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Corporate Governance Outlook 2021

Featuring Commentary From

DFIN

Hogan Lovells

Contents

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Executive Summary

Without a doubt 2020 will go down in history as one of the most infamous years in modern time. As the COVID-19 pandemic drastically affected the globe, the U.S. economy was ravaged by the virus, forcing corporations across America to adapt and shift operations on the fly, and the impacts continue to be felt months since the onset of the pandemic. Of course, the nation is also in the midst of a movement centered around social equality, which has been a key topic of discussion at the corporate level. Given the many events of the year and the current corporate landscape, companies will certainly seek to begin 2021 in hopes of a brighter outlook.

As companies begin to prepare for proxy season and upcoming engagements with shareholders, corporate leaders seek to get ahead of the many governance topics that shareholders will pay close attention to come 2021. Given the current landscape, it is expected that a large focus will be placed on human capital management (HCM), as well as environmental, social and governance (ESG) issues, as corporate leaders continue to navigate their organizations through the pandemic. As a COVID-19 vaccine remains on the cusp of distribution, employee safety and addressing employee concerns will most certainly continue to be a priority.

Of course, companies must also address the traditional topics of governance such as shareholder proposals, executive compensation, CEO and board succession planning, and much more. With these trends in mind, *Corporate Governance Outlook 2021* delves into the top trends in governance today and how companies can stay ahead of these critical topics in 2021.

Shareholder Engagement Remains a Top Priority

While 2020 has been an unusual year in many facets, one thing that has remained consistent is the need to engage with shareholders. Shareholders are keeping a close watch on how companies have addressed topics such as the COVID-19 pandemic and social justice, as well as how they have stayed ahead of topics such as executive pay and board composition in light of the current landscape. Nevertheless, shareholder engagement remains an area of focus through disclosure. In 2020, 89% of Equilar 100 companies either mentioned or disclosed shareholder engagement related policies in their proxy statements. This is a near 14 percentage point increase from 2016 when this figure stood at 74.5%.

The prevalence of shareholder proposals also increased in 2020. In 2020, the Equilar 500 saw 360 shareholder proposals, an increase of 9.1% from 2019 when 330 shareholder proposals were filed.

Perhaps to no surprise given the heightened attention around ESG, proposals related to social and environmental issues were the most prevalent in 2020 at 151 for the year. The next most prevalent category of proposals were general shareholder rights, with 104 such proposals filed in 2020.

ESG Reigns Supreme, With Diversity Leading the Way

Over the last few years now, ESG topics have continuously found their way at the top of the radar for all public companies. The ESG momentum has only accelerated in the last year as evidenced by current events related to diversity, climate change and income equity. In fact, since 2016 the percentage of Equilar 100 companies disclosing or mentioning ESG-related policies in the proxy has increased significantly. In 2020, 56.1% of companies either mentioned or disclosed such policies in 2020, with nearly 34% doing the latter. 2019 marked the first year in the study in which the percentage of companies disclosing ESG-related policies was higher than the percentage of companies mentioning these policies—this trend continued, with the gap increasing between the two data points, in 2020. On the contrary, in 2016, just 2% of companies disclosed similar policies and only 5.1% of companies mentioned them.

Perhaps one of the most talked about ESG topics in 2020 was the issue of diversity. While the conversation around racial equality continues to surface across the nation at a macro level, companies have also sought to address the topic at a micro level within their organizations. In regards to governance-related issues, this tends to come in the form of diversity at the board and executive levels. Several companies have elected to disclose diversity-related information in their board or director assessments and board composition policies. In 2020, 78% of Equilar 100 companies included board composition disclosures related to gender, while 65% of companies did so in relation to ethnicity or race. On the other hand, 81% of companies included gender as part of their board or director assessment, and similarly, 80% of companies included ethnicity or race as part of their assessments. Investor pressure will continue to mount as the topic of diversity has picked up traction in 2020 through social movements and legislation passed in states like California.

Equilar Disclosure Search

The Equilar Disclosure Search is the most comprehensive solution to accurately examine SEC public disclosures. The accessible interface allows you to search within all publicly disclosed SEC forms, including 8-K, 10-K, 10-Q, DEF14A, S-1 and more, using a variety of filters. Search through thousands of disclosures related to how companies are responding to the COVID-19 pandemic.

www.equilar.com/executive-compensation

Additionally, the topic of diversity is making its way into executive incentives. During 2020, 20.4% of Equilar 500 companies elected to tie executive bonuses to a diversity-related metric. Compensation is among the most hot-button topics in governance each year, and pay practices will begin to align more with everyday issues faced by all stakeholders.

As we enter 2021, a year that will likely be highlighted by the distribution of a COVID-19 vaccine and the start of a new U.S. presidency, the emergence of the trends uncovered in 2020 must be faced intelligently and in a timely manner. The spotlight will be on corporate leaders as they maneuver their organizations into a more promising landscape.

Methodology

Corporate Governance Outlook 2021, an Equilar publication, analyzes the proxy statements and shareholder voting results for Equilar 500 companies from 2016 to 2020. The Equilar 500 tracks the 500 largest, by reported revenue, U.S.-headquartered companies trading on one of the major U.S. stock exchanges (Nasdaq, NYSE or NYSE American). 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 (2020) was defined as companies with a fiscal year ending from June 1, 2019 to May 31, 2020, and previous years were defined similarly.

The narrative portion of this report identifies trends in compensation and corporate governance disclosure practices at Equilar 500 companies. DFIN and Hogan Lovells have provided independent commentary for context and color on companies' approach to these critical issues and how companies should plan to prepare for 2021.

Key Findings

1. Since 2016, the prevalence of shareholder proposals across the Equilar 500 has declined by 2.2%, with 360 filed in 2020
2. During a year of a failed Say on Pay vote, director approval rates remained above 90% across compensation committee members, compensation committee chairs and general directors
3. The percentage of Equilar 100 companies disclosing or mentioning ESG-related policies has increased significantly since 2016, with 56.1% of companies either mentioning or disclosing these types of policies in 2020
4. In 2020, 78.0% of Equilar 100 companies included board composition disclosures related to gender, while 65.0% of companies did so in relation to ethnicity or race

Beyond the Numbers | DFIN Hogan Lovells

A Q&A with DFIN and Hogan Lovells

To provide additional perspective on the trends uncovered in *Corporate Governance Outlook 2021*, Equilar spoke with contributors at DFIN and Hogan Lovells and discussed how the current environment will impact governance practices in 2021. Below is a snapshot of the conversation. Commentary from both DFIN and Hogan Lovells can be found throughout the publication.

Equilar: With the many events of 2020 in mind, most notably the COVID-19 pandemic, how has the governance landscape shifted? How should companies take this into consideration going into 2021?

Ron Schneider, DFIN: This year, two major trends overlapped that will significantly shape the governance landscape in 2021.

First, investor interest in environmental, social and governance (ESG) continued its multi-year intensification as can be seen in a variety of ways:

- A record amount of investment capital uses some form of ESG screening. At the start of 2020, this figure was $17 trillion of US AUM, or $1 of every $3 of professionally managed assets. This represents an increase of 42% in just the past two years.
- The number of E&S shareholder proposals has risen. Last year saw a continuation of the trend of the last several years of more shareholder proposals filed on E&S matters than on governance matters, with average support levels also increasing. It's important to note that 2020 annual meeting shareholder proposals were typically filed before there was wide spread awareness of COVID-19. While it is too early in the filing season to identify trends, several proponents have indicated they plan to expand their activities in 2021.
- Engagement by investors on these topics has increased. Our clients report that the frequency of investor questions around ESG has risen to or surpassed that of discussions about board diversity and executive compensation.
- Companies are heeding the call about ESG, and there continues to be a rapid expansion in the frequency, quality and materiality of company disclosures addressing ESG and related issues. These disclosures are made at their websites, in sustainability and similar reports, the 10-K, the proxy, and in investor relations messaging.

Second, the spread and impact of COVID-19 – an unprecedented event within modern times, has in some fashion affected nearly all companies and their performance, workforce, customers, supply chains, governance/oversight structures, executive compensation, and strategic responses. COVID forced many companies to shift from "sustainable" to "survival" mode, and many companies will be reporting on these impacts in 2021 as part of what we call "COVID as an event."

In 2020, many investors provided some forbearance by at least temporarily deprioritizing their longer-term focus on environmental (and company) sustainability considering the shorter-term imperatives created by COVID. That said, the COVID pandemic experience has convinced investors that their longer-term sustainability focus is correct and re-energized their efforts in this area. This is what we refer to as "COVID as a lens" in that it is refocusing and magnifying investor interest in ESG as well as in human capital issues.

This temporary shift is documented in Edelman's Trust Barometer 2020 Report, based on their survey of 600 global institutional investors managing over $20 trillion in assets:

"*Investors have temporarily deprioritized ESG due to COVID-19, but expect to intensify their focus on ESG as we recover." Specifically, "79% of respondents said their firms are temporarily deprioritizing ESG as an investment criteria. However, as we recover from COVID-19, 96% said they expect their firms to increase prioritization of ESG*."

As a result, we expect companies' engagements with investors to increasingly focus on the impact of COVID, as well as lessons learned from the pandemic, and questions of corporate preparedness and resilience to this and/or other future challenges.

At the same time, the frequency, quality and materiality of company disclosures on ESG and related areas will continue to improve, if only because, as one's peers make progress on their sustainability journeys and related disclosure, other companies must follow suit, or risk declining in relative terms.

Martha Steinman, Hogan Lovells: In every year there are events which influence the shape of the corporate governance landscape, but in certain years, the impact can be much greater and have more significant and lasting implications. 2020 has been a year unlike any other, at least in recent history, in terms of events which have had a global impact on companies of every shape and size and across industries. COVID-19, as well as the urgent focus on diversity and racial and economic equality have brought to the forefront of corporate governance concerns regarding the need for companies to focus on human capital and societal issues. And while time will tell, it seems likely that this emphasis will be long-term rather than a passing moment. In light of these considerations, directors need to focus on how to incorporate these interests into the culture and business strategy of a company as it is clear that how they are addressed will be critical to the future fortunes of the organization. The push for change can be evidenced by the hands on focus of boards on these matters as well as by the broadened mandates given to compensation committees (many of which have been renamed to reflect their expanded role). The impact of COVID-19 on the economy as well as the operations of businesses everywhere also has made clear the need for companies to be prepared to adapt to the unexpected and mitigate associated risks. As it is yet unclear what the "new normal" will look like on the other side of the pandemic, the lasting implications on the governance landscape remain to be seen. Heading into 2021, companies must recognize the rapid but likely enduring shift in how businesses operate and determine how their governance practices will evolve in light of these changes.

