Corporate Governance Outlook 2020

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DFIN

Hogan Lovells

EQUILAR

CONTENTS

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Executive Summary

The corporate governance landscape continues to evolve and become much more complex each year, with 2019 being no different. A host of factors have led to this evolution, including impacts from SEC regulation, pressure from key stakeholders and the necessity to keep pace with trends and innovations that may impact corporate performance. As a result, the dynamic in which companies engage with shareholders has indeed shifted, and will most certainly continue to do so in the coming year. 2020 is shaping up to be an eventful year in the governance world.

As the calendar year comes to a close, many public companies are preparing for proxy season and determining which areas of governance to focus on within their disclosures. Of course, also at the top of the radar for companies are upcoming engagements with shareholders on topics related to executive compensation and corporate governance policies. With this in mind, *Corporate Governance Outlook 2020* analyzes trends around the most pressing governance topics, including shareholder proposals, board composition, environmental, social and governance (ESG) issues, and much more.

Shareholder Proposals on the Decline

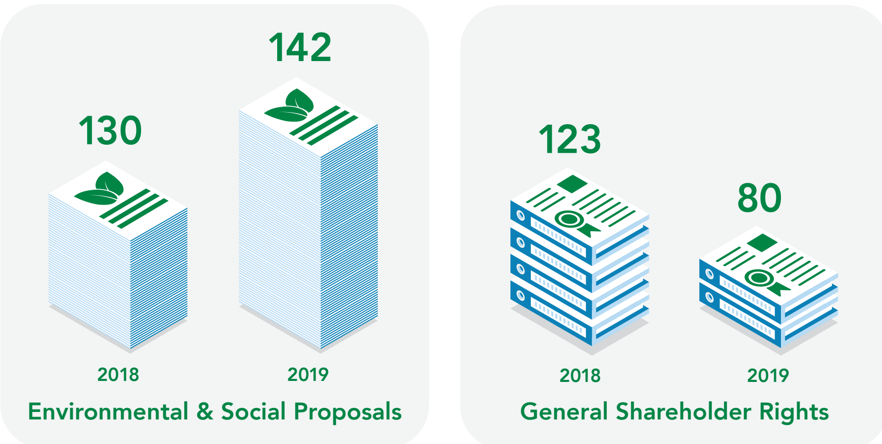
Overall, public companies are using their proxy statements more and more each year to engage directly with shareholders, and provide them with the precise information they are looking for to help guide voting decisions. The number of companies in the Equilar 100 that disclosed some form of shareholder engagement in their annual proxy increased in each of the five years examined in this report. On the other side, over the past five years, the number of shareholder proposals has decreased from 392 in 2015 to 319 in 2019. Compensation-related proposals saw a 57.1% decline in prevalence from 2015 to 2019, whereas social and environmental proposals saw a 10.1% decline. Looking at the relative makeup of a particular proposal type to the total number submitted, social and environmental proposals have actually gained traction. They made up 40.3% of proposals in 2015, versus 44.5% in 2019. So, while overall proposal numbers continue to fall, social and environmental issues makes up a greater portion of the remaining proposals.

With the decline in compensation-related proposals, issues surrounding Say on Pay might not be quite as contentious as in previous years. 2019 represents the first year where more Equilar 500 companies received 90-95% approval than they did greater than 95% approval. Say on Pay failure, on the other hand, dropped in prevalence from 2018 to 2019. Only 2.8% of companies received less than 50% support in 2018, and that figure fell to 1.7% in 2019. Shareholders are definitely becoming more critical of

(continued on next page)

compensation packages. However, this trend has resulted in Say on Pay failure in only the most extreme of cases.

Social and Environmental Proposals on the Rise



Assessing Performance at the Top

Over the last five years, board evaluation disclosures saw a significant rise, jumping from 28.6% to 67.0% of Equilar 100 companies from 2015 to 2019. These types of disclosures allow companies to outline their process for evaluating board performance, and give shareholders insight into potential changes to board composition in the coming year. Shareholders are very much focused on board succession planning, as directors continue to age and get closer to the mandatory retirement age set out in a company's board governance policies. The most popular mandatory retirement ages across the Equilar 500 are by far 72 and 75 years old, representing 42.3% and 40.5%, respectively. These policies are being strictly enforced, and companies are making greater efforts every year to disclose their board evaluation policies as a snapshot of how future directors will be evaluated.

Additionally, the number of companies with CEO succession plans disclosed in their proxy has grown in five years, from 23.5% of Equilar 100 companies in 2015 to 35.7% in 2019. Succession planning has become a more prominent and key responsibility for boards over the years, especially in the wake of the turbulent and highly visible ousting of prominent CEOs over the course of the #MeToo movement. While a board has been traditionally focused on attracting and retaining the best talent it can get for the top executive position, shareholders are now asking boards to plan further into the future, and to have contingency plans to ensure a steady CEO succession. This trend, along with the growing prevalence of ESG awareness, suggests that boards are more beholden to shareholders than ever before to make socially responsible and ethical decisions regarding their corporate governance practices. With transparency being the name of the game, boards can use the annual proxy to stay ahead of shareholder concerns, and to ensure that they have broad support for the proposals that they submit to shareholders for approval.

Equilar Webinar

Corporate Governance Outlook 2020

Please join Equilar, DFIN and Hogan Lovells for a webinar on January 14, 2020 that will discuss upcoming trends for the 2020 proxy season and beyond. The expert panel will discuss shareholder voting trends on a variety of emerging issues and how boards are responding.

www.equilar.com/webinars

Methodology

Corporate Governance Outlook 2020, an Equilar publication, analyzes the proxy statements and shareholder voting results for **Equilar 500** companies from 2015 to 2019. The Equilar 500 tracks the 500 largest, by reported revenue, U.S.-headquartered companies trading on one of the major U.S. stock exchanges (NYSE, Nasdaq or NYSE MKT). The Equilar 100, a subset of the largest revenue reporting companies in the Equilar 500, was manually reviewed for specific examples of disclosure in targeted areas. Year one (2019) was defined as companies with a fiscal year ending from June 1, 2018 to May 31, 2019, and previous years were defined similarly. Disclosure examples were provided by DFIN and Equilar to highlight exemplary proxy communications and shareholder outreach.

The narrative portion of this report identifies trends in compensation and corporate governance disclosure practices at the Equilar 500 companies. DFIN and Hogan Lovells have provided independent commentary for context and color on companies' approach to governance issues and shareholder engagement.

Key Findings

1. The total number of shareholder proposals at Equilar 500 companies fell by 18.6% over the five-year period. Compensation-related proposals saw the greatest change, decreasing in prevalence by 57.1% since 2015.

2. 86.0% of Equilar 100 proxies mentioned or disclosed their shareholder engagement policies in 2019, an increase from 69.4% in 2015.

3. 513 Equilar 500 directors are nearing retirement age, as of 2019. Meanwhile, 93.7% of all mandatory retirement ages were between 72 and 75.

4. Since 2015, the number of Equilar 100 companies that disclosed their policies on ESG matters has increased significantly each year, reaching 31.0% in 2019.

Beyond the Numbers

A Q&A With DFIN and Hogan Lovells

To provide additional perspective on the trends uncovered in *Corporate Governance Outlook 2020*, Equilar spoke with contributors at DFIN and Hogan Lovells to discuss the most pressing governance issues of heading into 2020. Below is a snapshot of the conversation. Commentary from both DFIN and Hogan Lovells can be found throughout this report.

Equilar: Given that 2020 marks the beginning of a new decade, what area(s) of governance do you believe will take the spotlight and define the decade? How should companies prepare to address these topics?

Ron Schneider, DFIN: Corporate governance traditionally is viewed as the interaction or "checks and balances" between three audiences:

1. Investors/shareholders (owners)

2. Directors (the owners' elected representatives)

3. Company executive management (the directors' appointed managers/operators)

If company strategy, execution or performance are found lacking despite continuing board input and support, boards can intervene, including bringing in new management. If board action is found lacking, shareholders (including activist investors) may intervene at the board level.

Each element of this triumvirate has at times been advocated for primacy. *Now, a fourth constituency, broadly termed "stakeholders," is increasingly gaining mainstream consideration:*

- On the investor side, Blackrock CEO Laurence Fink, in his most recent annual letter to company CEO's stated, "Companies that fulfill their purpose and responsibilities to stakeholders reap rewards over the long-term."
- On the corporate side, The Business Roundtable, which traditionally endorsed principles of shareholder primacy, earlier this year issued a new Statement on the Purpose of a Corporation, indicating that companies should operate for the benefit of all stakeholders—customers, employees, suppliers, communities and shareholders. Factors behind this shift include:

1. Continuing impact on companies from climate change

2. Increasing ownership and thus clout of long-term, indexed, "permanent" investors

3. Investor interest in how sustainable and "long term" their portfolio companies will be

Alan Dye, Hogan Lovells: An overriding governance issue facing public companies, which may well define the decade, is the extent to which the traditional view that a corporation's purpose is to generate financial returns for its shareholders should be refined to focus the corporation's purpose on a broader class of stakeholders, including employees and the people and communities affected by the company's operations. At this point, discussion of the issue is somewhat academic, but it has entered the mainstream due largely to public statements by prominent representatives of both shareholders and public companies, notably BlackRock CEO Laurence Fink and the Business Roundtable. If the issue gains traction with public company boards, which remains to be seen, a less shareholder-centric statement of a company's purpose could provide an analytical framework supporting a number of environmental, social and governance initiatives that some might not consider, under current thinking, to be in the "best interest of shareholders."

