



# Report on Say on Pay and Select Shareholder Proposals For the 2017 Proxy Season

June 21, 2017

# Executive Summary

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Meridian Compensation Partners, LLC is pleased to provide this periodic report on key voting results for the 2017 proxy season. Specifically, this report will cover the following areas:

- Standard & Poor's (S&P) 500 Say on Pay (SOP) Vote Results and Analysis
- Russell 3000 SOP Vote Results and Analysis
- Analysis of Vote Results on Select Shareholder Proposals

## Highlights of Say on Pay Vote Results (through June 15, 2017)

- 99.52% of S&P 500 companies' SOP proposals have received majority shareholder support (2 S&P 500 companies' SOP proposals failed to receive majority support— namely, ConocoPhillips and SL Green Realty Corp.)
- 99.05% of Russell 3000 companies' SOP proposals have received majority shareholder support (18 Russell 3000 companies' SOP proposals failed to receive majority support).
- Institutional Shareholder Services (ISS) has recommended AGAINST 9.7% and 12.6% of SOP proposals at S&P 500 companies and Russell 3000 companies, respectively.
- So far this proxy season, negative ISS SOP vote recommendations at S&P 500 companies have arguably depressed shareholder support by 26.5 percentage points, down from the prior six-year average of 31.1 percentage points. Major institutional investors continue to employ their own review models.

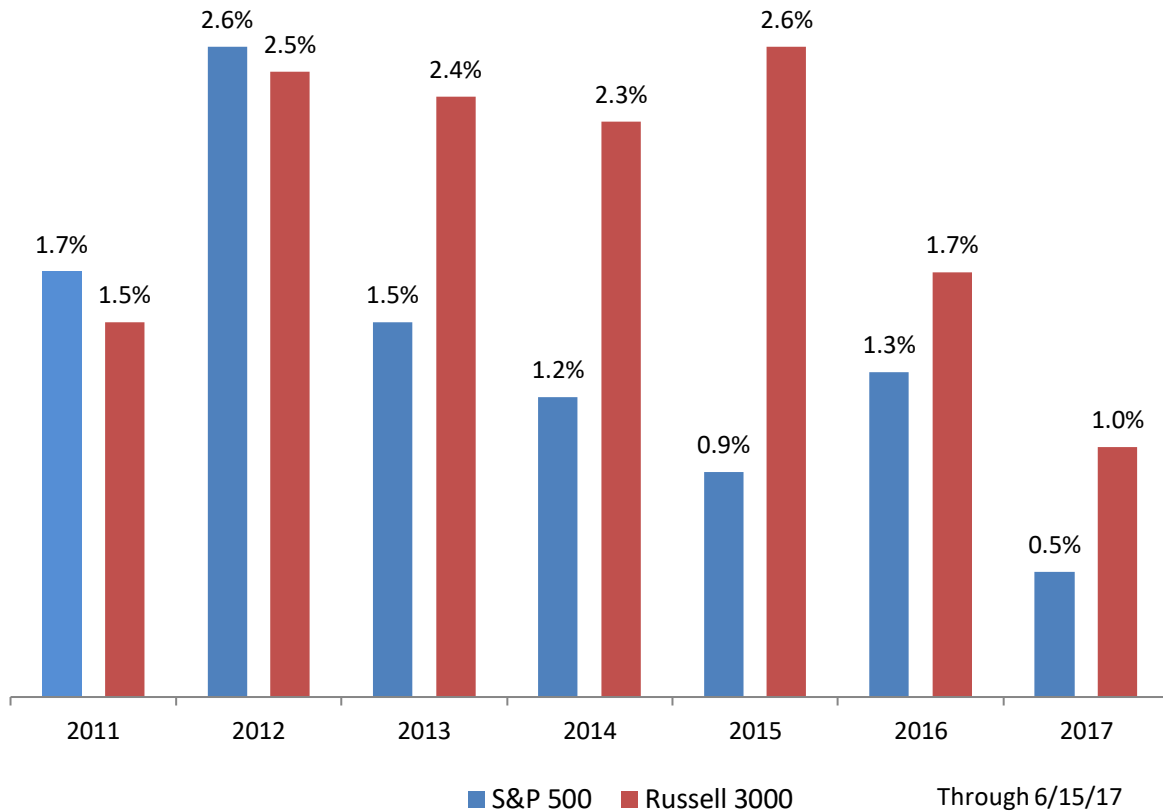
## Highlights of Vote Results on Select Shareholder Proposals (through June 16, 2017)

