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Meridian Client Update

NYC Pension Fund Launches Campaign for Enhanced Board Diversity Disclosure

The New York City Comptroller's Office recently announced that it launched the next phase of the Boardroom Accountability Project, in which the Comptroller, on behalf of New York City Pension Funds, is seeking enhanced disclosure and engagement with 151 major public companies on board composition, diversity and refreshment.

In November 2014, the Boardroom Accountability Project initiated the first phase of its campaign, in which the New York City Pension Funds petitioned for public companies to adopt proxy access. The initial campaign successfully resulted in widespread adoption of proxy access among major U.S. public companies (including more than 60% of companies in the S&P 500 index).

In launching the next phase of the campaign, Comptroller Scott Stringer sent letters to the chairs of the nominating & governance committees of the boards of 151 companies – 92% of which have proxy access and 80% of which are in the S&P 500 – calling on the companies to disclose the race and gender of directors, along with board members' skills and to enter into a dialogue regarding their Board's refreshment process. The Boardroom Accountability Project developed a standardized matrix format for a company to disclose the skills, experience, gender, race/ethnicity, tenure and age of individual directors (attached as Appendix A).

The New York City Pension Funds believes that such disclosures would increase transparency and accountability and pressure boards to be more diverse and independent. According to the Comptroller's letter, such disclosures will enable investors to better assess whether individual director nominees are suitable for a company, identify any gaps in skills, experience or other characteristics, and more fully exercise their voting rights.

The Boardroom Accountability Project released a list of the 151 targeted companies (attached as Appendix B), which includes 139 companies that enacted proxy access after receiving a proposal from the New York City Pension Funds and 12 companies at which the pension funds' proposal received majority shareholder support in 2017.

Previously, in March 2015, the Comptroller's Office and New York City Pension Funds, along with eight other major U.S. pension systems, submitted a rulemaking petition to the SEC to make a mandatory board matrix disclosure by all U.S. public companies. However, since the SEC has yet to take action on the petition and the Trump administration is unlikely to support the reform, the Comptroller's Office believes that company-by-company engagement is an important strategy.

In addition, Comptroller Stringer and the New York City Pension Funds asked to engage with members of the nominating/governance committee of the 151 targeted companies on the board's composition and refreshment process. In a sample letter to these companies (attached as Appendix C), Comptroller Stringer provided potential discussion topics for such engagements, including the following:

- The matrix that the board currently uses to better understand the range of skills and experiences that it considers most critical and how current directors and potential board candidates best serve the company's long-term business strategy, executive succession planning process and risk oversight responsibilities.
- How the board evaluates individual directors on an ongoing basis, to assess whether and how directors continue to contribute to the above board responsibilities as such responsibilities and individuals continue to change.
- How to establish a process for any director search firms that the company may retain, pursuant to which such firm(s) would reach out to the New York City Pension Funds and other significant shareholders for suggestions for the names of both potential board candidates and other organizations that specialize in sourcing potential board candidates who are women and people of color.
- How to establish a more structured process, pursuant to which the New York City Pension Funds and other significant shareholders may provide to the Committee the names of potential board candidates, on an ongoing basis.

The Comptroller's Office believes that such engagements will help shareholders to identify appropriate independent director candidates, including ones that bring diverse perspectives and other skills, such as climate expertise, to the boardroom.

Meridian Comment. The New York City Pension Funds campaign adds to the mounting pressure on corporate boards to increase their diversity and to enhance their disclosure on board composition and demographics. In response, some large cap public companies have started to disclose detailed information on board composition, diversity and refreshment. We expect this trend to continue, as well as ramped up efforts by public companies to increase the diversity of their boards.

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The **Client Update** is prepared by Meridian Compensation Partners' Technical 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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Appendix B