Most companies already assess and address the environmental and social issues that dominate the governance landscape today, to the extent that those issues may affect their operations or profitability.

Companies are keenly focused, for example, on the extent to which they contribute to or may be affected by climate change, and companies' actions to address these issues, while undertaken with an eye on long-term value creation, are largely aligned with the objectives of groups concerned about those issues on a broader scale. Boards are also focused on gender and ethnic diversity, at all levels of the company, based on their belief that achieving greater diversity will lead to better decision-making, a better workforce and better operating results. On these and many other issues, therefore, a refined or expanded view of the corporation's purpose might not have much practical effect. On the other hand, boards often tend to more deliberative and patient in implementing policy goals than some advocacy groups would like, and therefore evolving views on the prioritizing of a company's constituencies could have an effect on board processes and board outcomes.

Regardless of the governance framework, so long as political divisions make government solutions difficult to achieve, companies are increasingly likely to be called upon to address social and political issues that motivate their workforce, their customers and their shareholders. Today that often means being particularly attentive to environmental issues, sustainability, human rights, pay parity, income inequality and other social issues. Companies should discuss and explore these issues with their significant shareholders as part of their shareholder engagement program. Regular and meaningful engagement with significant shareholders can help identify important issues and inform the company's approach to those issues, at least from the point of view of shareholders.

Equilar: What are the biggest risks, both expected and unexpected, facing executives and boards from a governance perspective going into 2020? How could companies mitigate those risks and effectively engage with shareholders?

Lillian Tsu, Hogan Lovells: The current business environment going into 2020 is characterized by growing complexity and uncertainty, putting board leadership under pressure to strive for a culture of constant improvement and risk mitigation. Activist investors, as well as institutional investors, are scrutinizing public company boards now more than ever.

Going into 2020, boards will need to achieve balance among the competing interests of its multiple stakeholders in a changing world. Board members are expected to be more engaged and spend more time dedicated to their duties than ever before. In addition to oversight of business and operations-related risks, board members and management may be expected to consider environmental and social risks depending on the company's business model, industry sector and other company-specific factors.

Investors are also increasingly concerned about corporate culture and holding boards accountable for addressing cultural problem areas including the lack of workplace diversity. Spending the time on the right issues and having strong disclosure controls and governance processes in place are going to be key to mitigating risks and telling an effective story to shareholders.

Equilar: What key issues do you expect companies to focus on in 2020 as they consider proxy disclosures around critical governance topics? Is there a particular issue that may arise in 2020 that may not be on the radar?

Ron Schneider, DFIN: The evolution in proxy disclosures continues to be primarily driven not by regulatory requirements, but by expanding areas of investor interest, often revealed to companies through direct engagement with their top investors. For the upcoming year, the top areas of investor interest—for which they expect companies to use the proxy as a foundational engagement and disclosure platform include:

- Company strategy (including any recent strategic shifts) and performance against that strategy
- Board diversity (whether, gender, age, tenure, geographic/ethnic/racial background, skills and qualifications) and the board processes in place that will continue to influence or drive further diversity in line with the company's evolving strategic needs

- Executive pay and alignment with performance, particularly its alignment with the previously disclosed business strategy.
- ESG/CSR/Human Capital Management (HCM) issues—including potential impacts from climate change. How might these impact the company and its long-term sustainability? What are the related risks and opportunities? Discuss board level oversight of these risks and opportunities, and provide regular reporting with material, decision-useful information on company progress on its "sustainability journey."

Equilar: What areas of the proxy should companies plan to place the greatest focus? What are some best practices for the most effective navigational elements?

Ron Schneider, DFIN: Content-wise investors want companies to discuss strategy and performance, board diversity, executive compensation and its alignment with strategy, and its identified ESG-related risks and opportunities.

At that point, and depending upon industry and company culture, companies can infuse their branding into the proxy, including their products or services, and the customers or markets they serve.

Many companies use the proxy as an opportunity to humanize board and executive leadership, through contextual cover letters from management, the board or both often including profile photos, and interactive online proxies often including videos about the company, the CEO or the board.

Proxy summaries and CD&A executive summaries can help tell the major stories concisely. Graphs, call-outs, checklists, timelines and other visual elements can help make key points digestible and impactful.

Many investors report using the proxy as a "reference," rather than a "reading" document, making efficient navigation to a diverse range of topics a critical factor. Useful navigational features include logical flow of topics, consistent hierarchy of headings, detailed Tables of Contents (TOC), supplemental CD&A TOC's or "roadmaps," page headers and footers including "tab navigation systems," and interactive online proxies.

Equilar: The last decade has seen a rise in investor activism. How has investor activism evolved and how should boards react if an activist shows up at the door?

John Beckman, Hogan Lovells: In general, activist investors have become much more sophisticated in articulating their demands over the last decade, and as a result have they have become experts in convincing the traditional long-term shareholders that change at the board level is needed. This has caused many boards to critically assess their companies' performance and try to anticipate any perceived vulnerabilities. Boards should not wait until an activist shows up to prepare. The best boards regularly review and enhance their board composition and governance practices in consultation with their shareholders. These boards are the best positioned to have a constructive dialogue with an activist when they do show up.

About the Contributors

Donnelley Financial Solutions (DFIN) is a leading global risk and compliance solutions company. We provide domain expertise, enterprise software and data analytics for every stage of our clients' business and investment lifecycles. Markets fluctuate, regulations evolve, technology advances, and through it all, DFIN delivers confidence with the right solutions in moments that matter. Learn about DFIN's end-to-end risk and compliance solutions online at DFINsolutions.com or you can also follow us on Twitter @DFINSolutions or on LinkedIn.

Download the 2019 "Guide to Effective Proxies" from DFIN.
Visit https://www.dfinsolutions.com/insights/e-book/dfin-s-guide-effective-proxies-0 for more information.

Contributor | DFIN

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Ron joined DFIN as Director of Corporate Governance Services in April, 2013. He is responsible for providing thought leadership on emerging corporate governance, proxy and disclosure issues.

Over the past four decades, Ron has advised senior management, the C-suite and boards of public companies of all sizes, industries and stages of growth facing investor activism, as well as challenging and sensitive proxy solicitations involving corporate governance, compensation and control issues.

His primary recent focus has been helping companies conduct engagement programs with their top institutional investors with the objective of identifying and addressing investor concerns through best practices in proxy disclosure.

At DFIN, Ron works closely with clients and our firm's sales and service teams to identify and implement appropriate changes to proxy statement design, content and navigation that fit each client's unique corporate culture and proxy-related objectives.

During his career he has managed more than 1,600 proxy solicitations, 200 tender or exchange offers and 30 proxy contests, with his proxy fight clients succeeding in over 70% of such situations.

Ron earned a B.A. in Economics from Princeton University.

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We provide strategic guidance and pragmatic advice to general counsels, public company boards of directors, special committees, management, and significant shareholders. We guide our clients on all aspects of securities and corporate governance matters, stock exchange listing standards, executive compensation arrangements, and shareholder engagement and activist issues.

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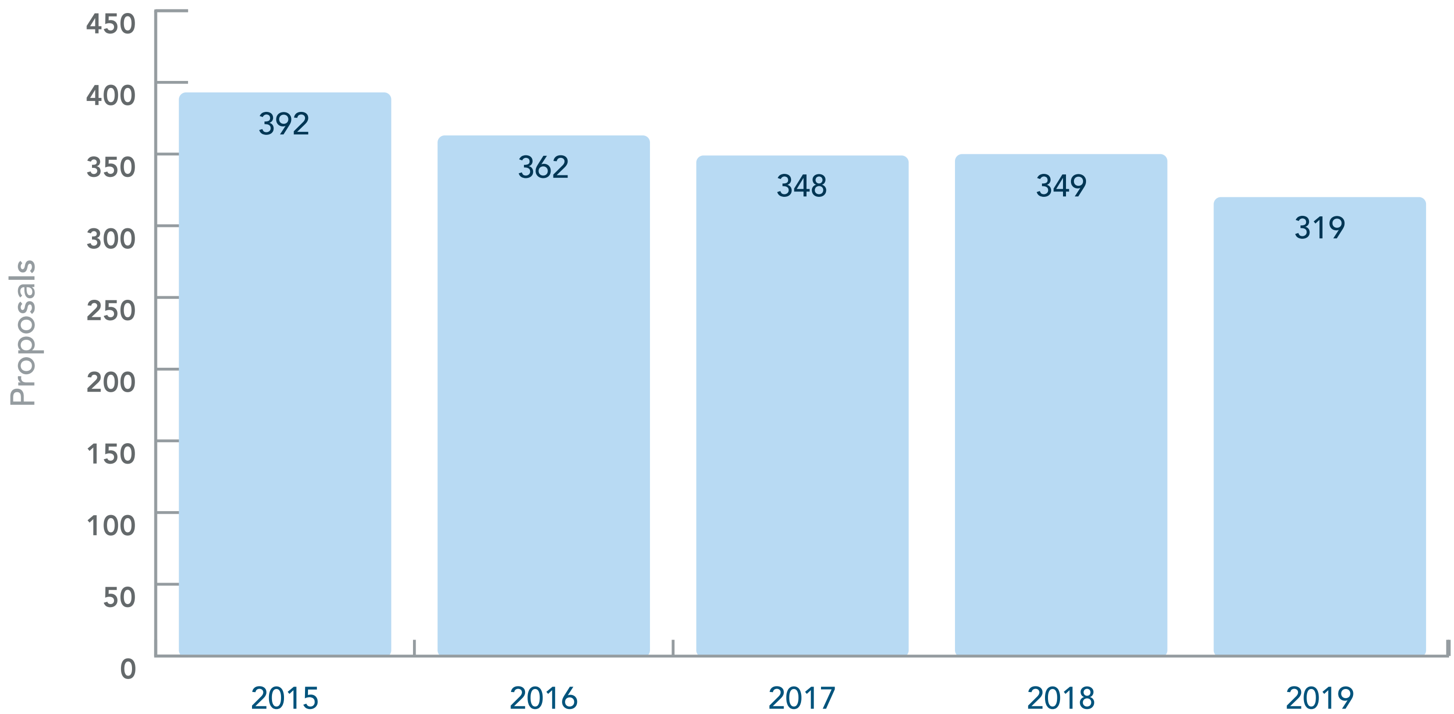
Data Points and Figures

