Corporate Governance Outlook 2018

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December 2017

Featuring Commentary From

Donnelley Financial Solutions

Hogan Lovells

EQUILAR

CONTENTS

Executive Summary

Board governance and executive compensation were once again critical issues across corporate America in 2017. From highly-publicized proxy fights and continued adoption of proxy access to less contentious—but equally meaningful—engagement meetings, shareholders sought more access to and transparency from their portfolio companies. Investors and corporate leaders alike pushed for the continued diversification of boards and more detailed disclosure of director skillsets and board evaluation. The number of shareholder proposals fell in 2017 compared to highs in the two years prior, but social and environmental proposals continued to gain prominence in both number and investor support.

As the end of 2017 approaches, executive compensation once again looms over the governance landscape in the form of the CEO Pay Ratio disclosure requirement, the rule stating that companies must disclose the ratio of CEO compensation to that of their median employees beginning in 2018. While many expected this rule to be discarded by newly minted legislation under the Trump adminisitration, the Pay Ratio will be featured in proxy statements starting next year. Undoubtedly, this will be a contentious discussion topic as 2018 will set the baseline for subsequent years.

Corporate Governance Outlook 2018 analyzes trends in corporate governance and executive compensation disclosure in proxy filings at the 500 largest, by revenue, U.S. public companies (Equilar 500). The report reviews the recent evolution in governance and disclosure practices and provides a look ahead to what may come.

Social and Environmental Issues Dominate Shareholder Proposals (p. 16)

Total shareholder proposals included in Equilar 500 company proxy statements decreased in number from 400 in 2016 to 352 in 2017. Upon closer examination, a majority of proposals, 52.6% in 2017, fell into the social and environmental category, increasing from 132 proposals in 2013 to 185 in the most recent year. Notably, the environmental and social segment of the ESG (environmental, social and governance) category was the only one to see an increase in 2017. Conversely, shareholder proposals on board management and compensation saw a significant decrease during the study period. The decline in compensation proposals over the five years may be attributed to the emergence of Say on Pay, which has led to companies preemptively addressing compensation-related issues through shareholder engagement and enhanced voluntary disclosure.

With shareholders demanding more transparency, proxy access—which allows shareholders to nominate directors for election at annual meetings—has emerged as a vital component of the company-shareholder relationship. A total of 50 companies in the Equilar 500 received proxy access proposals in 2016, and 44 of those companies adopted and implemented a proxy

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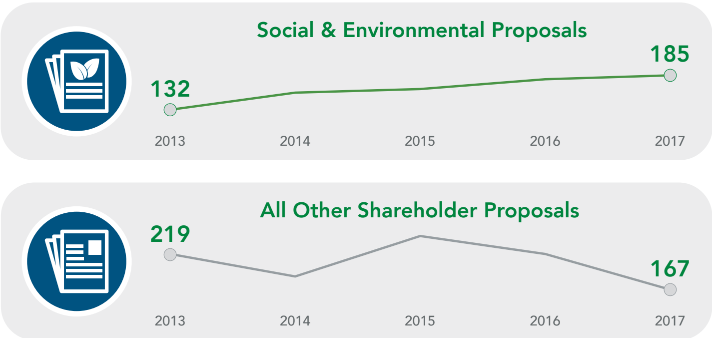
access plan the next year following the vote. Recognizing it is an important shareholder right, 12 of the 44 companies adopted proxy access despite a lack of majority support from shareholders. The reciprocal occurred as well, where two companies had proxy access proposals approved by shareholders yet chose not to adopt proxy access bylaws.

Shareholder Proposals Focus on Corporate Responsibility



Preparing to Disclose the CEO Pay Ratio (p. 32)

Likely the most anticipated change in the 2018 proxy season will involve required disclosure of a CEO Pay Ratio for each company. Though not a single company in the Equilar 500 disclosed a pay ratio in the past year, Equilar calculated a rough estimate using median CEO compensation from Equilar data and the median worker compensation provided by the U.S. Bureau of Labor Statistics. The ratio for the 2016 year was 247:1, which has remained relatively steady over the last four years.

Beyond the number itself, companies will have to decide where to place this information in the proxy and how much additional context to give the ratio, and investors will have to make decisions on how this data point affects their evaluation of executive compensation. The impact of the CEO Pay Ratio on executive pay levels and Say on Pay voting is expected to be minor, but because some observers—including media—are expected to project this figure as a representation of income inequality, companies will have to contend with many internal and external voices weighing in on their corporate affairs. This stands to be one of the most critical governance issues in 2018, regardless of its direct impact on CEO pay design and practices.

Meanwhile, the ratio between CEO and average NEO compensation has seen a recent decline. Down roughly 3.6% from 2015, the median CEO-to-average-NEO pay ratio saw the least disparity during the study period, 2.8:1, in 2017. Coinciding with this decrease in CEO-to-average-NEO compensation, disclosure of internal pay equity for executives became more prevalent in the most recent year in the study.

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In 2017, 45.2% of Equilar 500 companies disclosed internal pay equity among their top officers, which many investors agree is more germane to evaluating executive pay practices than a comparison to a median employee.

Listening to What Shareholders Say on Pay (pp. 19 & 37)

Since it was enacted in the wake of Dodd-Frank in 2011, Say on Pay has directly influenced executive compensation programs at public companies. While roughly half of the companies in the Equilar 500 in the last five fiscal years received over 95% shareholder approval on executive compensation, the conversations between shareholders and boards around this topic have altered pay practices.

Say on Pay 2017: By the Numbers

79.2%
90%+ approval

1.0%
Failures

Annual Frequency Vote = 94.2%

Total shareholder return (TSR) is the most common metric tied to performance-based awards granted to senior management, though about half of the Equilar 500 does not utilize it in their long-term incentive plans. Of the 426 companies that granted performance awards in 2017, 204 companies in the Equilar 500 did not use TSR as a performance metric for executive awards. More recently, both compensation committees and shareholders have begun to reevaluate the appropriateness of TSR, given that executives often experience poor line-of-sight into the levers they can pull to affect stock prices. External factors outside management's control affect stock price movement as well, and may result in lowered incentives during down markets or a "rising tide lifts all boats" situation in bull markets.

Those companies that excluded TSR chose performance metrics focused on company-specific financials and operations such as return on capital/return on invested capital/return on equity (ROC/ROIC/ROE), earnings per share (EPS), operating income/margin and revenue. ROC/ROIC/ROE was the most popular non-TSR metric in all five fiscal years, used in 84 awards in 2017. Operating income/margin was the second most popular metric from 2014 to 2016, with

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Corporate Governance Outlook 2018 Webinar

Join Equilar, Donnelley Financial Solutions and Hogan Lovells for a webinar that will discuss upcoming trends for the 2018 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

at least 60 awards featuring the metric in every year, while EPS, featured in 72 awards, was the second most common metric in both 2013 and 2017.

Transparency Around Board Practices Gains Traction (pp. 29 & 43)

In recent years, many companies have made an effort to become more transparent in the eyes of shareholders. This is evidenced by a trend of non-required disclosures appearing with greater frequency in proxy statements, such as those focused on shareholder engagement, board evaluation practices or executive succession planning. For example, nearly three-quarters of Equilar 100 companies included at least some information about shareholder engagement policies in their most recent proxy statements, up from just over 32% in 2013. Notably, the percentage of companies that disclosed specified details about shareholder engagement interactions increased from 17.7% in 2013 to 47.0% in 2017. Meanwhile, those who mentioned that they engaged shareholders—but shared little more information than that—increased from 14.6% to 27.0%. The report distinguishes between levels of transparency in the data that follows as “disclosed” for those companies that include specific details about their actions, and “mentioned” when boilerplate or broad, but not specific, information about these topics are included in the proxy.

The number of Equilar 100 companies that offered detailed disclosure about board evaluation practices increased nearly four times in during the study period, up from 6.3% of companies in 2013 to 24% in 2017. Moreover, 28% of the Equilar 100 disclosed significant details about CEO succession plans in 2017, up 1.7 percentage points from 2016 and 7.2 percentage points since 2013. As measured by these disclosure trends, corporate boards are seemingly placing higher value on transparency with shareholders.

Beyond the Numbers

A Q&A with Donnelley Financial Solutions and Hogan Lovells

To provide additional perspective on the trends uncovered in *Corporate Governance Outlook 2018*, Equilar spoke with contributors from Donnelley Financial Solutions and Hogan Lovells, who provided commentary on influencing factors affecting boardrooms at public companies today.

Equilar: What are the biggest risks facing executives and boards from a governance perspective going into 2018? In what ways can they be best prepared to mitigate those challenges and engage productively with shareholders?

Amy Freed, Hogan Lovells: The pace of technological innovation has created unprecedented challenges for executives and boards of directors. Directors and executives need to work harder, react more quickly, and be more engaged.

> *"The pace of technological innovation has created unprecedented challenges for executives and boards of directors. Directors and executives need to work harder, react more quickly, and be more engaged."*
>
> - Amy Freed, Hogan Lovells

Businesses are changing quickly. Directors and executives need to proactively educate themselves on technological innovations in the marketplace and how those innovations are affecting the business that they are overseeing. Directors must be attentive to the changing landscape so they can hold management accountable and ensure that management is engaged in a productive and ongoing dialogue with shareholders.

Directors also need to react more quickly. The unprecedented speed at which information and misinformation is disseminated creates monumental risks to companies. Whether it involves allegations of inappropriate behavior by a director or executive officer, the misuse of a company product in a way that harms others or other corporate crises, information can spread throughout the internet by wildfire and have a lasting negative impact on a company's brand and stock price. Directors and management need to practice risk scenarios so they can respond quickly and decisively to allegations of misconduct, manage crises effectively and dispel misinformation.

Finally, directors need to be more careful. The access that directors and executive officers have to instant communication tools, including social media, creates risks to them as well as the company. Email communication can engage board members and free up time in board meetings to enable participants to concentrate on strategic issues. But the exchange of views by board members via text or email may not allow for an open exchange of views and may create a difficult litigation record. Impulsive reactions and inappropriate emotive reactions can lead to acrimony. Another danger can surface if board members selectively email each other between meetings and form inner cabals. Some board members email members of management directly, often inundating them with time-consuming tasks. Directors and officers who communicate via social media can inadvertently violate the law, and damage control can be difficult to manage given the public nature of the violations. Directors and officers should be educated on appropriate use of communication tools.

Equilar: What have been the most significant changes we've seen to proxy statement disclosures in the past five years, and what have been the catalysts for those changes?

Ron Schneider, Donnelley Financial Solutions: Over the past five years we have seen an acceleration of the evolution of proxies from compliance documents to a communications focus. This involves going beyond disclosing information to explaining why governance,

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Beyond the Numbers (continued)

compensation and other key practices are appropriate for a company and therefore deserving of investor support.

A more recent and early-stage trend, one that's perhaps less visual but no less significant, is the inclusion of additional voluntary (i.e. non-SEC required) disclosure, including a discussion of business strategy, as well as performance, within proxies. With respect to executive compensation, this voluntary disclosure answers the high-level question many investors have been posing for years: "How does pay support business strategy?"

"Over the past five years we have seen an acceleration of the evolution of proxies from compliance documents to a communications focus. This involves going beyond disclosing information to explaining why governance, compensation and other key practices are appropriate for a company and therefore deserving of investor support."

- Ron Schneider, Donnelley Financial Solutions

To understand the importance of this question, consider the voter at a major indexed investor. This voter isn't necessarily a natural recipient of company investor relations disclosures, and while he or she may try to vote "thoughtfully," this voter doesn't have the time to perform additional research. For years many investors have clearly said: "If you want us to take something into consideration, say it in the proxy."

Equilar: What key issues do you expect companies to focus on in 2018 as they consider proxy disclosures around critical governance topics?

Schneider: In large part, companies will continue to focus on the issues that are of importance to their investors and that drive their voting or are part of engagement discussions. When it comes to boards and their structure, these issues include director independence, combined or separate CEO and board chair positions, quality and skill sets, annual or classified board elections, as well as shareholder rights/ antitakeover measures, including poison pills, shareholders' rights to call meetings, and the cost-effective ability to present alternative board candidates through proxy access and other means.

As a result of new focuses and emerging issues, we will continue to see enhanced disclosure of board recruitment, evaluation and refreshment efforts, board oversight over an increasing array of risks, movement toward increased gender and other forms of diversity, and the inclusion of new skill sets on the board. These changes reflect—and in some instances, even anticipate—the evolution of the company, its competitive environment, and emerging risks.

Increasingly, companies are publishing detailed CSR and other reports regarding environmental issues, as investors intensify their focus on these issues when casting voting decisions. However, we will continue to see not just reference to these documents in the proxy, but inclusion of some of the key messaging directly within the proxy itself.

Equilar: The number of shareholder proposals generally decreased this year, but environmental and social proposals are still on the rise. What are some of the key issues driving these trends?

Lillian Tsu, Hogan Lovells: Climate change, gender and diversity issues, and political spending continue to be front-page news. In connection with this, the focus by institutional investors on environmental and social issues and measures has grown. Large institutional shareholders are becoming more and more vocal and likely to support shareholder proposals on environmental topics in particular, especially in industries where environmental matters and climate change risks are material to company performance. Additionally, shareholders interested in environmental and social matters are increasingly turning to shareholder proposals as a tool to encourage corporate change.

"Large institutional shareholders are becoming more and more vocal and likely to support shareholder proposals on environmental topics in particular, especially in industries where environmental matters and climate change risks are material to company performance."

- Lillian Tsu, Hogan Lovells

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Beyond the Numbers (continued)

Equilar: As the CEO pay ratio disclosure comes closer to reality, how do you expect companies to approach this issue with contextual disclosure in 2018?

Martha Steinman, Hogan Lovells: As companies work through the mechanics of gathering the necessary data to perform the pay ratio calculation, their focus will shift to crafting the disclosure and the message associated with that disclosure. There has been a recognition that internal communications will, at many companies, be (at least) as important as external communications as employees will focus not on how their pay compares to the CEOs, but rather to how their pay compares to the median employee. Both shareholders and employees may look to how the ratio at one company compares to that at other companies in the same industry. Accordingly, in preparing their disclosures, companies should consider how they can best communicate the nature and geography of their workforce (e.g., full-time vs. part-time vs. seasonal, U.S. vs. global) and whether it is typical of the workforce composition in their industry (or, if not, what distinguishes their business model).

Schneider: A handful of companies have voluntarily disclosed some version of a CEO/median pay ratio for several years. A common thread among them has been that their ratios (calculated in various ways, not all consistent with the SEC version) were almost universally below 100 to 1, so these companies had far fewer concerns about the optics surrounding this disclosure or what investors' reactions would be.

Equilar: Say on Pay is now seven years old—how has this changed the way companies engage with their shareholders on executive compensation?

Alex Bahn, Hogan Lovells: To say that Say on Pay has had an impact on company engagement with shareholders on executive compensation is an understatement. Since the advent of the Say on Pay vote in 2011, companies have continually increased their level of outreach with their shareholder base. Companies that receive low support for Say on Pay are expected to engage with their investors and take action to address concerns. In many instances, companies now also preview with their investors potential changes to their compensation programs to ensure that they have "buy in" before embarking on a new or different path. Companies are aware of the importance of conveying the right story to investors, not only through individual engagement but also through the disclosure process. Say on Pay has significantly impacted executive compensation disclosures as the desire and need to portray compensation programs in the proper context of performance has become crucial.

Equilar: What are some best practices companies should consider in narrowing down what they decide to highlight in their proxies, and how they should do it? What are some best practices for the most effective navigational elements (TOC, interactive links, etc.)?

