Compensation
Advisory Partners

Say on Pay Vote Results (S&P 500)

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Executive Summary

SAY ON PAY

Most proposals receive over 90% support and failed votes are rare among companies in the S&P 500. In 2017, 1 S&P 500 company failed to receive majority shareholder support.

- Median level of shareholder support was 95%, consistent with prior years
- Among the Russell 3000, 7 additional companies failed to received majority support

Influence of proxy advisors – ISS and Glass Lewis – continues to be strong.

- Obtaining an ISS vote recommendation "For" Say on Pay practically assures majority support
- Generally, an ISS or Glass Lewis "Against" vote recommendation reduces shareholder support for Say on Pay by 20-30% and 5-15%, respectively, depending on a company's shareholder base
- Percent of companies receiving an "Against" Say on Pay vote recommendation from ISS decreased among the S&P 500, from 14% in 2012 to 7% in 2017
- Percent of companies receiving an "Against" Say on Pay vote recommendation from Glass Lewis increased from 16% in 2012 to 18% in 2016

"Against" votes most often relate to a poor pay versus performance relationship; rigor of goals has been getting more attention, and the focus on this topic will continue.

- Companies now often seek direct feedback from investors on a proactive basis during the year

The bar for success is high; a result below 90% is bottom quartile, indicating material shareholder pushback.

SAY ON PAY VOTE FREQUENCY

In general, Say on Frequency votes took place in 2011. As this vote must occur at least once every six years, most companies will have a Say on Frequency vote at their 2017 annual meeting.

- In 2011, nearly 30% of S&P 500 companies initially recommended a biennial or triennial vote frequency; however, a majority of shareholder votes were cast in support of an annual vote frequency at nearly 90% of companies
- Through May 25, 2017, 293 companies held a Say on Frequency vote: 276 companies (94%) recommended and approved an annual vote frequency, 12 companies (4%) recommended and approved a triennial vote frequency, 4 companies (2%) did not make a recommendation but shareholders approved an annual vote, and 1 company recommended a triennial vote but shareholders approved an annual vote

Companies will continue to primarily hold annual Say on Pay votes.

2017 Say-on-Pay Results – S&P 500

Through May 25, 2017, 316 S&P 500 companies released Say on Pay vote results. One company (ConocoPhillips) failed to receive majority shareholder support.

% in Favor – 2017	# of Companies (n = 316)	% of Companies
95 - 100%	171	54.1%
90 - 94%	93	29.5%
70 - 89%	37	11.7%
50 - 69%	14	4.4%
Below 50%	1	0.3%

Percentile Rank	% in Favor – 2017	% in Favor – 2016	% in Favor – 2015
90th	98%	98%	98%
75th	97%	97%	98%
50th	95%	95%	96%
25th	93%	92%	92%
10th	84%	81%	82%

ISS Vote Recommendations - S&P 500

In 2017, ISS has recommended "Against" Say on Pay at 7% (n=22) of companies that released vote results; one failed to receive majority shareholder support.

ISS Vote Recommendation	% of Companies Passed	% of Companies Failed
For (n=294) *93%*	100%	0%
Against (n=22) *7%*	95%	5%
Total (n=316)	99.7%	0.3%

ISS' most common themes behind Say on Pay problems (excluding "pay for performance disconnect") include:

- Unresponsive / ineffective Compensation Committee
- Discretionary awards
- Construction of incentive programs
- Performance metric selection and disclosure
- Lack of rigor on performance goals
- Escalatory pay benchmarking practices
- Employment agreement / leadership transition issues

Failed Say on Pay Votes (2011-2016)

Companies that have failed Say on Pay have generally improved their vote result the year following a failed vote.

Year	Number of S&P 500 Failures	Average Support in Year of Failure	Average Support in Year Following Failure	Year-over-Year SOP Result Change
2016	6	40%	85%	+42%
2015	4	44%	59%	+15%
2014	6	41%	72%	+31%
2013	7	29%	75%	+46%
2012	12	35%	66%	+31%
2011	7	44%	74%	+30%