Corporate Governance Outlook 2020

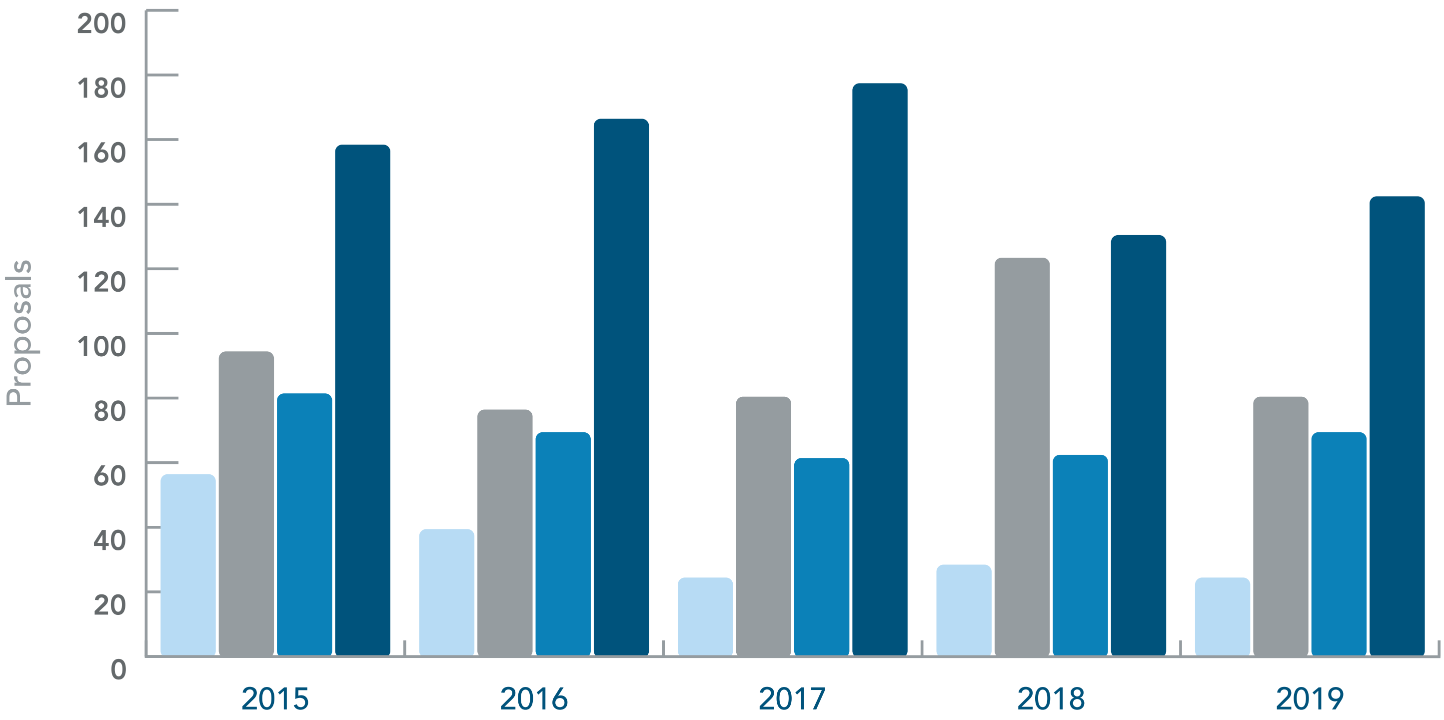
Figure 1 Shareholder Proposals, Equilar 500



Data Points

- The number of shareholder proposals peaked in 2015 at 392 *(Fig. 1)*
- From 2015 to 2019, the number of shareholder proposals fell by 18.6% *(Fig. 1)*

Figure 2 Shareholder Proposals by Type, Equilar 500



	2015	2016	2017	2018	2019
COMP	56	39	24	28	24
GEN SH	94	76	80	123	80
BD MGMT	81	69	61	62	69
SOC & EI	158	166	177	130	142

Data Points

- General shareholder rights proposals saw a sharp decline in prevalence between 2018 and 2019, dropping by nearly 35% *(Fig. 2)*
- After declining by 26.6% between 2017 and 2018, social and environmental proposals saw a 9.2% increase in 2019 *(Fig. 2)*

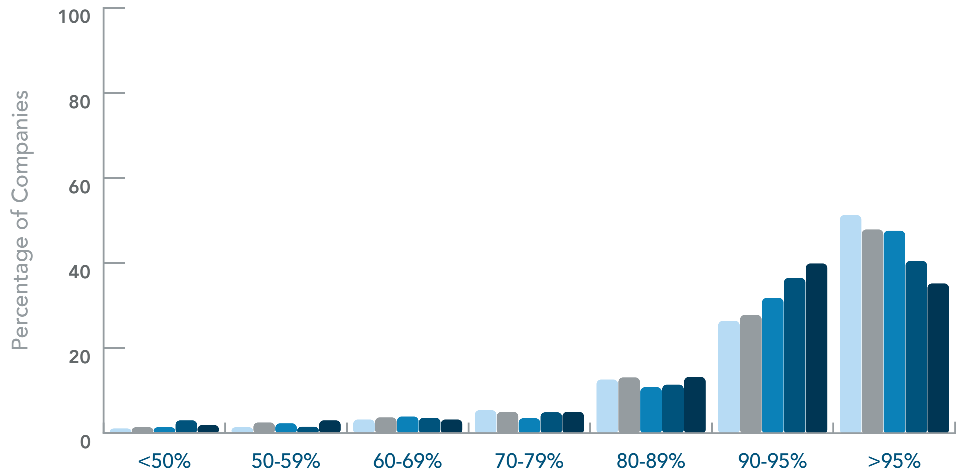
Abbreviation Key:

COMP = Compensation
GEN SH = General Shareholder Rights
BD MGMT = Board Management
SOC & EI = Social and Environmental Issues

Data Points

- The percentage of companies receiving at least 95% approval for Say on Pay has decreased steadily since 2015, dropping to 35.0% in 2019 *(Fig. 3)*
- In 2019, 1.7% of companies received less than 50% approval for Say on Pay—a 39.3% decrease from 2018 *(Fig. 3)*
- After experiencing a slow rise from 2015 to 2017, the number of Equilar 500 companies that failed Say on Pay more than doubled in 2018 at 13 *(Fig. 4)*
- In 2019, eight Equilar 500 companies failed Say on Pay *(Fig. 4)*

Figure 3 Say on Pay Voting Trends, Equilar 500



	<50%	50-59%	60-69%	70-79%	80-89%	90-95%	>95%
2015	0.9%	1.2%	3.0%	5.2%	12.4%	26.2%	51.1%
2016	1.2%	2.3%	3.5%	4.8%	12.9%	27.6%	47.7%
2017	1.2%	2.1%	3.7%	3.3%	10.6%	31.6%	47.4%
2018	2.8%	1.3%	3.4%	4.7%	11.2%	36.3%	40.3%
2019	1.7%	2.8%	3.0%	4.8%	13.0%	39.7%	35.0%

Figure 4 Say on Pay Failures, Equilar 500

Year	Say On Pay Failures
2015	4
2016	5
2017	6
2018	13
2019	8

Disclosure Example 1 Say on Pay

Anadarko Petroleum Corporation (APC)
DEF 14A (p.10)
Filed 3/29/2019

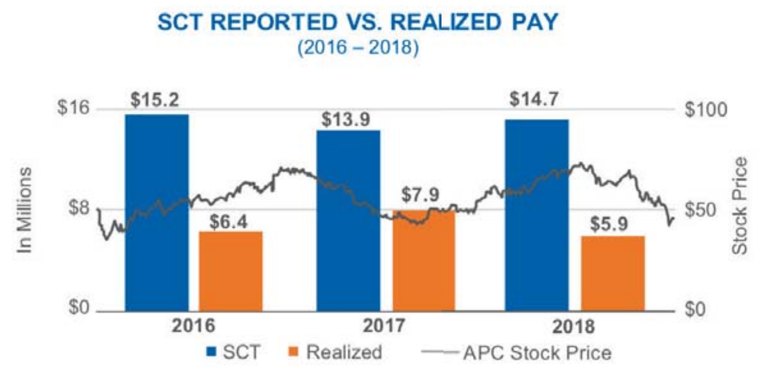
As Say on Pay continues to be a pressing topic of discussion, companies seek to showcase their pay for performance alignment clearly and effectively. In this example, Anadarko displays its CEO realized pay in relation to company performance. Readers can easily see that Anadarko strives to keep its CEO realized pay in line with the performance of its stock.

Proxy Summary

CEO Realized Pay Demonstrates Alignment with Company Performance. Consistent with our pay-for-performance philosophy, 91% of the CEO's total direct compensation is at-risk. Accordingly, the value that is intended to be received by the CEO is aligned with the Company's actual operational and financial performance, including its stock-price performance. As demonstrated below, the value actually received by the CEO can differ substantially from grant date values, which are calculated and reported in the Summary Compensation Table (SCT) and related proxy tables as required by the SEC.