Equilar: Going into 2021, what issues should be top of mind that may not be on the radar or overlooked by boards and executive teams? What can be done to ensure these issues are not missed?

John Beckman, Hogan Lovells: In 2020, companies were focused on managing their businesses through the unprecedented disruption caused by the pandemic. In general, most boards and executive teams did an exemplary job of responding to the crisis, focusing first on the health and safety of their stakeholders. Companies used expanded SEC disclosure and direct shareholder engagement efforts to keep their investors informed during these uncertain times. This transparency has been especially important to shareholders who have had an urgent need for information about their investments especially given that many companies ceased providing forward-looking earnings guidance in 2020. Companies that were able to communicate effectively during 2020 were often rewarded through their stock price. Companies will need to begin thinking about how and what to communicate to investors in 2021. For many companies, entire ways of doing business have changed and significant challenges will continue well into 2021. After playing defense for the better part of 2020, the strongest and best-positioned companies have already shifted their focus back to offense – including ways to accelerate growth organically or through acquisitions. Boards and executive teams should consider shifts in the competitive landscape, including for executive talent, and consider longer-term trends in their industry, if they haven't already. Disclosing how your board and management team are responding to the pandemic, including strategically, should be a top priority in 2021.

Equilar: In terms of the proxy statement, what topics will companies look to zone in on and provide greater detail for investors? What strategies can be employed to ensure sound practices?

Ron Schneider, DFIN: Many of our clients prioritize enhancements in their proxy messaging based on the level of importance that their investors are placing on various topics in their engagement calls.

Among several significant perennial topics of interest two remain priorities:

The board of directors and board diversity, whether focusing on gender, sexual orientation, race, ethnicity, geographic background, age, tenure and of course, skills, qualifications, and experiences. Companies are also disclosing more about board processes, especially those that are calculated to lead to future refreshment and diversity, such as the director and board evaluation process, and new director recruitment efforts and the outcomes from these processes.

Executive compensation and "pay for performance" alignment (measured in various ways). During the current crisis, COVID-related impacts on company performance and stock price volatility may make traditional TSR-centric models less relevant indicators of strong executive performance. Investors will still consider traditional models, but companies can also highlight performance in other ways, for instance, performance toward relevant financial, operating and strategic priorities, and performance relative to peers. When it comes to these priorities, "how you tell the story" will be extremely important. A related priority is the alignment of pay with the business strategy, including discussions of "why we use the metrics we do."

In addition to these relatively well-developed stories, many companies are now focusing on a) identifying, and then b) telling their ESG and human capital management (HCM) stories. For many companies, telling these stories involves a sprint to catch up to their well-honed board/corporate governance and executive compensation stories, or at least lessen the gap between them.

For many companies, providing the full story on these new fronts is resulting in a significant expansion in disclosure — often beyond traditional regulatory requirements — to accommodate expanding areas of investor interest. Think of the annual report/10-K, the proxy statement, and now the ESG or corporate responsibility report as three linchpin disclosure documents. These documents often have different internal "owners" and separate budgets. Yet to tell these stories well requires collaboration among cross-functional teams. Now more than ever, it is important to ensure consistency of messaging across topics and across documents and media. One possible strategy is to ensure that Investor Relations has a significant seat at all three tables. This makes sense because IRO's are expert at articulating the company's business strategy and performance stories, which should be integral to all documents and messaging.

A secondary consideration we are hearing from clients, is "all our documents and information look different." Disclosure documents often reside adjacent to each other on a company's website, and so harmonizing their look and use of company branding, as well as their messaging, is increasingly part of our mandate.

Equilar: How important are HCM issues today, and how should companies strategize going into 2021?

Ron Schneider, DFIN: In February 2019 SEC Chairman Jay Clayton upped the ante on human capital in remarks to the SEC's Investor Advisory Committee, when he stated:

"Current human capital disclosure requirements – I am thinking of Items 101 and 102 of Regulation S-K – date back to a time when companies relied significantly on plant, property and equipment to drive value. Today, human capital and intellectual property often represent an essential resource and driver of performance for many companies. This is a shift from human capital being viewed, at least from an income statement perspective, as a cost."

Clayton's remarks led to a modernization of Reg S-K, which became effective on November 9, 2020, and takes a principles-based approach to human capital disclosure.

In similar fashion, the SEC recently offered guidance about company disclosures of the impacts of COVID-19 on their businesses (CF Disclosure Guidance: Topic No. 9A).

Along with regulatory changes, increasing investor focus on human capital, diversity and inclusion, health and safety, and pay and opportunity equity are driving companies to focus more on their workforce, and ensuring they are considered an employer of choice, or "a great place to work."

To be blunt, we're talking about people when we talk about human capital, whether it's a company's employees, or those of its suppliers, customers and others. COVID-19 and corporate responses to this calamity shone a spotlight on employee health and safety, including the availability and practicability of remote work, and company flexibility and resiliency. They also highlighted how company performance could be affected by an unforeseen event.

As you formulate your story, think of how your workforce, and other stakeholder groups, have been impacted by the pandemic. As with any new or additional disclosure, be sure to work closely with legal counsel to mitigate any potential risks from otherwise well-intended statements.

Equilar: Do you believe diversity at the executive and board levels will become a more critical topic in 2021, particularly given the many movements around social equality in the last year?

Alex Bahn, Hogan Lovells: In some years it can be hard to predict what societal issues will attract focus or remain an area of focus in the forthcoming year, prevailing views and public sentiment can shift based on current events or other changes. For 2021, however, it is safe to predict that diversity will remain a critical area of focus for companies and their boards. Director and employee diversity has been a key ESG topic for numerous years especially with respect to gender diversity at the board level.

Going into 2021 it appears likely that diversity will gather additional momentum, particularly around racial and ethnic diversity. The racial injustice and social inequalities movements of the past year have encouraged additional attention and focus on diversity in the boardroom and management, as well as the workforce overall. It is also clear from commentary and policies of large institutional investors and proxy advisory firms that they are anticipating heightened disclosure around diversity of the board and workforce, reflecting their views that companies should be taking proactive steps toward increasing diversity across their organizations. Expect to see heightened disclosure around diversity efforts in 2021 and continued pressure from investors and other stakeholders on companies to take action and be transparent in their efforts.

About the Contributor | DFIN

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.

Additional proxy disclosure examples, similar to those found in this publication, can be found in DFIN's Guide to Effective Proxies, 8th edition: www.proxydocs.com/xDFINx

Ronald M. Schneider

Director, Corporate Governance Services
Donnelley Financial Solutions (DFIN)

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.

About the Contributor | Hogan Lovells

We work as part of your team, helping solve your toughest and most complex legal issues. Wherever you are.

Hogan Lovells is a leading international law firm with over 2,500 lawyers on six continents. With over 125 lawyers focused on U.S. Securities and Public Company Advisory matters, we act as outside counsel for more than 100 public companies—from newly public to Fortune 500 enterprises, both for U.S. reporting companies and foreign private issuers across a broad range of industries.

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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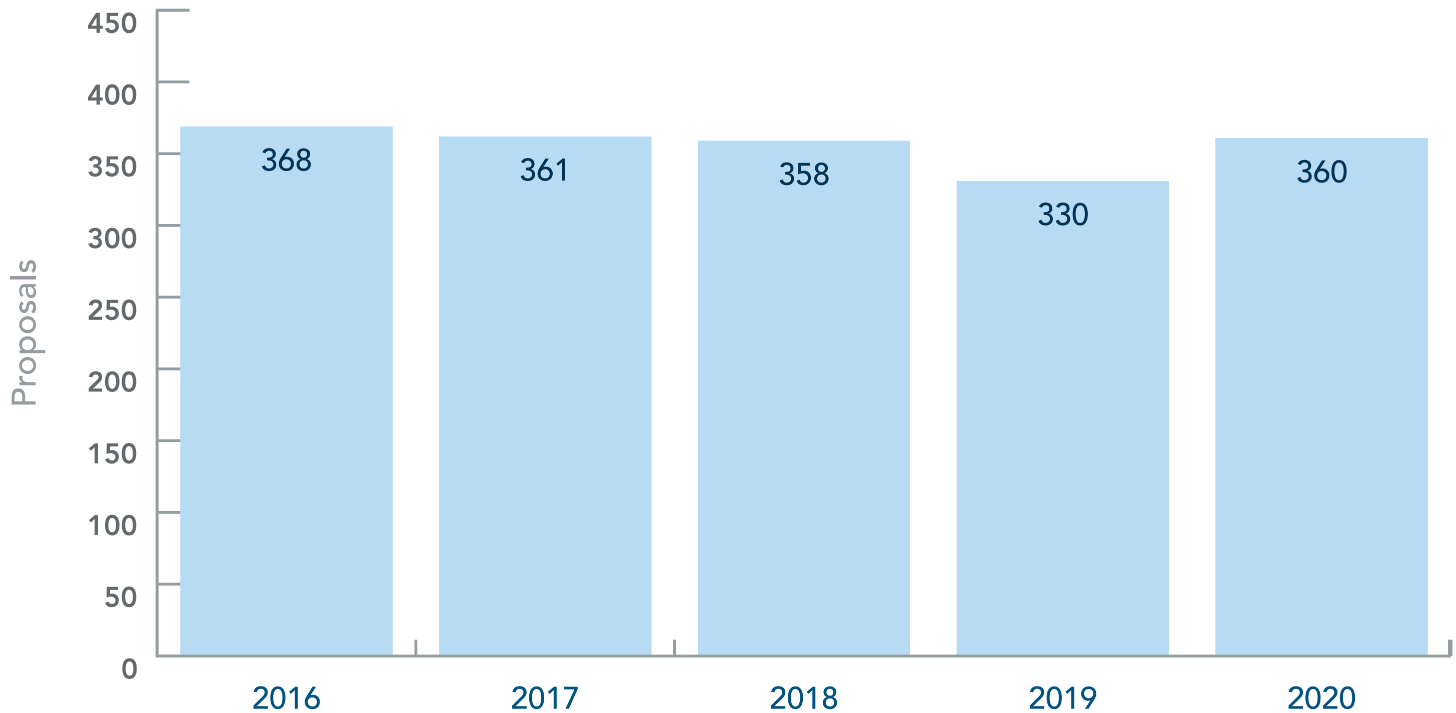
Data Points and Figures