- So far this proxy season, the most prevalent shareholder proposal on corporate governance relates to proxy access. Of the 28 proposals to adopt proxy access voted upon by shareholders, 16 proposals have received majority shareholder support. For example, proxy access proposals at Cigna, Humana and IBM, among others, received majority shareholder support. This year, shareholders are also voting on proposals to amend proxy access bylaws to include provisions that broaden the proxy access right. However, none of the 17 proposals voted upon thus far have received majority support.
- Another prevalent shareholder proposal on corporate governance relates to the separation of CEO and Board Chair roles. Here too, none of the 38 proposals voted on thus far have received majority support.
- Other key shareholder proposals on corporate governance seek (i) mandatory majority voting on the election of directors, (ii) the right to call a special meeting, and (iii) the right to act by written consent.
- The most prevalent compensation-related shareholder proposal seeks for the board to report on the company's gender pay gap. Other compensation-related shareholder proposals are markedly declining in prevalence, including proposals to: (i) prohibit vesting of equity awards solely upon a change in control and (ii) impose stock retention or holding requirements. Shareholders have not approved any of these proposals so far this proxy season.

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# 2017 Say on Pay Vote Outcomes

## Percentage of Failed SOP Proposals

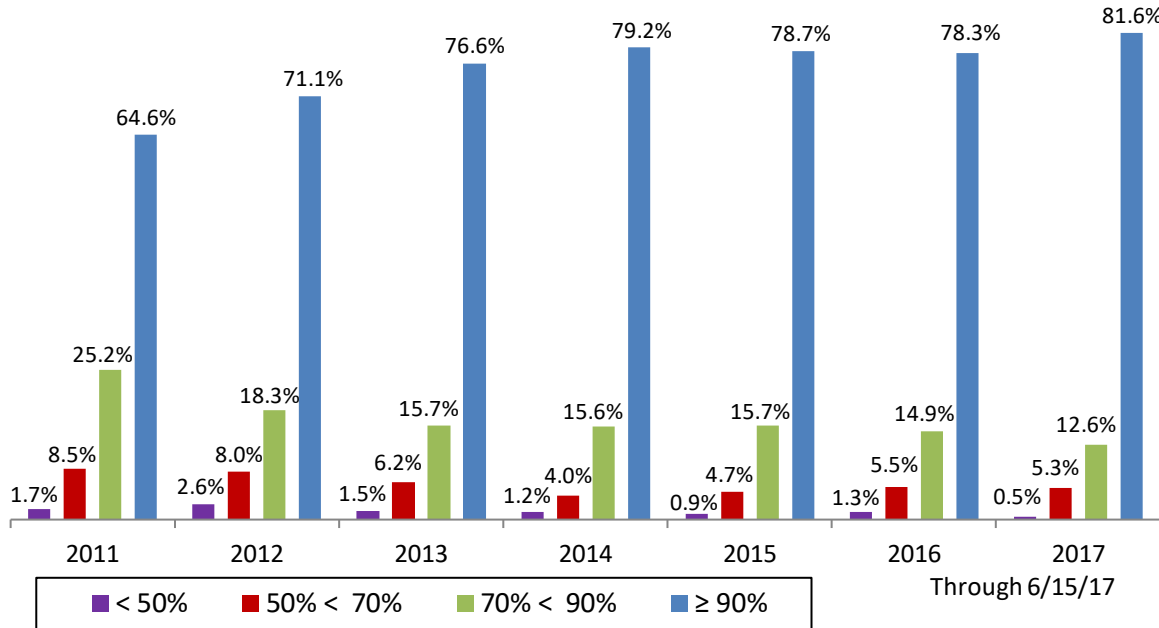


So far this proxy season, the failure rates of SOP proposals at S&P 500 companies and Russell 3000 companies have declined significantly, as compared to the prior six years, in which the failure rate of SOP proposals at companies in each of the respective indices had been fairly consistent. Only two S&P 500 companies' SOP proposals and 18 Russell 3000 companies' SOP proposals have failed to receive majority shareholder support. Approximately 80% of both S&P 500 companies' and Russell 3000 companies' SOP proposals have received 90% or more shareholder support through June 15, 2017 (see following discussion).

