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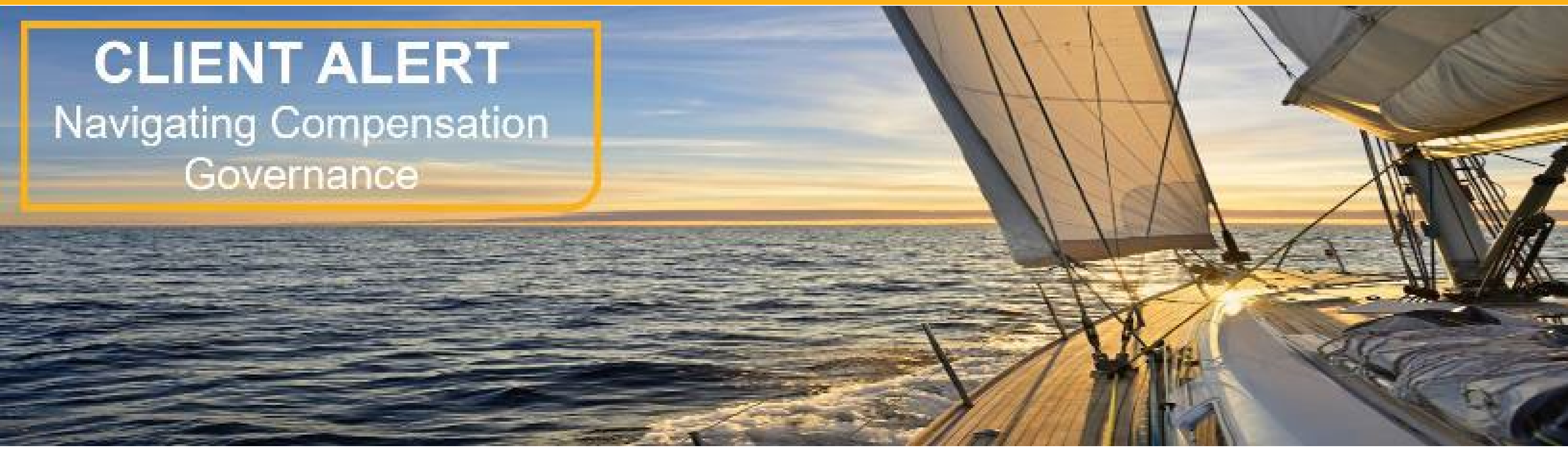

Glass Lewis Releases the Results of its Inaugural Policy Survey

For the first time, Glass Lewis recently conducted an annual policy survey[1]. The survey previews potential changes to its proxy voting policies and provides the views of over 550 investors, public corporations and their advisers on a wide range of compensation and governance matters.

Key Takeaways Based on Investor Responses

The following are key takeaways from the Glass Lewis survey:

- **Clawback Applicability:** A significant majority of investors believe clawback policies should be triggered upon events other than a mere financial restatement.
- **Non-GAAP Incentive Metrics:** A slight majority of investors believe failure to disclose a full non-GAAP to GAAP reconciliation when incentive payouts are based on non-GAAP metrics should impact Say-on-Pay vote decisions.
- **Assessing Pay and Performance:** When assessing executive pay-for-performance alignment, a large majority of investors place significant weight on (i) change in value of outstanding CEO pay relative to TSR performance, (ii) CEO pay relative to company size, (iii) incentive payouts vs TSR performance, (iv) financial results and (v) NEO pay.
- **Mitigating Quantum Concerns:** Most investors viewed the disclosure of the following items as important to assess Pay-for-Performance alignment: (i) maximum payout limits for variable incentives, (ii) actual pay outcomes for short-term and long-term incentives and (iii) targets for performance-based incentives.
- **Executive Stock Ownership Guidelines:** Most investors believe ownership requirements (including post-vesting and post-employment holding requirements) are important to align executive interests with shareholders.
- **Termination Benefits for Terminations without Cause:** Most investors believe termination benefits paid for a termination without cause are concerning, particularly if the value is high.
- **Emerging Board Skills:** A majority or a near majority of investors view human capital management, cybersecurity and employee health and safety as very important skills for a board member to have.

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[1] *Glass Lewis's Client Policy Survey 2023: Results and Key Findings, available at:* *https://www.glasslewis.com/2023-policy-survey/*

Summarized below are investor and non-investor responses to policy questions on compensation and select governance matters. Public companies and their advisors are collectively referred to as "non-investors" in this Client Alert.