NYC Focus Companies with 3% Proxy Access

1. 3M Company
2. AbbVie Inc.
3. ACI Worldwide, Inc.
4. AES Corporation, The
5. Albemarle Corporation
6. Alexion Pharmaceuticals, Inc.
7. Alliance Data Systems Corporation
8. Ameren Corporation
9. American Airlines Group Inc.
10. American Electric Power Co., Inc.
11. American Tower Corporation
12. AMETEK, Inc.
13. Amgen Inc.
14. Anadarko Petroleum Corporation
15. Apache Corp.
16. Apartment Investment and Management Co.
17. AvalonBay Communities Inc.
18. Avon Products Inc.
19. BB&T Corporation
20. Bed Bath & Beyond Inc.
21. Big Lots Inc.
22. Boeing Company, The
23. C. R. Bard, Inc.
24. Cabot Oil & Gas Corporation
25. Caterpillar Inc.
26. CenterPoint Energy, Inc.
27. Cerner Corporation
28. CF Industries Holdings, Inc.
29. Cheniere Energy, Inc.
30. Chevron Corporation
31. Chipotle Mexican Grill, Inc.
32. Cimarex Energy Co.
33. CMS Energy Corporation
34. Colgate-Palmolive Company
35. ConocoPhillips
36. Consolidated Edison, Inc.
37. DENTSPLY Sirona Inc.
38. Devon Energy Corporation
39. Diebold Nixdorf, Incorporated
40. Dollar General Corporation
41. Dollar Tree, Inc.
42. Dominion Resources, Inc.
43. DTE Energy Company
44. Duke Energy Corporation
45. eBay Inc.
46. Electronic Arts Inc.
47. Entergy Corporation
48. EOG Resources, Inc.
49. EQT Corporation
50. Equifax Inc.
51. Equity Residential
52. Eversource Energy
53. Exelon Corporation
54. Expeditors International of Washington Inc.
55. Express Scripts Holding Company
56. Exxon Mobil Corporation
57. Fidelity National Financial, Inc.
58. Fidelity National Information Services, Inc.
59. FleetCor Technologies, Inc.
60. FMC Corporation
61. Freeport-McMoRan Copper & Gold Inc.
62. GameStop Corp.
63. Global Payments Inc.
64. Hasbro Inc.
65. HCP, Inc.
66. Hess Corporation
67. Home Depot, Inc., The
68. Honeywell International Inc.
69. Intel Corporation
70. Intercontinental Exchange, Inc.
71. Johnson & Johnson
72. Kilroy Realty Corporation
73. Leggett & Platt, Incorporated
74. Leucadia National Corporation
75. Level 3 Communications, Inc.
76. LKQ Corporation
77. Macerich Company, The
78. Marathon Oil Corporation
79. Marsh & McLennan Companies, Inc.
80. Minerals Technologies Inc.
81. Murphy Oil Corporation
82. Nabors Industries
83. National Oilwell Varco, Inc.
84. New York Community Bancorp Inc.
85. Newfield Exploration Company
86. NiSource Inc.
87. Noble Energy, Inc.
88. NRG Energy, Inc.
89. NVR, Inc.
90. Occidental Petroleum Corporation
91. ONEOK, Inc.
92. O'Reilly Automotive, Inc.
93. PepsiCo, Inc.
94. Pfizer Inc.

Appendix B

95. Phillips 66
96. Pinnacle West Capital Corporation
97. Pioneer Natural Resources Co.
98. PPL Corporation
99. Praxair, Inc.
100. Priceline Group Inc., The
101. PulteGroup, Inc.
102. Range Resources Corporation
103. Republic Services, Inc.
104. Roper Technologies, Inc.
105. Ross Stores, Inc.
106. salesforce.com, inc.
107. SBA Communications Corp.
108. SCANA Corporation
109. Sealed Air Corporation
110. Skyworks Solutions, Inc.
111. SL Green Realty Corp.
112. Southern Company, The
113. Southwestern Energy Co.
114. Splunk, Inc.
115. Sprouts Farmers Market, Inc.
116. Staples, Inc.
117. Texas Instruments Incorporated
118. Textron Inc.
119. Tractor Supply Company
120. U.S. Bancorp
121. Ultimate Software Group, Inc., The
122. Union Pacific Corporation
123. United Therapeutics Corporation
124. Unum Group
125. Urban Outfitters Inc.
126. Ventas, Inc.
127. VEREIT, Inc.
128. VeriFone Systems, Inc.
129. Vertex Pharmaceuticals Incorporated
130. Visteon Corporation
131. Vornado Realty Trust
132. W.W. Grainger, Inc.
133. WebMD Health Corp.
134. WEC Energy Group, Inc.
135. Wells Fargo & Company
136. Whiting Petroleum Corp.
137. Williams Companies, Inc., The
138. Xcel Energy Inc.
139. Xilinx, Inc.
140. Zoetis Inc.