EQUILAR

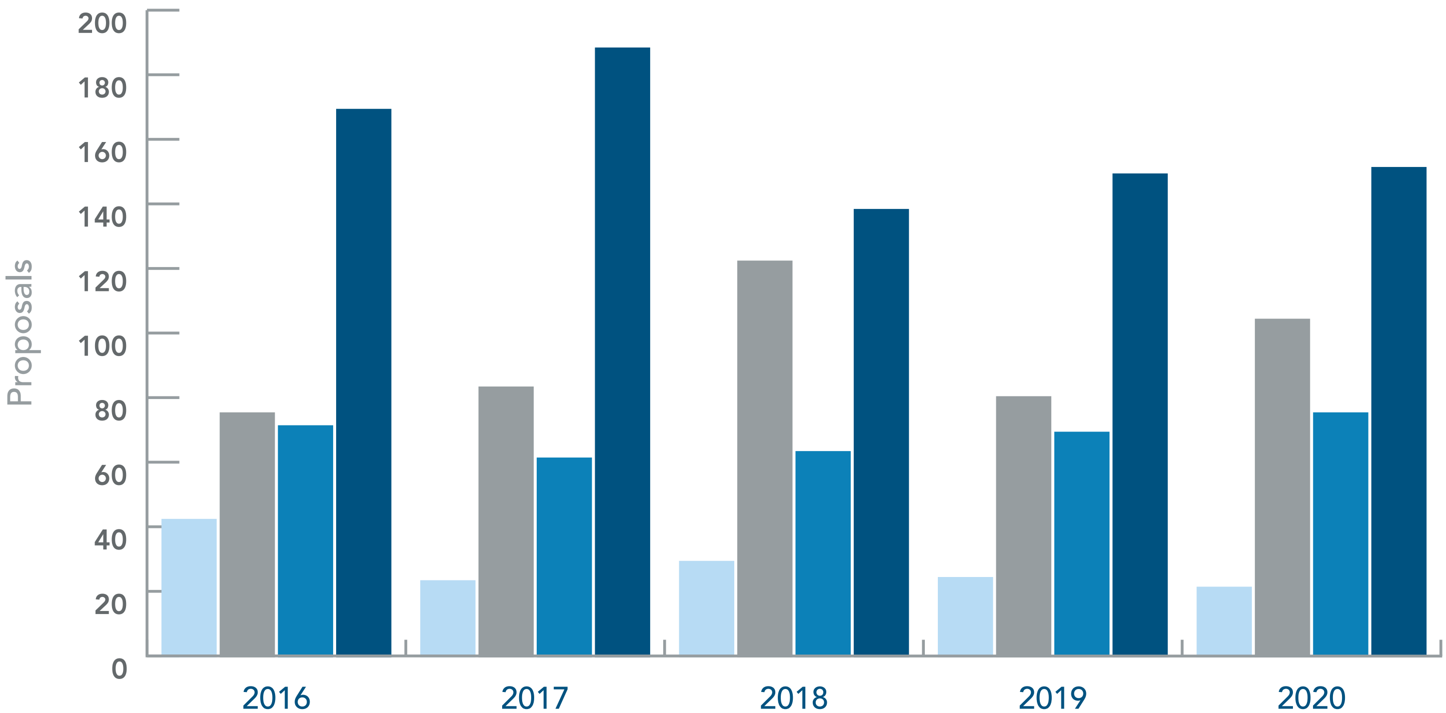
Figure 1 Shareholder Proposals, Equilar 500



Data Points

1. Since 2016, the prevalence of shareholder proposals across the Equilar 500 has declined by 2.2%, with 360 filed in 2020 *(Fig. 1)*
2. From 2016 to 2019, the frequency of proposals declined by more than 10%, with the biggest decline occurring from 2018 to 2019, before recouping with a 9.1% spike in 2020 *(Fig. 1)*

Figure 2 Shareholder Proposals by Type, Equilar 500



	2016	2017	2018	2019	2020
Compensation	42	23	29	24	21
General Shareholder Rights	75	83	122	80	104
Board Management	71	61	63	69	75
Social and Environmental Issues	169	188	138	149	151

Data Points

1. Compensation-related shareholder proposals have continued to decline in prevalence since 2016, dropping by 50% to 21 in 2020 *(Fig. 2)*
2. After seeing a sharp decline from 2018 to 2019, the frequency of general shareholder rights rose by 30% to 104 in 2020 *(Fig. 2)*
3. After falling off from the study peak of 188 in 2017, social and environmental-focused proposals have begun to rise in prevalence once more, increasing by 9.4% from 2018 to 2020 *(Fig. 2)*
4. Board management proposals have fluctuated through the course of the study, increasing slightly from 2016 to 2020 *(Fig. 2)*

John Beckman, Hogan Lovells Commentary

ESG issues, especially social issues such as human capital and diversity and inclusion, have become a top priority for investors. While these issues have been a focus for several years, the events of 2020 have created a sense of urgency on these issues. This sense of urgency among companies and investors aligns with the national mood on these issues. In 2021, companies should be prepared to answer detailed questions about these important topics from investors, including how these topics are reported up to the board. Investors increasingly are asking companies about the board's process for overseeing ESG and where that oversight appears in the company's governance documents. Boards and executive teams should be prepared to answer these questions about board oversight of ESG and for 2021 to be another robust year of shareholder engagement on ESG in general.

Ron Schneider, DFIN Commentary

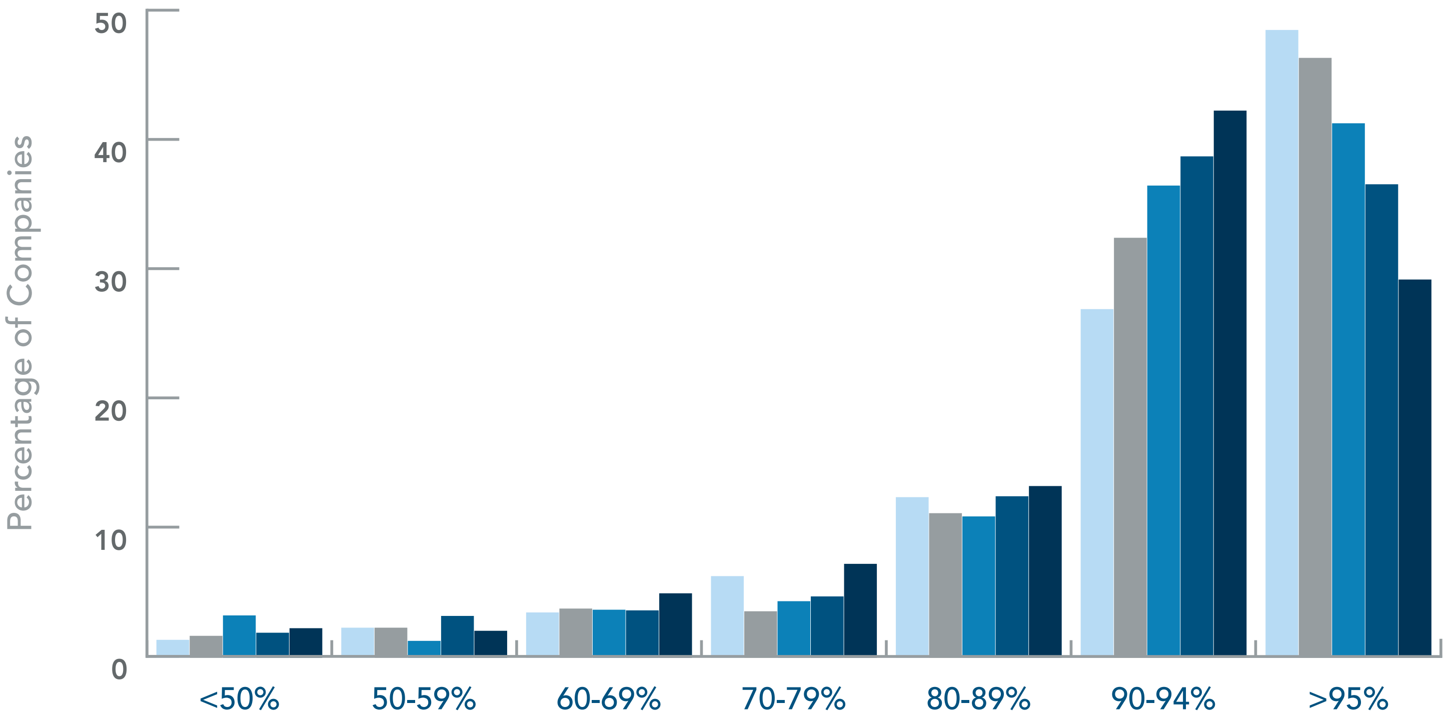
Increasingly, topics of investor interest cut across various lines within companies. Similarly, company documents and other disclosures, whether the 10-K/annual report, proxy, CSR or similar reports, utilize cross-functional planning and drafting teams.

While often owned by legal, these cross-functional teams increasingly include representatives from HR/benefits, finance and investor relations, risk, sustainability, community relations, and corporate communications.

Including IR in this process can help minimize the risk of mixed or inconsistent messages between the investment story and the governance, compensation, sustainability and overall proxy stories.

Adding to the complexity, cross-functional teams seeking to coordinate a large communications effort this year are now often working remotely. Hence more companies are utilizing the types of secure, collaborative document management and drafting tools that we and others provide.

