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MERIDIAN COMPENSATION PARTNERS

Considerations in Proxy Disclosure

Introduction

As companies prepare their proxy disclosures, ensuring transparency and clarity in executive compensation reporting remains a top priority. Investors expect well-structured disclosures that provide insight into board decisions, pay-for-performance alignment, and responsiveness to shareholder concerns.

This update highlights three key areas in proxy disclosure with sample disclosure guidance on why this disclosure may be helpful to include:

1. A letter from the Chair of the Human Resources/Compensation Committee (HRC)
2. Realizable pay: Enhancing pay-for-performance transparency
3. Shareholder engagement following a below 80% say-on-pay vote

1. Letter from the Chair of the HRC

Why Include a Letter?

A well-crafted letter from the Chair of the HRC sets the stage for the executive compensation discussion. It provides an opportunity to:

- Establish a narrative around compensation philosophy and key decisions, including performance highlights, incentive outcomes, and the link between them
- Address shareholder concerns, particularly after a say-on-pay challenge
- Reinforce the company's commitment to pay-for-performance alignment

What Should the Letter Contain?

Elements of Letter	Description
Contextual Overview	• Key elements of business performance—either highlights or explanation for challenging outcomes • Significant strategic changes • Compensation governance and process
Shareholder Engagement	• Board engagement with investors following a below 80% say on pay vote outcome • Any changes to compensation as a result of shareholder engagement

Key Pay Decisions & Rationale	• Alignment of incentive metrics with financial, operational and strategic goals • Incentive outcomes—focusing on the alignment between outcomes and performance • Realizable compensation, if there is a disconnect between summary compensation table compensation and performance • Changes made in response to shareholder feedback • Particular focus on the rationale for CEO pay outcomes, incentive metric selection, and how pay reflects company performance

2. Disclosing Realizable Pay: Enhancing Pay-for-Performance Transparency

Why Include Realizable Pay?

Realizable pay disclosure is a powerful way to demonstrate the actual compensation executives have earned and could receive from previously granted awards versus their pay opportunity, typically over a specified performance period. The proxy advisors focus on Summary Compensation Table pay in their quantitative pay-for-performance tests, which does not account for the change in value of equity awards over time. Providing voluntary realizable pay disclosure helps address concerns about perceived pay-for-performance misalignment and enhances transparency for investors and proxy advisors, who regularly reference realizable pay disclosure in their qualitative assessments of the alignment of pay and performance.

Realizable compensation generally includes actual salary paid, the annual incentive paid and the value of equity awards, which reflect changes in share price since the grant date (e.g., the "in the money" value of stock options and the value of RSUs and PSUs using current share price). As the value of equity awards moves in close alignment with share price, realizable pay typically shows much better alignment with shareholder experience than summary compensation table values, particularly if share price has declined.

Approaches to Disclosing Realizable Pay

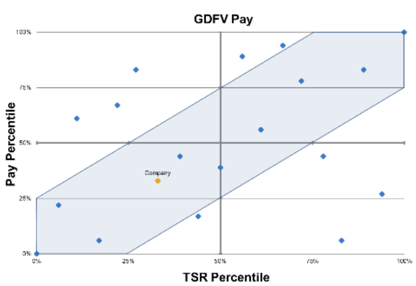
There are two main approaches for disclosing realizable pay that companies use in their proxy disclosures:

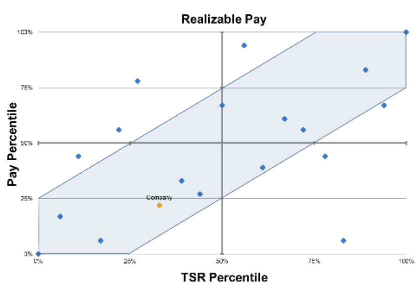
1. **Pay-for-Performance Charts:** Comparing realizable pay and company performance over time
2. **Grant Date Value vs Realizable Value Comparison:** Compares the compensation value granted to the executive (either target value or summary compensation table value) with the value of compensation reflecting performance and share price outcomes

Examples from of Disclosure:

