



Report on Say on Pay and Select Shareholder Proposals For the 2020 Proxy Season

October 15, 2020

Report Content

Meridian Compensation Partners, LLC is pleased to provide this periodic report on the 2020 proxy season¹. This report covers the following areas:

- Say on Pay Vote Results (through October 12, 2020)
 - Contributing Reasons for Failed SOP Outcomes (Based on ISS Commentary)
 - Impact of ISS Quantitative Pay-for-Performance Test Results on ISS's 2020 SOP Vote Recommendations
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- Vote Results on Pay-Related Shareholder Proposals and Activist Campaigns
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¹ Aggregate proxy voting and ISS vote recommendation information presented in this report is derived from data obtained from ISS Corporate Solutions Voting Analytics.

Say on Pay (“SOP”) Vote Results (through October 12, 2020)

The 2020 proxy season SOP voting results has again seen overwhelming support for company SOP proposals, with only a small percentage of companies’ SOP proposals failing to garner majority shareholder support.

Russell 3000 Companies

Percentage of Majority Supported SOP Proposals

2020: 97.6% ← 55 failed votes

2019: 97.6% ← 55 failed votes

S&P 500 Companies

Percentage of Majority Supported SOP Proposals

2020: 97.6% ← 11 failed votes

2019: 98.5% ← 7 failed votes

2020 SOP approval levels track historical levels

Percentage of SOP Proposals with Less than 70% Shareholder Support

2020: 7.0%

2019: 8.7%

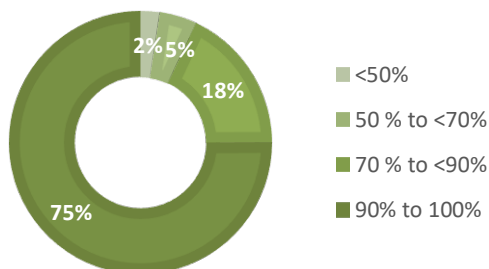
Percentage of SOP Proposals with Less than 70% Shareholder Support

2020: 7.3%

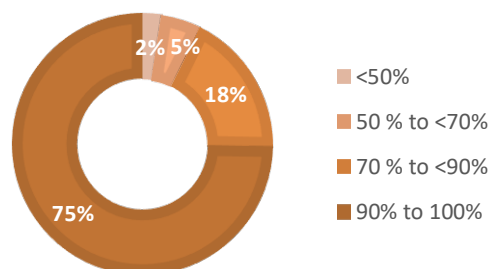
2019: 7.6%

>70% shareholder support triggers heightened scrutiny by ISS in the subsequent year

LEVEL OF SHAREHOLDER SUPPORT



LEVEL OF SHAREHOLDER SUPPORT



Approximately three-fourths of both Russell 3000 and S&P 500 companies received ≥90% support for their 2020 SOP proposals, consistent with prior years

In 2020, a negative ISS vote recommendation arguably depressed positive SOP vote results by 28.3 percentage points and 28.7 percentage points at Russell 3000 and S&P 500 companies, respectively.

Further indicating ISS’s influence, approximately one-fifth of Russell 3000 and S&P 500 companies that received a negative ISS vote recommendation failed to receive majority support for their 2020 SOP vote. The majority of Russell 3000 and S&P 500 companies that received a negative ISS vote recommendation garnered less than 70% shareholder support (56% and 64%, respectively).

Contributing Reasons for Failed SOP Outcomes (Based on ISS Commentary)