Figure 3 Say on Pay Voting Trends, Equilar 500



	<50%	50-59%	60-69%	70-79%	80-89%	90-94%	>95%
2016	1.2%	2.1%	3.3%	6.1%	12.2%	26.8%	48.4%
2017	1.5%	2.1%	3.6%	3.4%	11.0%	32.3%	46.2%
2018	3.1%	1.1%	3.5%	4.2%	10.7%	36.3%	41.1%
2019	1.7%	3.0%	3.5%	4.5%	12.3%	38.6%	36.4%
2020	2.1%	1.9%	4.8%	7.1%	13.1%	42.1%	29.1%

Data Points

1. The percentage of companies receiving at least 95% approval for Say on Pay has continued to decline sharply, with just 29.1% of companies accomplishing this feat in 2020, a near 40% decline since 2016 *(Fig. 3)*
2. In 2020, 2.1% of companies received less than 50% approval for Say on Pay, a 75% increase from 2016 *(Fig. 3)*

Figure 4 Say on Pay Failures, Equilar 500

Year	Say On Pay Failures
2016	5
2017	7
2018	13
2019	8
2020	9

Data Points

1. Following an increase from 2016 to 2018, the number of Equilar 500 Say on Pay failures dropped in 2019 before increasing slightly to nine in 2020 *(Fig. 4)*
2. Say on Pay failures peaked in 2018 at 13 *(Fig. 4)*

Ron Schneider, DFIN Commentary

Particularly in 2021, traditional TSR-centric PfP (pay for performance) relationships may be less accurate measures of superior executive performance. For this reason, consider highlighting performance on non-TSR metrics such as financial, operating, or strategic objectives, including how performance stacks up relative to peers.

One excellent way to start crafting your PfP message is by focusing on the link between pay and business strategy. Some performance metrics may be obvious measures of relevant performance. When, however, metrics are not obvious measures, avoid making investors "figure out" the connection. Instead, clearly state how your chosen metrics are appropriate measures of relevant performance. To do this, some companies are starting their CD&As with sections titled something like "how our pay program supports our business strategy." In addition, when discussing metrics, consider including callouts such as "why we use these metrics." We have heard from investors that clear, credible discussions of how pay supports strategy consistently help to mitigate (without necessarily eliminating) the impact on the overall proxy vote of negative Say on Pay vote recommendations by proxy advisors.

Investors have signaled that they will look at executive pay holistically and with an eye toward "fairness." Particularly at companies that had to lay off, furlough or otherwise reduce their workforces, investors expect executives to "share the pain." This expectation becomes more apparent in an environment where workforces are considered human capital and not just employee costs.

Public Service Enterprise Group

DEF 14A | Filed 3/16/20

Pay for performance will undoubtedly continue to be a top governance priority in 2021. In this example, Public Service Enterprise Group effectively illustrates how its executive performance fared in relation to financial-driven goals.

Compensation Discussion and Analysis – Our Compensation Elements Explained

Operational Excellence	Financial Strength	Disciplined Investments
• Achieve top quartile performance in providing safe, reliable, economic and greener energy • Continuously improve operations through a culture that recognizes the value of diversity and inclusion and an environment where all employees value safety, integrity, continuous improvement and customer service and are engaged and comfortable speaking up • Attract, develop and retain a high-performing and diverse workforce	• Achieve earnings targets and improve long-term growth prospects while maintaining strong credit ratings • Relentless focus on cost control and deliver on business plan commitments • Execute on cost efficiency and business optimization initiatives • Deliver value through strong relations with key stakeholders – customers, stockholders, employees, regulators, governments and communities • Advocate for policies and rules that fairly compensate the utility and generation business while supporting appropriate environmental standards	• Execute planned investment programs and complete remaining new construction build on time and in compliance with budget • Develop and execute strategies to profitably grow the competitive, environmentally advantaged generation and related businesses

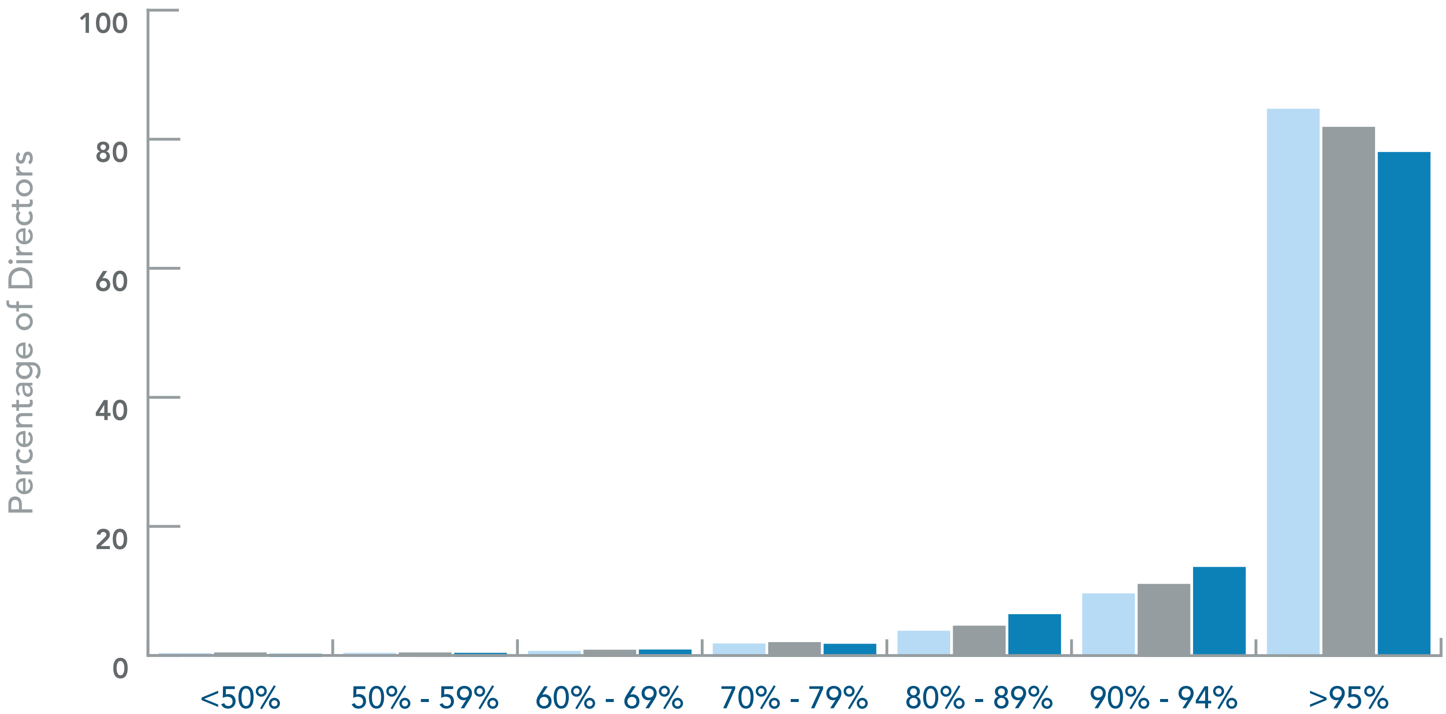
Each Named Executive Officer's performance under each applicable factor — corporate EPS, business unit earnings, business unit scorecard and strategic goals — could range from zero to 2.0 (200%) based on the achievement of pre-determined goals.

Target and Actual Performance Levels for 2019 Financial Metrics

(1) For Power Adjusted EBITDA, discretion was applied to bring payout factor to threshold result.

Operating EPS (non-GAAP) excludes mark-to-market activity, Nuclear Decommissioning Trust (NDT) and other material one-time items. In order to provide a consistent comparison of earnings, PSE&G's non-GAAP Operating Earnings results are adjusted for variances between actual interest expense and the business plan. PSEG Power's non-GAAP Adjusted EBITDA excludes the same items as non-GAAP Operating Earnings, interest expense and depreciation and amortization. We further adjusted PSEG Power's non-GAAP Adjusted EBITDA to exclude tax credit purchase costs, which directly impact income tax expense. We used these non-GAAP measures because we believe they better reflect operating performance and more directly relate to ongoing operations of the businesses. See Appendix A on pages 72-73 for reconciliation to GAAP of non-GAAP Operating Earnings and non-GAAP Adjusted EBITDA.

Figure 5 Director Approval, Equilar 500

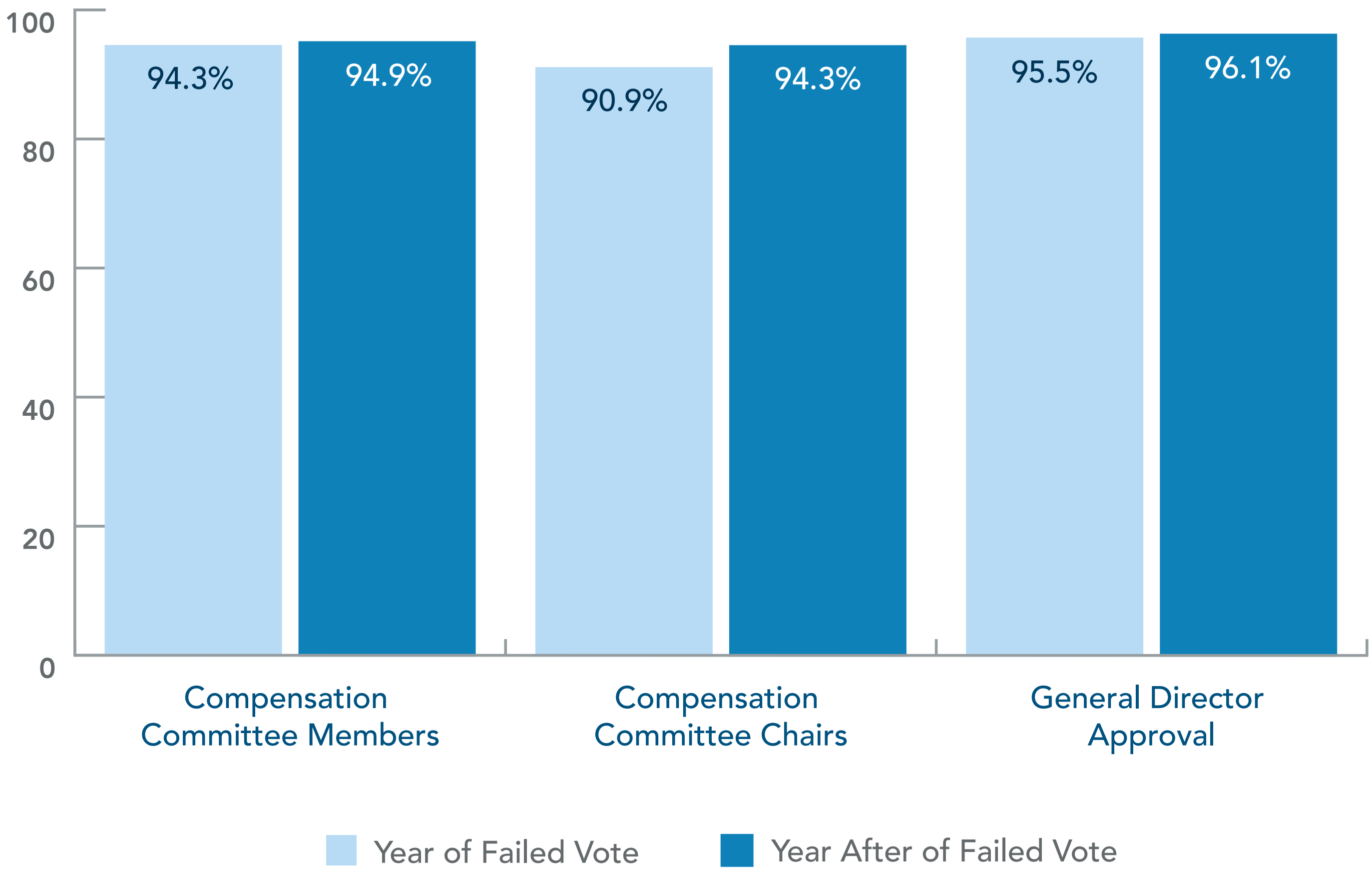


2018	0.2%	0.2%	0.5%	1.6%	3.6%	9.4%	84.5%
2019	0.3%	0.3%	0.7%	1.9%	4.4%	10.9%	81.7%
2020	–	0.2%	0.7%	1.6%	6.2%	13.5%	77.8%