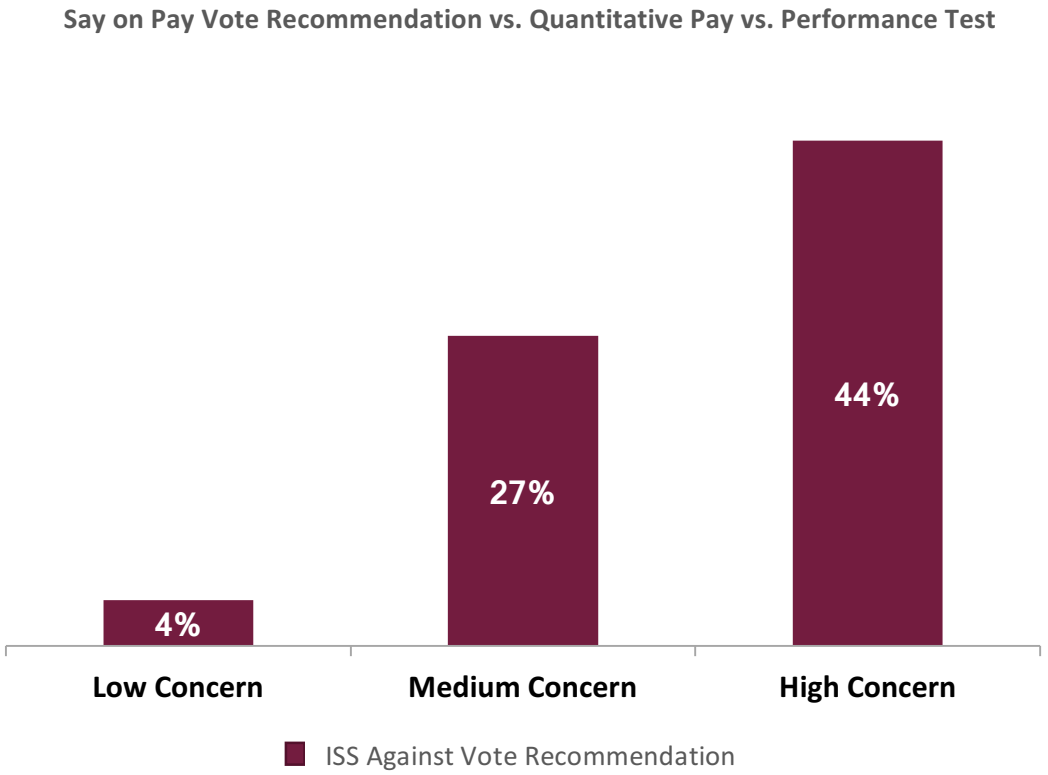
The increase in shareholder support is typically the result of improved company performance, shareholder outreach, changes to executive compensation program, or a combination thereof.

Note: Not all companies who failed in 2016 have released Say on Pay results for 2017, as a result, there is a disconnect between the year-over-year result change.

Proxy Advisors

To determine their vote recommendation for Say on Pay proposals, ISS and Glass Lewis conduct both a quantitative and qualitative review to assess if pay and performance are aligned. The results of the quantitative pay versus performance test significantly influences Say on Pay vote recommendation.

ISS



Note: Pay for performance test based solely on CEO pay

ISS' quantitative pay vs. performance test can result in three levels of concern: Low, Medium, or High. Most companies receive Low concern (76%), while approximately one in four companies receive Medium (10%) or High (14%) concern. The Multiple of Medium test is most correlated with "Against" ISS vote recommendations.

Source: ISS Corporate Solutions (2016), *Sweet Sixteen: The Proxy Season Review and ISS Policy Update Process*.

GLASS-LEWIS

Say on Pay Vote Recommendation vs. Quantitative Pay vs. Performance Test Grade

Grade	Against Recommendation *(all companies)*
A	**4%**
B	**4%**
C	**7%**
D	**34%**
F	**75%**
All Grades	**18%**

Note: Pay for performance test based on Top 5 Pay

In 2016, Glass Lewis recommended "Against" Say on Pay at approximately 17% of S&P 500 companies and 18% of Russell 3000 companies. It is highly unlikely to receive an “Against” Say on Pay vote recommendation from Glass Lewis with a pay-for-performance score of “C” or better. A “C” pay-for-performance grade from Glass Lewis indicates alignment of pay and performance. An “A” or “B” grade indicates relative performance exceeds pay levels, and a “D” or “F” grade indicates relative pay levels exceed relative performance.

Source: Glass Lewis & Co. (2016)

ISS and Glass Lewis have both established Say on Pay vote result thresholds, below which a minimum level of Board response is expected.

ISS – Say on Pay Result of 70% or Less

May recommend a vote "Against" Compensation Committee members (or in rare cases full Board) and current Say on Pay proposal if company's prior year Say on Pay resolution received less than 70% of votes cast.