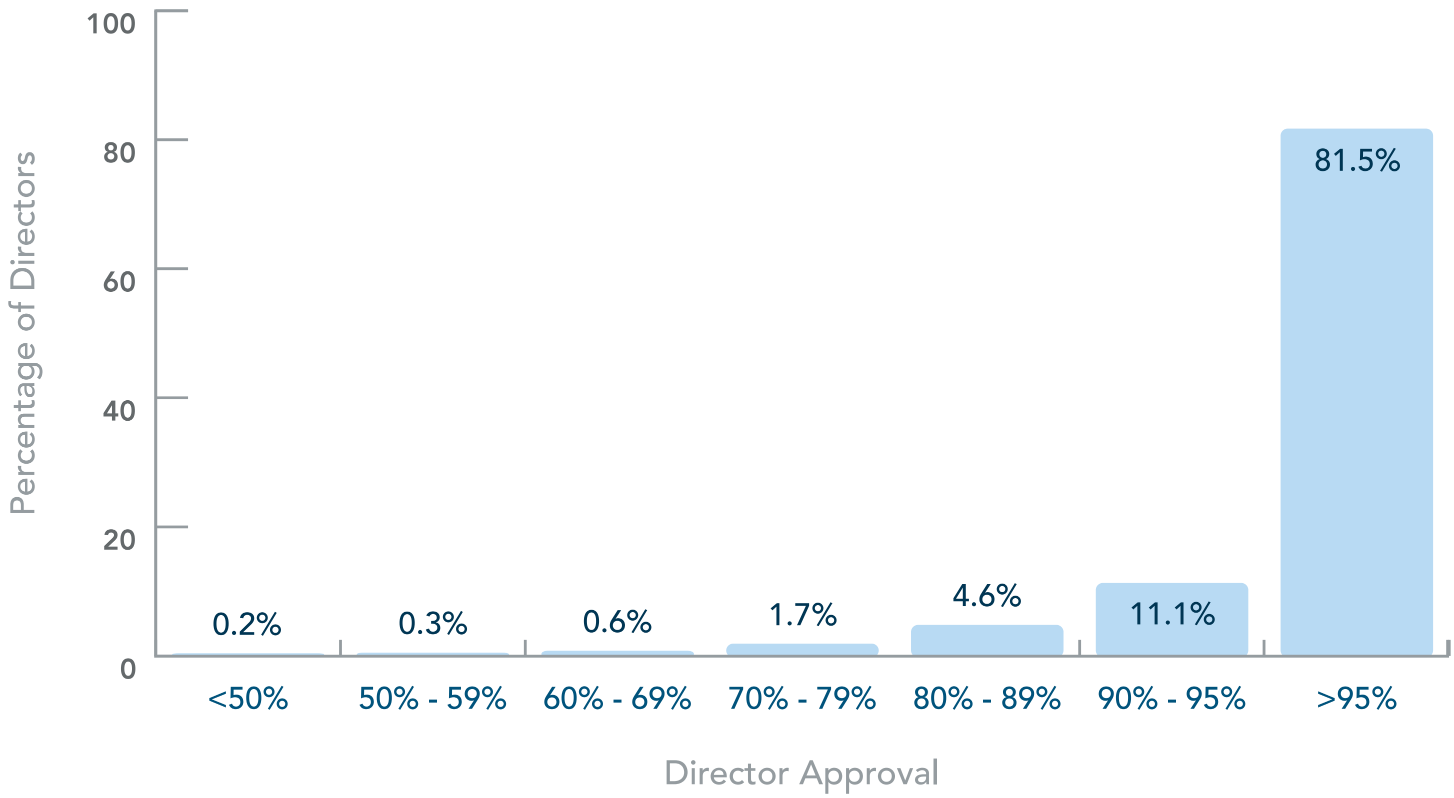
Cumulative realized pay for the CEO over the last three years was less than one-half of the aggregate target value, demonstrating the efficacy of our plan's pay-for-performance construction.

CEO Realized Pay Aligned with Company Performance



The value actually received by the CEO can differ substantially from the grant date compensation reported in the SCT and related proxy tables.

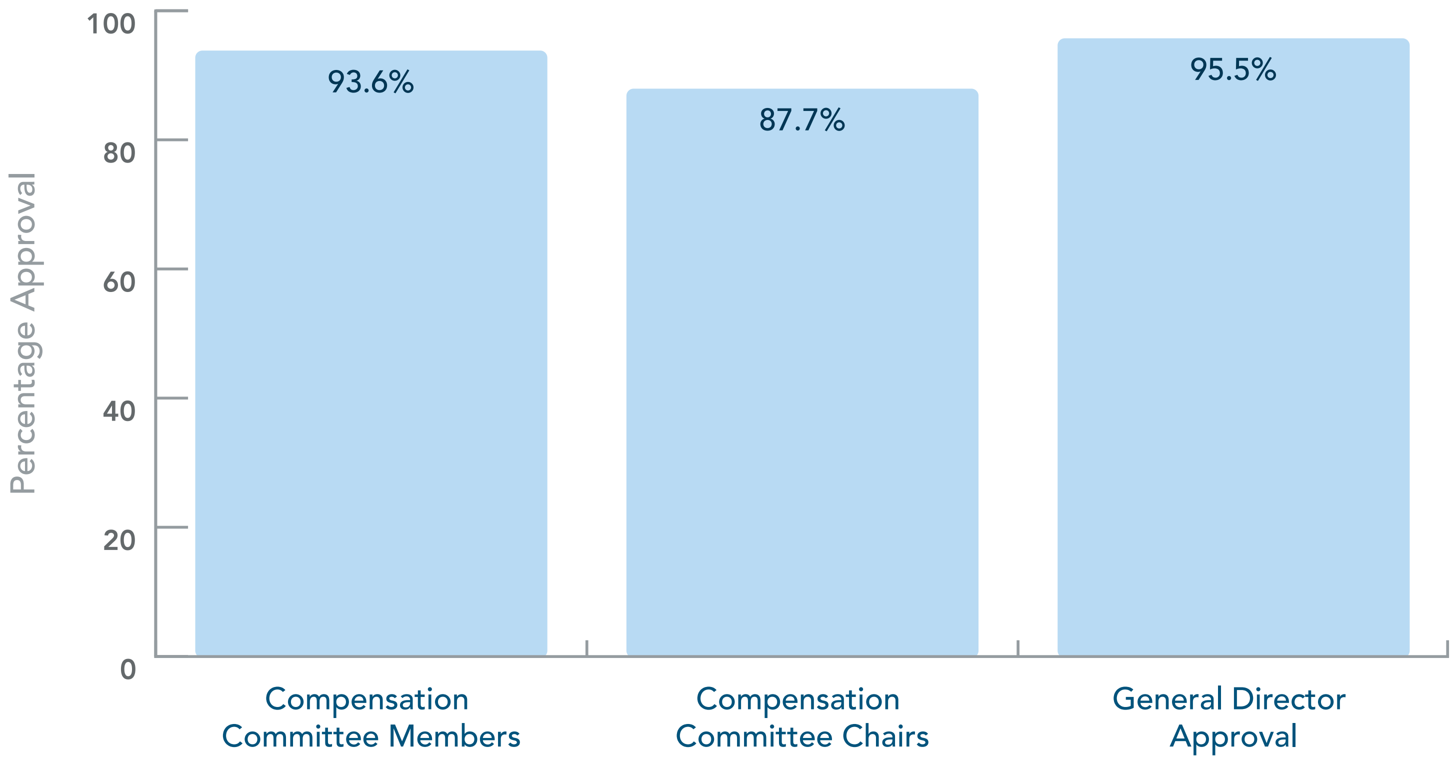
Figure 5 Director Approval in 2019, Equilar 500



Data Points

- ► An overwhelming 81.5% of Equilar 500 directors received an approval rating of at least 95% *(Fig. 5)*
- ► Just 1.1% of directors received an approval rating below 70% *(Fig. 5)*