Schneider: There are some common themes most companies should address in their proxies (in addition to meeting SEC and other regulatory requirements). The degree or depth in which they discuss these issues can and should vary, otherwise, all proxies may eventually exceed 100 pages. That said, different investors are interested in different topics. Many report using the proxy as a "reference," not a "reading," document. What that means is that length itself may not be a problem provided that the document is logically organized, that all information required to make an informed voting decision is grouped together, and overall the document is easily searched and navigated. This increased navigability must hold true for both the print and online versions.

Top-line elements include discussion of company strategy, performance and alignment of the pay program with strategy, board composition, diversity, qualifications, oversight of risk, evaluation and refreshment. Related issues that investors focus on, and companies should provide thoughtful (and not boilerplate) responses to, include performance metrics, i.e. what behaviors and performance are you rewarding, and what are the appropriateness and rigor of these metrics, pay for performance alignment, as well as how are peers selected and used, how size-appropriate are they to your company, and what is the basis for additions or deletions.

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Beyond the Numbers (continued)

Equilar: How has shareholder activism evolved in recent years, and how has this changed the way boards prepare to respond to and work with activists?

John Beckman, Hogan Lovells: Activists are becoming more creative and sophisticated in their demands and messages. Activists' demands have shifted to more longer-term strategies such as business portfolio restructurings, changes in governance and operational matters. Activists will often produce detailed white papers, vetted by investment banks, to support their analysis. Boards are now preparing much more for potential activism than in prior years, including through more rigorous evaluation of potential vulnerabilities and also through increased shareholder engagement. Boards are also becoming more open to working with activists, especially activists that articulate longer-term strategies that resonate with other shareholders.

Equilar: With the number of Equilar 500 companies disclosing shareholder engagement reaching nearly 70% in 2017, what do these disclosures look like, and what are some examples of how companies are doing this effectively?

Schneider: For these purposes, we define "engagement" as a discussion of governance, compensation and other voting issues with investors, and not just the ongoing investor relations dialogue. While the number of companies disclosing the practice and even the results of engagement is steadily increasing, there remains a gap in which some companies that engage are not taking credit for engagement by failing to discuss this topic in their proxies.

For companies enjoying strong performance and voting results, merely disclosing that they do engage with investors generally is sufficient. Eventually, though, most companies will experience disappointing performance, possibly contributing to a pay for performance disconnect, and lower (if not failing) Say on Pay voting results. For these companies, there is heightened interest in not just the fact of engagement, but the results: what they heard from investors, as well as how they then responded. Here, we see the importance of both strong content as well as design. Proactive companies often feature in their "engagement, feedback and actions" disclosure timelines of the engagement scope and process, as well as a graphic treatment of what was discussed, including tables with headings, such as "We spoke, we listened, and we acted."

Equilar: In what ways is greater scrutiny toward board evaluation affecting proxy disclosures? What are some creative ways companies are using the proxy to assess and address their board composition?

Alan Dye, Hogan Lovells: Investors increasingly expect the board to comprise individuals who bring identified, important skill sets to the boardroom and, at the same time, include women and under-represented minorities. Companies are responding to this increased investor interest and related activism by providing more detailed disclosure in the proxy statement regarding the specific skills the company regards as important to have in the boardroom and identifying, in a matrix, which of those skills each director has. Ethnic and gender identification are not as common, but boards are actively seeking to increase diversity, particularly gender diversity in the first instance, and can easily benchmark their progress through disclosures made by other public companies.

Schneider: For many companies, an increasing percentage of proxy content is information about or from the board. The inclusion of director nominee photos in order to be more transparent and "humanize" board candidates is increasing while lengthy bios are shrinking, and qualifications discussions are becoming more robust. Processes such as board evaluation (and also engagement and pay-setting) are receiving more thoughtful discussion, increasingly supported by timelines.

Traditional skills matrices are still employed by certain companies. Over the past three years, however, we have seen significant adoption of what we will call "matrix-lite." As with two dimensional, check-the-box matrices, matrix-lite also highlights the presence and prevalence of key skills on the board, including the number and/or percentage of directors who possess each particular skill that is enumerated. On the other hand, these matrices do not directly associate the skill (or its absence) with particular directors, thereby avoiding the often sensitive issue of telling a director "you don't have that particular skill".

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Beyond the Numbers (continued)

Increasingly, graphics are being used to highlight different aspects of board diversity. Many boards exhibit "average" age or tenure. But when you break it down, you may see that there is significant generational diversity on the board (with directors ranging from their 40s to 70s), and the same holds true with tenure. Here, the existence of several long-tenured directors may be counterbalanced by the fact that there are several relatively new directors, proof of recent and likely ongoing board refreshment. We also have seen graphical treatment of gender, ethnic, geographical and other forms of diversity.

It does not take much to significantly move the needle on board diversity at, say, an eight-person board. Consider the impact of adding the third woman director on a board, perhaps replacing an older, long-tenured male.

Equilar: How has the approach to implementing and communicating succession planning for boards and executives changed in recent years? For what reasons has this become a more important topic to shareholders?

Beckman: The trend towards implementing and communicating succession planning for boards is directly related to investors' greater scrutiny of board composition, including skills, tenure and diversity. Investors are expecting that boards are going to improve over time through its own succession planning process. The trend towards more disclosure surrounding succession planning for executives is also in response to more investor scrutiny, including their attention to this important area of board oversight.

Equilar: Our study is limited to the Equilar 500, which arguably includes companies that will be on the leading edge of these trends. Anecdotally, to what degree are companies at a broader level disclosing the same kinds of information with the same kinds of detail?

Schneider: It is generally true that the early pioneers of investor engagement and proxy communications (not just disclosure) were a handful of large-cap companies with enlightened management teams and boards, some starting this journey well over a decade ago. This has spread rapidly among companies on both an industry and market-cap basis. That said, each year we work closely with an increasing number of mid-cap companies that similarly want to communicate effectively with their investors. So strong engagement and proxy communications are no longer just a large-cap phenomenon.

A significant sub-trend is the hundreds of Emerging Growth Companies (EGCs) that launched IPOs over the past five years under the JOBS Act. This EGC status, which lasts five years unless a company exceeds certain growth thresholds before that time period has ended, permits a company to provide reduced or "scaled" proxy disclosures, including no CD&A requirement or Say on Pay vote. Hundreds of companies will be "emerging" from emerging growth status in each of the next few years. Some are taking a gradual approach, increasing their disclosures prior to the requirement. Others are waiting to increase disclosures until required and will have to rapidly ramp up the scope and quality of their disclosures.

About Donnelley Financial Solutions

Donnelley Financial Solutions (NYSE: DFIN) provides software and services that enable clients to communicate with confidence in a complex regulatory environment. With 3,500 employees in 61 locations across 18 countries, we provide thousands of clients globally with innovative tools for content creation, management and distribution, as well as data analytics and multi-lingual translations services. Leveraging advanced technology, deep-domain expertise and 24/7 support, we deliver cost-effective solutions to meet the evolving needs of our clients.

Download the 2017 "Guide to Effective Proxies" from Donnelley Financial Solutions. Visit info.dfsco.com/proxy_guide for more information.

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Ron joined Donnelley Financial 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 three 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 Donnelley Financial, 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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About Hogan Lovells

Hogan Lovells

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Methodology

Corporate Governance Outlook 2018, an Equilar publication, examined the proxy statements and shareholder voting results for Equilar 500 companies for the past five filing years, covering 2013 to 2017. 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 [formerly AMEX]), adjusted to approximate the industry sector mix of similar large-cap indices. 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. Companies that filed a proxy statement (DEF 14A) by June 30, 2017 were included in the 2017 year. Previous years were defined similarly. Disclosure examples were provided by Donnelley Financial Solutions and Equilar to highlight exemplary proxy communications and shareholder outreach. Median pay ratios were calculated using data from the U.S. Bureau of Labor Statistics on median income of full-time wage earners, and Equilar data for CEO and NEO compensation.

The narrative portion of this report identifies trends in compensation and corporate governance disclosure practices at the Equilar 500 companies. Donnelley Financial Solutions and Hogan Lovells have offered independent commentary to provide context and color on companies' approach to governance issues and communications with shareholders through proxy statements and other channels.

Key Findings

1. The total amount of shareholder proposals in the Equilar 500 decreased from 400 in 2016 to 352 in 2017—however, social and environmental proposals increased in that time frame.
2. A total of 44 companies adopted proxy access plans in 2017, 12 of which were implemented despite proposals for the measure not being approved by the shareholders.
3. Zero companies in the Equilar 500 disclosed a CEO pay ratio ahead of the required rule for 2018.
4. Roughly half of all Say on Pay proposals in 2017 received over 95% approval from shareholders—99% of all proposals passed with majority support, with only five Equilar 500 companies receiving less than 50% shareholder approval.
5. Of the 426 companies in the Equilar 500 that granted performance awards to named executive officers, 204 did not use TSR as a performance metric in 2017. Return on capital/ return on invested capital/ return on equity (ROC/ ROIC/ROE) was the most common metric at these companies, appearing 84 times in executive awards at companies that forewent TSR.
6. While not required, detailed disclosure of board evaluation policies and CEO succession plans increased from 2013 to 2017 by 19.7 percentage points and 7.2 percentage points, respectively.

Shareholder Voting Trends

Corporate Governance Outlook 2018

Data Points

- Equilar 500 companies had 399 and 400 total shareholder proposals in 2015 and 2016, respectively, while the number of shareholder proposals was consistently around 350 proposals for the other years in the study *(Fig. 1)*
- In the past five years, there has been an upward trend for social and environmental proposals, increasing by 53 proposals from 2013 to 2017 *(Fig. 2)*
- Likely due to the fact that companies are addressing compensation through Say on Pay and other investor engagement, compensation proposals initiated by shareholders have decreased over the past five years *(Fig. 2)*
- Between 2013 to 2017, board management proposals declined in number by a total of 35 proposals *(Fig. 2)*

Figure 1 Shareholder Proposals, Equilar 500

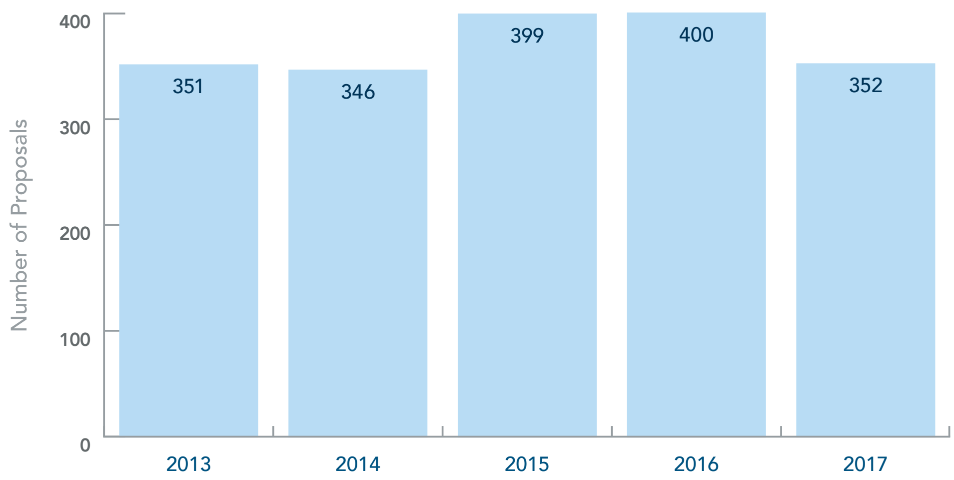
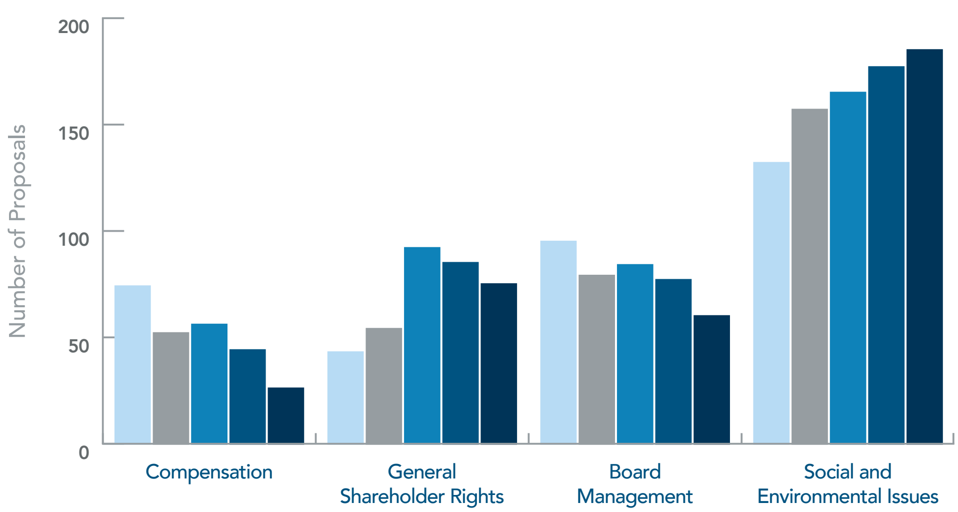


Figure 2 Shareholder Proposals by Type, Equilar 500



	Compensation	General Shareholder Rights	Board Management	Social and Environmental Issues
2013	74	43	95	132
2014	52	54	79	157
2015	56	92	84	165
2016	44	85	77	177
2017	26	75	60	185

Hogan Lovells Commentary

The decrease in the overall number of shareholder proposals in 2017 is attributable largely to the drop-off in proposals seeking adoption of proxy access, which had dominated the shareholder proposal space in the prior year. While proxy access remained a significant category, the overall number of proposals decreased, as many 2017 shareholder proposals on this topic focused on changes to existing proxy access provisions as opposed to adoption of proxy access.

In 2017, proposals on environment and social issues took center stage and markedly outnumbered governance- and compensation-related proposals. 2017 voting results, however, indicate that investors continue to provide the highest levels of support on governance proposals, including board de-staggering, proxy access adoption and majority voting for directors. That is not to say that environmental and social proposals aren't gaining traction. Three climate change proposals achieved majority support in 2017 compared to only one in 2016. This trend reflects the views of large institutions, such as BlackRock and Vanguard, who have become more vocal in support of environmental topics. It also is indicative of these institutions' willingness to support shareholder proposals on environmental topics where they are not satisfied with their engagement with a company on the issue.

Donnelley Financial Solutions Commentary

It is understandable, but misleading, to equate the absolute number of, or trend in, how frequently a certain shareholder proposal type occurs with the degree of investor interest in, or support for, a particular topic. Shareholder proposals are but one arrow in an investor's activism quiver. For example, recently there may be fewer board-related proposals, in part because larger companies have increasingly adopted the requested measures, leaving a smaller pool of remaining targets at any particular market cap or index level. Also, there have been many past cases when in one year, an investor filed dozens of proposals on an issue, and the following year, based on strong voting results on the issue and the investor knowing they got the companies' attention, reverted to engagement dialogue on the same issue with an expanded group of targets. These companies know that if the investor was not satisfied with the nature and quality of the dialogue, then that investor could revert back to filing proposals that may get significant support in the future.

With respect to environmental disclosure proposals, last year proved significant and a potential harbinger of more shareholder proposals to come for two reasons. First, proponents of certain environmental proposals shifted the focus from "How is the company impacting the environment?" to "How is environmental change going to impact the company's sustainability?" By recasting the issue in terms more directly linked to shareholder value, the proponents secured support from significant indexed and other long-term investors that in the past generally did not support environmental proposals without an explicit link to shareholder value. This recasting of the issue resulted in "passing" proposals at several significant energy companies, and these votes likely will embolden additional proponents on this and similar issues in the future.

Disclosure Example 1 Corporate Responsibility Guidelines

General Motors (GM)
DEFC 14A (p.38)
Filed 4/13/17

General Motors dedicated an entire page in its 2017 proxy to its efforts serving the community and supporting environmental sustainability. The highest concentration of shareholder proposals fell into the social and environmental category in 2017, and many companies are choosing to provide information that will help their investors understand how these critical issues impact their business and shareholder value.

