the SEC Rule 14a-8 (shareholder proposal) process is resulting in a significant waste of resources and urged proponents of shareholder

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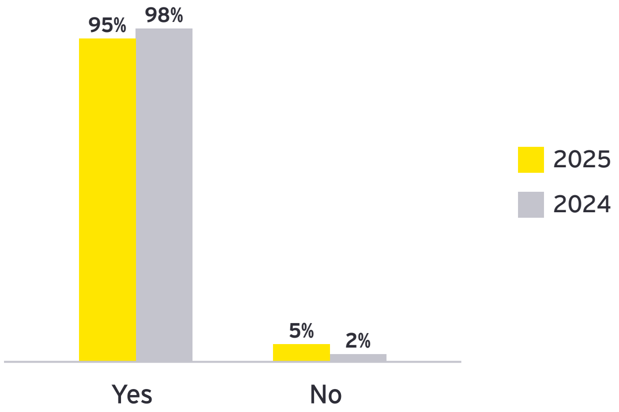
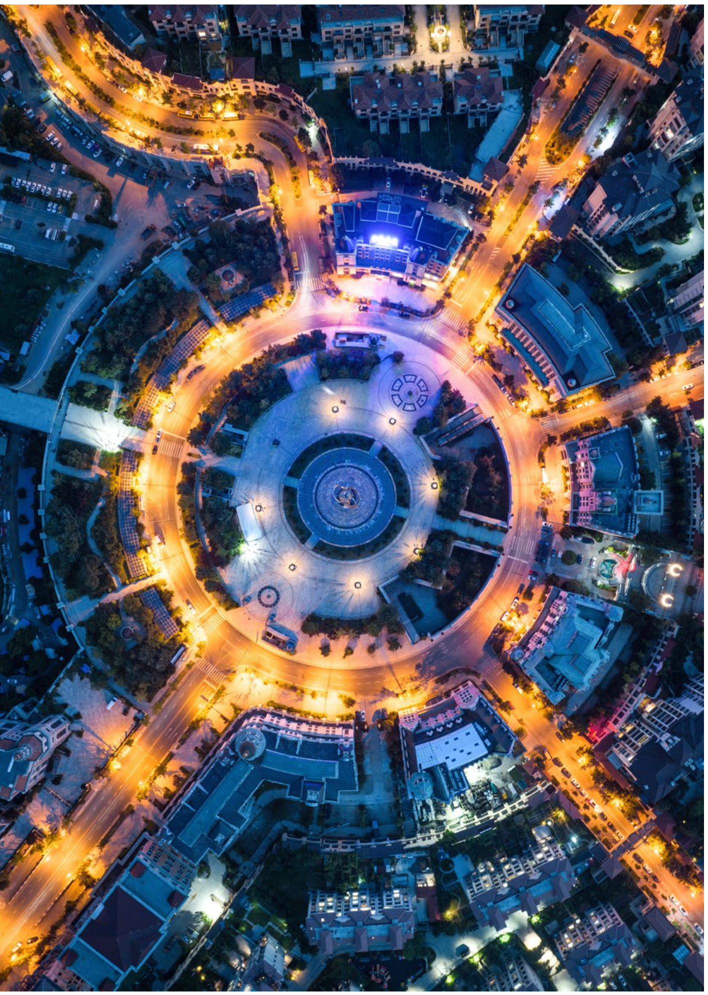
Will your stewardship next year focus as much or more on material environmental and social matters as last year?



Source: Analysis by EY Center for Board Matters.



proposals to be more disciplined about how proposals link to the financial performance of the company or risk the process becoming discredited.

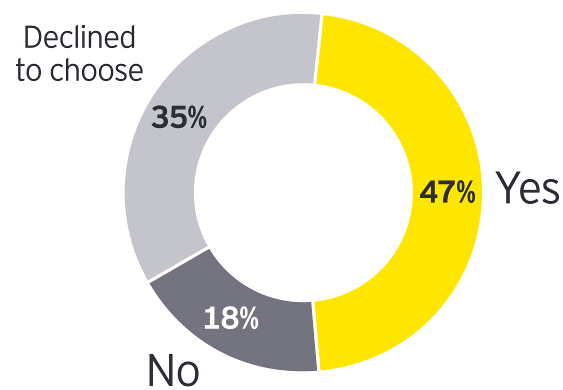
On the other hand, 36% of investors (largely public and labor funds, socially responsible investment managers or European-based asset managers) disagreed with the premise that proposal quality has declined and alleged that the drop in support is the result of asset managers backing off because of the ESG backlash in the US. These investors said that proposals have become more specific and action-oriented, which they see as an improvement, and expressed frustration that asset managers seem unwilling to support proposals that go beyond disclosure.