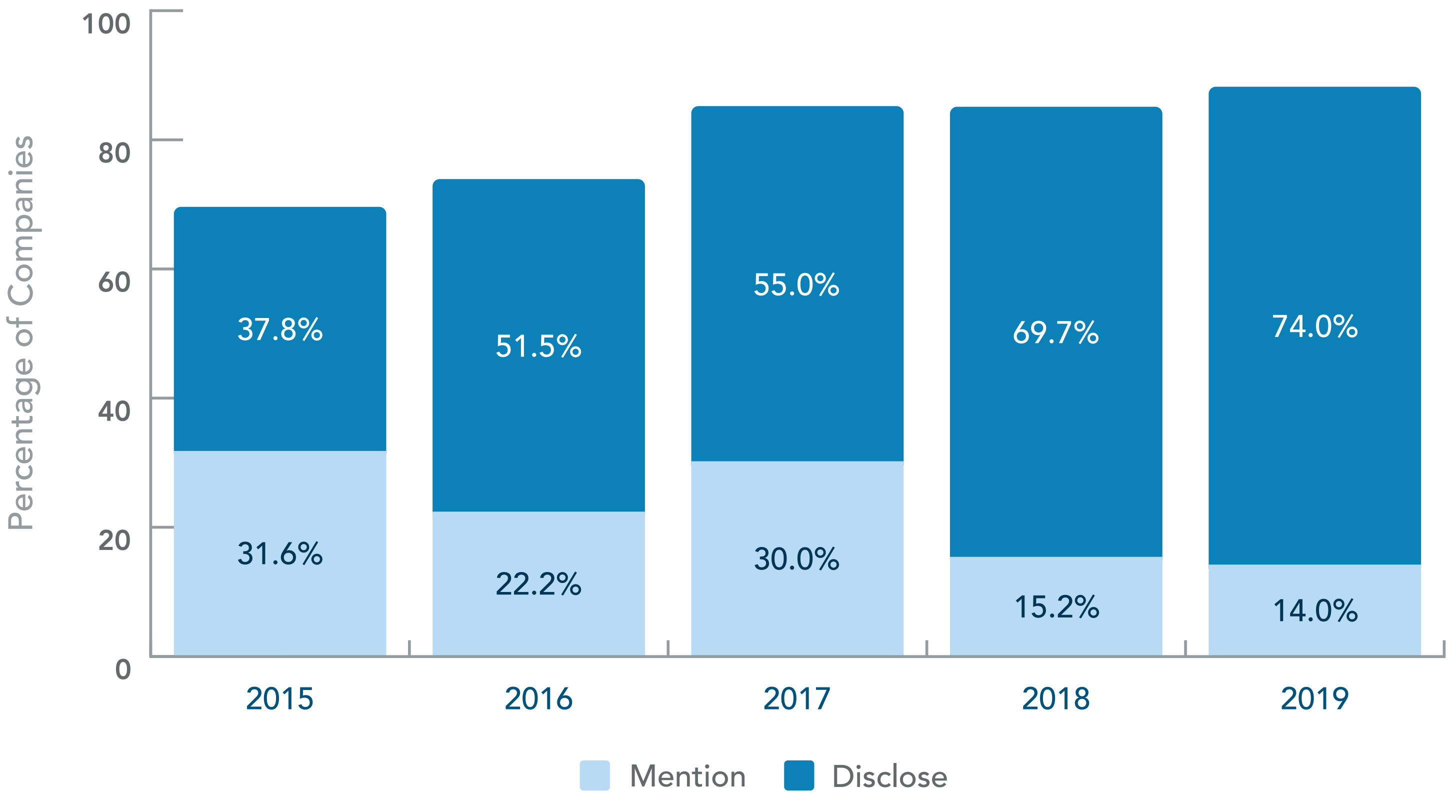
Figure 6 Median Compensation Committee Approval After a Failed Say on Pay Vote, 2015-2019 (Equilar 500)



Data Points

- While general director approval reached 95.5% in 2019, the median compensation committee chair received 7.8 percentage points fewer in terms of approval *(Fig. 6)*
- Perhaps reflective of the high level of scrutiny around compensation committee chairs, the median compensation committee member received 5.9 percentage points more than compensation committee chairs in terms of approval *(Fig. 6)*

Figure 7 Shareholder Engagement Disclosure, Equilar 100



Data Points

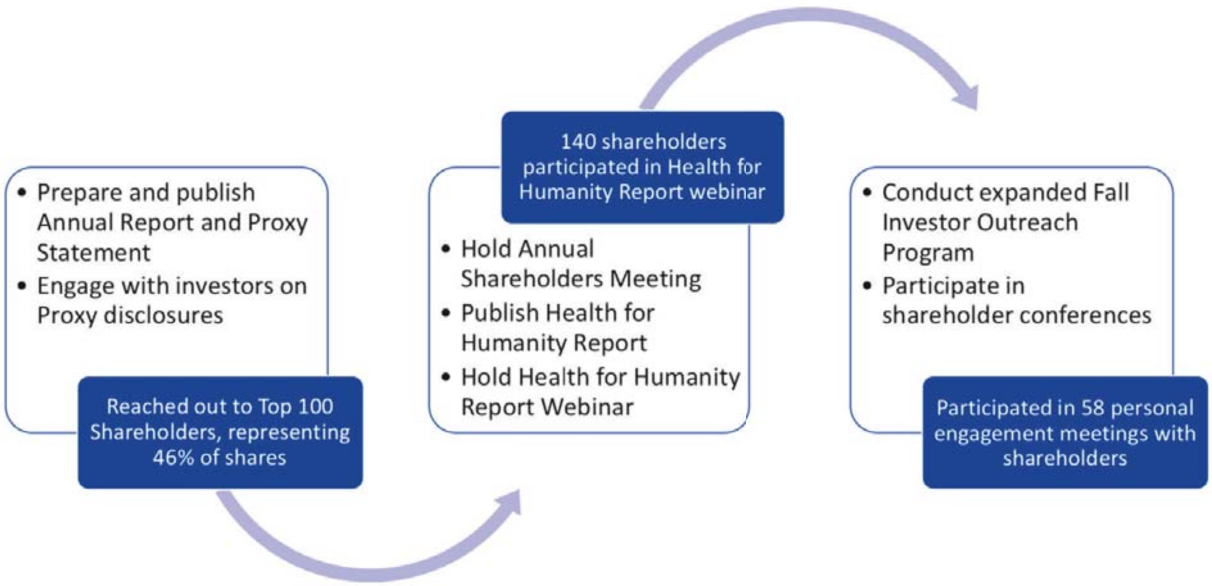
- The percentage of Equilar 100 companies that disclosed shareholder engagement policies within their proxies has increased by 95.8% since 2015, reaching 74.0% in 2019 *(Fig. 7)*
- On the contrary, just 14.0% of companies mentioned their shareholder engagement policies in 2019, slightly down from 15.2% in 2018 *(Fig. 7)*
- In total, 88.0% of Equilar 100 proxies mentioned or disclosed their shareholder engagement policies in 2019 *(Fig. 7)*

Disclosure Example 2 Shareholder Engagement Disclosure

Johnson & Johnson (JNJ)
DEF 14A (p.26)
Filed 3/13/2019

In this Johnson & Johnson disclosure, the company effectively highlights its annual shareholder engagement cycle, along with key takeaways and topics covered during engagement meetings.

OUR ANNUAL SHAREHOLDER ENGAGEMENT CYCLE



Our 2018 engagement meetings and other governance exchanges covered a wide range of important corporate governance, environmental and social stewardship, compensation and public policy issues, as set forth below, and we shared the content of many of these discussions with our full Board or its key Committees.

Shareholder Engagement Topics

- Board Composition and Diversity
- Board Evaluation Process
- Board Oversight of Risk
- Board-Shareholder Engagement
- Board Skills and Skills Matrix
- Board Tenure and Refreshment
- Culture and Human Capital Management
- Environment, Sustainability and Governance Reporting
- Executive Compensation and Compensation Metrics
- Lead Director Responsibilities
- Litigation
- Product Quality and Safety
- Pharmaceutical Pricing Transparency and Access
- Separation of the Chairman and CEO Roles
- Shareholder Proposal Process
- Tax Policy

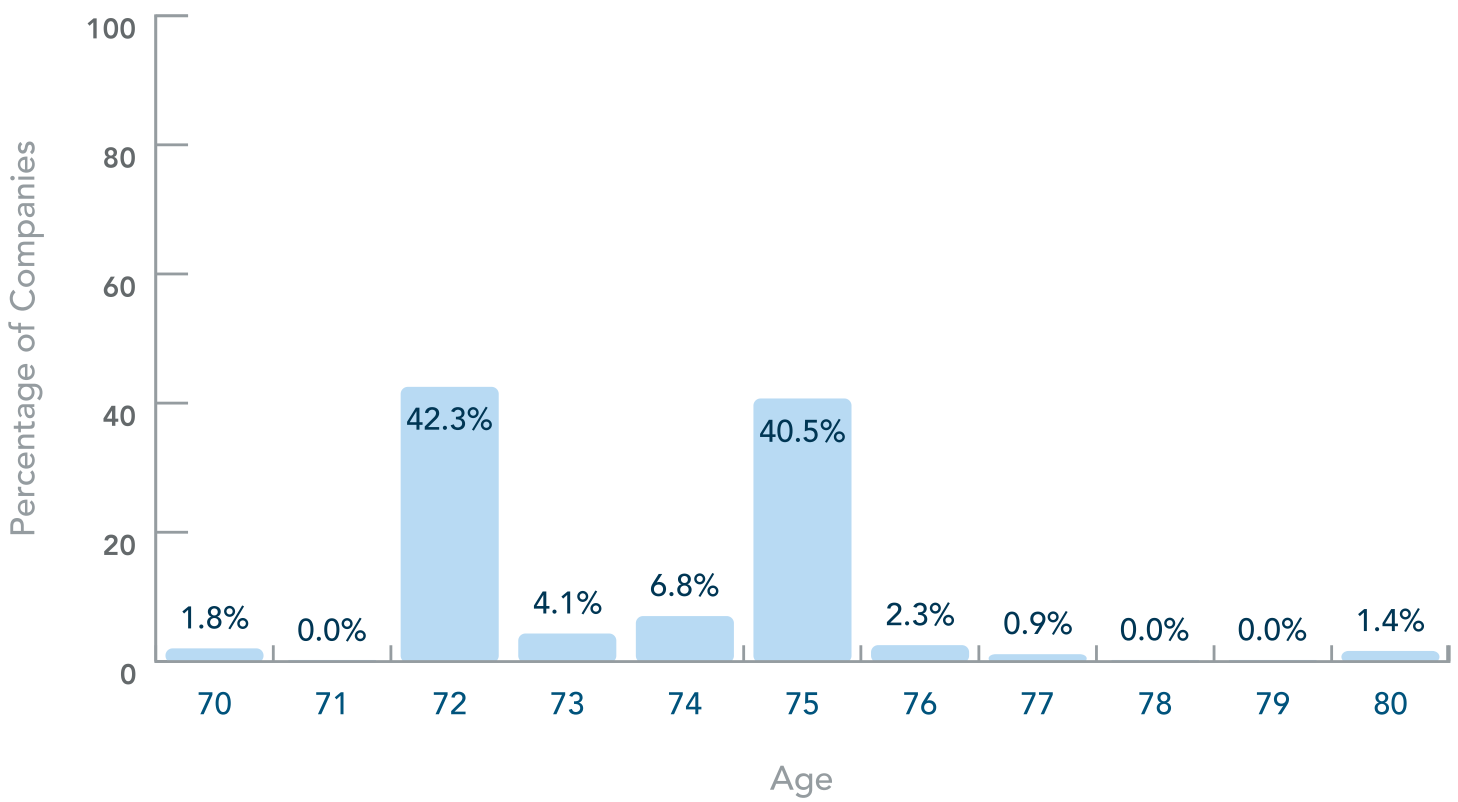
Ron Schneider, DFIN Commentary

For years, there has been a significant gap between companies engaging with investors on corporate governance, compensation and other proxy-related issues, and those that also "take credit" by publicly disclosing these activities—including to investors and others they don't directly engage with. This "engagement actions vs. disclosure gap" has been lessening in recent years.

