



Meridian Client Update

Summary of 2022 Proxy Voting Results

Meridian Compensation Partners has issued a periodic report on key voting results for the 2022 proxy season. The report covers Say on Pay (SOP) outcomes and select shareholder proposals related to pay, social and environmental matters among Russel 3000 and S&P 500 constituent companies.¹

Highlights

The report includes the following key findings:

- 2022 SOP vote results (through August 8, 2022) largely track prior year levels, but are slightly lower than 2020 levels and historical levels.

Index	% Failing SOP	% Receiving <70% Support	% Receiving ≥90% Support
S&P 500	4.4% (n=19)	10%	67%
Russell 3000	3.2% (n=68)	9%	73%

- For the first time, *fewer* than 70% of S&P 500 companies received more than 90% shareholders support for their 2022 SOP proposals.
- ISS continues to influence SOP vote outcomes. At both Russell 3000 and S&P 500 companies, a negative ISS vote recommendation depressed positive SOP vote results by more than 30 percentage points.
- Common reasons for failed SOP vote results include pay-for-performance disconnects and problematic pay practices, such as large one-time or retention awards, often in combination with one another.
- Among Russell 3000 companies, shareholders voted on only 41 pay-related shareholder proposals in 2022, continuing a multi-year trend, which suggests that many investors address compensation concerns through the SOP vote or issuer engagement.

¹ Aggregate proxy voting and ISS vote recommendation statistics are derived from data obtained from ISS Corporate Solutions Voting Analytics.

- Of those pay-related proposals, shareholders approved only 6 proposals, including (i) 4 proposals requesting a company to obtain shareholder approval of certain severance arrangements and (ii) 2 proposals requesting a company to issue a report on gender and racial pay gaps.
- Among Russell 3000 companies, shareholders voted upon 211 environmental-related and social-related shareholder proposals in 2022, including 27 proposals that received majority support.
- The most prevalent shareholder proposal on a social matter asked a company's board of directors to oversee a racial/civil rights audit conducted by an independent third-party. Eight out of thirty-four such proposals were approved by shareholders.

The full report is included as an attachment.

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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.

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Report on Say on Pay and Select Shareholder Proposals For the 2022 Proxy Season

August 26, 2022

Report Content

Meridian Compensation Partners, LLC is pleased to provide this periodic report on the 2022 proxy season¹. This report covers the following areas:

- Say on Pay Vote Results (through August 9, 2022):
 - Contributing Reasons for Failed Say on Pay Outcomes (Based on ISS Commentary).
 - Impact of ISS Quantitative Pay-for-Performance Test Results on ISS's Say on Pay Vote Recommendations.
- Vote Results on Shareholder Proposals (through August 9, 2022):
 - Prevalence and Status of Pay-Related Shareholder Proposals.
 - Details on Shareholder Approved Pay-Related Shareholder Proposals.
 - Prevalence and Status of Environmental and Social-Related Shareholder Proposals.

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 August 9, 2022)

The 2022 proxy season SOP voting results have 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

2022: 96.8% ← 68 failed votes
 2021: 97.0% ← 68 failed votes
 2020: 97.6% ← 59 failed votes

S&P 500 Companies

Percentage of Majority Supported SOP Proposals

2022: 95.6% ← 19 failed votes
 2021: 95.8% ← 20 failed votes
 2020: 97.6% ← 12 failed votes

2022 SOP approval levels track prior year levels, but are slightly lower than 2020 levels and historical levels

Percentage of SOP Proposals with Less than 70% Shareholder Support

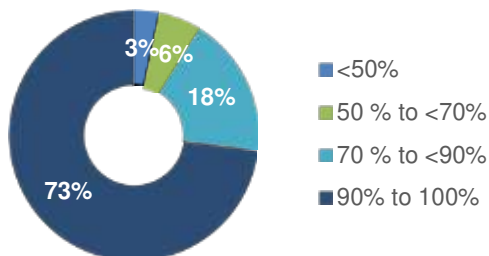
2022: 8.9%
 2021: 7.3%

Percentage of SOP Proposals with Less than 70% Shareholder Support

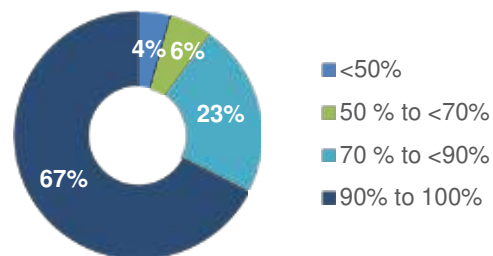
2022: 9.9%
 2021: 9.0%

ISS applies heightened scrutiny to SOP in a year following less than 70% shareholder support

LEVEL OF SHAREHOLDER SUPPORT FOR SOP IN 2022 AT RUSSELL 3000 COMPANIES



LEVEL OF SHAREHOLDER SUPPORT FOR SOP IN 2022 AT S&P 500 COMPANIES



For the first time, fewer than 70% of S&P 500 companies received ≥90% support for their 2022 SOP proposals. More S&P 500 companies received between 70% to 90% support than in prior years, which suggests some large investors are increasingly using SOP voting to signal their concerns.