They said they consider it appropriate for shareholders to use the proposal process to challenge whether a company's ambition is adequate and test those ideas in the marketplace. A few suggested that certain proposals lacked support because they focused more on systemic impact than specific company risks and noted the difficulties of addressing portfolio risk through proxy voting.

Shareholder activism tools may be changing

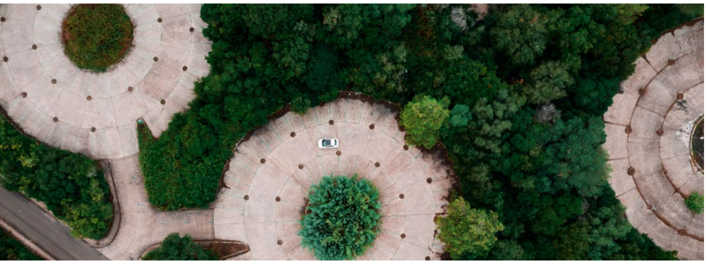
In the wake of declining support for sustainability-related shareholder proposals, some investors indicated that they are considering alternative tools, particularly vote-no campaigns against director re-elections. Notably, nearly half (47%) of investors agreed that vote-no campaigns or the nomination

Do you believe vote-no campaigns or the nomination of directors could become preferred approaches to affect change at portfolio companies?



- **Yes** – either considering pursuing those types of approaches or more likely to support those approaches than shareholder proposals
- **No** – shareholder proposals are still preferred
- **Declined to choose** – generally do not view this as an "either or"

Source: Analysis by EY Center for Board Matters.



of directors could become preferred approaches to force change, and said they were either considering pursuing those types of approaches or were more likely to support them than shareholder proposals. Some explained that as corporate sustainability reporting has become more mature in recent years, investors are shifting their conversations in order to form a better point of view about director efficacy.

However, many asset managers stressed that the bar for voting against a director in these cases would be high, and they would need to have conviction that there has been a true material misstep in oversight. Some said they would oppose campaigns presented as governance issues that they believe disguise an underlying agenda.

Another tactic some investors are exploring is the use of Rule 14a-4 (related to proxy requirements) to put forward shareholder proposals without the limitations of Rule 14a-8 and solicit their own proxies.[2] However, those investors acknowledged that the cost and complexity of this tactic may be prohibitive for many investors.

As investors' perspectives continue to diverge on sustainability stewardship, the 2025 proxy season landscape has the potential to become more contentious. Investors who submit shareholder proposals assured us that if Rule 14a-8 is abridged or eliminated, activism will not go away but will take new, creative directions.

Companies can best position themselves for support by demonstrating effectiveness across the areas where investors are aligned. That should include reinforcing the financial business case driving the firm's sustainability goals, highlighting the effectiveness of governance structures and practices, and sharing the qualifications and experience of board members – all in service of advancing shareholders' long-term financial interests.

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QUESTIONS FOR THE BOARD TO CONSIDER

- How do the company's shareholder communications tie sustainability goals and initiatives to financial outcomes for the business, and encourage investors to support the company and the board amid increased stakeholder scrutiny?
- Where is the company most vulnerable to shareholder activist attacks related to board composition, shareholder rights and fundamental governance practices? Are there opportunities to mitigate those vulnerabilities through proactive changes or enhanced disclosures?
- How is the company's investor engagement program helping to identify and address investor concerns and demonstrate that the company values the views of shareholders?

[2] To learn more about how this tactic was used in 2024 see "Shareholder Proposal Developments During the 2024 Proxy Season," Gibson Dunn, July 2024.

Going forward: Governance will be a unifying force for investors in a changing political landscape

Heading into 2025, investors anticipate that significant shifts in the regulatory and policy agenda will impact the proxy landscape. Such shifts could potentially heighten scrutiny around some investors' role in the market and exacerbate growing divisions among investors related to sustainability and stewardship.

In this increasingly divisive landscape, governance is one area where investors remain united. Leading companies will prepare for increased scrutiny on the quality and effectiveness of the board in relation to strategy, more focus on fundamental shareholder rights, higher expectations for capital strategy, and the need for sustainability efforts to tie directly to business objectives. In this environment, direct engagement remains an essential tool for understanding shareholders' perspectives and continues to be an important channel for communicating the effectiveness of the company's strategy, governance and leadership.

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