Data Points

1. The percentage of Equilar 500 directors who received 95% approval or more declined by nearly 8% since 2018, coming in at 77.8% in 2020 *(Fig. 5)*
2. Less than 1% of directors received an approval rating below 70% in 2020, a slight decline from 2019 when 1.3% of directors saw similar ratings *(Fig. 5)*

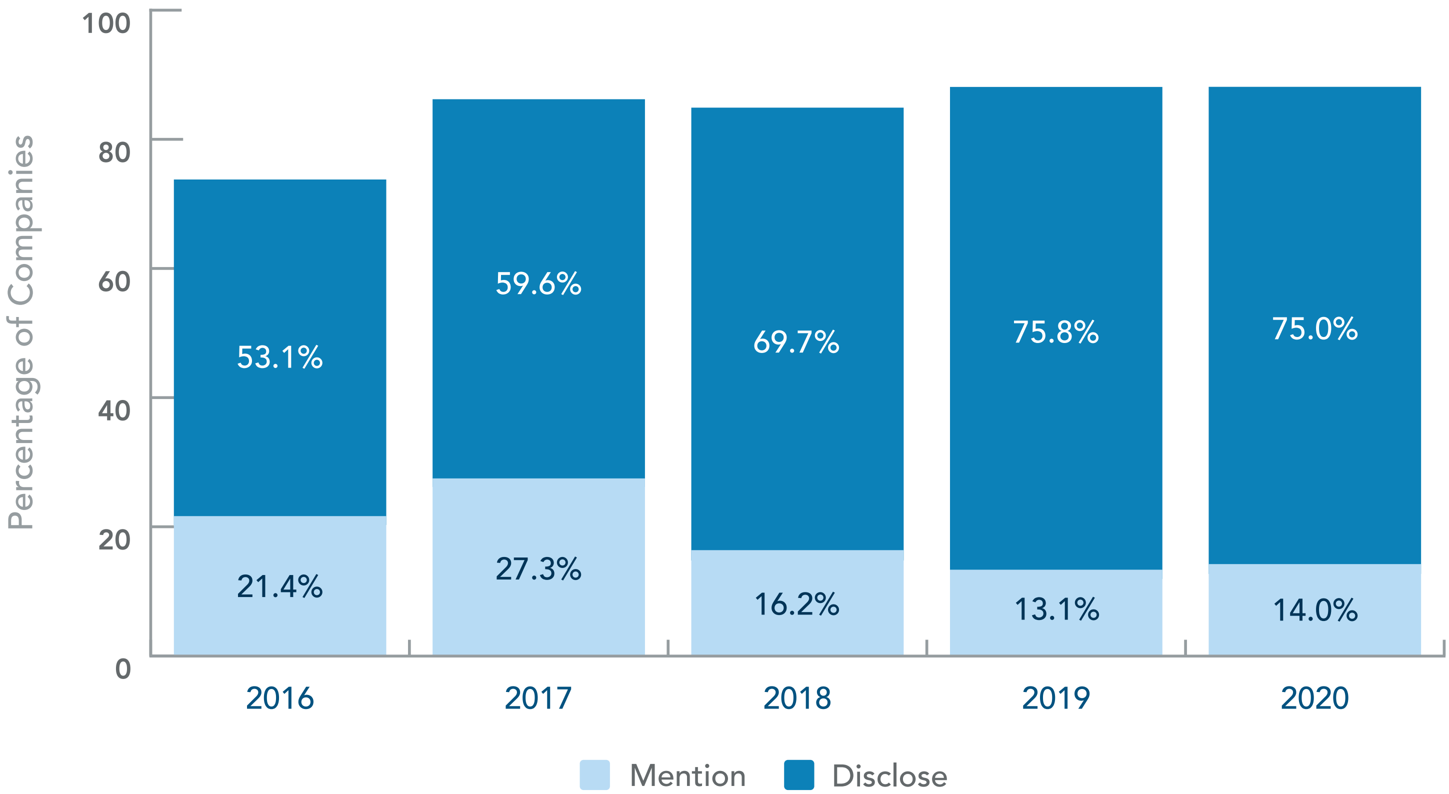
Figure 6 Median Compensation Committee Approval After a Failed Say on Pay Vote, 2016-2020 (Equilar 500)



Data Points

1. During a year of a failed Say on Pay vote, director approval rates remained above 90% across compensation committee members, compensation committee chairs and general directors *(Fig. 6)*
2. The largest increase in approval following a year of a failed Say on Pay vote was for compensation committee members, who saw a 3.7% increase in approval *(Fig. 6)*

Figure 7 Shareholder Engagement Disclosure, Equilar 100



Data Points

1. The percentage of Equilar 100 companies either mentioning or disclosing topics or processes related to shareholder engagement has increased by nearly 14 percentage points during the course of the study, settling at 89.0% in 2020 *(Fig. 7)*
2. Companies mentioning shareholder engagement has declined since 2016, while the percentage of companies disclosing such policies has increased by more than 20 percentage points since 2016, clocking in at 75.0% in 2020 *(Fig. 7)*

General Motors Co. (GM)

DEF 14A | Filed 4/27/20

With ESG almost certain to be a hot-button topic for years to come, several companies have elected to disclose their policies around such issues. In this disclosure example from General Motors, the Company clearly depicts its data-driven ESG goals and accomplishments in a visually-appealing format.

SPOTLIGHT ON KEY ESG INITIATIVES

Environmental & Sustainability Highlights

$2.2 billion

Investment in our Detroit-Hamtramck Assembly Plant, which will be the first GM plant fully dedicated to the manufacturing of EVs and will support 2,200 jobs.

$20 billion

The capital and engineering resources we will allocate to EV and AV programs between 2020 and 2025.

5

Number of consecutive years that GM has been the only automaker placed on the Dow Jones Sustainability Index for North America and the third time named to the DJSI World Index.

100%

All global electricity needs will be supported by renewable energy by 2040, 10 years earlier than our previous commitment. Key milestones include achieving 60% globally by 2025 and 100% in the U.S. by 2030.

50%

By 2030, in partnership with our suppliers, at least half of GM automotive parts will be made with sustainable materials, moving us even closer to a circular economy.

60%

Growth in Cruise's workforce in 2019. Most of these new hires are engineers, who are working on Cruise's core challenge of bringing autonomous vehicles with superhuman levels of safety to market.

46%

Reduction in rear-end crashes in GM vehicles equipped with Automatic Emergency Braking (or Forward Automatic Braking) with Forward Collision Alert, according to a study conducted in partnership with the University of Michigan Transportation Research Institute.

70%

The reduction of cobalt used in GM's new proprietary battery technology Ultium.

9

The number of years that GM has been named a U.S. EPA Energy Star® Partner of the Year—Sustained Excellence in Energy Management.

AMERICA'S MOST JUST COMPANIES Forbes 2020

GM ranks first in the automotive industry three years running and placed 18th overall on this ranking of companies whose business behaviors align with priorities of the American public in environment, social and ethical factors.

Top 100

For the third consecutive year, GM ranked in the top 100 of Corporate Responsibility Magazine's Best Corporate Citizens, which recognizes outstanding environmental, social and governance transparency and performance among the 1,000 largest U.S. public companies.

CDP "A" List

GM was cited as a global leader in sustainable water management, achieving a place on CDP's prestigious Water Security A List. The Company also received a 100 percent score on disclosure of climate change risk.

2020 Bloomberg Gender-Equality Index

For the second year, GM earned placement on Bloomberg's Gender-Equality Index.