Corporate Responsibility, Environmental and Sustainability Matters

We have a long-standing commitment to our shareholders and communities to operate in an environmentally and socially responsible manner. We are reducing our global carbon footprint, optimizing the efficiency and safety of our workplace, helping our customers reduce their own environmental footprints, and engaging with our suppliers to help them operate in more sustainable ways. To do this, we provide solutions all over the world in the form ofimproved and new types of products, innovation for existing products and services, and advanced technologies and manufacturing.

Placing the customer at the center of everything we do extends to both how we build our products and how we serve and improve our communities. When it comes to sustainability, we pursue outcomes that create value for all of our stakeholders.

FIND MORE ONLINE

For additional information and to read about benefits for each action outlined below, please read our Sustainability Report available at **gmsustainability.com**.

SAFETY FOUNDATION

Key Actions:
- Introduced Teen Driver system in Chevrolet models – a teaching tool to help encourage safe driving practices in teens. The technology will roll out to other Chevrolet, Buick, GMC and Cadillac models in 2017.
- Introduced Rear Seat Reminder on 16 models, an industry first technology to audibly and visually remind drivers when exiting the vehicle to check the back seat.
- Revamped Code of Conduct comprehensively emphasizes speaking up for safety, providing employees multiple avenues to report vehicle and workplace safety issues.
- Undertook a comprehensive third party risk assessment and implemented recommendations to drive intense focus on workplace safety and reduce severity of injuries.
- Strengthened awareness of fatality prevention program to drive and sustain ZERO fatalities and increased focus on achieving ZERO recordable injuries.
- Leveraged personal accountability and safety branding to transform our safety culture.
- Maintained a Global Workplace Safety System to assure compliance with regulations and conformance to GM standards.

ENGAGING YOUTH IN SCIENCE, TECHNOLOGY, ENGINEERING AND MATH ("STEM")

Key Actions:
- Partnered with **Girls Who Code** to promote and inspire thousands of U.S. middle and high school girls to pursue computer science related education.
- Continued our 25-year commitment to the **GM GREEN** (Global Rivers Environmental Education Network), a program that engages more than 15,000 youth each year in watershed education.
- Partnered with **FIRST Robotics**, which inspires and develops science and technology education.
- Partnered with **Detroit Area Pre-College Engineering Program ("DAPCEP")** to encourage and prepare students across southeast Michigan for the technical jobs of the future.
- Created **Take 2**, an internship program for professionals with technical backgrounds who took a career break of two or more years and are interested in returning to the workforce.

FUEL EFFICIENCY TECHNOLOGIES

Key Actions:
- Launched the Chevrolet Bolt EV, the first mass-market, affordable, high-range electric vehicle – 238 MPGe for $30,000 (after federal incentives).
- Shaved off more than 3,600 lbs. of mass combined in the 10 new vehicle models introduced in 2016, resulting in 228,000 tons of avoided CO_2 emissions and fuel savings of 28 million gallons.

OPERATIONAL EXCELLENCE

Key Actions:
- Benchmark company in energy efficiency with 75 of our worldwide facilities meeting the U.S. Energy Star Challenge for Industry.
- Leader in waste reduction and recycling with 152 landfill-free facilities worldwide.
- Committed to using 100% renewable energy for our 350 facilities in 59 countries by 2050.

RESPONSIBLE SUPPLY CHAIN

Key Actions:
- Engaged with Chinese suppliers in a yearlong "Green Supply Chain" initiative designed to reduce energy consumption.
- Hosted a GM North America Supplier Sustainability Summit for 150 suppliers with a focus on sharing best practices, and how sustainable and responsible practices drive long-term business value and reduced risk.

INVESTING IN SHARED MOBILITY

Key Actions:
- Invested $500 million in Lyft car-sharing platform focused on creating a future integrated network of on-demand autonomous vehicles in the U.S.
- Launched Maven, a new GM brand, and three consumer products: **Maven City** car sharing, **Maven Home** and **Express Drive** (helping nearly 20,000 members drive 75 million miles in 17 U.S. cities and four countries).

PIONEERING AUTONOMOUS VEHICLES

Key Actions:
- Established a dedicated team for autonomous vehicle development.
- Acquired Cruise Automation, Inc. adding deep software and rapid development capability to further accelerate autonomous vehicle technology.
- Started real-world autonomous testing on public roads in Warren, Michigan, Scottsdale, Arizona, and San Francisco, California.

Leaders In Action: Awards & Recognition

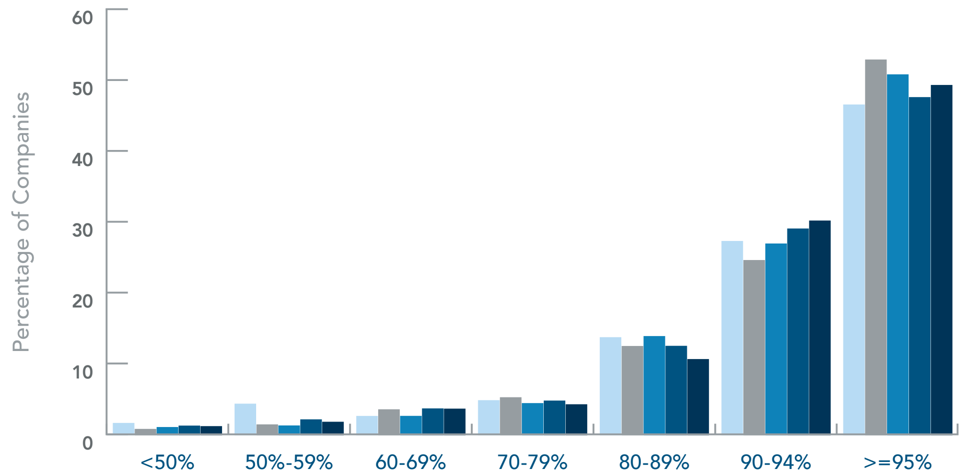
Third parties regularly recognize our employees' innovation, environmental leadership, and workplace satisfaction. We are pleased to highlight some of these awards here.

- CDP (Carbon Disclosure Project) selected GM as a Global Climate A Leader for the Company's performance and disclosure of its CO_2 and climate impacts.
- U.S. Energy Star Partner of the Year – Sustained Excellence company for the last four years.
- Only automaker on the Dow Jones Sustainability Index for North America for two years in a row.
- Diversity Inc. Magazine's 2016 Top 50 Companies for Diversity.
- Perfect Score on the 2016 Corporate Equality Index.
- 2017 CDP Supplier Engagement Leader Board, for actions and strategies to manage carbon and climate change across our supply chain.

Data Points

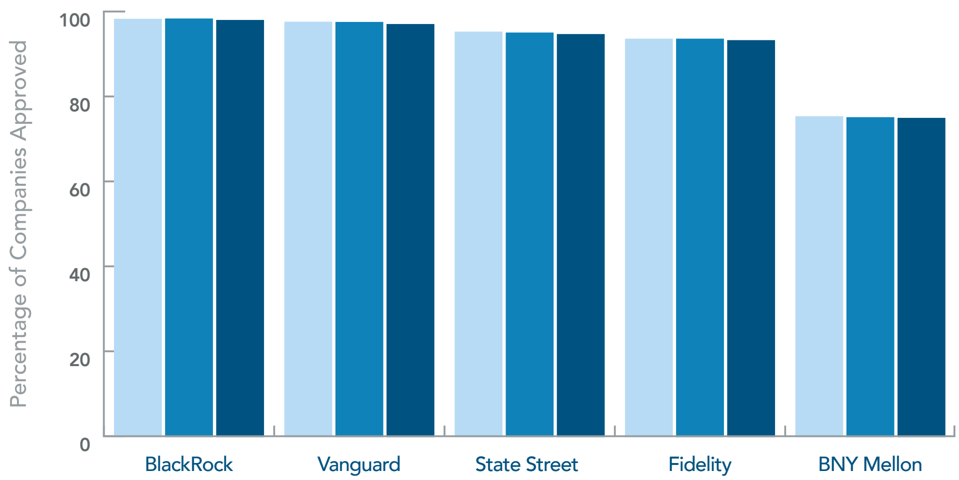
- Close to 50% of Equilar 500 companies over the last five years have received over 95% approval on Say on Pay *(Fig. 3a)*
- With three companies, 2014 saw the least amount of Say on Pay failures at companies in the Equilar 500 *(Figs. 3a and 4)*
- In 2017, the top five U.S. investment funds by assets under management each approved Say on Pay for a fewer number of Equilar 500 companies compared to 2015 and 2016 *(Fig. 3b)*
- BNY Mellon approved Say on Pay for fewer than 76% of companies in each of the past three years, the only investor to approve fewer than 90% of its Equilar 500 portfolio companies *(Fig. 3b)*
- The number of companies that failed Say on Pay remained at five in 2017, the same count as the year before *(Fig. 4)*
- The average approval percentage for companies that failed Say on Pay votes in 2017 was 32.7%

Figure 3a Say on Pay Voting Trends, Equilar 500



	<50%	50%-59%	60-69%	70-79%	80-89%	90-94%	>=95%
2013	1.5%	4.2%	2.5%	4.7%	13.6%	27.2%	46.4%
2014	0.6%	1.3%	3.4%	5.1%	12.3%	24.5%	52.8%
2015	0.9%	1.1%	2.5%	4.3%	13.7%	26.8%	50.7%
2016	1.1%	2.0%	3.5%	4.6%	12.4%	28.9%	47.5%
2017	1.0%	1.6%	3.5%	4.1%	10.5%	30.0%	49.2%

Figure 3b Say on Pay Voting Trends – Top 5 U.S. Investment Funds, Equilar 500



	BlackRock	Vanguard	State Street	Fidelity	BNY Mellon
2015	98.1%	97.4%	95.1%	93.4%	75.1%
2016	98.1%	97.3%	94.8%	93.4%	74.9%
2017	97.8%	96.8%	94.5%	93.0%	74.7%

Figure 4 Say on Pay Failures, Equilar 500

Year	Say on Pay Failures
2013	7
2014	3
2015	4
2016	5
2017	5

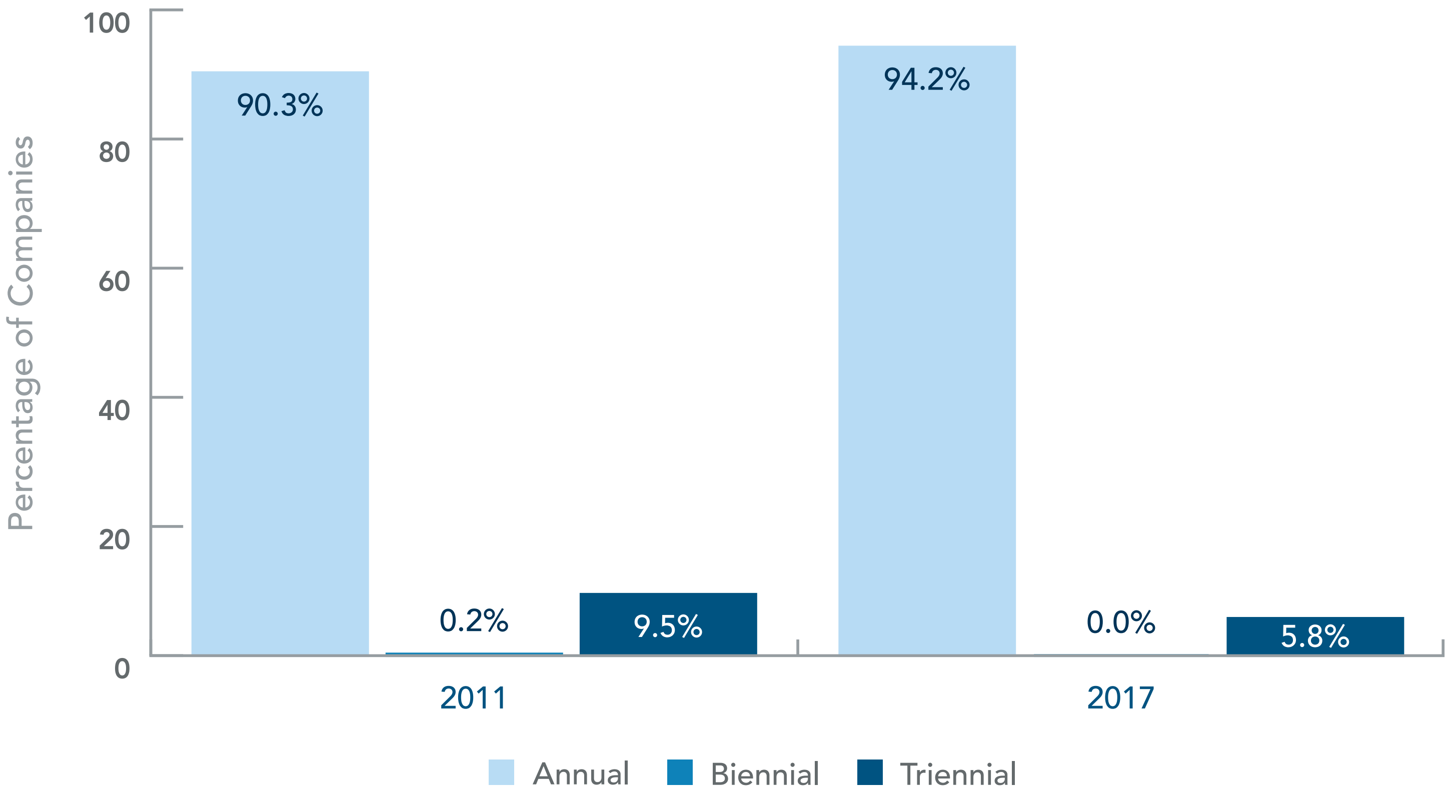
Donnelley Financial Solutions Commentary

There is no question that overall support for Say on Pay votes remains high, including fewer companies "failing" in recent years. If the slight dip in support identified in this report continues, it likely will be based on a dynamic in which companies have worked hard over the past several years to both have and tell a clearer compensation story in the compensation discussion and analysis (CD&A) section of the proxy statement. This clearer CD&A story includes how compensation supports business strategy and how pay outcomes are reasonably well aligned with relevant measures of performance. As companies have learned the ropes on Say on Pay and related CD&A disclosures, investors similarly are becoming more sophisticated in their scrutiny and analysis. Investors are, in effect, "grading on a curve," as some companies temporarily elevate their compensation disclosures above those of their peers, and these peers subsequently improve their disclosures in response. Overall, as companies raise the bar on the quality of their disclosures, this in turn leads to elevated investor expectations, and the ratcheting up continues. The important point is that both the quality of the information provided—and the quality of the review and use of this information—are improving over time.

Hogan Lovells Commentary

Voting trends are generally high because companies are aligning themselves with best practice guidelines such as those from ISS and Glass Lewis for modeling their compensation and proxy disclosure. More companies are also engaging with shareholders to address their executive compensation concerns. However, we have also increasingly seen large institutional investors such as BlackRock, T. Rowe Price, BNY Mellon and others creating and relying on their own guidelines for Say on Pay. While these institutional firms often vote in line with proxy advisory research firm recommendations, they may deviate more and more based on their own policies, which may be more stringent than those of proxy advisory firms.