Clawback Provisions

Investors are more likely than non-investors to believe that clawback provisions should be triggered by events beyond a restatement, such as misconduct and reputational failures.

Survey Question: *Where a restatement has* ***not*** *occurred, do you believe clawback policies should be applicable in response to any of the following?*

Trigger	Investors	Non-Investors
Material Misconduct	83%	65%
Incorrect Payout Outcome Due to Miscalculation or Incorrect Information	72%	47%
Material Risk Management Failure	72%	36%
Material Operational Failure	69%	32%
Material Reputational Failure	62%	30%
At the Committee's Discretion	37%	33%
Clawback Should Only Apply in Cases of Restatements	4%	14%

Meridian Comment: *Consistent with the investor feedback, Glass Lewis updated its policy on how it evaluates a company's clawback policies. Under its updated policy, Glass Lewis expects clawback policies to be triggered upon executive misconduct and apply to both performance and non-performance-based compensation. A company's failure to incorporate such triggers into its policy could negatively impact Glass Lewis's compensation analysis and factor into Glass Lewis's vote recommendation on a company's Say-on-Pay proposal.*

Non-GAAP Incentive Metrics

When incentive payouts are based on non-GAAP metrics and a company fails to provide a full non-GAAP to GAAP reconciliation, investors believe that should strongly factor into Say-on-Pay vote recommendations (53% vs 23% for non-investors). In addition, 81% of investors (vs. 52% of non-investors) believe that the absence of such disclosure should be a factor on investor Say-on-Pay vote decisions. This is consistent with the position taken by a large number of institutional shareholders and backed by the Council of Institutional Investors.

Survey Question: *Where incentive outcomes are materially impacted by the use of Non-GAAP results and the company fails to provide a reconciliation in the proxy statement, should this be a factor in determining Say-on-Pay vote recommendations?*

Response	Investors	Non-Investors
Yes, a strong factor	53%	23%
Yes, but only a minor factor	28%	29%
No	3%	35%
Sometimes/it depends	16%	14%

Meridian Comment: *Glass Lewis released a policy update related to the reconciliation of non-GAAP incentive metrics. Failure to provide a reconciliation when non-GAAP measures are used may negatively impact Glass Lewis's compensation analysis and factor into its vote recommendation on a company's Say-on-Pay proposal.*

Assessing Pay and Performance

Investors place a greater weight and importance (indicating they were 'very important' or 'somewhat important') than non-investors on the factors listed for consideration when assessing executive Pay-for-Performance alignment.

Survey Question: *In assessing executive pay-for-performance alignment, how important are each of the following factors?*

Element of Pay-for-Performance Assessment	Investors	Non-Investors
	Very or Somewhat Important	Very or Somewhat Important
Financial Results (excluding TSR)	90%	88%
Incentive Payouts vs. TSR Performance	87%	74%
Non-CEO Named Executive Officer Pay	86%	74%
Relative CEO Pay in Light of Relative Company Size	81%	72%
Change in Value of Outstanding CEO Pay Compared to TSR Performance	81%	58%

Meridian Comment: *While Glass Lewis did not adopt a policy update related to this question, Glass Lewis will likely evaluate factors that investors weigh heavily when conducting its executive pay-for-performance alignment assessment.*

Mitigating Quantum Concerns

When assessing pay-for-performance alignment, a significant majority of investors and non-investors agree that certain factors could mitigate concerns about pay magnitude.

Survey Question: *In assessing executive pay-for-performance alignment, how important are each of the following in assuaging concerns about pay magnitude?*

Potential Mitigating Factor in Pay for Performance Assessment When Executives Received High Pay Amounts	Investors	Non-Investors
	Very or Somewhat Important	Very or Somewhat Important
Vesting Period of Long-Term Incentives is ≥ 3 Years	87%	68%
Disclosure of All Targets for Performance-Based Incentives	84%	71%
Maximum Payout Limits for Variable Incentives are Set and Disclosed	84%	82%
Disclosure of Actual Pay Outcomes for Short- and Long-Term Incentives	81%	81%
Total CEO Pay is More Heavily Weighted on Equity than Cash	79%	75%

Meridian Comment: *While Glass Lewis did not announce a policy update related to qualitative factors mitigating pay magnitude concerns, we believe Glass Lewis will place weight on the items that investors identified as very important in mitigating quantum concerns when it analyzes such situations.*

Executive Stock Ownership Guidelines

Nearly 80% of investors and non-investors consider the presence of any executive share ownership requirement as somewhat or very important.