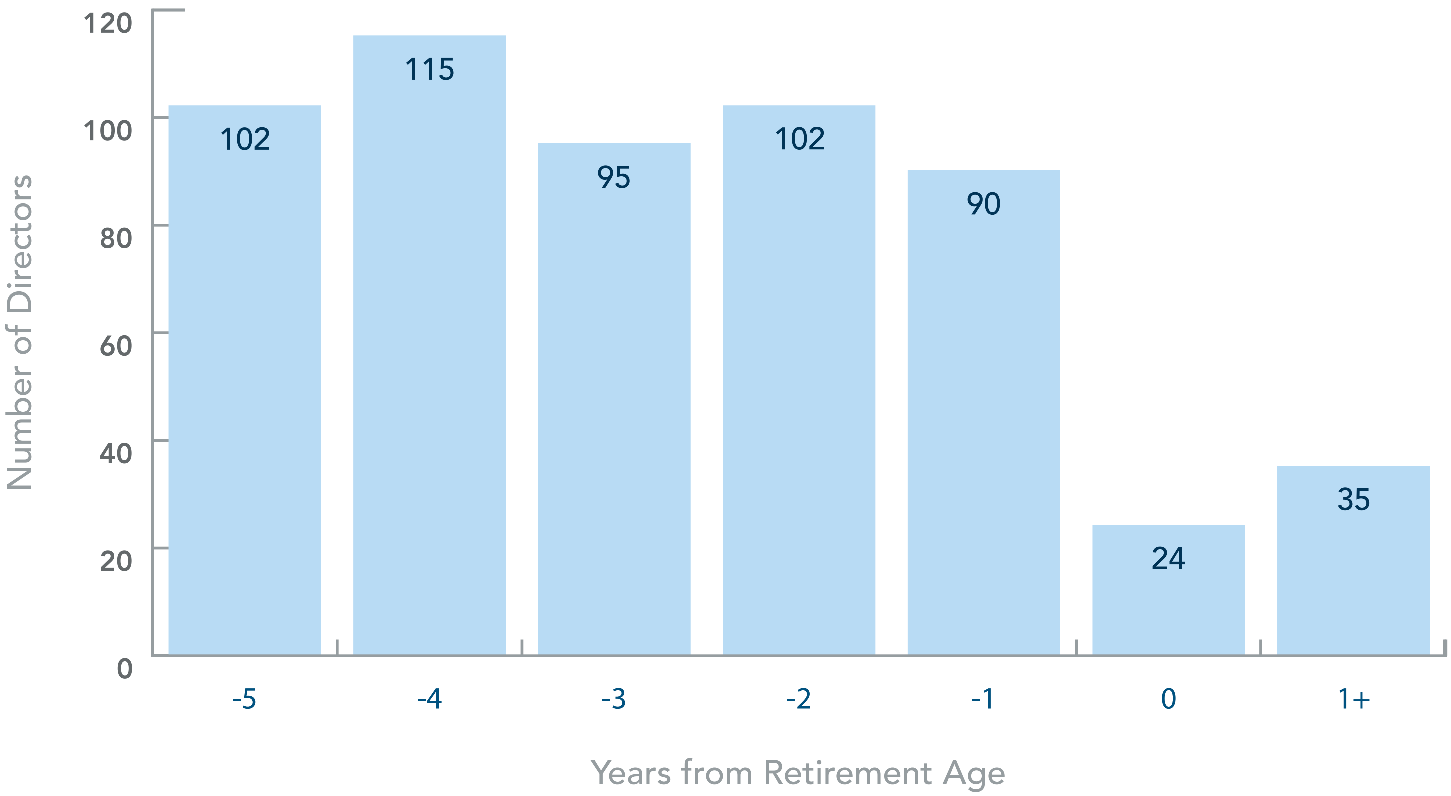
S&P 500

GM was included on the S&P 500 ESG Index, which launched in 2019 and recognizes strong performance in environmental, social and governance factors.

2020 WORLD'S MOST ETHICAL COMPANIES™ WWW.ETHISPHERE.COM

For the first time, GM has been named one of the 2020 World's Most Ethical Companies for strong ethics and compliance programs, corporate citizenship and responsibility initiatives, culture of ethics, defined governance and leadership, and ethical reputation.

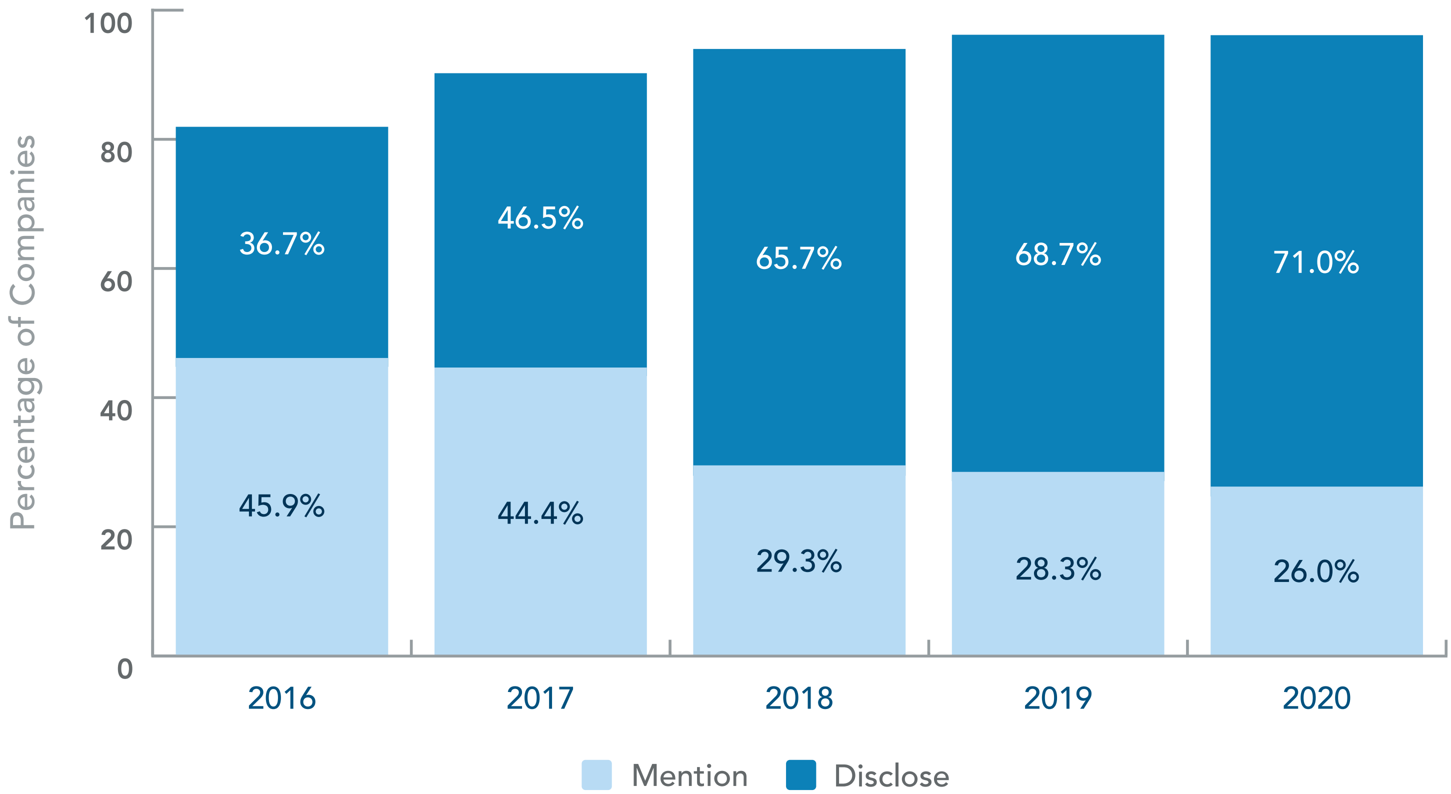
Figure 8 Directors Nearing Retirement Age, Equilar 500



Data Points

1. 504 Equilar 500 directors are nearing retirement age, while 59 have either reached a disclosed retirement age or are over by at least one year *(Fig. 8)*
2. As evidenced by the sharp drop in directors from those one year away from retirement and those who have reached retirement age, most directors retire once they reach their disclosed retirement age *(Fig. 8)*

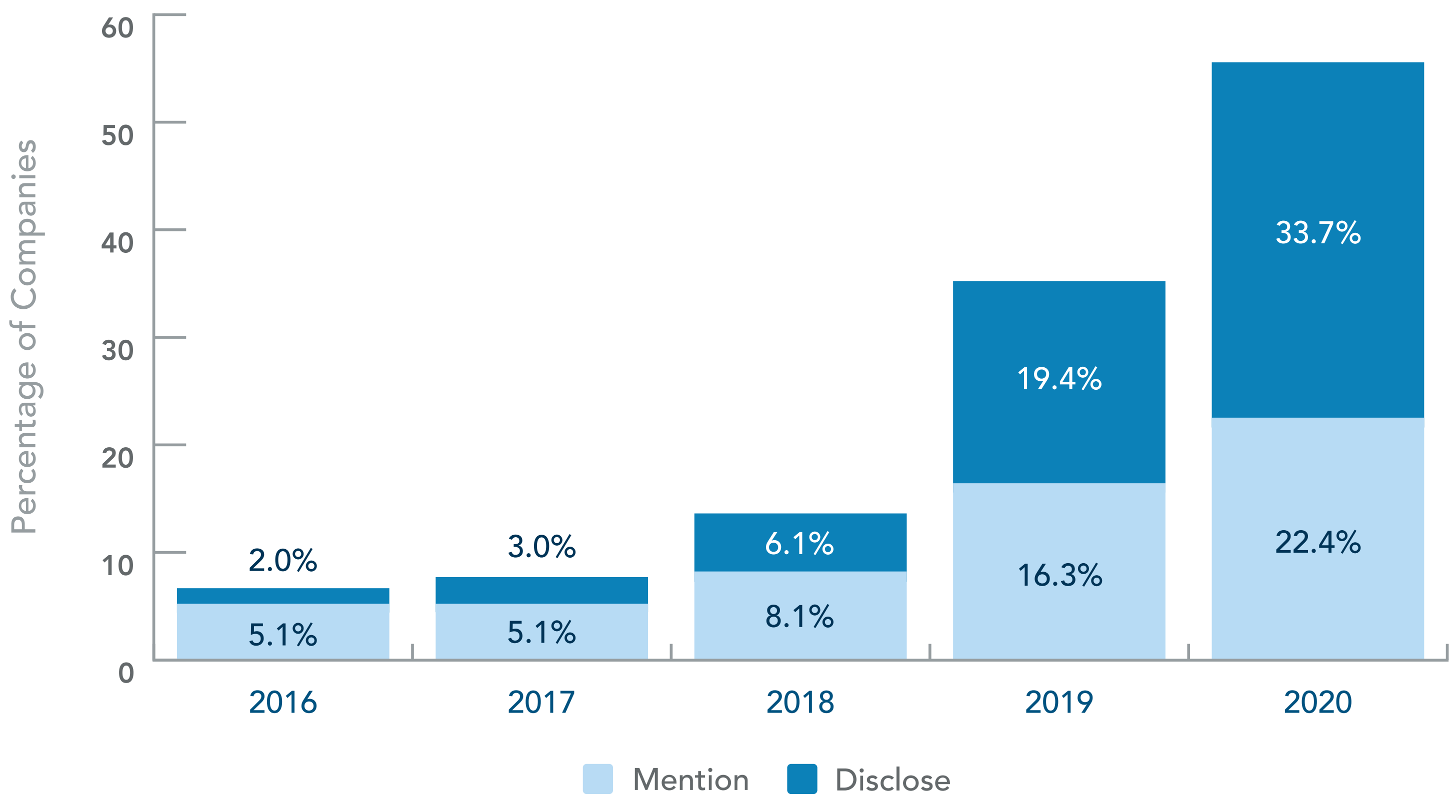
Figure 9 Board Evaluation Disclosure, Equilar 100