Figure 5 Say on Pay Frequency Votes, Equilar 500



Data Points

- When Say on Pay initially was enacted in 2011, there was a provision stating that shareholders would cast ballots every six years on how often the vote should be held, or "Say on Pay Frequency"
- In 2011, 90.3% of the shareholders at Equilar 500 companies elected to hold annual Say on Pay Votes *(Fig. 5)*
- Six years later, 94.2% of the shareholders at those same companies elected to hold annual Say on Pay Votes *(Fig. 5)*
- Sixteen fewer companies elected to hold a triennial Say on Pay Vote in 2017 compared to 2011, while not a single company in the Equilar 500 had shareholders vote for a biennial Say on Pay vote in 2017 *(Fig. 5)*

Figure 6 Director Approval in 2017, Equilar 500

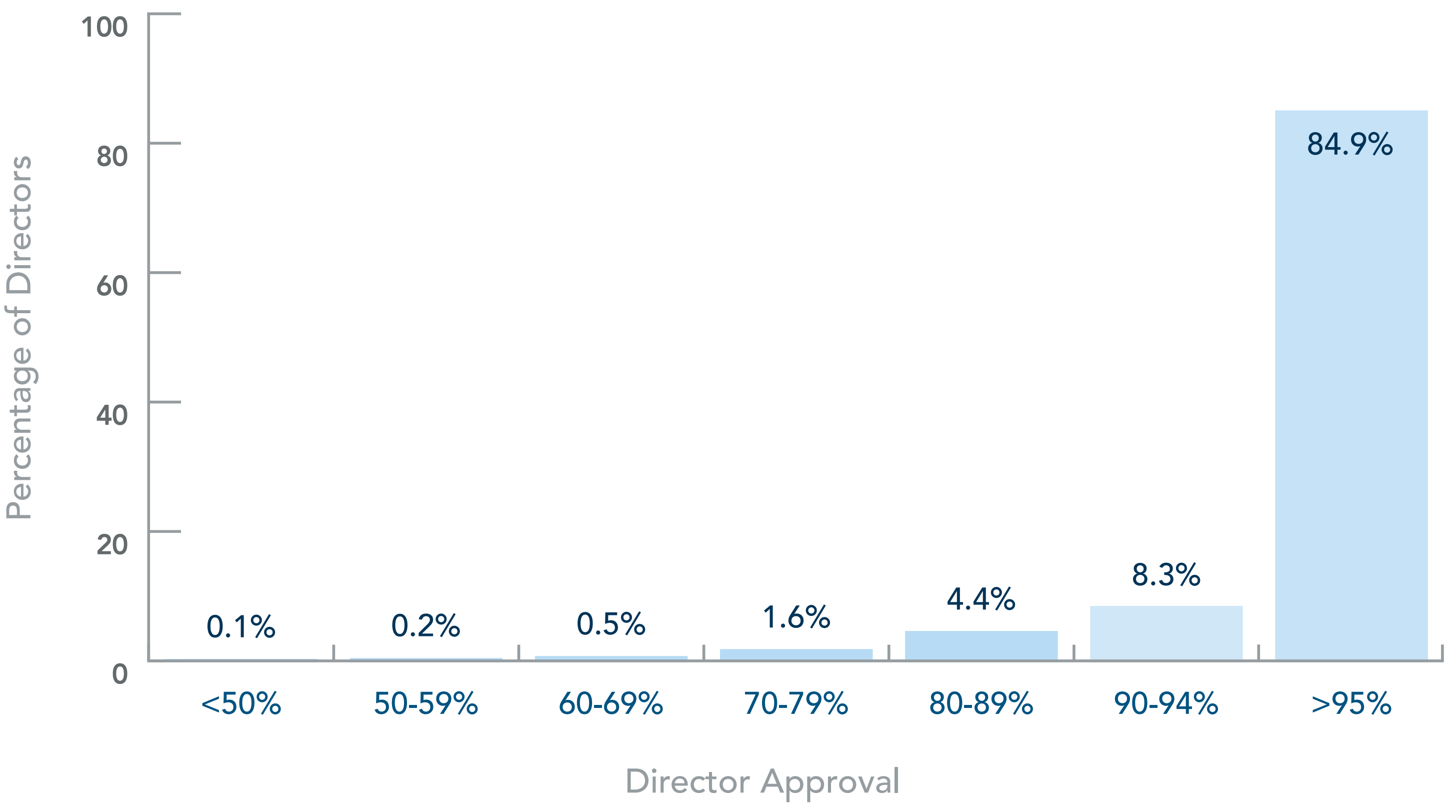


Figure 7 Director Approval Rating by Committee Membership in 2017, Equilar 500

Percentile	Audit	Compensation	Executive	Finance	Nominating and Governance	Technology
10th Percentile	93.5%	90.7%	92.1%	94.5%	90.4%	92.1%
25th Percentile	97.3%	96.0%	95.8%	97.2%	96.3%	97.3%
Median	98.7%	98.0%	97.8%	98.6%	98.1%	98.6%
75th Percentile	99.3%	98.9%	98.9%	99.3%	99.0%	99.4%
90th Percentile	99.7%	99.4%	99.4%	99.6%	99.5%	99.6%

Data Points

- Overall, a vast majority of directors at Equilar 500 companies, 84.9%, saw approval ratings over 95% in 2017 *(Fig. 6)*
- Of 4,855 total directors included in the analysis, only four directors received failing votes in 2017 *(Fig. 6)*
- Of the directors in the lowest percentile, those belonging to the compensation and governance committees had the lowest average approval ratings *(Fig. 7)*

Donnelley Financial Solutions Commentary

It makes sense that directors in the lowest percentile for approval ratings would belong to the compensation and governance committees, as these two committees oversee corporate issues that receive significant visibility. In essence, director approvals are a report card each year. The compensation committee is ultimately held accountable for any perceived pay shortcomings, including pay for performance disconnects, while the governance committee is held accountable for any dissatisfaction about board diversity, whether on the basis of gender, ethnicity, global perspective, or new skills and qualifications. On the other hand, audit committees, while being charged with very weighty responsibilities, do not receive the same annual external "report card," unless the company restates its financials or there is some other evidence of weak or fraudulent financial reporting.

Data Points

- At companies failing their Say on Pay votes over the past five fiscal years, median approval for a director serving on a compensation committee was 9.2 percentage points lower than approval ratings than other directors *(Fig. 8)*
- The chair of the compensation committee received even lower approval, at 85.0%, as compared to 86.7% approval of a median compensation committee member *(Fig. 8)*
- Though receiving less than 50% approval is quite rare, more often than not, a director remains on the board despite not receiving majority shareholder approval *(Fig. 9)*
- In each of the past five years, at least two directors in the Equilar 500 have been retained despite receiving less than 50% approval *(Fig. 9)*

Figure 8 Median Compensation Committee Approval After a Failed Say on Pay Vote, 2013-2017, Equilar 500

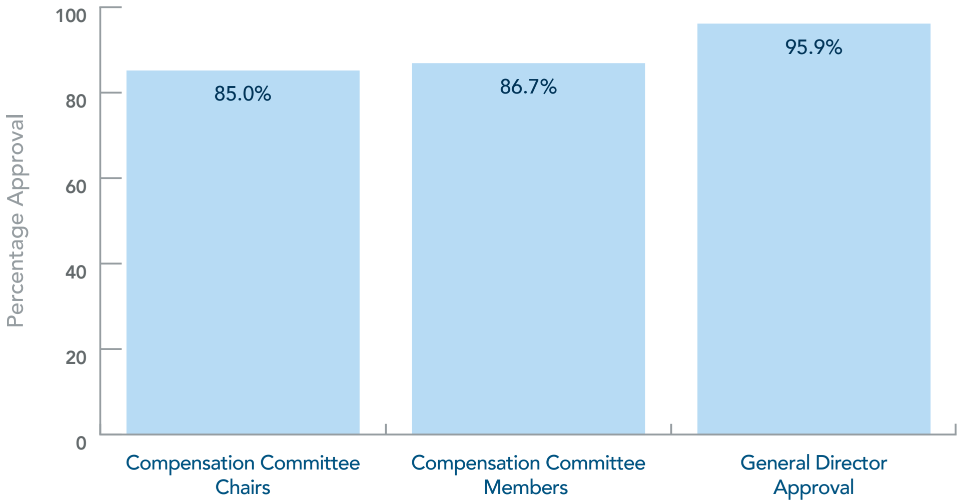
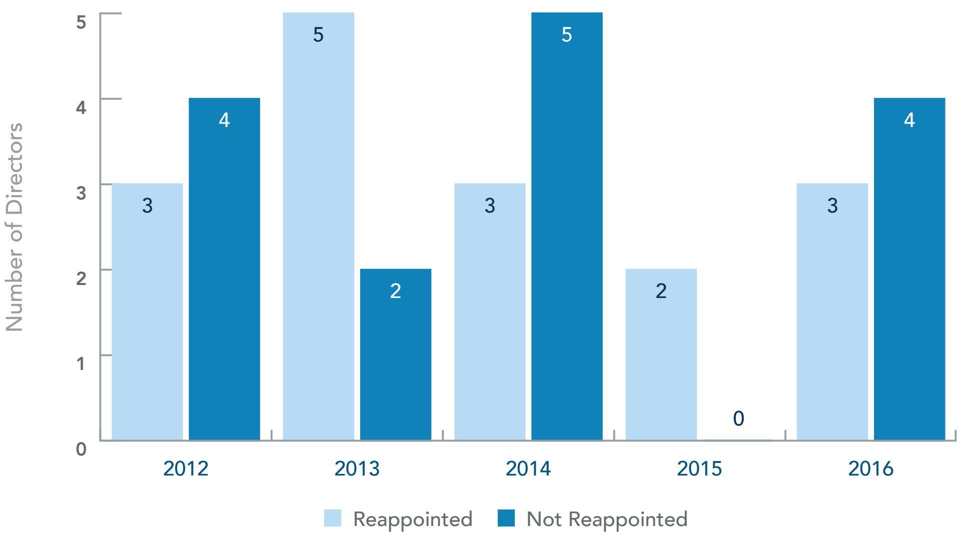


Figure 9 Director Status After Failure to Receive a Majority Vote, Equilar 500



Hogan Lovells Commentary

Most companies have a director resignation policy that requires an incumbent director who fails to receive a majority vote for re-election to tender his or her resignation rather than "hold over" until a successor is elected and qualified, which is generally what would happen under state law. Most shareholders would agree that a board should not accept a director's resignation in this circumstance if doing so would cause the company to fall out of compliance with stock exchange listing standards, loan covenants or similar governing documents. Those factors usually aren't implicated, though, and boards still often decline to accept a director's resignation, in many cases because the board concludes that the negative vote was motivated by dissatisfaction with the company's handling of a particular issue, which the company addresses in some other manner instead of accepting the resignation. Any decision not to accept a resignation from a director who failed to gain re-election has the potential to alienate shareholders and attract negative attention from proxy advisory firms, and should be undertaken carefully and explained fully in a public disclosure.

Donnelley Financial Solutions Commentary

Because investors generally do not have a direct line of sight into the boardroom, they have difficulty judging the quality of directors or of their contribution to discussions in the boardroom. Thus, investors, proxy advisors and others tend to focus on more measurable "externalities," such as age, tenure, number of boards on which a director serves, meeting attendance, and perceived responsiveness to prior votes on a range of issues.

If a director is not approved because of one or more of the above factors but that director makes a valuable and unique contribution within the boardroom, it can be understandable that boards may re-appoint them (or reject their resignations). Even so, the director should be asked for a commitment to addressing the issue(s) driving the earlier poor vote. In these cases, companies and boards also should consider providing more robust descriptions of director qualifications and their contributions without impinging on necessary confidentiality as part of their response to why they are reappointing a given director in spite of a negative shareholder vote.

If, on the other hand, no such credible response to the vote is provided, it may appear that the company and board are tone deaf or indifferent to the shareholder vote, leading to charges of insularity and entrenchment. Such perceptions may, in turn, become platform issues for future activists.

Data Points

- Of the 34 proxy access proposals that were approved by shareholders in 2016, only two companies did not then implement proxy access in 2017 *(Fig. 10)*
- On the flip side, there were 12 companies that implemented proxy access plans despite proxy access proposals failing to receive sufficient voter approval *(Fig. 10)*
- 39 proxy access proposals came from shareholders, and 11 were proposed by management in 2016
- Management proposals had a higher rate of approval (90.9%) than those brought by shareholders (64.1%)
- 2015 experienced the most contested elections, when three different companies had contested proxies filed against them and voted on at their annual meetings *(Fig. 11)*
- While there have recently been large, public proxy fights, there were no contested elections at any companies in the Equilar 500 in 2016 *(Fig. 11)*

Figure 10 Proxy Access Proposals and Implementation in 2017, Equilar 500

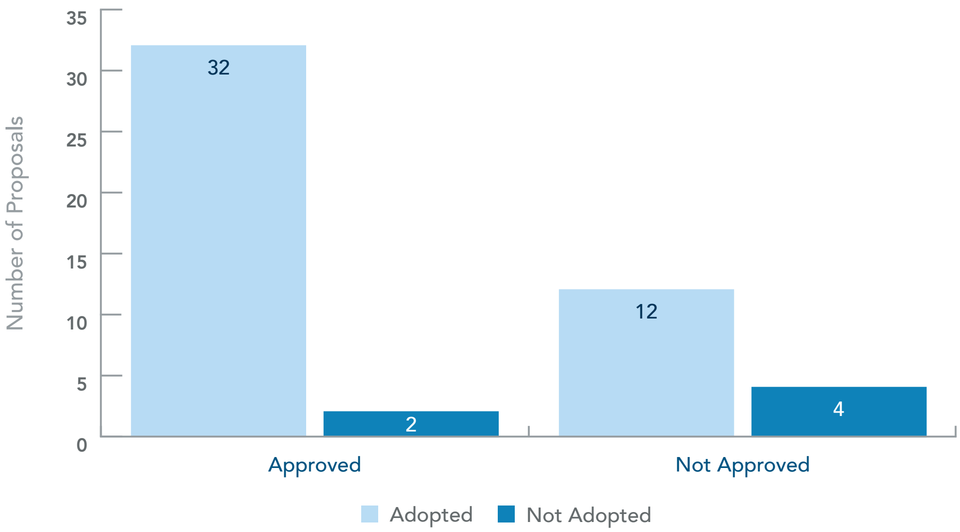
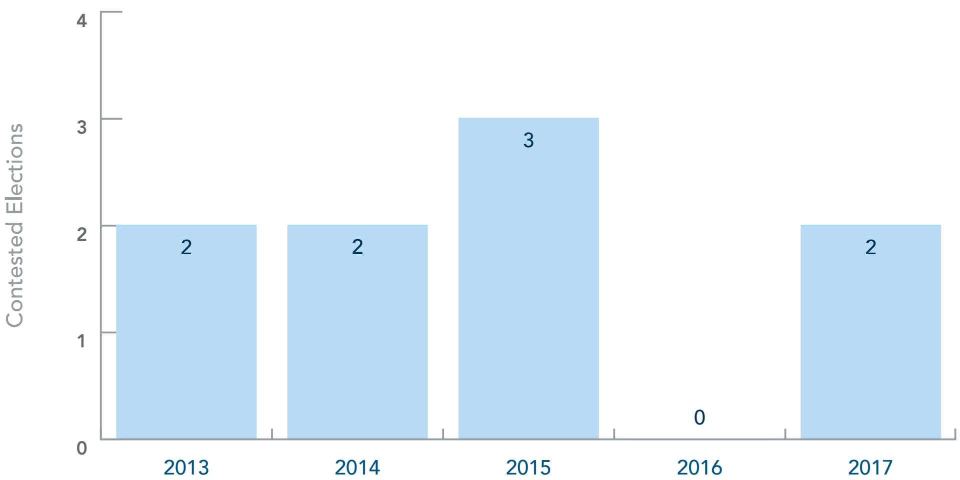


Figure 11 Contested Elections, Equilar 500



Disclosure Example 2 Voluntary Adoption of Proxy Access

Newmont Mining Corporation (NEM)
DEF 14A (p.1)
Filed 3/3/17

While it is a small line item in Newmont Mining's proxy summary, the company made a point to denote its adoption of proxy access on its own. More than half of large-cap companies now have proxy access provisions, giving investors the ability to nominate their own director slates.