1. Pay-for-Performance Chart

- Compares CEO realizable pay rank vs. TSR pay rank over three years
- Also provides comparison of CEO grant date fair value pay rank vs TSR pay rank over three years
- The scatterplot charts provide clear percentile-based comparison against peers with the shaded region supporting the message that CEO pay aligns with performance relative to the market



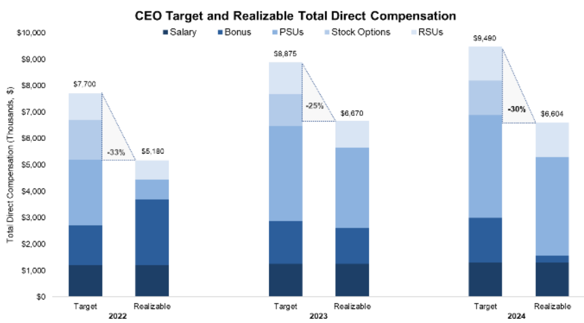


2. ***Comparison of Grant Date Value vs Realizable Value***

- Provide a detailed breakdown of realizable pay by compensation component
- For example, the table compares target direct pay vs. realizable pay over three years, showing how realizable compensation outcomes have been lower than the target due to share price performance
- The bar chart clearly shows how realizable compensation compares to target compensation across different pay elements (salary, bonus, stock options, RSUs, PSUs)
- Matches the periods of realizable pay valuations to the periods of TSR, which demonstrates a direct link between pay and performance
- Includes a clear methodology for how realizable pay is calculated, enhancing investor understanding

	Total target direct pay[1]	Realizable pay[2]	% Change in CEO Pay	% Change in TSR	From	To	Value of $100 CEO	Value of $100 Shareholder
2022	$7,700,000	$5,180,000	-33%	-25%	January 1, 2022		$67	$75
2023	$8,875,000	$6,670,000	-25%	-15%	January 1, 2023	December 31, 2024	$75	$85
2024	$9,490,000	$6,603,500	-30%	-10%	January 1, 2024		$70	$90

1. Includes salary, target bonus, long-term incentive grant of PSUs, RSUs and stock options as set out in the Summary Compensation Table. Excludes pension and all other compensation value.
2. Includes salary, actual bonus paid, market value of unvested PSUs and RSUs (assuming PSUs vest at target for FY 2023 and 2024 grants, and using the actual multiplier for FY 2022 cycle). Equity valued as at December 31, 2024. Excludes pension and all other compensation value.



Best Practice: Use clear tables and charts to make realizable pay disclosure understandable and investor-friendly.

3. Disclosing Shareholder Engagement After a Low or Failed Say-on-Pay Vote

Why Include Information on Shareholder Engagement?

If a company receives low shareholder support (<80%) for say-on-pay, proxy advisors and institutional investors expect clear disclosure of how the board responded. The best disclosures outline notable engagement efforts:

- Number (or percentage) of investors the company requested to meet
- Number of investors met with and their total percent of shares owned
- Key feedback received and steps taken to conduct an independent review of the compensation program
- What changes to compensation or governance were made to address investor concerns
- Any ongoing governance enhancements or planned changes to compensation programs
- Any ongoing engagement strategy to maintain a dialogue with shareholders beyond proxy season

Best Practice: Where possible, quantify engagement efforts (e.g., % of share/investors represented, number of meetings) and provide specific details on program changes to demonstrate responsiveness in the disclosure. It may also be helpful to formally communicate changes prior to proxy disclosure, and, depending on the seriousness of investor concerns, to have a second engagement with shareholders, ahead of the publication of the following year's proxy to discuss changes made and ensure investors have clarity well in advance of the next say-on-pay vote.

Final Thoughts

Transparent proxy disclosure is essential for building investor trust, particularly in today's evolving corporate governance landscape. Companies should proactively refine their proxy statements to effectively communicate pay-for-performance alignment, shareholder responsiveness, and governance best practices.

By leveraging these best practices and the above examples, issuers can strengthen their proxy disclosures and enhance shareholder confidence.

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