Influence of ISS on Say on Pay Votes

In 2022, a negative ISS vote recommendation depressed positive SOP vote results by 30.9 percentage points and 37.7 percentage points, on average, at Russell 3000 and S&P 500 companies, respectively.

Further indicating ISS’s influence, 24% of Russell 3000 companies and 37% S&P 500 companies that received a negative ISS vote recommendation failed to receive majority support for their 2022 SOP vote. A sizeable majority of Russell 3000 and S&P 500 companies that received a negative ISS vote recommendation garnered less than 70% shareholder support (61% and 79%, respectively).

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

The table below lists reasons contributing to the failed SOP vote results at Russell 3000 companies.

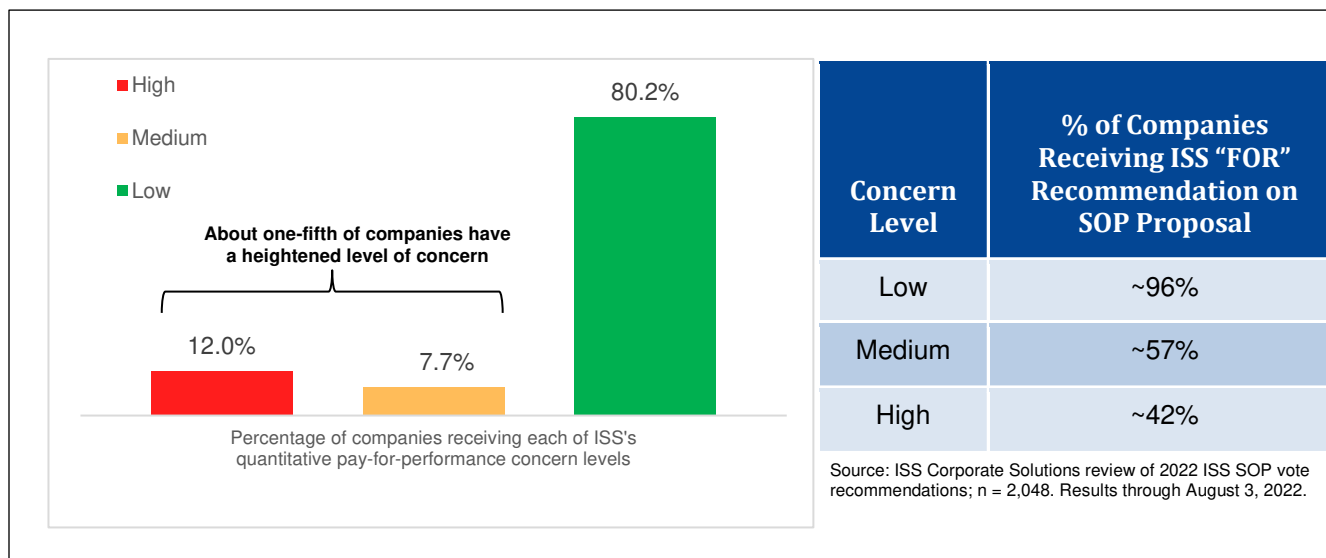
Significant Compensation Outside the Normal Course/Lacking Linkage to Company Performance or Service	Performance Expectations Altered Midstream or Seen as Inadequate	Insufficient Responsiveness to Shareholder Concern Regarding Pay Decisions
⊗ CEO pay-for-performance misalignment, primarily due to a failure to meet ISS quantitative tests.	⊗ Lowering of performance goals from prior year without corresponding decrease in incentive award opportunities.	⊗ Failure to respond sufficiently to multiple years of low SOP support.
⊗ Large, one-time equity grants, particularly those without rigorous performance conditions.	⊗ Goals in short- and/or long-term performance plans not viewed as sufficiently rigorous.	⊗ Failure to commit to not repeat problematic one-time actions, such as award modification or special retention awards
⊗ Excessive severance payments, particularly upon a voluntary resignation or retirement.		
⊗ High proportion of non-performance-based compensation.		
⊗ Significantly increasing target incentive award opportunities without rationale.		

Impact of ISS Quantitative Pay-for-Performance Test Results on ISS’s 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.