2017 Proxy Statement Summary

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information you should consider. You should read the entire Proxy Statement carefully before voting.

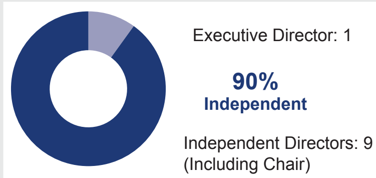
Voting Overview Items of Business:	Board Vote Recommendation	Page # for Additional Information
1 Election of 10 Director Nominees	FOR each nominee	5
Management Proposals:		
2 Ratification ofindependent registered public accounting form for 2017	FOR	82
3 Advisory Vote to Approve Named Executive Officer Compensation	FOR	86
4 Advisory Vote to Approve the Frequency of Stockholder Vote On Executive Compensation	ONE YEAR frequency	89
Stockholder Proposal:		
5 Human Rights Risk Assessment	AGAINST	90

Corporate Governance Highlights
(See pages 23 - 25)

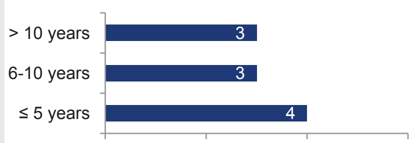
✓ Independent Chair
✓ Diverse Board
✓ Commitment to Board Refreshment
✓ Annual Board and Committee Evaluations
✓ Annual Director Elections
✓ Majority Voting In Uncontested Director Elections
✓ Director Overboarding Policy
✓ Strong Director Attendance Record
✓ Active Shareholder Outreach
✓ Voluntarily Adopted Proxy Access
✓ Stockholder Right to Call Special Meetings
✓ Stockholder Right to Act by Written Consent
✓ No Shareholder Rights Plan

Director Independence (See pages 5 - 17)

- 9 of our 10 Director nominees are independent (all except CEO)
- All 4 main Board committees comprised of independent Directors only
- Independent Directors met in executive session at each of the regular 2016 Board Meetings

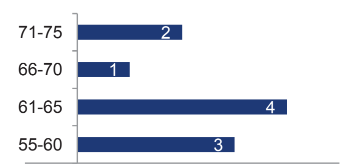


Director Tenure Diversity



Average Tenure: 7.1 years

Director Age Diversity



Average Age: 63
Newmont Policy: retirement age 75

Governance Disclosure Trends

Corporate Governance Outlook 2018

Data Points

- Some companies disclose specific details about shareholder engagement and other governance policies, whereas others simply mention that they have such policies with few other descriptive elements—this distinction is noted throughout manual disclosure analyses represented in Section 2 of the report
- In 2013, 32.3% of Equilar 100 companies included any information about a shareholder engagement policy—that figure more than doubled to 74% of companies in 2017 *(Fig. 12)*
- There has been a significant increase in the number of companies disclosing specific details about their shareholder engagement practices and procedures, up from 17.7% to 47.0% between 2013 to 2017 *(Fig. 12)*
- Though the majority of companies still do not mention proxy advisor engagement, the percentage of those that has increased 6.6 percentage points since 2013 *(Fig. 13)*
- No companies disclosed any significant details about proxy advisor engagement other than to mention that they had such meetings or communications *(Fig. 13)*

Figure 12 Shareholder Engagement Disclosure, Equilar 100

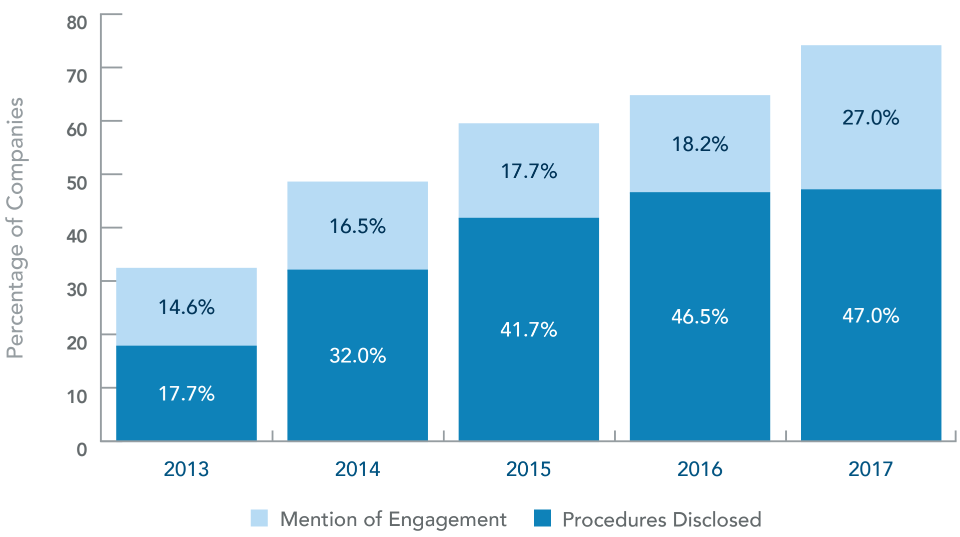
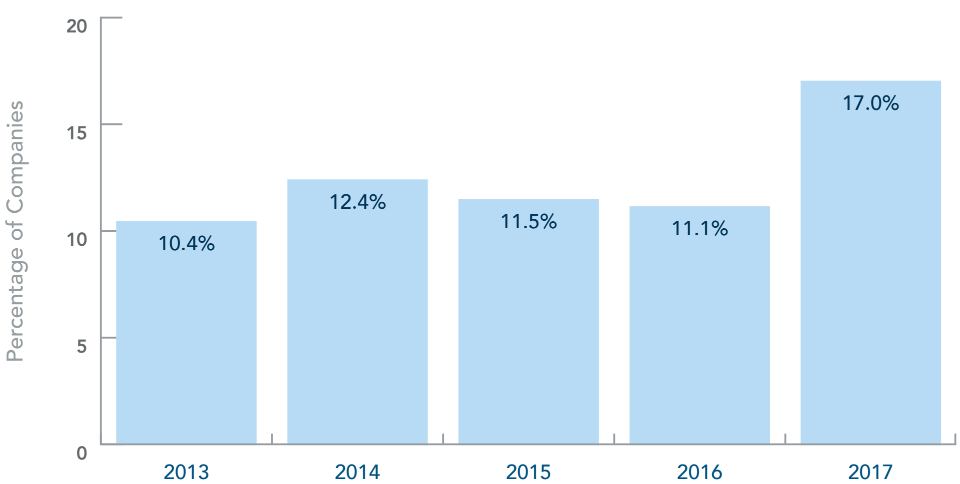


Figure 13 Proxy Advisor Engagement Disclosure, Equilar 100



Hogan Lovells Commentary

The rise in companies disclosing their shareholder engagement efforts has somewhat lagged the overall increase in shareholder engagement. Meaningful shareholder engagement has been on the rise for several years. For many companies, shareholder engagement has become a key part of their preparations for activist investors. More recently, institutional investors have indicated that they expect to engage with companies on a broad range of topics, including corporate governance. This rise in engagement has prompted companies to begin disclosing their interactions with shareholders, including what feedback the company heard and more importantly, what actions were taken in response to that feedback. Disclosure about shareholder engagement is no longer limited to those situations where it was required by the proxy advisory firms to avoid a negative vote recommendation, such as a failed say on pay vote. This trend is likely to continue as it is in direct response to what shareholders are expecting to see from companies.

Donnelley Financial Solutions Commentary

A number of progressive or governance-savvy companies began engaging with investors on governance, compensation and other proxy-related issues well over a decade ago, before the advent of Say on Pay (which undeniably turbo-charged such engagement). Initially, some management teams had been concerned that engaging with investors either might lead to Reg. FD risks (and that can be true when engagement is handled incorrectly). In addition, management may have feared that shareholder engagement might increase expectations among investors that the company will adopt every "reform" they bring up in conversation (a concern that has since largely abated).

Over time, it has become clear that the practice of engagement can yield many benefits. Let's distinguish between "proactive" and "reactive" engagement.

On the "proactive" side, engagement can reveal investor concerns before they boil over into more visible forms, such as negative annual meeting votes (i.e., by letting steam out of the kettle), identify investor informational needs that companies can incorporate into future proxy messaging, and develop relationships that may need to be called upon in the event of future close votes or overt activist situations.

Since engagement of this nature is now largely considered a "best practice," we fail to see why companies would engage with shareholders yet not disclose in their proxies the fact that they are doing so. Because engagement efforts cannot involve every investor, the "non-engaged" would not necessarily know about these activities unless told. We do believe there remains a gap between the practice of engagement and the disclosure of the practice of such engagement, even though more companies seem to be taking credit for this positive practice.

On the "reactive" side, after a poor or even failing vote on Say on Pay and other issues, investors, proxy advisors and others expect companies to demonstrate their responsiveness to the negative vote. This typically involves conducting or ramping up post-meeting engagement.

Post-meeting engagement can demonstrate responsiveness and identify who voted against a proposal or practice, identify the reasons behind the negative vote (votes are binary yet concerns can be much more nuanced, and many investors vote against issues for reasons other than those raised in proxy advisor reports), help the company address various areas of concern either by changing certain practices or by clarifying other practices that may have been misunderstood or underappreciated, or help identify the full range of investor concerns, without which a company's efforts to "fix" the issue may be off the mark.

If votes are satisfactory, simply disclosing the practice and scope of regular engagement efforts is usually adequate. On the other hand, when votes are sub-par, engagement becomes more necessary, as is the need to elaborate upon the main topics of discussion. In these instances, it's important to avoid attributing concerns to specific investors and to explain what—if anything—the company did in response to feedback. This "responsive/engagement" disclosure may be the first topic readers review. Companies conducting effective engagement may discuss those efforts in the CD&A, and also earlier either in substantive cover letters and/or proxy summaries.

Disclosure Example 3 Shareholder Engagement as a Result of Poor Say on Pay Support

Exelon Corporation (EXC)
DEF 14A (p.49)
Filed 3/15/17

Exelon failed its Say on Pay vote in 2016, one of only five companies in the Equilar 500 to do so. As a result, the company included information in its 2017 proxy to detail the changes made to its compensation plans based on shareholder feedback. In addition, Exelon colorfully detailed its shareholder engagement policy to communicate with investors, providing a timeline and milestones that contributed to the decision-making process for its compensation committee. The company garnered 86.0% Say on Pay approval in 2017, up from just 38.1% the year prior.

2016 Say On Pay Vote Outcome and Shareholder Engagement

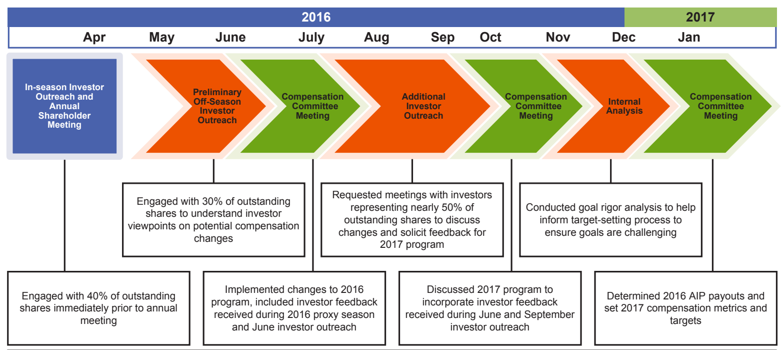
The committee regularly reviews executive compensation. However, in response to the company's 2016 advisory vote on executive compensation, which received only 38% support from shareholders, the compensation committee and management undertook an enhanced engagement program to solicit feedback from shareholders. As part of this process, Exelon contacted nearly 50% of our shareholder base and met with shareholders accounting for approximately 45% of Exelon's shares outstanding.

Mr. Yves de Balmann, the new chairman of the compensation committee as of April 2016, led meetings and calls with shareholders accounting for approximately 45% of Exelon's shares outstanding. The compensation committee considered the shareholder feedback from these engagement meetings and implemented a number of changes that were responsive to this feedback.

The breadth of the company's outreach program enabled the compensation committee to speak with and consider feedback from a significant cross-section of Exelon's shareholder base. Exelon's engagement team met with governance professionals and portfolio managers from active funds as well as governance professionals from index funds, ranging from shareholders with positions as large as 7.6% of Exelon's shares outstanding to those who own less than 1%.

The compensation committee took the opportunity to modify the compensation program at its July meeting in order to respond to the say-on-pay vote and implemented shareholder feedback immediately, including retroactively modifying the 2016 program in line with this feedback.

A summary of the shareholder outreach process is set forth below:



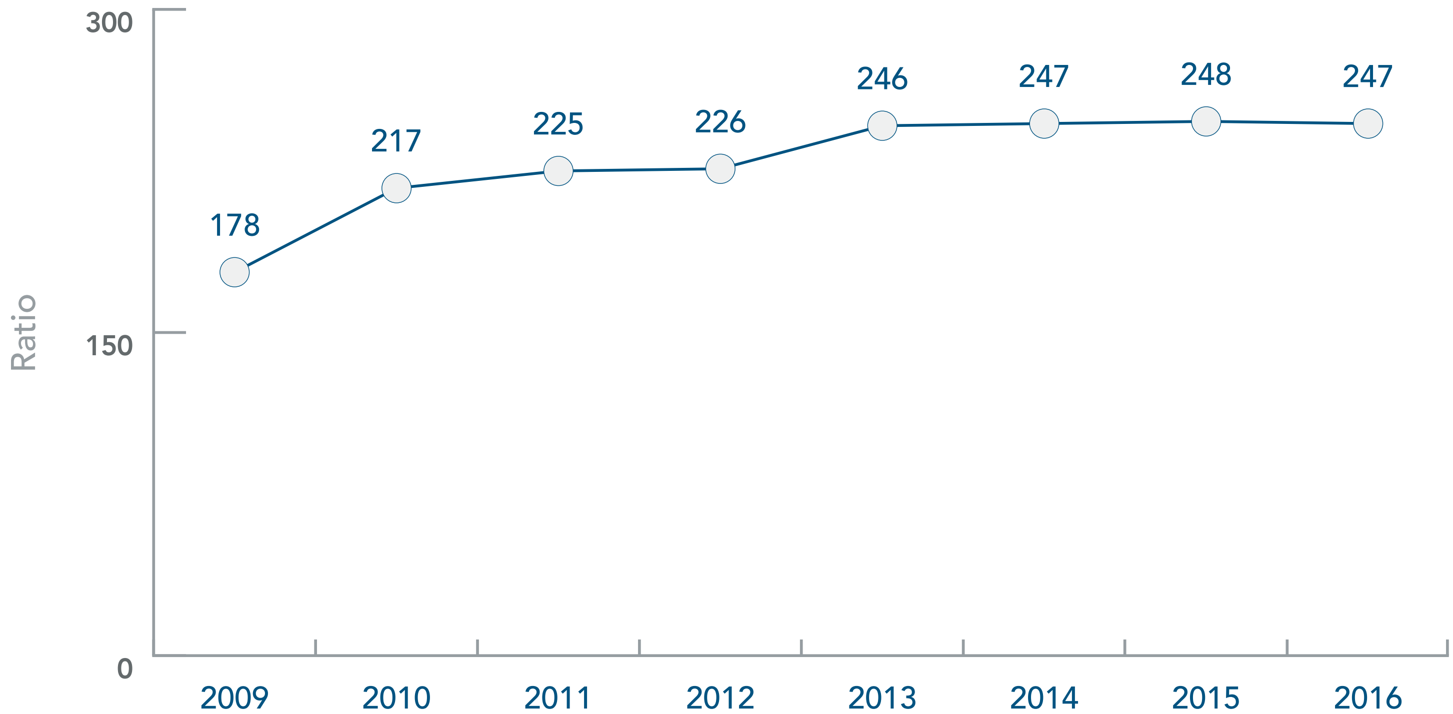
Following the say-on-pay vote at our 2016 annual meeting, we engaged with our investors to ensure that changes to our compensation program incorporated shareholder feedback

Effectively Benchmark Your Executive Compensation Plans

Equilar Insight allows you to create custom reports based on specific criteria, including a defined peer group, industry type and revenue to compare where your executive pay levels rank among your peers. By selecting the TrueView option in the data source menu, you can view how total compensation of executive positions is more accurately depicted by blending both Top 5 proxy data and Top 25 survey data.