These multi-year trends in high passing rates at both S&P 500 companies and Russell 3000 companies strongly suggest that that these companies have been effectively addressing compensation and corporate governance concerns raised by shareholders and proxy advisors.

# 2017 Say on Pay Vote Outcomes

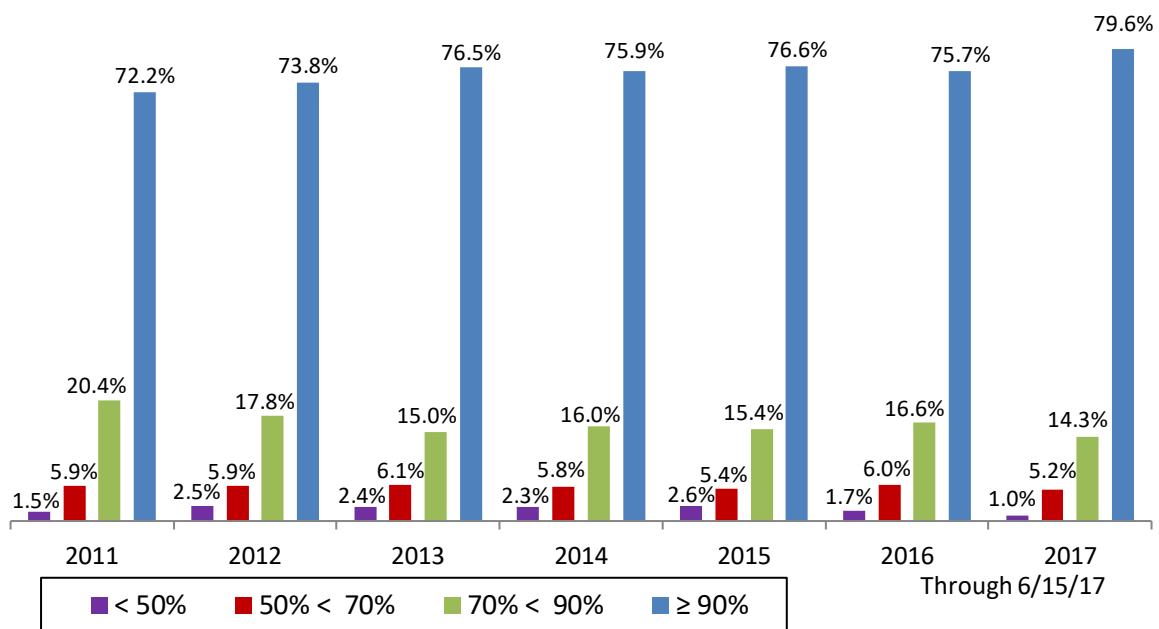
## Level of Shareholder Support – S&P 500 Companies



Until 2017, the proportion of SOP proposals at S&P 500 companies receiving 90% or more shareholder support had remained relatively flat, but this year it is up over 3 percentage points.

Similarly, the proportion of S&P 500 companies with failed SOP proposals saw little change until 2017.