One reason for this increase in disclosing engagement activities is, in demonstrating "responsiveness to the vote" and thus to shareholders, the vote approval level below which proxy advisors and investors will apply "greater scrutiny" the subsequent year keeps rising, with ISS now applying 75% (of votes cast), Glass Lewis at 80%, and investors such as Vanguard reportedly applying a 90% level. A major measure of "responsiveness" following sub-par votes is engaging with investors, identifying who voted against and what their concerns were, sharing that information with senior management and the board, and where appropriate, making changes to practices and/or their disclosure in response to such investor feedback.

Where voting support exceeds the above thresholds, disclosing the fact, and perhaps scope and process of engagement is generally sufficient. As vote opposition levels increase, investors and others will also want to learn what was discussed, and what the company did with that information.

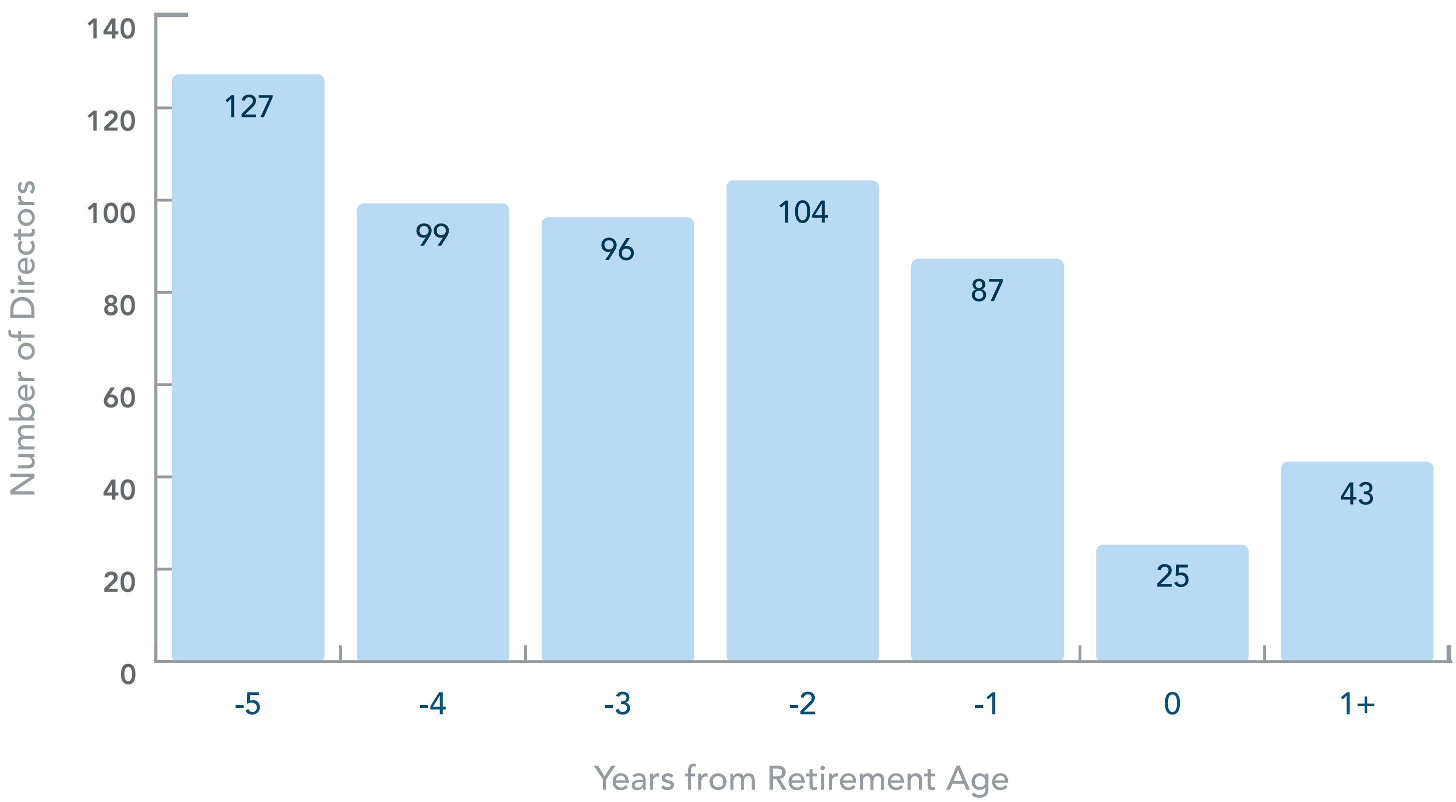
Figure 8 Director Retirement Age, Equilar 500



Data Points

- 82.8% of Equilar 500 companies that had a mandatory director retirement age disclosed ages of 72 or 75 *(Fig. 8)*
- Of the Equilar 500 companies with a mandatory retirement age, 93.7% of them have a retirement age between 72 and 75 *(Fig. 8)*

Figure 9 Directors Nearing Retirement Age, Equilar 500



Data Points

- 513 Equilar 500 directors are nearing retirement age, while 68 at either at or one year above a disclosed retirement age *(Fig. 9)*
- With just 25 directors at retirement age, this suggests that most directors do indeed retire once reaching a mandatory age *(Fig. 9)*

Alex Bahn, Hogan Lovells Commentary

Mandatory director retirement ages remain prevalent, though increasingly their continued relevance or utility is being considered. They can provide a mechanism for ensuring board, refreshment and setting expectations for terms of service, but the reality is that boards often waive the provision, whether due to a desire for extended service from a director with a key skill, a desire for continuity, or for other reasons.

Having a mandatory retirement age could also delay a decision to transition a director off the board in favor of simply waiting out the mandatory retirement age. In any case, each board needs to consider its own unique circumstances, composition and skill set among the factors in thinking about a mandatory director retirement age. These discussions are particularly important in light of the continuing focus on board refreshment. We expect that board refreshment will remain a topic of importance for investors in 2020, and that boards and companies will continue to give attention to the issue in both board-level discussions as well as in disclosures to investors.

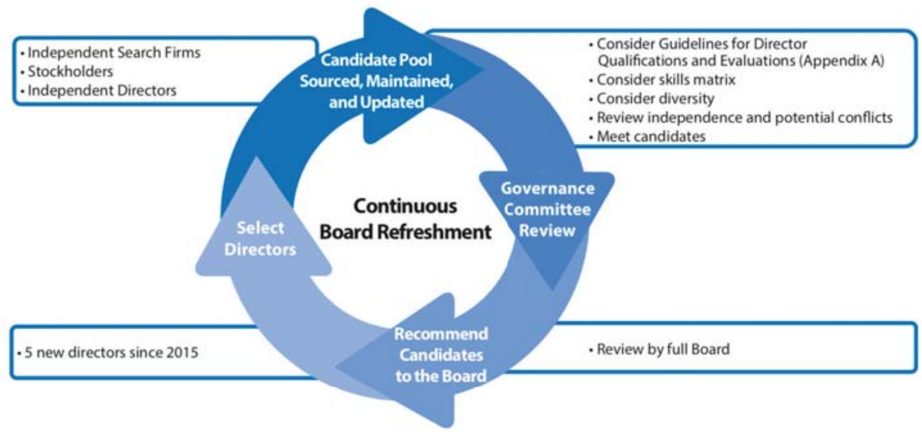
Disclosure Example 3 Board Refreshment

Amgen (AMGN)
DEF 14A (p.20)
Filed 4/8/19

With more than 500 Equilar 500 directors nearing a mandatory retirement age, several companies have put in place a refreshment plan to ensure a smooth transition. In this example, Amgen depicts its ongoing board refreshment efforts in a digestible format. Amgen indicates the complete cycle in which it identifies, evaluates and selects new board directors.

Continuous Board Refreshment

The Board, led by the Governance Committee, has an ongoing process for identifying, evaluating and selecting directors.



Regular Board and Committee Evaluations

Our Governance Committee leads an annual evaluation process of the Board and its committees. The Board and the Audit, Compensation, Compliance, and Governance Committees each complete an annual assessment focusing on their roles, effectiveness, and fulfillment of fiduciary duties.