Learn more: www.equilar.com/benchmarking

Figure 14 CEO-to-Median-Worker Pay Ratio, Equilar 500



Data Points

- Based on Equilar data for CEO pay in the Equilar 500 and U.S. Bureau of Labor Statistics for median worker pay, the CEO-to-median-worker pay ratio saw the largest increase between 2009 and 2010 when it went from 178:1 to 217:1 *(Fig. 14)*
- After a rapid increase from 2009 to 2013, the CEO-to-median-worker pay ratio has remained consistently just below 250:1 for the last four years *(Fig. 14)*
- Not a single Equilar 500 company disclosed a CEO Pay Ratio in 2017 ahead of the 2018 SEC requirement to do so

Disclosure Example 4 Gender Pay Equity

Prudential Financial, Inc. (PRU)
DEF 14A (p.85)
Filed 3/21/17

As an appendix to its proxy statement, Prudential included information about its corporate pay policy, indicating that these practices apply to all employees of the company. Shareholders have filed resolutions at other companies requesting disclosure of gender pay equity, and Prudential here shows proactive disclosure on the topic for its investors. When the CEO Pay Ratio is included in most 2018 proxy statements, it will undoubtedly spur other conversations around income inequality and pay equity practices.

GENDER PAY POLICY

Prudential's Total Rewards is integral to our employee value proposition. This package includes compensation, as well as programs and resources available to our employees.

All roles in our U.S. organization are reviewed and assigned a value and market reference range based on market and benchmarking data. These ranges enable us to recruit and promote talent within the context of an individual's background, experience and performance.

ANNUAL COMPENSATION REVIEW OF ALL U.S. EMPLOYEES

Process

Human Resources and Legal team assesses compensation structure for potential pay disparities by gender and race/ethnicity.

Independent third party reviews Human Resources and Legal team's evaluation.

If disparities are found, corrective action is taken.

Employee Input

Internal survey contains pay-related questions enabling employees to address compensation issues.

Employees can raise issues regarding pay equity with the Ethics Office, Human Resources or their manager.

Pay discrimination is investigated by trained professionals dedicated to reviewing unlawful discrimination claims.

This integrated approach ensures that we proactively manage pay equity on an ongoing basis for both women and people of color, and that we satisfy our heightened obligations as a federal contractor.

After completion of our annual review, Prudential is confident that, controlling for relevant factors, there are no significant gender or race wage differentials in the U.S. for employees performing substantially similar work.

Our Board receives a review of our pay equity assessment each year as part of our annual human resources strategy update.

Prudential

Data Points

- Shareholders often analyze the ratio of CEO pay to other named executive officers (NEOs) as a reflection of compensation philosophy, and some companies disclose that information to provide more transparency into their pay programs—the percentage of Equilar 500 companies disclosing internal pay equity reached a peak in 2017 at 45.2% *(Fig. 15)*
- Disclosure of internal pay equity for CEOs and NEOs has remained relatively consistent over the past five years—however, there was a slight increase of 2.8 percentage points from 2016 to 2017 *(Fig. 15)*
- In 2017, the median ratio of CEO pay to the average compensation of their other top executives was 2.8:1, the lowest in the study period, while the average ratio, just above 3.0:1, was the highest *(Fig. 16)*

Figure 15 Internal Pay Equity Disclosure, Equilar 500

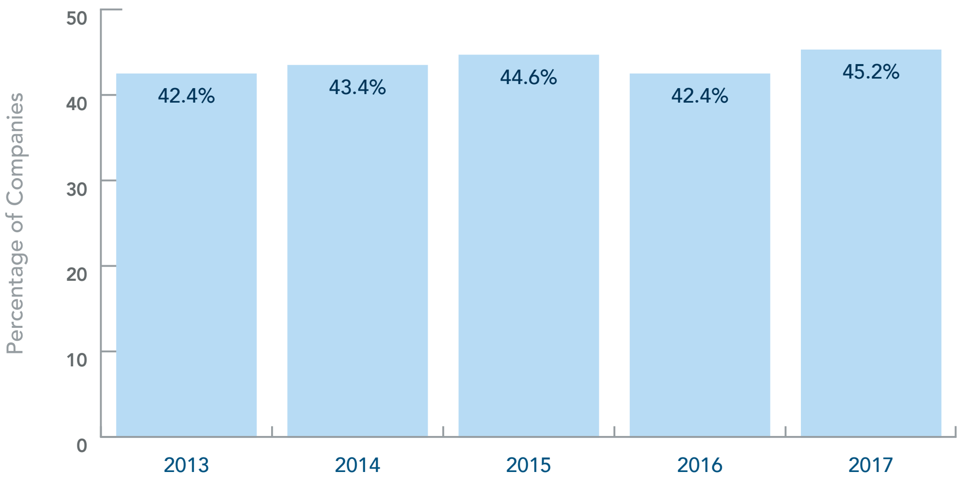
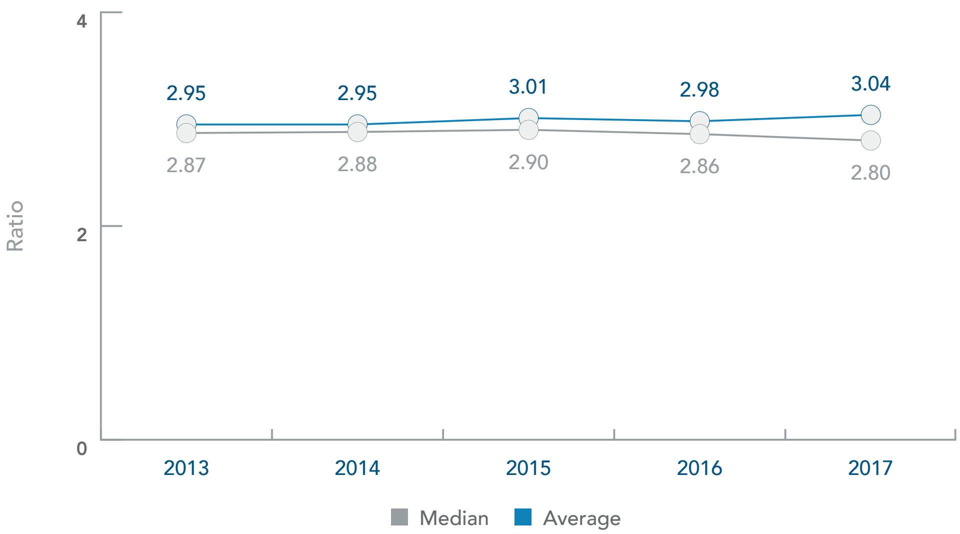


Figure 16 CEO-to-Average-NEO Pay Ratio, Equilar 500



Hogan Lovells Commentary

Pay equity data is not a driving factor in evaluating executive compensation. To the extent it is looked at, the focus tends to be on the relationship between the pay of the CEO and the other NEOs, not to the relationship to the pay of the workforce at large. Looking at the pay of the CEO compared to other NEOs is viewed by some as an indicator of succession planning. It is unlikely that pay ratio disclosures will influence Say on Pay votes at least in the near term as most shareholders are not focused on the ratio of CEO pay to that of a median employee. Key factors for Say on Pay votes are whether a pay program is perceived as performance-based and aligned with company performance and whether pay is considered excessive in light of company performance or in comparison to levels at peer companies.

Donnelley Financial Solutions Commentary

Investors have been reviewing pay equity data, particularly between the CEO and other NEOs, for years, as this is set forth within the Summary Compensation Table. Many report using this as a data check on senior management bench strength and on internal succession planning efforts.

Regarding the looming CEO-to-median-employee-ratio disclosures, the reaction will be highly dependent not just on pay, but also on industry, business model, type of labor force and related considerations. One observer may consider a "high" ratio as evidence of excessive CEO pay, and another may view the same ratio as evidence of effective control of labor costs.

How voters and proxy advisors actually use the data in Year One (2018) is unclear. They likely will find ways to use it in Year Two and thereafter, when more industry/peer company comparisons can be made, and as company year-to-year trends reveal themselves. Down the road, uses for the data may include future Say on Pay votes, as well as votes on compensation committee member re-election.

Two things are highly likely. First, employees will take notice, with (by definition) half of all company employees realizing they are paid below the median at their company, which may be a revelation for some. We believe most companies are preparing for this internal HR conversation. Second, the media, including those that previously focused on "holy cow" pay figures, will seize upon these new data points for fresh story ideas, whether thoughtful or sensationalized.

Data Points

- 92% of the largest 100 U.S. companies based on revenue disclosed a clawback or recoupment policy in their proxy statements in 2017 *(Fig. 17a)*
- Of the companies that disclosed a clawback policy in 2017, 40.2% of the companies' clawbacks were triggered by a restatement, 42.4% were triggered by restatement due to misconduct, and 39.1% were triggered by misconduct *(Fig. 17b)*

Figure 17a Clawback Policy Disclosure, Equilar 100

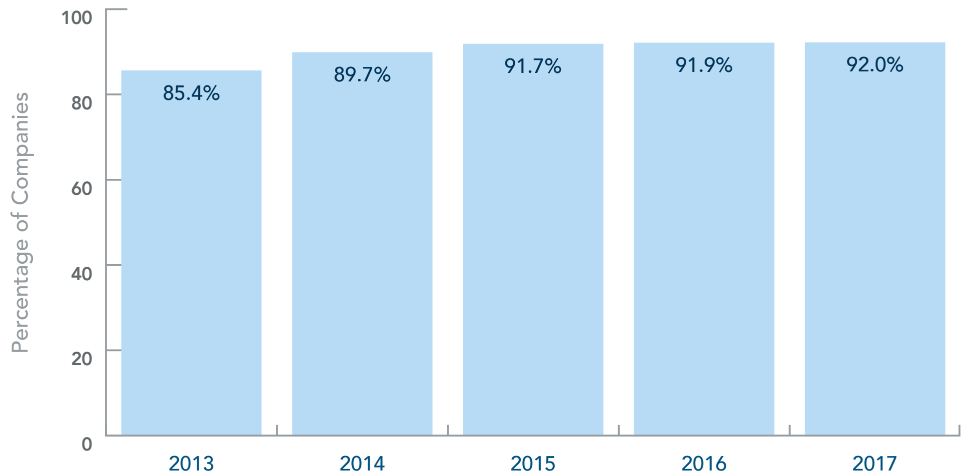
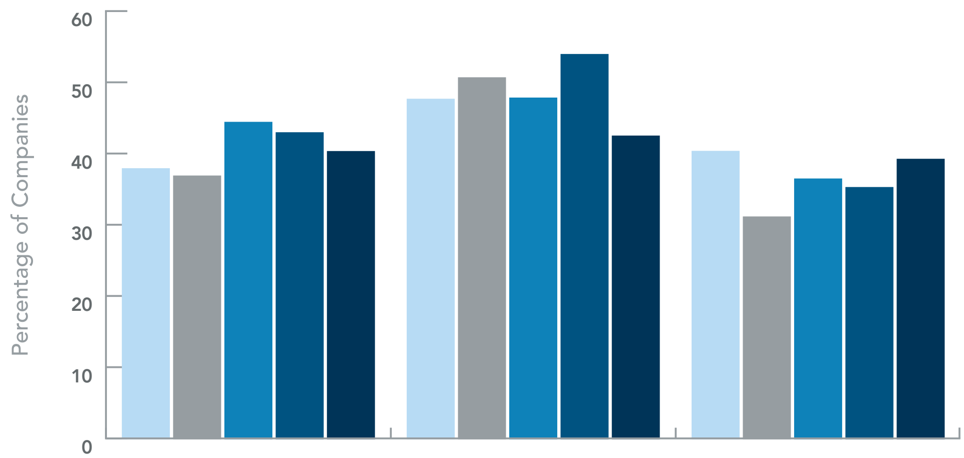


Figure 17b Clawback Triggers for Equilar 100 Companies Disclosing a Policy



	Restatement	Restatement Due to Misconduct	Misconduct
2013	37.8%	47.6%	40.2%
2014	36.8%	50.6%	31.0%
2015	44.3%	47.7%	36.4%
2016	42.9%	53.8%	35.2%
2017	40.2%	42.4%	39.1%

Data Points

- Though relative total shareholder return (TSR) is the most popular long-term performance metric at Equilar 500 companies, nearly half of the 426 companies that offer performance awards do not use it as a pay for performance measurement for any of their named executive officers *(Fig. 18a)*
- 2016 saw the most companies, 210, that did not include TSR for performance awards to executives *(Fig. 18a)*
- Return on Capital/Return on Invested Capital/Return on Equity (ROC/ROIC/ROE) was the most common metric for companies not awarding TSR in all five fiscal years *(Fig. 18b)*
- Earnings per share (EPS) was the second-most common performance metric in 2013 and 2017, but was replaced by operating income/margin from 2014 to 2016 *(Fig. 18b)*

Figure 18a Companies That Do Not Align Executive Pay With TSR, Equilar 500

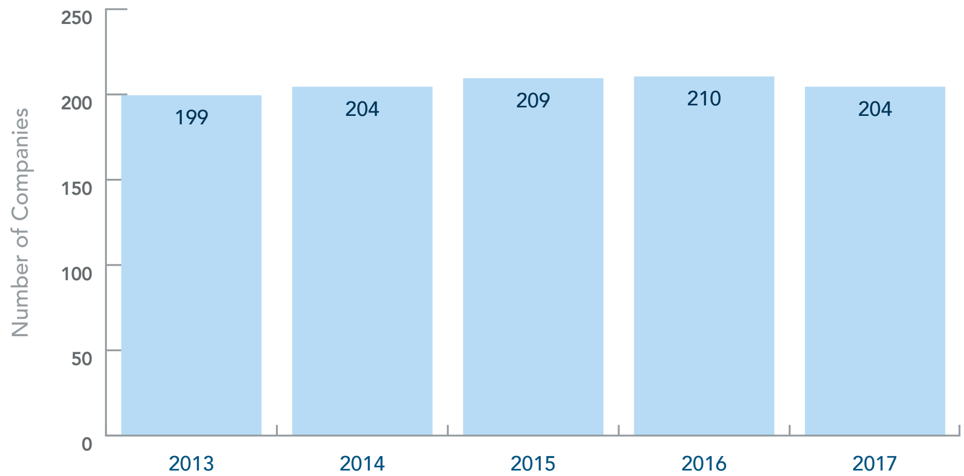
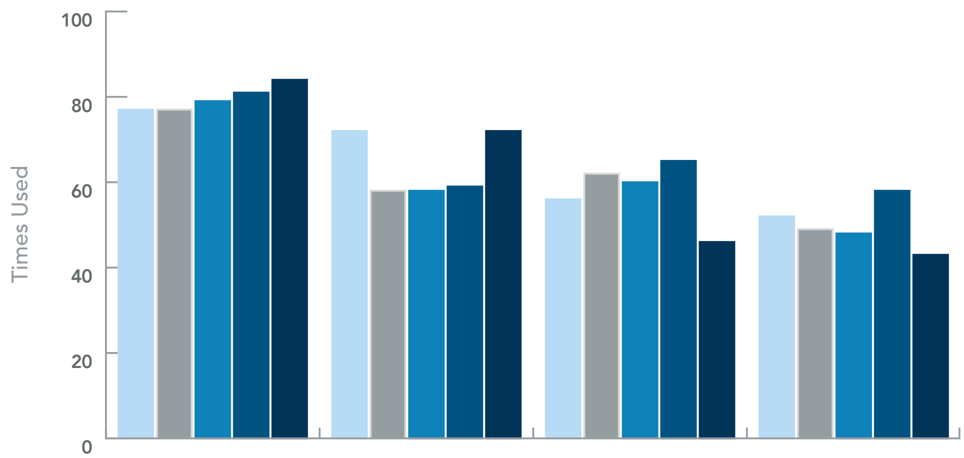