## Level of Shareholder Support – Russell 3000 Companies

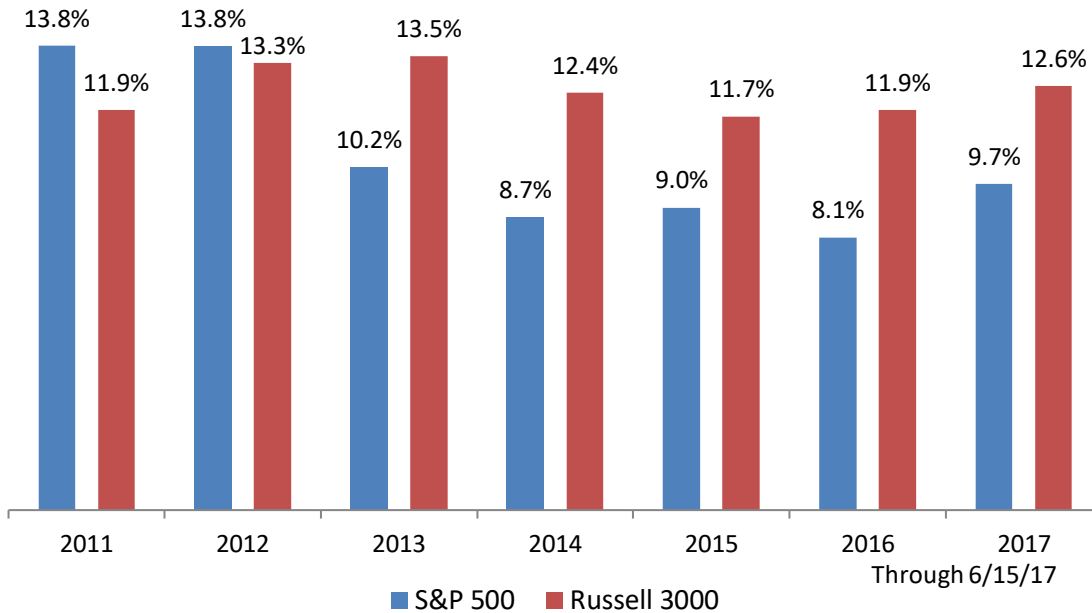


Similar to S&P 500 companies, the proportion of Russell 3000 companies receiving 90% or more shareholder support has increased significantly in 2017.

However, as in 2016, the proportion of Russell 3000 with failed SOP proposals has declined sharply this year relative to prior years.

# Analysis of ISS Impact on 2017 SOP Vote Outcomes

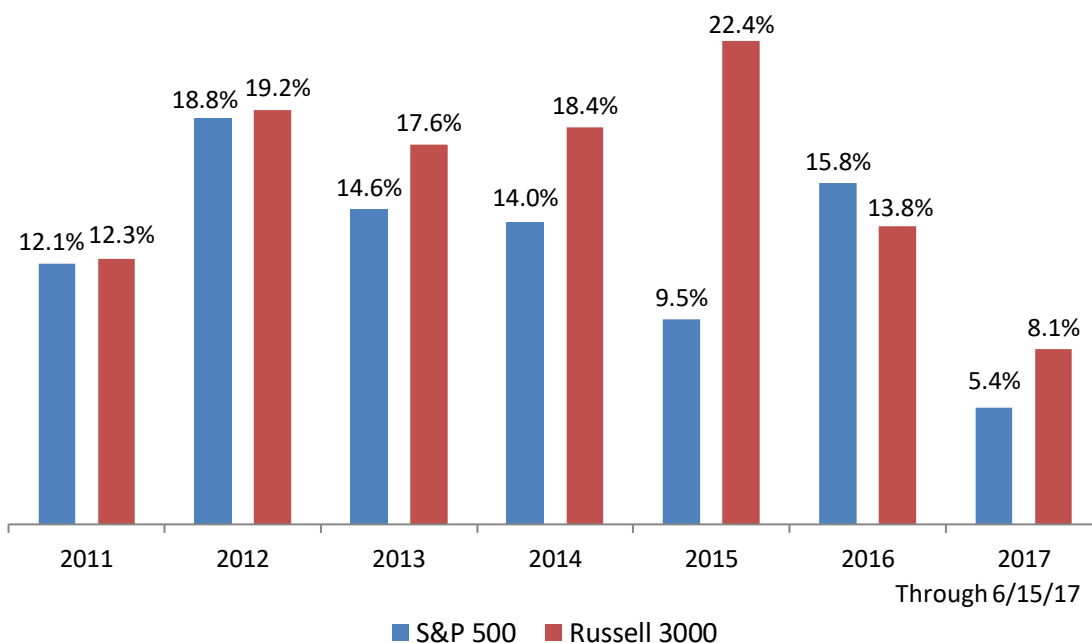
## Percentage of SOP Proposals *Not* Supported by ISS



ISS recommendations against SOP proposals at Russell 3000 and S&P 500 companies have increased slightly in 2017 compared to historical low or near low percentages in 2016.