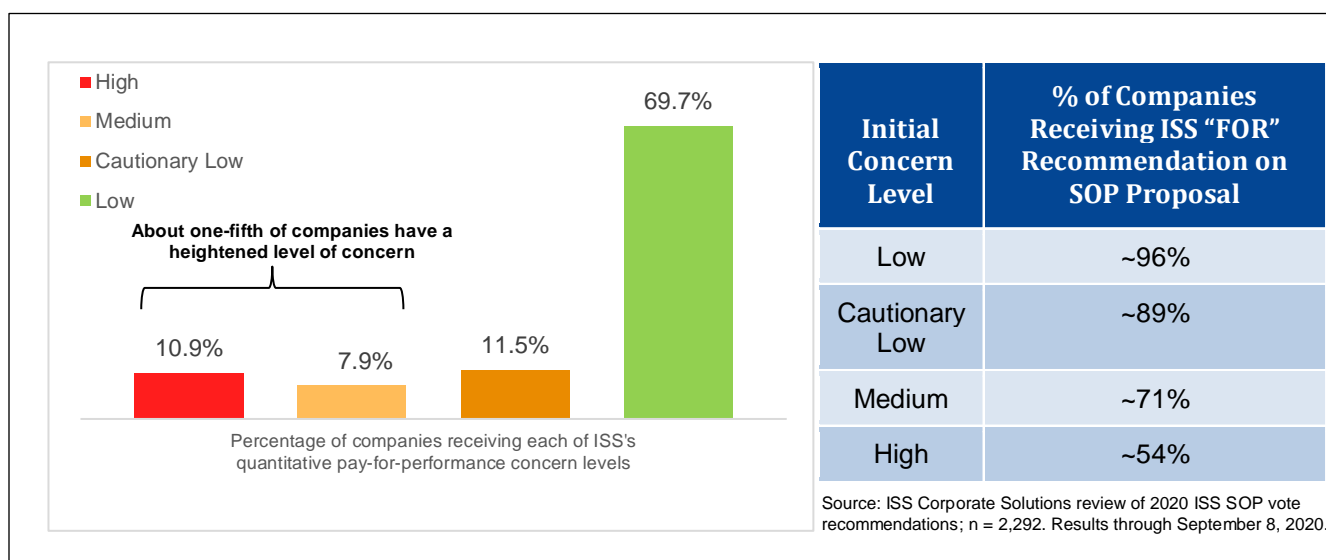
- ⊗ Failure to respond sufficiently to multiple years of low SOP support.
- ⊗ CEO pay-for-performance misalignment, primarily due to a failure to meet ISS quantitative tests, especially the Relative Degree of Alignment (RDA) test
- ⊗ Goals in short- and/or long-term performance plans not viewed as sufficiently rigorous
- ⊗ Lowering of performance goals from prior year without corresponding decrease in incentive award opportunities
- ⊗ Significantly increasing target incentive award opportunities without rationale
- ⊗ High proportion of non-performance-based compensation
- ⊗ CEO compensation is largely discretionary and/or lacks clear linkage to financial performance criteria
- ⊗ Outsized time-based grants to new hires (CEOs and other NEOs)
- ⊗ “Problematic pay practices,” including large, one-time equity grants, excessive retirement payments

Impact of ISS Quantitative Pay-for-Performance Test Results on ISS’s 2020 SOP Vote Recommendations

A primary driver for an unfavorable vote recommendation from ISS is CEO pay-for-performance misalignment based on weak outcomes from the ISS quantitative tests, especially the three-year Relative Degree of Alignment (RDA) test.

As shown below, in 2020, ISS has issued a “High” concern level for roughly 11% of companies, and 46% of these companies have received a negative ISS vote recommendation. In contrast, only a small minority of companies have received a negative ISS vote recommendation for “Medium”, “Cautionary Low” and “Low” concern levels this year.

Companies that receive a “Cautionary Low” or a “Medium” concern on the initial quantitative pay-for-performance tests are subject to ISS’s relative financial performance analysis to determine the overall concern level and the degree of scrutiny in the ISS qualitative pay-for-performance assessment.



New Area of Focus in ISS Executive Compensation Analysis – Post-Termination Severance Benefits

ISS evaluates a broad range of pay practices when developing its vote recommendation on a company's SOP proposal, including severance benefits. Generally, ISS has not raised issues regarding executive severance benefits, provided that such benefits are not considered "excessive" or include problematic pay practices (e.g., excise tax gross-up). Further, ISS believes that severance benefits should be provided solely due to an executive's involuntary or constructive job loss. This view has recently caused ISS to increase its scrutiny of severance benefits that are paid on account of an executive's retirement or voluntary termination. We believe the payment of such severance benefits has contributed to ISS issuing negative vote recommendations on company SOP proposals.

Vote Results on Pay-Related Shareholder Proposals and Activist Campaigns

The 2020 proxy season has seen few pay-related shareholder proposals, which have been declining in number over the past several years. Four of those shareholder proposals received majority support. In addition to individual shareholder proposals, the 2020 proxy season saw two significant activist campaigns mounted by the New York Comptroller's board and The California Public Employees' Retirement System (CalPERS).

Prevalence and Status of Pay-Related Shareholder Proposals (through October 12, 2020)

The chart below provides a comparative summary of 2019 and 2020 shareholder proposals on pay-related matters included in 2020 proxies of at least five companies. Note that additional proposals may have been withdrawn after initial discussions with companies.