Figure 18b NEO Performance Metrics at Non-TSR Companies, Equilar 500



	ROC/ROIC/ROE	EPS	Operating Income/Margin	Revenue
2013	77	72	56	52
2014	77	58	62	49
2015	79	58	60	48
2016	81	59	65	58
2017	84	72	46	43

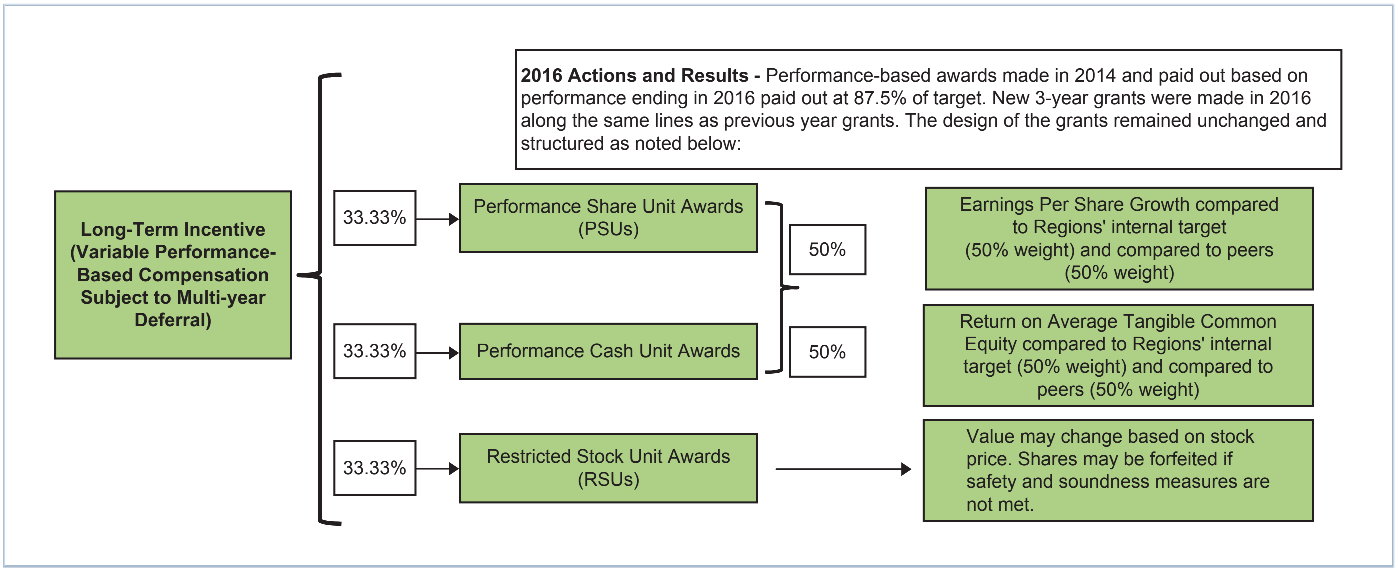
Donnelley Financial Solutions Commentary

Companies with recent poor TSR, either absolute or relative to peers, may still be performing well on key non-TSR measures, such as financial and operating measures. Particularly if these non-TSR measures have previously been disclosed in investor relations messaging (and hopefully also in the proxy) as key value-drivers for the company, then it may be appropriate to highlight pay versus performance on these measures, as this reasonably should be recognized in the future stock price. In these instances, pay may be defined in different ways, including SCT, realized, or realizable pay.

Disclosure Example 5 Long-Term Incentive Plan Performance Metrics

Regions Financial (RF)
DEF 14A (p.71)
Filed 3/7/17

One of the 200-plus Equilar 500 companies that does not use total shareholder return in its long-term incentive plan (LTIP), Regions Financial Corporation included a visual graphic to show how its LTIP is measured and weighted. The company offers performance shares, performance cash and restricted stock units in equal thirds for executive awards. The performance elements pay out based on earnings per share growth and return on equity—each metric is weighted 50% to internal targets and in comparison to peer performance.

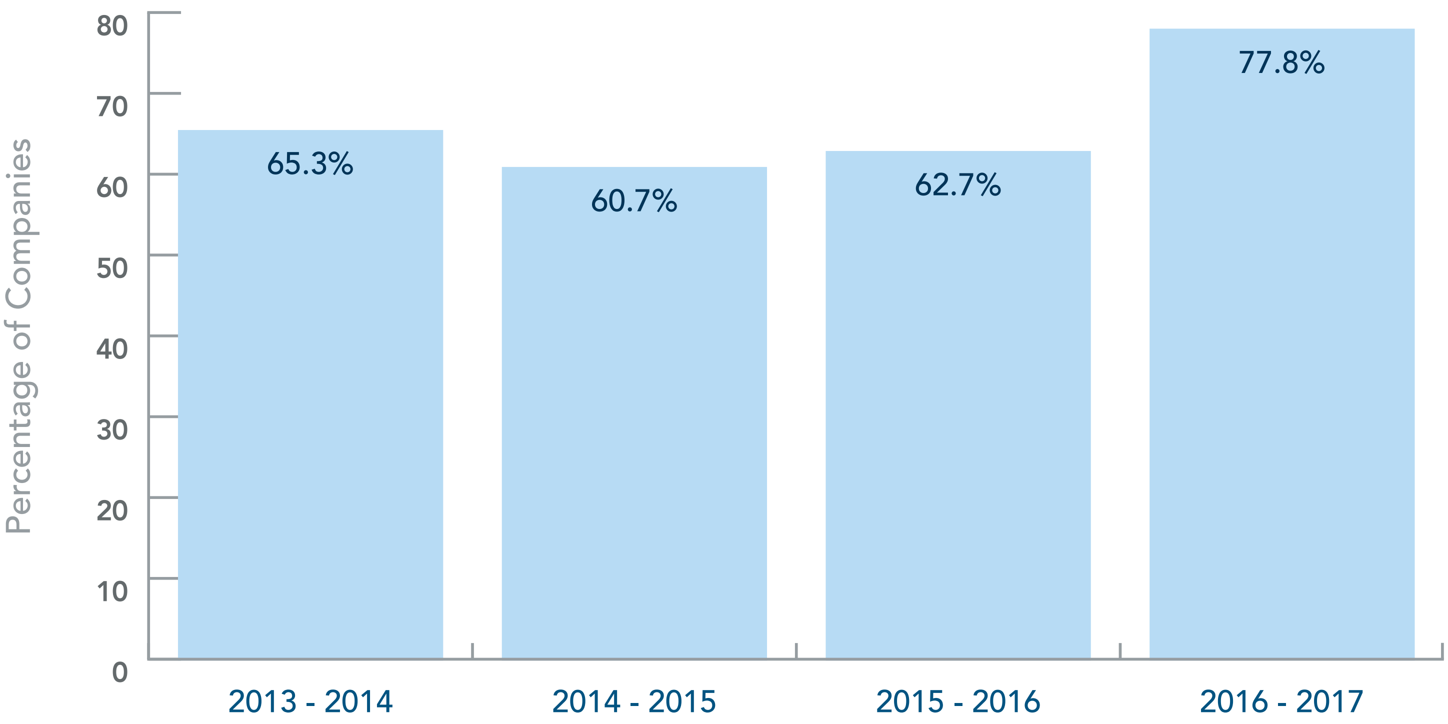


Assess the Metrics in Your Incentive Plans

Equilar and the Center On Executive Compensation have partnered to develop the Incentive Plan Analytics Calculator (IPAC[sm]), which encompasses Financial Metric Correlation and Incentive Plan Design. With IPAC, you can assess the robustness of your incentive plan metrics compared to the metrics used by your peers, allowing you to adequately motivate your executives while satisfying investor interests.

Learn more: http://www.equilar.com/IPAC

Figure 19 Year-Over-Year Peer Group Changes, Equilar 500



Data Points

- Over three-fourths of Equilar 500 companies disclosed compensation peer groups in 2017 that differed by at least one company from their peer groups disclosed in 2016 *(Fig. 19)*
- The amount of companies experiencing a change in compensation peer group increased by 15.1 percentage points from 2016 to 2017 *(Fig. 19)*

Data Points

- 40.6% of Equilar 500 companies disclosed a retirement age policy in their most recent proxy *(Fig. 20a)*
- Every retirement age policy disclosed in a proxy for Equilar 500 companies was between 70 and 80 years old—45.8% of companies disclosed a retirement age policy of 72 years old, and 36.5% of companies had a retirement age policy of 75 years old *(Fig. 20a)*
- Figure 20b shows the number of directors at Equilar 500 companies whose age falls within five years of their company's mandatory retirement age
- 23 directors are currently at the specified retirement age for their respective boards, and 38 directors are at least one year older than the disclosed retirement age for their boards *(Fig. 20b)*
- At companies that disclosed a retirement age policy, 70 directors are or will be of retirement age next year, and 82 directors who will be of retirement age in two years *(Fig. 20b)*

Figure 20a Director Retirement Age, Equilar 500

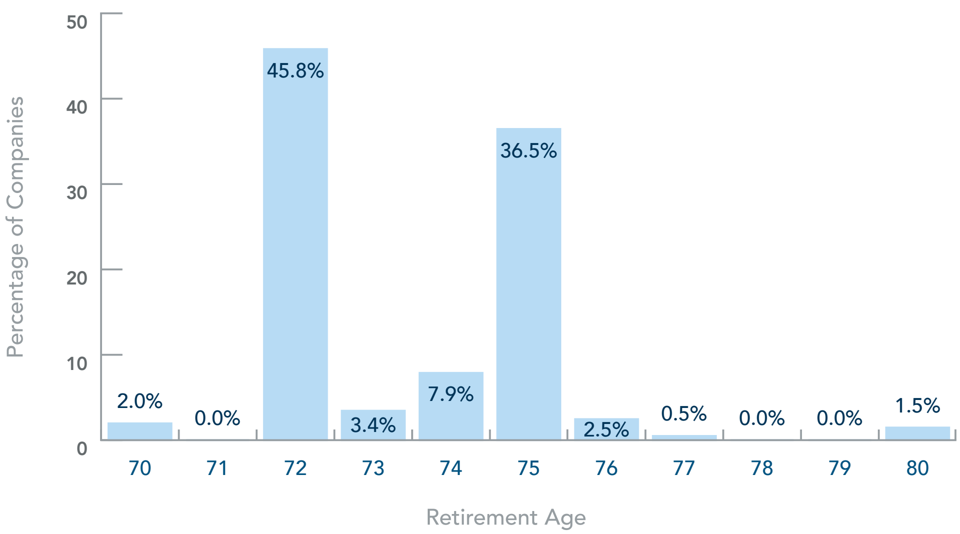
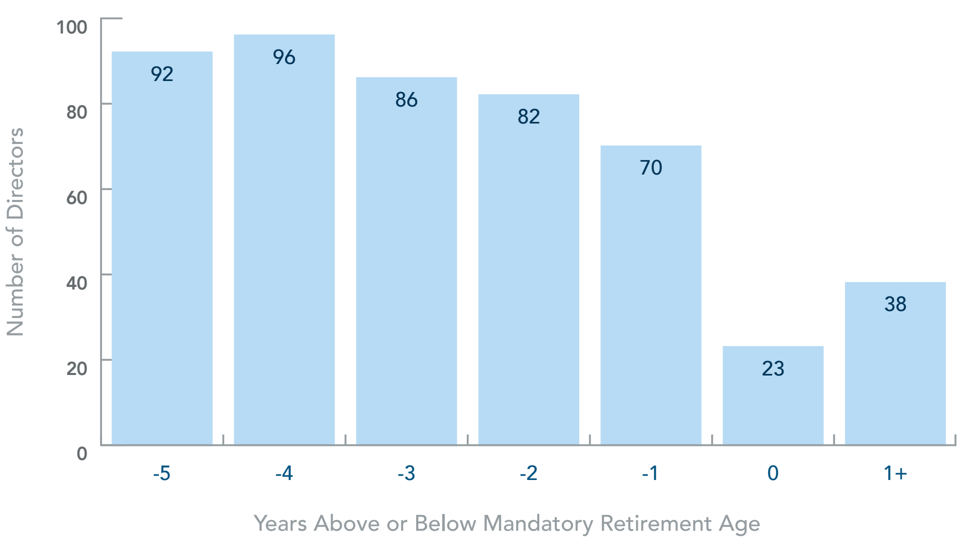


Figure 20b Directors Nearing Retirement Age, Equilar 500

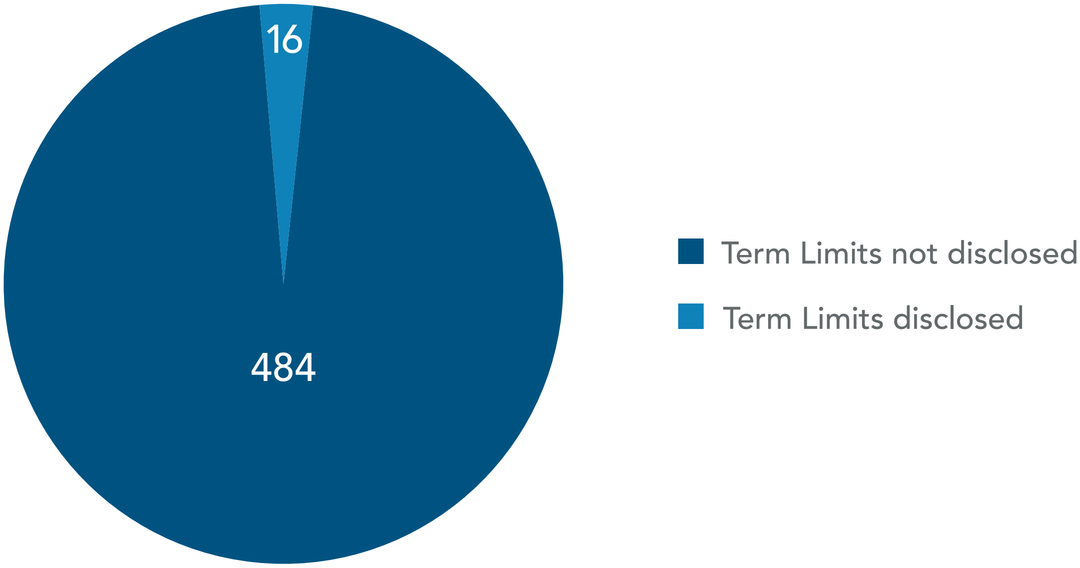


Hogan Lovells Commentary

Mandatory service limits allow boards to be proactive in succession planning. Board members are reluctant to broach conversations with other directors about transitioning off the board, and being able to point to a term or age limit enables boards to ease into those conversations more naturally. Likewise, board members themselves can use those limits to gracefully step back from boards that have become tiresome or routine. Term limits also keep perspectives fresh and add much needed expertise, especially in this age of accelerated technological innovation. New directors frequently can fill in gaps in knowledge, skills and mindset.

The benefits of service limits can sometimes come at a cost. It takes time for directors to gel and feel comfortable with one another. Constant turnover in board composition can decrease overall board effectiveness. Retirement ages may mean that older, seasoned individuals, such as retired CEOs, will be overlooked, thereby missing out on valuable board mentors to corporate management. Term limits also impose artificial deadlines that may not take into account the particular life cycle of a company. A large merger transaction or a proxy fight could require a board transition at a time when continuity would be in the best interests of the company. Given that, where age or term limits are in place, boards should ensure that have flexibility to allow for a delay in application where circumstances dictate.