In our experience, the great majority of companies that receive an ISS negative SOP vote recommendation received a “high” or “medium” concern on the relative degree of alignment component of ISS’s quantitative pay-for-performance test.

## Of the Companies Receiving an ISS AGAINST Recommendation, Percentage with Failed SOP Proposals

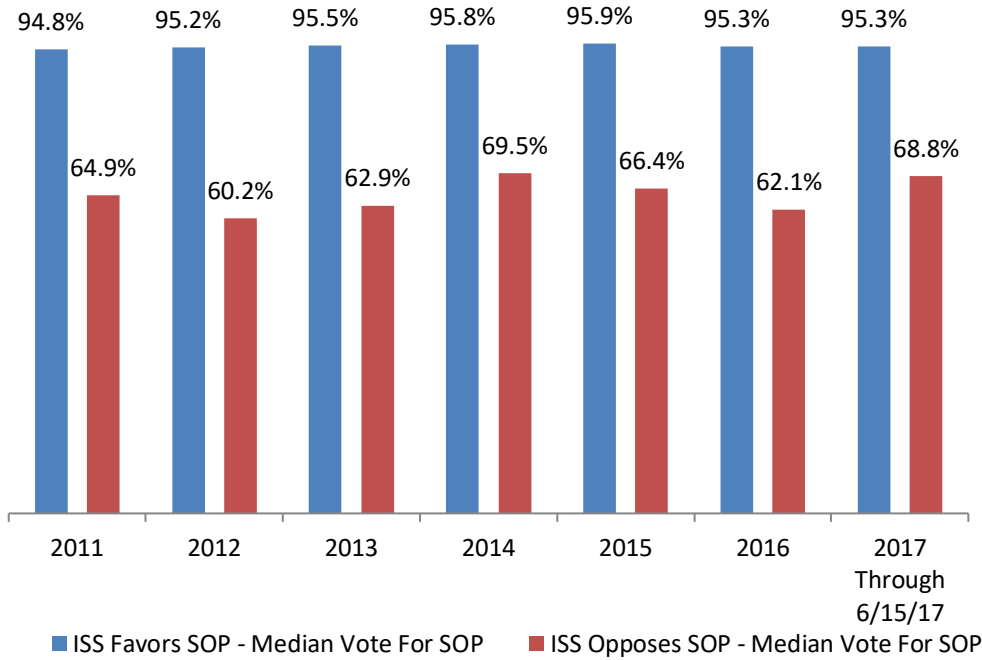


The last 7 years have shown that while a negative ISS vote recommendation on a SOP proposal will significantly depress shareholder support, it is much less likely to result in a failed SOP proposal.

For example, of the 223 Russell 3000 companies that have received a negative ISS vote recommendation in 2017 and have reported vote results, only 18 of these companies’ SOP proposals failed to receive majority shareholder support (8.1%).