Pay-Related Proposal Type ²	2020				2019		
	Number	Approved	Average % Voted For	Y-o-Y Change in Average % Voted For	Number	Approved	Average % Voted For
Report on gender/racial pay gap ³	13	0	12.8%	-12.4%	15	0	25.2%
Link executive pay to environmental or social criteria	8	0	17.8%	-3.6%	10	0	21.4%
Report employee diversity/pay data⁴	8	4	53.3%	+15.2%	8	2	38.1%
Adopt stock retention/holding requirements	5	0	21.0%	-3.5%	1	0	24.5%

² Other pay-related shareholder proposals in 2020 sought to (1) report on pay disparity between executives and other employees, (2) adopt or amend a company's clawback policy, (3) adopt a policy on bonus banking, (3) require additional disclosure on adjusted GAAP incentive metrics, (4) adopt a policy against accelerated vesting of equity awards upon a change-in-control, (5) submit change-in-control severance agreements to shareholder vote, (6) eliminate above-market earnings in executive retirement plans, (7) adopt a policy on adjusting incentive metrics for share buybacks, (8) report on incentive-based compensation and risks of material losses, and (8) improve guiding principles of executive compensation.

³ A shareholder proposal seeking for the company to report on its gender or racial pay gap is pending at Oracle Corporation.

⁴ A shareholder proposal seeking for the company to annually report on its diversity and inclusion efforts is pending at The Procter & Gamble Company.

Details on Shareholder Approved Pay-Related Shareholder Proposals

The chart below provides a description of selected pay-related shareholder proposals that were approved by shareholders so far in 2020.

Company Name	Proposal Description	% Support
Genuine Parts Co.	<ul style="list-style-type: none">Report on material human capital risks and opportunities based on SASB workforce diversity and inclusion metrics	74.5%
Fortinet, Inc.	<ul style="list-style-type: none">Prepare workplace diversity and inclusion report assessing the company's diversity and inclusion efforts, including the board's (i) process for assessing the effectiveness of its diversity and inclusion programs, and (ii) assessment of program effectiveness	69.0%
O'Reilly Automotive	<ul style="list-style-type: none">Report on material human capital risks and opportunities based on SASB workforce diversity and inclusion metrics	64.9%
Fastenal Company	<ul style="list-style-type: none">Prepare workforce diversity report, based on gender and EEO-1 racial and ethnic categories	57.7%
Stericycle, Inc.	<ul style="list-style-type: none">Broaden clawback policy to allow for recoupment of incentive compensation from senior executives in the event of misconduct or reputational harm	53.1%

Overview of Activist Shareholder Campaigns

Over the past several years, certain activist shareholders have mounted campaigns to encourage board action on compensation-related and governance matters. These initiatives are often effectuated by public campaigns and/or letters sent directly to CEOs and boards of major public companies. During the 2020 proxy season, the Office of New York City Comptroller (the NYC Comptroller) and The California Public Employees' Retirement System (CalPERS) each mounted significant campaigns relating to workforce diversity and company engagement, respectively.

NYC Comptroller's Workforce Diversity Initiative

In July 2020, the NYC Comptroller on behalf of three of the New York City Retirement Systems (NYCRS) sent letters to the CEOs of 67 S&P 100 companies which requested the CEOs to match their companies' recent statements in support of racial equality and diversity with concrete action by voluntarily disclosing the composition their company's workforce. Specifically, the NYC Comptroller asked the companies to adopt a policy to publicly disclose their annual EEO-1 reports, which reflect the race, ethnicity and gender of their employees, with oversight to be provided by independent members of the board. If companies are unresponsive to the request, the NYC Comptroller indicated that it may submit a shareholder proposal on this topic or factor such unresponsiveness in evaluating director nominees standing for re-election at the company's next annual meeting. The group "As You Sow" has also been active on this issue, including related to shareholder proposals on human capital disclosures.

On September 29, 2020 the NYC Controller [announced](#) that 34 companies have begun or committed to disclose EEO-1 report data, including Amazon, Coca-Cola, Citigroup, Chevron, Exelon, Morgan Stanley, Pfizer, Starbucks, Target and Verizon.

CalPERS Letter on No-Votes on Say on Pay

In late May, CalPERS sent a letter to inform companies that CalPERS had voted "against" their 2020 Say on Pay proposal and to encourage the compensation committees of such companies to engage with CalPERS regarding the issues underlying its opposition to the company's executive compensation program. It is important to note that CalPERS opposes a significant portion of Say on Pay proposals each year. In fact, during the 2019 proxy season, CalPERS voted against 53% of its portfolio companies' Say on Pay proposals.

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