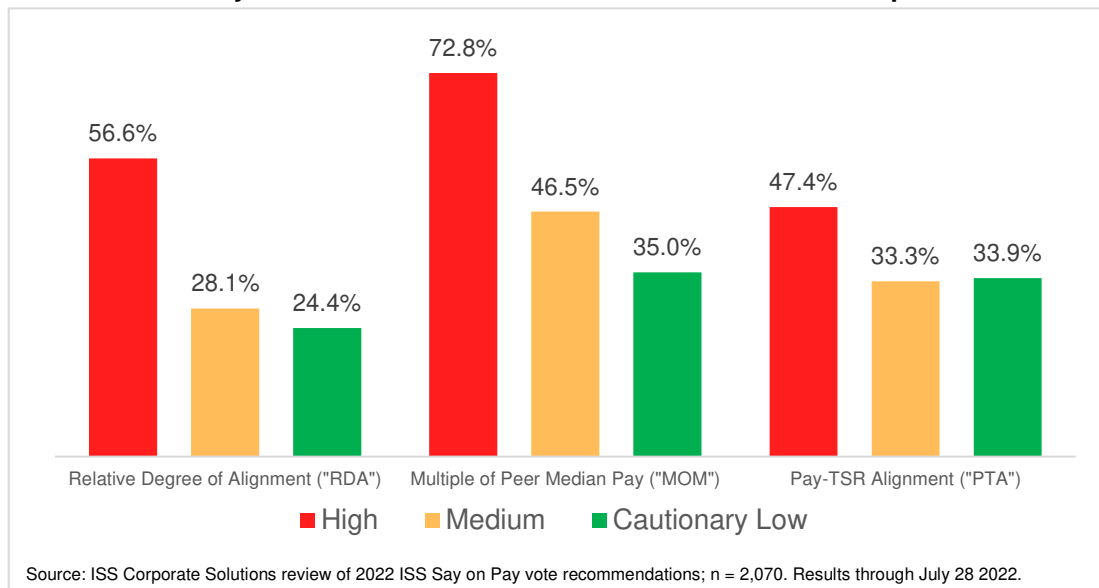
As shown below, in 2022, ISS issued a “High” concern level for 12% of companies, and 58% of these companies received a negative ISS vote recommendation. Similarly, a significant portion of companies (43%) received a negative ISS vote recommendation for a “Medium” concern level this year.

A company that receives a “Medium” or a “High” overall concern level on the quantitative pay-for-performance test will be subject to a more in-depth qualitative review by ISS.



Companies that receive an elevated concern on ISS multiple of peer median (MOM) test, signaling high total CEO pay opportunities, will more frequently receive a negative ISS vote recommendation than companies receiving the same concern levels on the RDA or Pay-TSR alignment tests.

Percentage of Companies Receiving an ISS “AGAINST” Vote Recommendation By Concern Level on Each ISS Quantitative Test Component



Vote Results on Shareholder Proposals (through August 9, 2022)

The 2022 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.

Prevalence and Status of Pay-Related Shareholder Proposals

The table below provides a summary of select pay-related shareholder proposals in 2022 proxies. Among Russell 3000 companies, shareholders voted on only 41 pay-related proposals in 2022, continuing a multi-year trend, which suggests that many investors address compensation concerns through the SOP vote or issuer engagement. Note that additional proposals may have been withdrawn after initial discussions with companies.

Pay-Related Proposal Type ²	Number	Pending	Approved	Average % Voted For
Submit change-in-control severance arrangements to shareholder vote	16	2	4	45.5%
Report on gender/racial pay gap	5	0	2	42.5%

Details on Shareholder Approved Pay-Related Shareholder Proposals

Shareholder proposals requesting a company to issue a report on gender and racial pay gaps were approved at Disney and Lowe's.

Shareholder proposals requesting a company to obtain shareholder approval of certain severance arrangements received majority support at four companies (i.e., AbbVie, Alaska Air Group, Fiserv and Spirit AeroSystems). These proposals would require a company to obtain shareholder approval of any senior executive arrangement providing severance or termination payments in excess of 2.99 times the sum of base salary and target annual bonus. Typically, the shareholder resolution specifies that the limitation on such payments would cover both cash payments and the cash value of outstanding equity awards that accelerate upon a termination. Often, the accelerated value of a senior executive's equity awards would significantly exceed the proposed limits.

Several companies, such as General Electric and Verizon, have successfully opposed such a shareholder resolution seeking to limit severance payments by noting the company had already adopted a severance policy that limits cash severance payments. Other companies pointed to change-in-control severance plans or agreements that impose limits on cash severance payments.

² Other pay-related shareholder proposals in 2022 sought to (1) adopt policy on adjustments to incentive metrics, (2) adopt a company policy on Rule 10b5-1 trading plan, (3) adopt a share retention policy for senior executive officers, (4) report on incentive-based compensation and risks of material losses, (5) eliminate executive perquisites, (6) link executive pay to environmental or social criteria, (7) amend the executive compensation program to include consideration of the CEO pay ratio and other factors, and (8) approve the cessation of all executive stock option and bonus programs.

Prevalence and Status of Environmental and Social-Related Shareholder Proposals

The table below provides a summary of 2022 shareholder proposals on environmental and social-related matters included in 2022 proxies of at least ten Russell 3000 companies.

Environmental or Social-Related Proposal Type ³	Number	Pending	Approved	Average % Voted For
Racial equity/civil rights audit	34	0	8	30.4%
Adopt greenhouse gas (GHG) emissions reduction target/reduce GHG emissions	24	1	6	38.5%
Report on climate change	20	1	5	37.9%
Report on human rights risks in operations/supply chain	17	0	1	27.7%
Report on workplace sexual harassment policies/risks/use of concealment clauses	13	1	5	45.5%
Other	103	2	2	N/A

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³ Additional proposals may have been withdrawn after initial discussions with companies.