# Analysis of ISS Impact on 2017 SOP Vote Results

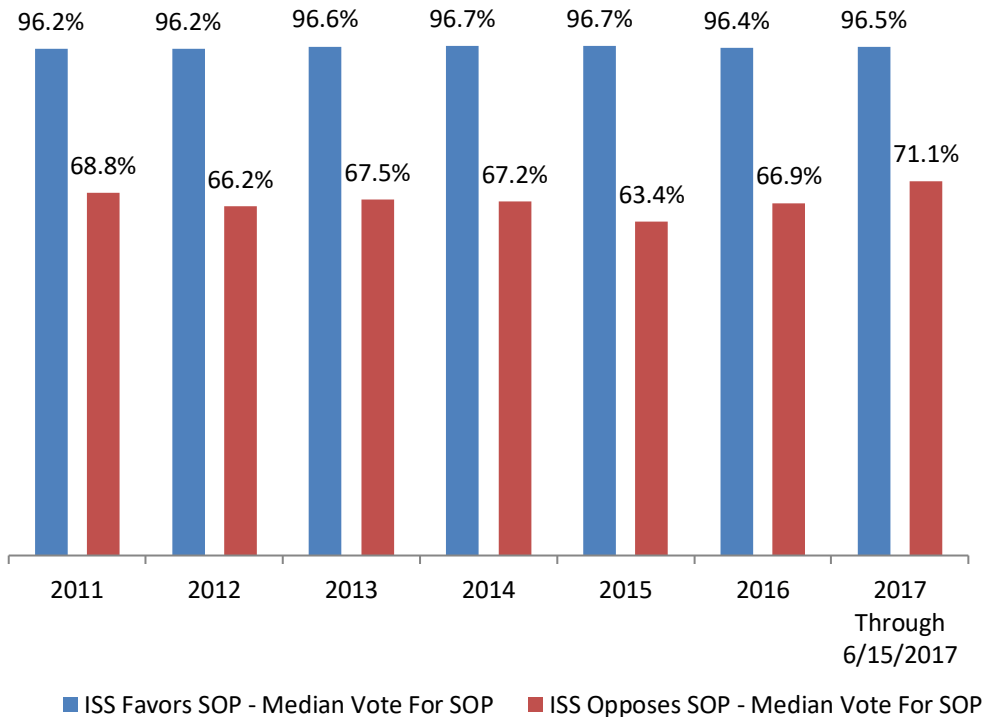
## Impact of ISS Adverse Recommendation on SOP Vote Results for S&P 500 Companies



Over the prior 6 proxy seasons, an ISS negative vote recommendation helped to depress votes for SOP proposals at S&P 500 companies, on average, by 31.1 percentage points.

So far this proxy season, a negative ISS vote recommendation has arguably depressed SOP vote results by 26.5 percentage points at S&P 500 companies.

## Impact of ISS Adverse Recommendation on SOP Vote Results for Russell 3000 Companies



Over the prior 6 proxy seasons, an ISS negative vote recommendation helped to depress votes for SOP proposals at Russell 3000 companies, on average, by 29.8 percentage points.

During this proxy season, a negative ISS vote recommendation has arguably depressed SOP vote results by 25.4 percentage points at Russell 3000 companies.

# Analysis of Shareholder Proposals at Russell 3000 Companies (through 6/16/17)

Shareholder proposals on key governance and pay-related matters continue to draw significant attention from corporate boards.

## Prevalence and Status of Shareholder Proposals on Corporate Governance

The chart below provides a comparative summary of 2016 and 2017 shareholder proposals on key corporate governance matters.

Corporate Governance Proposal Type	2017				2016		
	#	Pending	Approved	Average % Voted For	#	Approved	Average % Voted For
Separate Chair and CEO roles	41	3	0	29.4%	46	0	28.9%
Adopt proxy access	33	5	16	53.2%	83	42	50.3%
Right to call a special meeting	23	2	4	42.1%	19	3	41.4%
Amend proxy access provisions	17	0	0	27.3%	0	0	N/A
Provide right to act by written consent	14	0	3	45.4%	17	0	40.4%
Reduce supermajority requirements to amend the charter or bylaws	14	3	10	71.9%	15	8	58.1%
Require majority voting in the election of directors	12	3	4	54.3%	19	15	69.2%
Adopt policy and/or report on board diversity	8	0	2	27.5%	9	1	23.7%
Repeal classified board	6	1	3	60.4%	6	5	78.3%

## Prevalence and Status of Shareholder Proposals on Executive Pay

The chart below provides a comparative summary of 2016 and 2017 shareholder proposals on executive pay matters.

Pay-Related Proposal Type	2017				2016		
	#	Pending	Approved	Average % Voted For	#	Approved	Average % Voted For
Report on gender pay gap	13	1	0	15.3%	5	0	15.2%
Policy against accelerated vesting of equity awards upon a change in control	7	0	0	31.9%	18	0	30.4%
Stock retention/holding requirement	6	1	0	10.8%	12	0	17.1%
Adopt/amend clawback policy	3	0	0	29.8%	6	0	15.4%

As we expected, the prevalence of proposals on gender pay gap reporting has increased in 2017. In contrast, other compensation-related shareholder proposals have markedly declined in prevalence, including proposals to: (i) prohibit vesting of equity awards solely upon a change in control and (ii) impose stock retention or holding requirements.

**Note: Each of the approved shareholder proposals is only advisory and non-binding on management.**

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