- Takes into account company's response, including: disclosure of engagement efforts with major institutional investors regarding compensation issue(s); specific actions taken to address the issue(s) that appear to have caused the opposition; number of shareholders contacted; and recent compensation actions
- Also considers whether the issues raised are recurring or isolated, as well as the company's ownership structure
- If support was less than 50%, higher degree of responsiveness is expected

Glass Lewis – Say on Pay Result of 75% or Less

May recommend a vote Against the Chairman of the Compensation Committee, or the entire Committee, and current Say on Pay proposal if company's prior year Say on Pay resolution received less than 75% of votes cast.

- Takes into account shareholder engagement efforts and the level of response, as well as related disclosure. Areas of focus generally includes:
    - Any modifications made to the design and structure of the company's compensation program
    - An assessment of the company's engagement with shareholders on compensation issues as discussed in the CD&A

Say on Frequency

The tables below reflect Say on Pay frequency proposals and corresponding vote results among S&P 500 companies for 2017; more companies (board recommendations) shifted from triennial to annual Say on Pay frequency support in 2011 compared to 2017.

Board Recommendation

Board Recommendation for Vote Frequency	% of Companies	
	2017 Results	2011 Results
Annual	94%	70%
Biennial	0%	3%
Triennial	5%	23%
No Recommendation	1%	4%

Voting Results

Frequency Receiving Majority Shareholder Support	% of Companies	
	2017 Results	2011 Results
Annual	96%	94%
Biennial	0%	0%
Triennial[1]	4%	5%
None (only plurality)[2]	0%	1%

All companies that received majority support for triennial, also received majority support for triennial in 2011 and no company shifted from an annual to biennial or triennial Say on Pay vote.

1) See page 12 for a list of S&P 500 companies who have received majority shareholder support for triennial Say on Pay vote.
2) None of the three frequency options (annual, biennial, or triennial) received majority shareholder support (greater than 50%).

2017 Failed Say on Pay Votes – Russell 3000

Company (n=8)	Fiscal Year End	S&P 500 ("X" = Yes)	Sales FYE *($mm)*	Mkt Cap FYE *($mm)*	TSR FYE		SoP Vote Result % in Favor		Number of Failures
					1 -Year	3 -Year	2017	2016	
ConocoPhillips	Dec-16	X	$23,745	$62,125	10%	-21%	32%	84%	1
Sprouts Farmers Market, Inc.	Jan-17		$4,046	$2,693	-29%	-51%	43%	73%	1
American Axle & Manufacturing Holdings, Inc.	Dec-16		$3,948	$1,476	2%	-6%	39%	97%	1
Nuance Communications, Inc.	Sep-16		$1,949	$4,056	-11%	-22%	34%	33%	4
Microsemi Corporation	Oct-16		$1,655	$4,752	27%	71%	45%	83%	1
Senior Housing Properties Trust	Dec-16		$1,058	$4,497	39%	9%	46%	47%	2
Whitestone REIT	Dec-16		$104	$421	31%	39%	43%	n/a	1
Immunomedics, Inc.	Jun-16		$3	$220	-41%	-57%	38%	n/a	1

Note: "Number of Failures" reflects the number of years the company has failed to receive majority shareholder support on their Say-on-Pay vote since 2011.

2017 Triennial Say on Frequency Votes - S&P 500

Company (n=12)	Fiscal Year End	Sales FYE *($mm)*	Market Cap FYE *($mm)*	SoP Vote Result % in Favor		Previous Say On Frequency
				2017	2014	
Berkshire Hathaway Inc.	Dec-16	$214,596	$400,505	100%	100%	Triennial
United Parcel Service, Inc.	Dec-16	$60,906	$100,041	92%	89%	Triennial
Tyson Foods. Inc.	Oct-16	$36,881	$28,528	98%	99%	Triennial
Charter Communications, Inc.	Dec-16	$29,003	$77,393	70%	99%	Triennial
AutoNation, Inc.	Dec-16	$21,609	$4,916	98%	98%	Triennial
PACCAR Inc.	Dec-16	$17,003	$22,399	95%	98%	Triennial
DISH Network Corporation	Dec-16	$15,095	$26,941	100%	99%	Triennial
Viacom, Inc.	Sep-16	$12,488	$15,346	96%	99%	Triennial
Universal Health Services, Inc.	Dec-16	$9,766	$10,314	96%	100%	Triennial
Franklin Resources, Inc.	Sep-16	$6,618	$20,493	97%	99%	Triennial
Discovery Communications, Inc.	Dec-16	$6,497	$16,190	69%	59%	Triennial
Wynn Resorts, Limited	Dec-16	$4,466	$8,802	100%	91%	Triennial