1. Commence Annual Anonymous Evaluations

- Formal annual anonymous evaluations of the full Board as well as the Audit, Compensation, Compliance, and Governance Committees are compiled and distributed
- Overseen by the Governance Committee

2. Evaluation and Assessment

- Directors provide feedback regarding Board and applicabe committee:
  - Composition and structure
  - Role and effectiveness
  - Fulfillment of fiduciary duties
  - Meetings and materials
  - Interaction with management

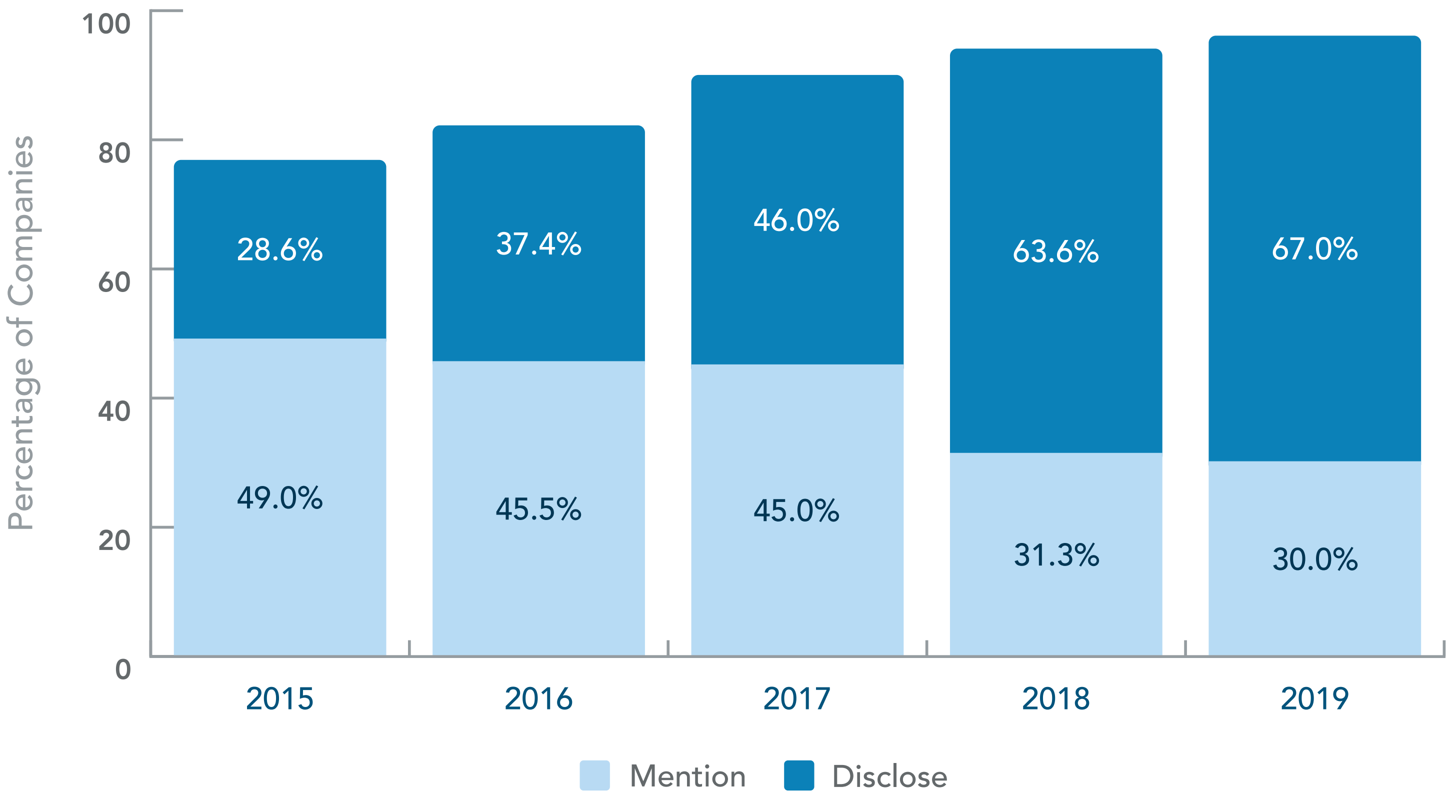
3. Review

- The lead independent director speaks with each member of the Board for one-on-one discussions
- Each committee and the full Board conduct separate discussions in executive session

4. Incorporation of Feedback

- Follow-up items are addressed at subsequent Board and committee meetings

Figure 10 Board Evaluation Disclosure, Equilar 100



Data Points

- The percentage of Equilar 500 companies that disclosed their board evaluation policies has increased by 38.4 percentage points since 2015, reaching 67.0% in 2019 *(Fig. 10)*
- 97.0% of companies either disclosed or mentioned their board evaluation policies in 2019 *(Fig. 10)*

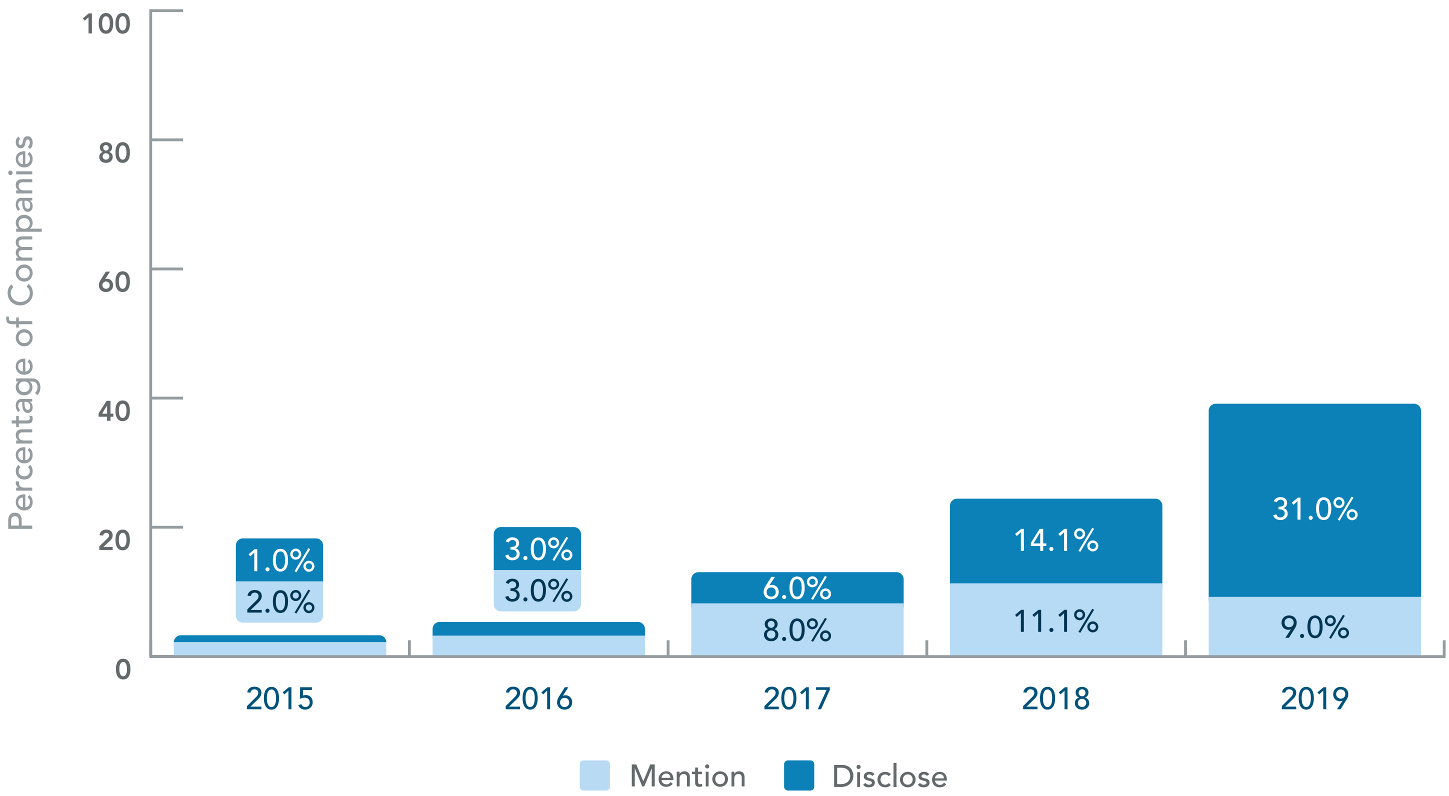
Ron Schneider, DFIN Commentary

Board evaluations are both backward and forward looking. Backward in terms of how the board and its members met their responsibilities in the prior measurement period.

More importantly, they look forward to identify whether individual directors and the board collectively have the requisite experience, competencies, independence and engagement to support and guide senior management in the foreseeable future. Developing and maintaining that "high-performing board" that can be an important element of company success involves identifying any new skills or competencies required for future success, leading directly into the director recruitment/board refreshment process.

It has been said that "saying you have a process" is disclosure, "describing that process" is good disclosure, and "indicating the outcomes from that process" is great disclosure. Increasingly, we are seeing process flow diagrams that outline the board evaluation and director recruitment processes, as well as the outcomes from following these processes. These "outcomes disclosures" often take the form of "by following this process, over the last X years we have added Y new directors bringing the board Z new competencies and aspects of diversity."

Figure 11 ESG Disclosure, Equilar 100



Data Points

- Since 2015, the number of companies that disclosed their policies on ESG matters has increased significantly each year, reaching 31.0% in 2019 *(Fig. 11)*
- Between 2018 and 2019, the number of companies that disclosed their ESG policies increased by 16.9 percentage points *(Fig. 11)*
- 40.0% of Equilar 100 companies either mentioned or disclosed their ESG policies in 2019, up from 25.2% in 2018 *(Fig. 11)*

Ron Schneider, DFIN Commentary

ESG, and its companion topic HCM, each encompass a broad range of factors and variables. Here, one size definitely doesn't fit all in terms of which factors are more material to particular industries and companies—and important to their investors.