Appendix B

NYC Focus Companies with Majority Supported Proxy Access Proposal in 2017

1. Abercrombie & Fitch Co.
2. Charles Schwab Corporation, The
3. Crown Castle International Corp.
4. Hospitality Properties Trust
5. Humana Inc.
6. International Business Machines Corporation
7. Kinder Morgan, Inc.
8. Martin Marietta Materials, Inc.
9. Netflix, Inc.
10. Senior Housing Properties Trust
11. Waters Corporation



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

Text of a letter sent by NYC Comptroller Scott M. Stringer, to the nominating/governance committee chairs of portfolio companies held by the New York City Pension Funds, which have adopted proxy access in response to shareholder proposals submitted by the Funds.

September 6, 2017

Dear [Name of Chair of the nominating/governance committee]:

I write on behalf of the New York City Pension Funds (the “NYC Funds”) to initiate a discussion with one or more members of the [Committee] regarding the board’s refreshment process. As a necessary predicate to this discussion, we ask that you provide to us – and disclose to all investors as soon as practicable – a meaningful director qualifications matrix identifying each director’s most relevant skills, experience and attributes, as well as each such individual’s gender and race/ethnicity.

The NYC Funds have approximately \$180 billion in assets under management and are substantial, long-term [Company] shareowners. We appreciate the Company’s recent engagement and action on proxy access, which we view as an essential mechanism to promote greater board quality and accountability. Among other benefits, we believe the availability of proxy access will enable shareowners to have more meaningful discussions about particular nominees where portfolio company boards appear to lack the relevant expertise and diversity. A board’s skills and experience matrix provides the starting point for these discussions.

We are making similar requests to directors at approximately 140 portfolio companies that have enacted proxy access bylaws following receipt of a proxy access proposal submitted by the NYC Funds as part of our Boardroom Accountability Project, as well as at those companies at which our proposal received majority support in 2017. The Boardroom Accountability Project aims to enact meaningful proxy access in the U.S. market through private ordering. More than 425 companies of various sizes and across industries, including more than 60% of companies in the S&P 500 index, have enacted proxy access bylaws since we launched the project in the fall of 2014.

A director skills and experience matrix gives investors a “big-picture” view of the criteria the board deems appropriate in selecting a board slate for election each year in light of the company’s particular and evolving long-term business strategy and risks. By having the matrix go beyond the minimum qualifications that nominating/governance committees believe must be met by all board nominees, boards enable investors to better (a) assess how well suited individual director nominees are for the company, (b) identify any gaps in skills, experience or other characteristics, and (c) more fully exercise our voting rights.

Appendix C

The use of a matrix to present director qualifications is recommended by the National Association of Corporate Directors, among other business groups, and the EY Center for Board Matters recently reported that 16% of S&P 500 companies now disclose some form of a director skills matrix. The matrix approach that we are requesting, with gender and race/ethnicity as required dimensions, is consistent with the request in a March 31, 2015 rulemaking petition to the U.S. Securities and Exchange Commission seeking mandatory matrix disclosure by all U.S. public companies, which we submitted jointly with eight other major U.S. pension systems.

For these reasons, my office would like to engage one or more members of your Committee on the board's composition and refreshment process. The following are sample discussion topics that we may raise in our engagements in this next phase of the Boardroom Accountability Project:

1. We would like to discuss the matrix that your board currently uses to help us better understand the range of skills and experiences the board considers most critical and how your current directors and potential board candidates best serve the Company's long-term business strategy, your executive succession planning process and your risk oversight responsibilities.
2. We would like to understand how you evaluate individual directors on an ongoing basis, to assess whether and how they continue to contribute to the above board responsibilities as such responsibilities and individuals continue to change. In cases where a particular director no longer is able to contribute in this way, what processes do you have for discussing with this director stepping down from your board?
3. We would like to discuss how we can establish a process for any director search firms that you may retain, pursuant to which such firm(s) would reach out to us and other significant shareowners for suggestions for the names of both potential board candidates and other organizations that specialize in sourcing potential board candidates who are women and people of color.
4. We would also like to discuss how we can establish a more structured process, pursuant to which we and other significant shareowners may provide to your Committee the names of potential board candidates, on an ongoing basis.

We look forward to hearing from you and receiving your director matrix, so that our corporate governance team may arrange for a convenient time to understand your board refreshment processes better and to provide further perspective on the way that we think about board refreshment and the role that shareowners can play in the process.

In this regard, please contact Rhonda Brauer, Director of Corporate Engagement, at 212-669-2516 or rbrauer@comptroller.nyc.gov.

Thank you for your stewardship of our investment in [Company].

Sincerely,

Scott M. Stringer
New York City Comptroller