Data Points

1. The percentage of Equilar 100 companies disclosing their board evaluation processes has increased by nearly 35 percentage points over the course of the study, settling at 71.0% in 2020 *(Fig. 9)*
2. In total, 97.0% of Equilar 100 companies either disclosed or mentioned their board evaluation processes in 2020 *(Fig. 9)*

Figure 10 ESG Disclosure, Equilar 100



Data Points

1. Due to heightened attention around ESG, the percentage of Equilar 100 companies disclosing or mentioning ESG-related policies has increased significantly since 2016, with 56.1% of companies either mentioning or disclosing these types of policies in 2020 *(Fig. 10)*
2. 2019 was the first year in the study in which the percentage of companies disclosing ESG-related policies was higher than the percentage of companies mentioning these policies—this trend continued, with the gap increasing between the two data points, in 2020 *(Fig. 10)*

Alan Dye, Hogan Lovells Commentary

After years of slow but steady progression, ESG issues have gained enormous momentum this year as a result of vocal public reaction to social inequities, racial injustice, and threats to health and safety as a result of the COVID pandemic. As social and environmental issues have burst into mainstream corporate consciousness, companies have accelerated and elevated their focus on ESG issues, which has already led to increased disclosure of ESG programs and priorities. Most companies already were focused on sustainability issues, primarily climate change and other risks to the company's business. Now companies are upping their game by reorganizing board committees and assignments to focus on ESG matters, identify areas of particular concern to the company's core constituencies, and assist management in establishing key goals, measuring progress against those goals, and developing a framework for disclosure of the company's ESG program. Development of these programs and disclosures will take time, and disclosures will inevitably vary in nature and detail. Already, though, proxy statements are including increased disclosure of such things as human capital management and diversity and inclusion programs. These disclosures are likely to increase as leading institutional investors press companies for more, through engagement and shareholder proposals.

Ron Schneider, DFIN Commentary

For the past two years, ESG proxy disclosure has most frequently ranked number one among topics clients discuss with us.

This isn't because ESG disclosure is more important than discussions of our clients' boards or executive compensation stories.

Rather, companies have been honing board and compensation disclosures for a decade or more, and now, as ESG has become the third leg of this disclosure stool, companies are rushing to fill the gap and catch up to the other two legs.

ESG disclosures invariably evolve and increase in specificity over the years. A typical evolution is for companies to first identify their ESG risks and opportunities; next, incorporate them into strategic planning; and then, measure progress and outcomes. Often, the year one disclosure in this area is simply confirmation that ESG oversight is a regular topic of board attention, accompanied by a statement about which committee of the board has primary responsibility for ESG oversight.

In addition, we are increasingly seeing ESG disclosures permeate other areas of the proxy. For instance, director bios and board skills matrices may highlight ESG, human capital, human resources, community relations, philanthropy and similar experiences and competencies residing within the board. Often these strengths were already there, but only after companies expanded their D&O questionnaires to probe into these areas did they surface and attract notice.

In subsequent years, companies may articulate the material priorities they have identified and are focusing on, as well as disclosing targeted and achieved performance. Again, with any new or expanded disclosure, it's important to obtain legal guidance to keep on safe ground.

International Business Machines Corp. (IBM)

DEF 14A | Filed 3/9/20

IBM provides a thorough, organized approach to its annual shareholder engagement cycle. The Company offers details of engagement efforts as well as recent outcomes as a result of its engagement including those related to governance, compensation and CSR.

Integrated Approach to Stockholder Engagement

CORPORATE SECRETARY MAGAZINE'S 2019 CORPORATE GOVERNANCE AWARDS

★ WINNER
Best Shareholder Engagement

IBM's Year-Round Engagement Process

Engaging with Stockholders

Offer in-season engagement to stockholders owning, in the aggregate, a majority of shares that vote each year

In 2019, engaged with 70% of institutional investors and >250,000 retail investors leading up to the Annual Meeting

Off-Season engagement offered to stockholders owning, in the aggregate, more than 50% of shares that vote each year and met with many that voted at the 2019 Annual Meeting

Periodic Stockholder Webcast Updates

Hold multiple webcasts throughout the year to keep stockholders abreast of Company developments

In 2019, held stockholder webcasts on Corporate Responsibility and the acquisition of Red Hat and hosted an investor reception at our annual THINK conference

Enhancing Practices

Stockholder feedback is integrated into boardroom discussions and helps to inform the Board's decisions and the Company's practices and disclosures

To encourage stockholder participation in the Annual Meeting, made a $300,000 charitable donation to AnitaB.org in 2019; increased retail voting by more than 12% year over year

Robust Conversations

IBM customizes its engagements by aligning discussion topics with stockholders' areas of interest, some of which include:

- Business Strategy & Finance
- Board & Corporate Governance
- Human Capital Management & Executive Compensation
- Corporate Social Responsibility & Environmental Affairs

Recent Outcomes of Engagement

Governance

- Continued focus on active Board refreshment and diversity
- Active committee chair and member rotation
- Enhanced disclosure of Board oversight practices

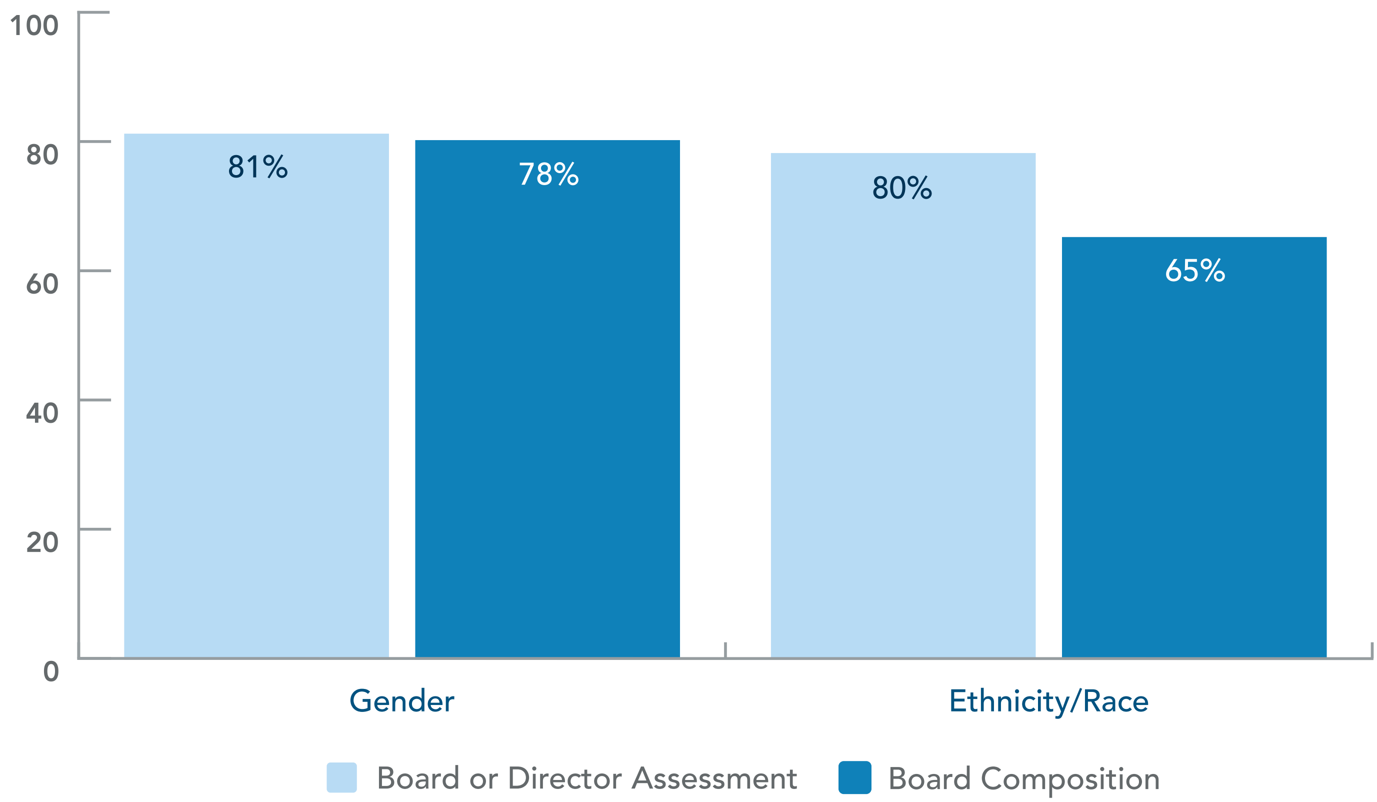
Compensation

- Added total IBM revenue metric to the Annual Incentive Program (AIP) beginning in 2019
- 2019 AIP and 2019-2021 Long Term Incentive Plan targets were updated to include the Red Hat acquisition
- Enhanced transparency on IBM's executive compensation programs design with increased disclosure on metric targets

Corporate Social Responsibility

- Held an investor webcast devoted entirely to sustainability topics, including corporate citizenship, diversity and inclusion, supply chain, artificial intelligence, data privacy, environment, and governance
- Ensured that IBM attendees with specific areas of sustainability expertise were available for dialogue with investors

Figure 11 Board Composition Disclosures on Gender and Ethnicity/Race, 2020 (Equilar 100)



Data Points

1. In 2020, 78.0% of Equilar 100 companies included board composition disclosures related to gender, 13 percentage points higher than the 65.0% of companies that did so in relation to ethnicity or race *(Fig. 11)*
2. 81.0% of companies included gender as part of their board or director assessment, and similarly, 80.0% of companies included ethnicity or race as part of their assessments *(Fig. 11)*

American Express Co. (AXP)

DEF 14A | Filed 3/24/20

Board diversity has been a critical topic of conversation over the last several years, and this was further exacerbated in 2020. As such, companies are using their proxies to disclose policies around board diversity. Among those companies is American Express, who provides a quick and easy-to-read snapshot of the Company's director nominees, including demographic and experiential diversity-related information.

Our Board of Directors

The following provides summary information about each director nominee. Our director nominees possess a range of diverse skills, backgrounds, experience and viewpoints that we believe are integral to an effective board. Detailed information about each individuals' qualifications, experience, skills and expertise along with select professional and community contributions can be found starting on page 6.