Figure 21 Director Term Limit Disclosure, Equilar 500



Data Points

- Of the Equilar 500, 16 companies, or approximately 3%, have disclosed board member term limits *(Fig. 21)*
- With boards considering refreshment to stay relevant in an ever-changing business climate, term limits may become more prevalent in the future
- Currently featured at 10 companies in the Equilar 500, 15 years is the most prevalent term limit length—three companies disclosed a 12-year term limit, one included a 20-year term limit, and the remaining two boards did not specify the length of their term limit

Disclosure Example 6 Retirement Age and Term Limits

MasterCard (MA)
DEF 14A (p.12)
Filed 4/28/17

MasterCard clearly puts on display that it has a 15-year term limit and a 72-year-old retirement age for its board members. While board service limits are often criticized as overly prescriptive—and also often receive individual waivers—their implementation sends a message to both shareholders and directors that a seat on the board of directors is not a lifetime achievement award.

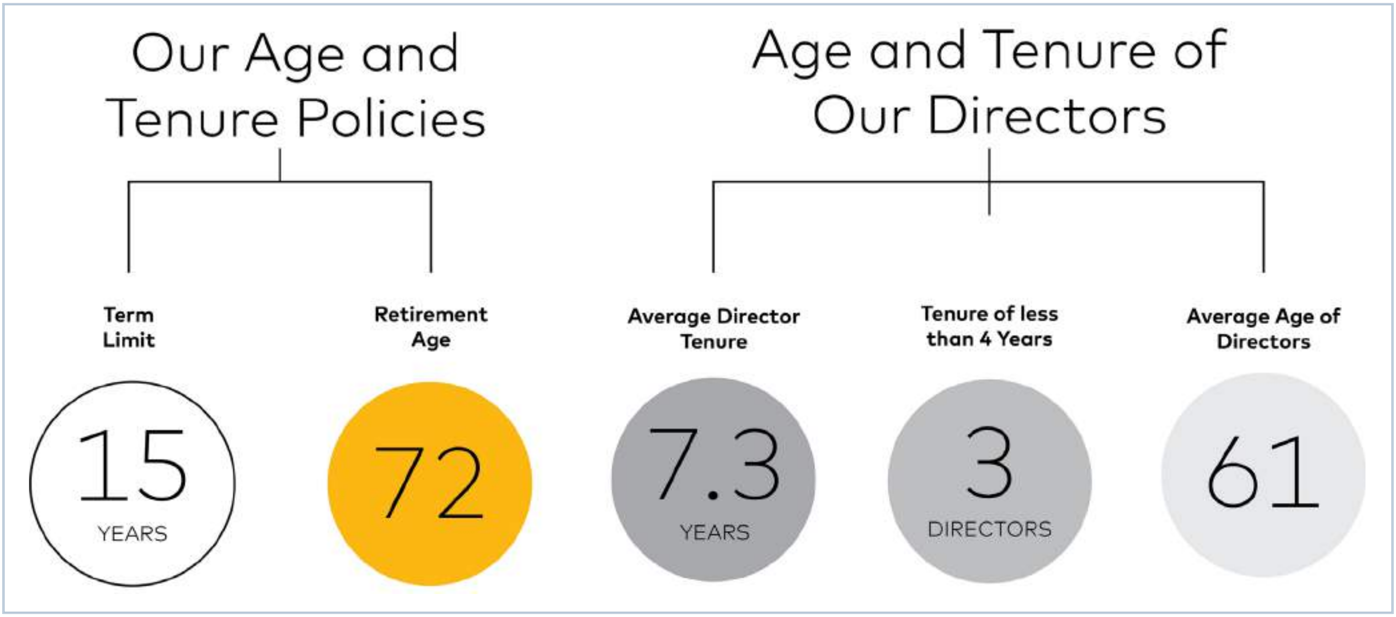
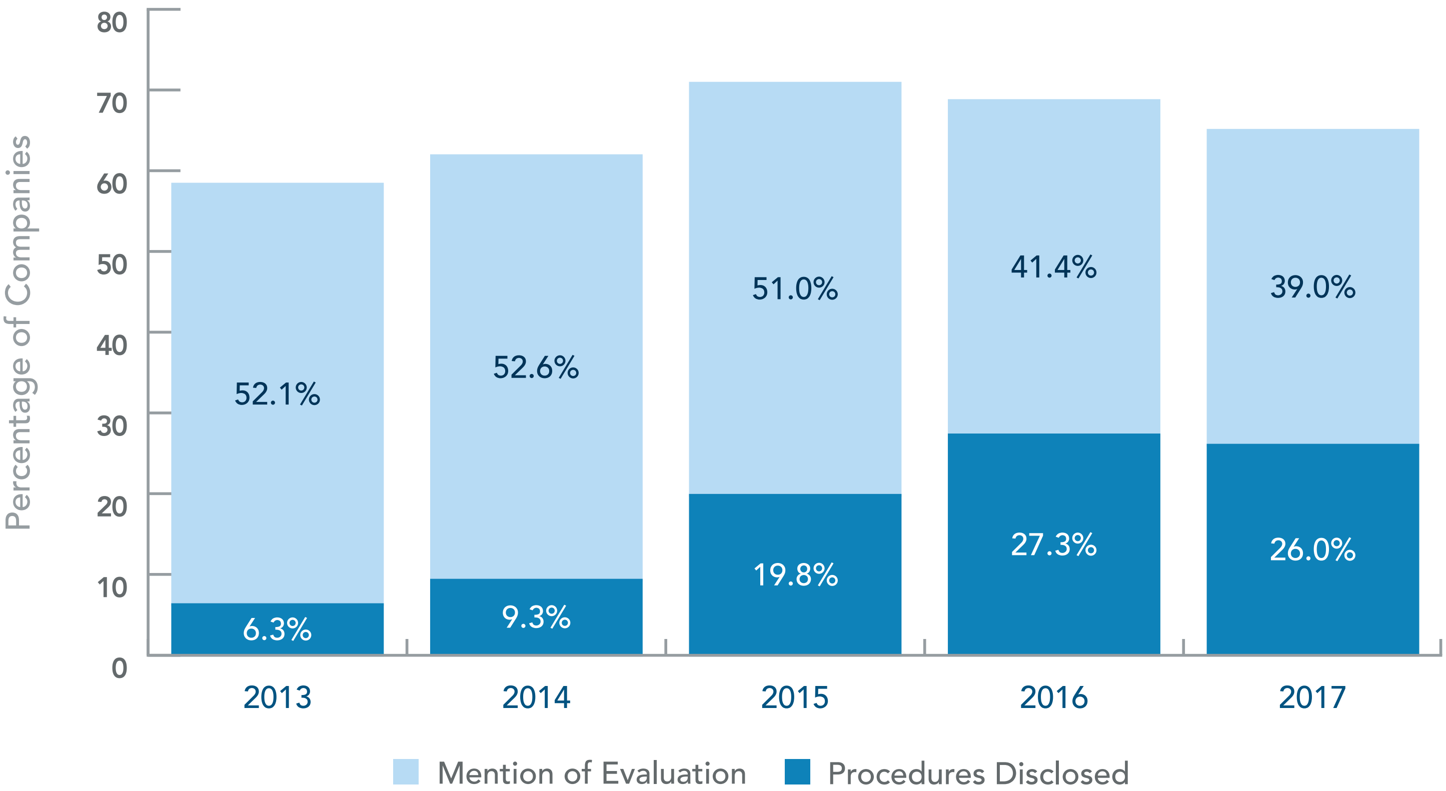


Figure 22 Board Evaluation Disclosure, Equilar 100



Data Points

- The total number of companies that included any information about board evaluations in their proxy increased slightly from 2013 to 2017, from 58.4% to 65.0%, respectively *(Fig. 22)*
- The percentage of companies that disclosed substantial details about their board evaluation policies increased from 6.3% of companies in 2013 to 26.0% in 2017, though that figure dipped slightly in the most recent year *(Fig. 22)*

Donnelley Financial Solutions Commentary

As indicated earlier, investors and others do not have a direct line of sight into the boardroom, and for this reason they tend to focus on external metrics that may not be true measures of director quality.

Those with a direct line of sight into the boardroom are in the best position to evaluate overall board quality, as well as the contribution and performance of individual directors. They also are in the best position to determine when certain directors should roll off the board to make room for others. Board skills need to be measured against the company's evolving strategies, and a matrix of emerging skill sets needed on the board should be understood within a context of where those skills will ideally come from.

For these reasons, investors want to know that a) there is a regular board evaluation process and that this process is a high priority, and b) that in certain situations this process results in necessary changes.

Investors generally understand that the details of the evaluations themselves are used internally and not revealed externally.

We are seeing an increase in the quality of these disclosures in proxies, as previous terse disclosures, which may be sincere but often appear as boilerplate, are giving way to more thoughtful narrative disclosures. More recently, we began seeing companies depict the board evaluation process in visual ways, including timelines or seasonal process-flow diagrams.

Hogan Lovells Commentary

Boards of listed companies undertake a self-evaluation process every year, to help assess the functioning of the board. That process isn't generally disclosed in detail in the proxy statement, and shareholders are more concerned about the composition and functioning of the board than the board's self-evaluation. Companies therefore focus disclosure on the qualifications and independence of the directors, with any eye toward demonstrating that each director brings an important point of view to the boardroom, and that the board as a whole has the right balance of experience and expertise to address the company's most pressing concerns. Shareholders are also showing increased interest in board refreshment, which in turn is leading companies to develop and disclosure board tenure and retirement policies.

Disclosure Example 7 Board Evaluations

Goldman Sachs (GS)
DEF 14A (p.25)
3/17/17

Without a seat at the boardroom table, investors have been pressuring companies to provide more insight into their board evaluation processes. Goldman Sachs outlined a five-step format and specific performance elements under consideration in annual reviews. The purpose of these disclosures is not to detail specific evaluation results for individual directors, but to allow transparency into the way that boards consider their effectiveness, and to open dialogue with shareholders if there are concerns about board composition and performance.

2016 Evaluations — A Multi-Step Process

The Governance Committee periodically reviews the format of the Board and Committee evaluation process to ensure that actionable feedback is solicited on the operation of the Board and director performance.

Over the last several years, the Governance Committee has refined the format of the questionnaire and added specific evaluations of the Lead Director, each Committee Chair and each individual director as described below.

QUESTIONNAIRE
Evaluation questionnaire provides director feedback on an unattributed basis

ONE-ON-ONE DISCUSSIONS
Candid, one-on-one discussions between the Lead Director and each non-employee director to solicit additional feedback and provide individual feedback

CLOSED SESSION
Closed session discussion of Board and Committee evaluations led by our Lead Director and independent Committee Chairs

BOARD SUMMARY
Summary of Board and Committee evaluation results provided to full Board

FEEDBACK INCORPORATED
Policies and practices updated as appropriate as a result of director feedback

TOPICS CONSIDERED DURING THE BOARD AND COMMITTEE EVALUATIONS INCLUDE:

DIRECTOR PERFORMANCE	BOARD AND COMMITTEE OPERATIONS	BOARD PERFORMANCE	COMMITTEE PERFORMANCE
▪ Individual director performance ▪ Lead Director (in that role) ▪ Each Committee Chair (in that role)	▪ Board and committee membership, including director skills, background, expertise and diversity ▪ Committee structure, including whether the committee structure enhances Board and committee performance ▪ Access to firm personnel ▪ Conduct of meetings, including time allocated for, and encouragement of, candid dialogue ▪ Materials and information, including quality and quantity of information received from management ▪ Shareholder feedback	▪ Key areas of focus for the Board ▪ Consideration of reputation ▪ Strategy oversight ▪ Consideration of shareholder value ▪ Capital planning	▪ Performance of committee duties under committee charters ▪ Consideration of reputation ▪ Effectiveness of outside advisers ▪ Identification of topics that should receive more attention and discussion

Data Points

- More than half of the 100 largest companies by revenue mentioned that they had a CEO succession plan at least once in their proxies in 2017, and 28.0% disclosed specific details about their CEO succession plans—such disclosures have increased incrementally since 2013 *(Fig. 23)*
- There have been 54 CEO transitions at Equilar 500 companies in 2017 at the time this data was researched, and fewer than one-fifth of the CEO appointments were external hires *(Fig. 24)*

Figure 23 CEO Succession Plan Disclosure, Equilar 100

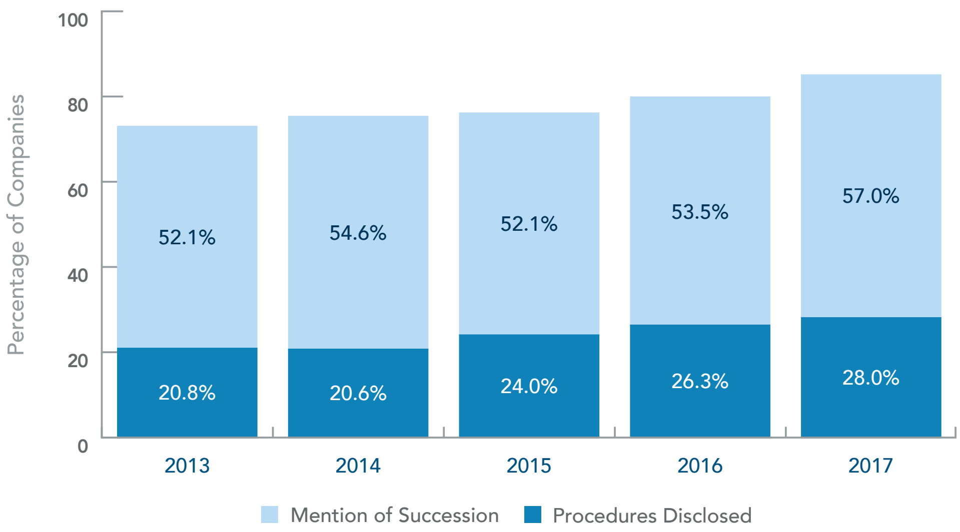
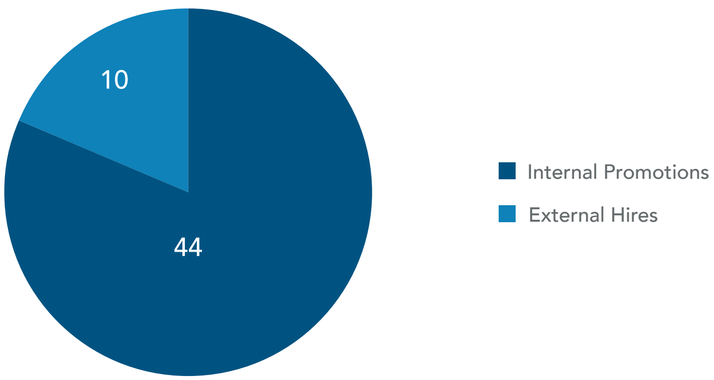


Figure 24 CEO Transitions, Equilar 500: Internal Promotions vs. External Hires, 2017



Hogan Lovells Commentary

CEO succession planning is one of the most important responsibilities of a board of directors. Investors want to know that the board is focused on this important job. For that reason, it is important to disclose something about the board's process for overseeing succession planning. It may be difficult to disclose much more than the process undertaken by the board or board committee as the facts are often confidential or in flux. It can be a difficult for a company to balance investors' desire for more disclosure on this topic with the company's legitimate need for confidentiality. This is highly fact-specific inquiry for each company.

Donnelley Financial Solutions Commentary

While studies can be found that support both sides of this issue, there is significant compelling evidence that, on average, internal CEO succession appointments, when compared to external "star search" appointments, a) cost less in terms of search and new CEO pay, and b) result in better new CEO performance and a positive impact on the company.

EQUILAR

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