The best way to ensure company managements and boards are meeting investor expectations is to engage with the investors and learn directly what they are interested in. Of course, this should be a two-way dialogue in which the company also informs investors about their unique business model and why they feel certain factors are most material.

This process is often described as a sustainability journey and as such, success may best be measured in terms of progress over time including:

- ► *Identifying material factors, related risks and opportunities*
- ► *Pursuing opportunities and mitigating risks*
- ► *Reporting on progress*
- ► *Gaining feedback from investors that you are meeting their expectations along this journey*

Tiffany Posil, Hogan Lovells Commentary

Companies must recognize that there is no universal solution for addressing ESG matters. Companies should evaluate and define which ESG issues are relevant to their specific business, industry and investor base and develop a plan to address those ESG issues and effectively communicate with investors on those issues. An increasing number of investors consider ESG measures when making investment decisions. Given the growing influence of ESG rating firms, companies should understand which firms are influential with investors and how these ratings firms collect information and measure ESG performance.

To meet investor expectations, companies should (1) strive to understand which ESG issues are important to their investors through regular shareholder engagement on ESG matters, (2) integrate applicable ESG considerations into long-term strategy and risk management plans, and (3) develop and execute an effective communication plan that promotes the company's and board's commitment to particular ESG issues.

While success can be objectively measured by an improved ESG rating, success can also be measured by investor feedback on the company's performance with respect to ESG matters. For that reason, companies should develop a process for obtaining feedback from investors as part of their regular shareholder engagement on ESG matters.

Disclosure Example 4 ESG Disclosure

AT&T Inc. (T)
DEF 14A (p.31)
Filed 3/11/19

With ESG initiatives under the spotlight heading into 2020, several companies are making a concerted effort to disclose their ESG policies in the proxy. In 2019, 31.0% of Equilar 100 companies disclosed their ESG policies, including AT&T. In this example, AT&T details its various initiatives around ESG, with clear goals and progress measurements.

Progress Toward 2020 Goals[2]

60% Energy Intensity Reduction
75% of goal completed

30% Fleet Emissions Reduction
66% of goal completed

Refurbish, reuse or recycle 200M devices
73% of goal completed

Social

AT&T is focused on issues important to our business and our communities, including safety, education, diversity and inclusion, and the welfare of our fellow citizens.

RESPONSIBLE USE

One of our top priorities is empowering customers to use our products and services in a safe and responsible manner.

IT CAN WAIT

Since inception, our It Can Wait® campaign has generated more than 33 million pledges to never drive distracted.

The AT&T Digital You® website includes a collection of resources that educate customers about online safety. Our #LaterHaters movement helps teens find positive reinforcement and the tools they need to boost positivity online and offline. We're working to elevate the gaming experience through technology, and in doing so, our new #GreatGame campaign encourages good sportsmanship among gamers. And in 2018 we launched ScreenReady, an online safety pilot program, in our greater New York City retail stores.

EDUCATION AND UPSKILLING

We are building a stronger business and a more dynamic workforce for all companies as we prepare individuals for the workforce demands of tomorrow.

$450 million

In 2018, we celebrated 10 years of our Aspire program, through which we've provided more than $450M toward student success and career readiness, with an emphasis on STEM-related fields.

Internally, we invested approximately $200 million and 16 million hours training our employees last year, and we contributed $23 million to their tuition aid.

Through the end of 2018, 60 percent of AT&T's management workforce had enrolled in reskilling programs provided or subsidized by the company. And more than 50,000 learners worldwide, including more than 5,000 AT&T employees, had enrolled in nanodegree credential programs, a new pathway to higher education pioneered by Udacity and AT&T.

DIVERSITY AND INCLUSION

Our efforts to create a culture in which all employees can learn and grow are led by the Chairman's Diversity Council and our Chief Diversity Officer.

AT&T U.S. workforce diversity:

31% women

44% people of color[3]

AT&T's 24 Employee Resource Groups and Employee Networks help advance our professional development and represent cultures, genders, generations, veterans, individuals with disabilities, and members of the LGBTQ+ community. Our ERG and EN membership totals more than 133,000. Additionally, in 2018 WarnerMedia announced a new Diversity & Inclusion Policy that is an industry-pioneering commitment to give more opportunities to more women and people of color – both in front of and behind the cameras. This is aided by WarnerMedia's OneFifty initiative, a platform that disrupts the way content is developed and places diverse storytellers in the spotlight.

COMMUNITY ENGAGEMENT

AT&T employees donated $29 million to more than 30,000 charities in 2018 to help make our communities stronger and have pledged to give $27.8 million in 2019. Our culture of giving provides resources to support employees' charitable interests through AT&T Foundation grants, resulting in an additional $4.4 million in 2018. Employees also donated time in their communities, volunteering more than 1 million hours valued at more than $25 million.

Ron Schneider, DFIN Commentary

A growing range of investors are asking companies to discuss a broader range of topics, and to tie their practices and outcomes to the core business strategy. In other words, explain "why" what you do is appropriate for your company and efforts to grow shareholder value. This includes tying the board skills mix, executive pay, ESG risks and opportunities, and time will tell what's next, to company strategy.

Engagement with investors, by management, boards and a combination, increasingly is viewed as a "must have," not a "nice to have," as is disclosing these activities. This engagement often takes the form of one on one meetings or conversations outside of proxy season. What we consistently hear from a growing range of investors is that companies should treat their proxy as the number one engagement tool and information vehicle.

For the past few years, this engagement/disclosure process has largely been driven by "private ordering" rather than new regulatory requirements, and this seems to be leading to positive outcomes for all involved.

Data Points

- Between 2018 and 2019, the number of Equilar 100 companies that disclosed a CEO succession plan increased by nearly 13% *(Fig. 12)*
- 74.7% of Equilar 100 companies either mentioned or disclosed a CEO succession plan in their proxies in 2019, up from 59.2% in 2015 *(Fig. 12)*
- In 2019, there were 65 CEO transitions across the Equilar 500 *(Fig. 13)*
- Of the 65 CEO transitions in 2019, 78.5% were internal promotions while more than 21.5% were external hires *(Fig. 13)*

Figure 12 CEO Succession Plan Disclosure, Equilar 100

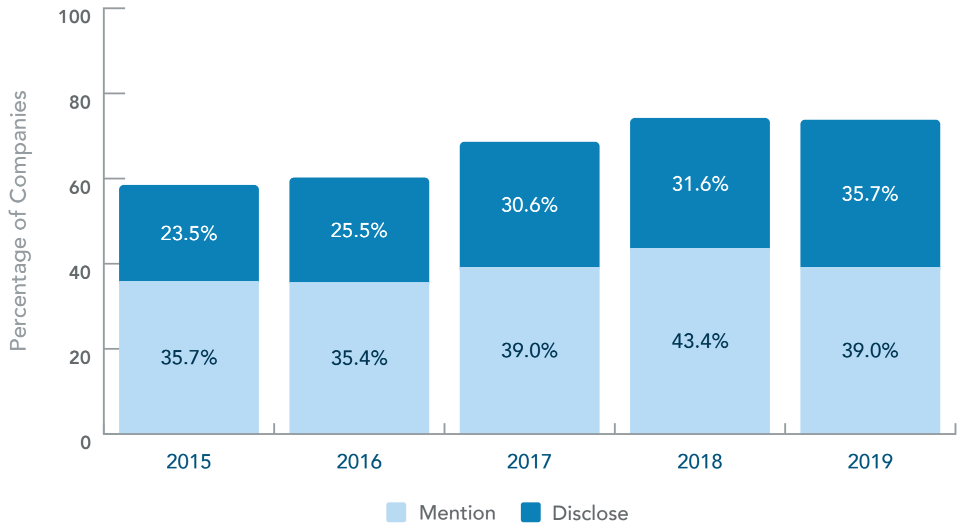
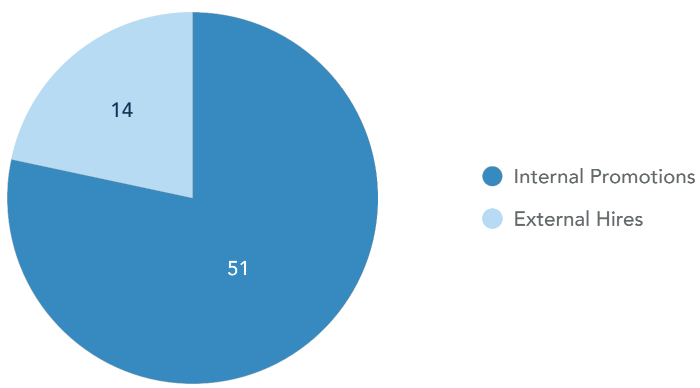


Figure 13 CEO Transitions in 2019, Equilar 500



Martha Steinman, Hogan Lovells Commentary

CEO successions are sometimes planned, but not always, and in either event it is a critical responsibility of a board to have a CEO succession plan in place. It needs to be ready to go so it can be executed on when the time comes, whether planned or unplanned. Once in place it should be reviewed on a regular basis to see if it needs refreshing. Key considerations include an ongoing review of the internal pipeline, an assessment of what is needed to align a candidate with the company's business strategy and input from the incumbent CEO as to key attributes in a successor. The CEO also should take responsibility for talent management and development.

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