Our Director Nominees

Name	Position	Age	Director Since	AC	CB	NGPR	R
Charlene Barshefsky	Director	69	2001				■
John J. Brennan	Director	65	2017	■	■		●
Peter Chernin	Director	68	2006		■	●	
Ralph de la Vega	Director	68	2016	■	■		
Anne Lauvergeon	Director	60	2013	■			■
Michael O. Leavitt	Director	69	2015	■		■	
Theodore J. Leonsis	Director	64	2010		■	■	
Karen L. Parkhill	Director	54	2020	■			
Lynn A. Pike	Director	63	2020			■	
Stephen J. Squeri	CEO & Chairman	61	2018				
Daniel L. Vasella	Director	66	2012	●			■
Ronald A. Williams	Lead Independent Director	70	2007		●	■	
Christopher D. Young	Director	48	2018		■		■

■ Member ● Chair

AC Audit and Compliance **CB** Compensation and Benefits **NGPR** Nominating, Governance and Public Responsibility **R** Risk

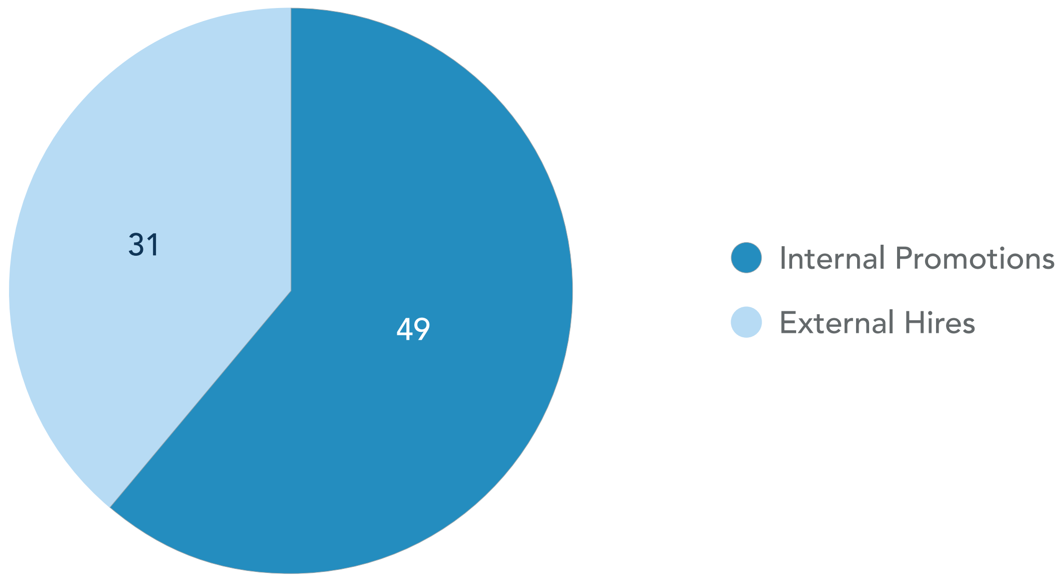
Director Nominee Statistics

Gender Diversity	Racial/ Ethnic Diversity	International	Average Age	Independence	Average Tenure
31%	23%	15%	63.5 years	92%	6.3 years

Diversity of Skills, Viewpoints and Expertise

Core Business, Operations and Organizational Leadership	Financial Services Industry	Government/Legal/ Regulatory/Public Policy	Investment and M&A	Public Company Governance
Technology and Information Security	Consumer	Risk Management	Global Perspective	Brand and Marketing

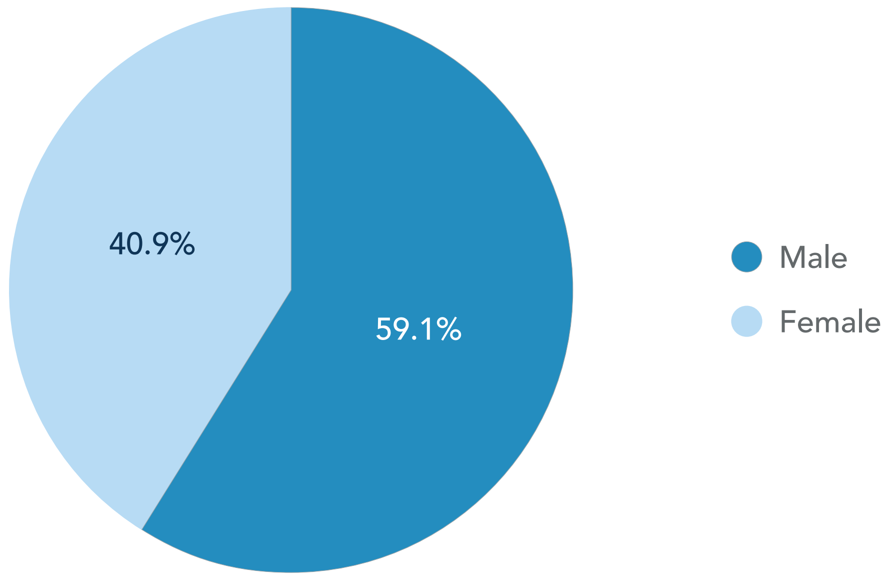
Figure 12 CEO Transitions in 2020, Equilar 500



Data Points

1. In 2020, there were 80 CEO transitions at Equilar 500 companies *(Fig. 12)*
2. Among the new 80 CEOs, 49 were internal promotions, while 31 were appointed from outside the organization *(Fig. 12)*

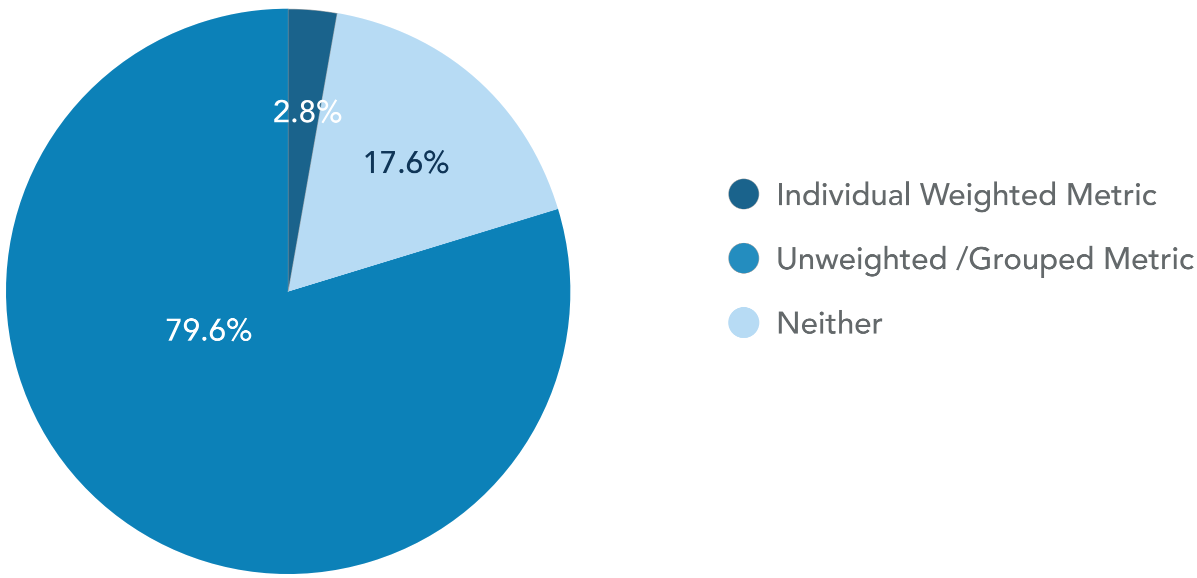
Figure 13 Prevalence of New Female Directors in Q3 2020, Russell 3000



Data Points

1. During Q3 2020, 40.9% of new Russell 3000 directors were women, while 59.1% were men— a near 45% difference *(Fig. 13)*

Figure 14 Companies with Annual Bonus Diversity Metrics in 2020, Equilar 500



Data Points

1. During 2020, 20.4% of Equilar 500 companies elected to tie executive bonuses to a diversity-related metric, with 17.6% choosing an unweighted or group metric and 2.8% selecting an individual weighted metric *(Fig. 14)*
2. The vast majority, 79.6%, elected not to tie a diversity metric to the annual bonus, a figure that may decline given the pressure around diversity and equality *(Fig. 14)*

Alex Bahn, Hogan Lovells Commentary

As companies have moved toward incorporation of ESG metrics in annual and long-term incentive compensation programs, we have observed a broad range of available performance objectives available to allow for substantial flexibility in choosing metrics that tie compensation to critical focus areas. Diversity is becoming a more common metric in these programs and we see that trend continuing into 2021. The impact of inclusion of diversity and inclusion metrics in compensation programs makes it more likely that the areas of focus identified by the company for performance will remain "top of mind" among participants in these programs. Companies that have included such metrics will want to ensure that their establishment of these objectives and the performance against the goals are highlighted in their compensation disclosures to ensure that investors and other stakeholders understand the tie between ESG topics, such as diversity, and executive compensation.

Ron Schneider, DFIN Commentary

A range of studies show that diverse workplaces, managed properly, can improve productivity. In addition, companies increasingly want their boards and executives to mirror their workforce, employees, customers and even society as a whole.

An October 2020 study by Mercer estimated that 15%-20% of S&P 500 companies include DEI (diversity, equity and inclusion) metrics in executive incentive plans; for those that don't, it's a missed opportunity, the firm said.

As typically occurs with new trends and emerging best practices, once early adopters report positive results from their diversity efforts and increasingly tie executive pay to progress in this area, their peers are compelled to consider similar moves. Over time, those that don't respond risk being perceived as "laggards" in this area.

Tying executive pay to diversity metrics is part of a larger trend of increasing use of non-financial metrics including ESG-related metrics. Typically, these metrics are found in annual, as opposed to long-term, incentive plans and are often given a 10% to 20% weighting within the overall pay determination.

These disclosures are often provided in "elements of compensation tables" within the proxy, that list each major element of pay, what it does, how it's measured or earned, any related metrics and weightings, and ideally, the rationale or "link to business strategy" of employing a particular metric. Doing so provides investors with a useful overall snapshot of the pay program and its metrics.

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