Survey Question: *When assessing a company's share ownership requirements, how important are the following features?*

Feature	Investors	Non-Investors
	Very or Somewhat Important	Very or Somewhat Important
Size of the Ownership Requirement	78%	79%
Post-Vesting Holding Requirements	66%	39%
Post-Employment Holding Requirements	53%	30%
Exclusion of Unearned/Unvested Equity	55%	44%
Exclusion of Vested Options	47%	34%

Meridian Comment: *Glass Lewis issued a policy update for 2024 related to executive stock ownership guidelines. The absence of meaningful executive stock ownership guidelines and/or clear disclosure of such guidelines may negatively impact Glass Lewis's compensation analysis and factor into its vote recommendation on a company's Say-on-Pay proposal.*

Emerging Board Skills

Investors and non-investors believe board members should possess a broad range of skills, with at least 70% of investors and non-investors rating human capital management, cybersecurity and employee health and safety as a somewhat or very important skills.

Survey Question: *How important do you consider the following director skills/qualifications to be in your assessment of board skillsets?*

Skill	Investors	Non-Investors
	Very or Somewhat Important	Very or Somewhat Important
Human Capital Management	85%	87%
Cybersecurity	82%	92%
Health & Safety	80%	70%
Human Rights	68%	58%
Public Policy	66%	64%
Climate Change	66%	61%
Environment	63%	63%
Civil Rights & Community Involvement	61%	53%
Biodiversity	52%	43%

Meridian Comment: *Glass Lewis did not announce a policy update related to board skills. However, Glass Lewis will assess a company disclosure of board diversity and skills to inform its assessment of a company's overall governance. When Glass Lewis has identified board-related concerns, board diversity and skills disclosures may be a contributing factor in its recommendations.*

Mandatory Retirement Policies

A plurality (41%) of investors and non-investors view mandatory director retirement policies as a reasonable method to promote board refreshment. However, non-investors (41%) were more likely than investors (31%) to believe the disadvantages of such policies outweigh their advantages.

Meridian Comment: *Glass Lewis did not issue a policy update related to mandatory retirement policies. Under its current policy, Glass Lewis will generally recommend that shareholders vote against the nominating and/or governance committee chair if a company's board waives a mandatory retirement policy at a specific age.*

Former Executive Independence

Frequently, retired/separated executives are appointed to their former employer's board of directors. A bare majority of non-investors (51%) and a minority of investor (27%) consider such directors to be independent at the time of their appointment. A plurality of investors (30%) believes a former executive can never be considered an independent board member.

Meridian Comment: *Glass Lewis did not update its existing policies related independence of former executives appointed to the company's board. Glass Lewis' existing policy requires a 5-year cooling-off period for such a board member to be deemed independent, with an exception for interim former executives who served less than 1 year.*

Director Overboarding

Approximately 90% of investors and non-investors believe that independent directors should serve on no more than five boards.

Meridian Comment: *Investor responses are largely consistent with Glass Lewis's current policy on director commitments. Glass Lewis will recommend against (i) a director who serves as an executive officer and sits on more than 2 boards, (ii) an executive chair who sits on more than 3 boards and (ii) any other director who serves on more than 5 public company boards.*

ESG Compensation Metrics

A plurality (43%) of investors and a minority of non-investors (37%) believe that all companies should incorporate ESG metrics into their executive compensation plans. In contrast, a majority of non-investors (54%) and a minority of investors (37%) believe that companies should have the discretion to determine whether to include ESG metrics in their executive compensation plans.

Meridian Comment: *Glass Lewis did not update its policies related to this question. However, Glass Lewis will note in its report whether a company has adopted ESG metrics in incentive compensation plans and may scrutinize whether those metrics are based on quantitative goals and the extent to which such metrics impact payouts.*

Conclusion

Several of the investor answers to the policy survey questions were consistent with existing Glass Lewis policies (e.g., the maximum number of board commitments), so unsurprisingly Glass Lewis did not make any policy updates with respect to these questions for 2024. But several answers to questions did cause Glass Lewis to expand existing policies (e.g., those regarding non-GAAP incentive metrics and clawback applicability). It will be interesting to see if Glass Lewis builds on these responses in next year's policy survey, and, if so, what that implies for Glass Lewis's 2025 policy updates.

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The ***Client Update*** is prepared by Meridian Compensation Partners' Governance and Regulatory Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-235-3605 or dkalfen@meridiancp.com.