Corporate Governance Outlook 2019

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December 2018

Featuring Commentary From

DFIN

Hogan Lovells

EQUILAR

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Executive Summary

As 2018 comes to a close, the board governance and executive compensation landscape boiled down to one over-arching subject: the shareholder. From the advisory votes regarding Say on Pay to proxy access proposals of recent years, investors have gained quite a bit of traction in the ability to check the management of a company. Both executives and investors alike have pushed for diversification of the board and board evaluation disclosure in 2018, yet the introduction of the CEO Pay Ratio disclosure was met with little to no fanfare.

Looking ahead to 2019, data from the previous year would suggest that shareholders will continue to push for more influence in a company. Proposals from shareholders concerning their rights increased by more than 50% from 2017 to 2018, and unless some drastic, widespread changes are made, it is safe to say that trend will continue. *Corporate Governance Outlook 2019* showcases these statistics and more as a way to use past trends to look into the future.

Shareholders Seek Say on More Than Pay (pg. 14)

Shareholder proposals dipped slightly in 2018, six fewer than those in 2017 and roughly 9.8% less than those proposed two years prior. While the total number of shareholder proposals has remained somewhat consistent over the five years of the study, 2018 saw the nature of those proposals shift in topic. Environmental and social proposals dominated from 2014 to 2017, never equating less than 41% of all proposals submitted by shareholders; however, 2018 tells a different story. Though environmental and social issues still are the most popular proposal topic, those concerning general shareholder rights have become increasingly more popular in 2018, making up 35.6% of all shareholder proposals at Equilar 500 companies.

At the same time, companies have become more apt to engage with their shareholders. From 2014 to 2018, companies in the Equilar 100 that at least mentioned shareholder engagement in the proxy statement increased by 54%. Additionally, 58.6% of companies disclosed the process of how they engage with shareholders throughout the year, rather than merely stating that engagement happens.

Say on Pay and the Ratio (pg. 16)

Since 2011, the first year that shareholders gained the ability to have a Say on Pay, executive compensation has been largely accepted by investors, and 2018 was no different, overall. However, 2018 saw a decrease in the approval percentage that Equilar 500 companies received. For the first time in the study, 2018 had less than half of companies receive more than 95% approval on their executive pay packages, more than 10 percentage points less than the year before. Despite that, 2018 actually showcased the most companies with more than 90% approval for Say on Pay proposals, at 81.6% of companies. On the contrary, Equilar 500 companies in 2018 also failed the most Say on Pay votes at 11, more than five times the amount of failures just five years earlier.

Say on Pay 2018: By the Numbers

81.6%
90%+ approval

2.0%
Failures

Annual Frequency Vote = 94.2%

Continuing into the world of executive compensation, 2018 saw the introduction of a new mandatory disclosure: the CEO Pay Ratio. Highly anticipated pre-disclosure for a myriad of reasons, the aftermath of the first disclosures brought little more than indifference regarding the new ratio. The median and average CEO Pay Ratio at Equilar 500 companies were 168 and 271 to 1, respectively. However, when attached to Say on Pay, CEO Pay Ratio trends may be able to help explain at least part of a poor performance on a Say on Pay vote. For example, the median ratio at companies that had less than 60% approval of Say on Pay was the largest of any ratio bucket at 469.5 to 1, and more than three times the ratio at companies that received at least 95% approval.

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Equilar Webinar

Corporate Governance Outlook 2019

Please join Equilar, DFIN, Hogan Lovells and Society for Corporate Governance for a webinar on January 17 that will discuss upcoming trends for the 2019 proxy season and beyond. The expert panel will discuss shareholder voting trends on a variety of emerging issues and how boards are responding.

www.equilar.com/webinars

Equilar Events

Board Leadership Forum

Join Equilar and Nasdaq for the Spring Board Leadership Forum on March 19. The goal of the Forum is to empower participants to build higher performing boards through improved processes, strengthened director evaluations and recruitment efforts, and more effective shareholder engagement.

www.equilar.com/events

Executive Summary (continued)

Retirement Age Looms for Many Directors (pg. 28)

There has been a recent push for boards to add younger directors and companies have been instituting a mandatory retirement age for directors as a way to facilitate refreshment. By and large, the two mandatory ages for retirement are 72 and 75, used by 42.3% and 36.6% of companies that mandate a retirement age. Only 1.8% of companies utilized an age over 76 as a retirement age in 2018, with no Equilar 500 companies choosing 78 or 79. Though the usage of retirement ages might theoretically promote board refreshment, companies will have to put their money where their mouth is in terms of enforcement in the next few years. There are over 500 directors at companies with mandatory retirement ages within five years of the specified age. Additionally, 67 directors in 2018 were either at the specified age or a year older than the age, yet still sitting on the company's board.

Beyond the Numbers

A Q&A With DFIN and Hogan Lovells

To provide additional perspective on the trends uncovered in *Corporate Governance Outlook 2019*, Equilar spoke with contributors from DFIN and Hogan Lovells, who provided commentary on influencing factors affecting boardrooms at public companies today.

Equilar: What are the biggest risks facing executives and boards from a governance perspective going into 2019? What are some risks that boards/executives may not be thinking about but are on the horizon? In what ways can they be best prepared to mitigate those challenges and engage productively with shareholders?

Amy Freed, Hogan Lovells: One of the biggest risks facing executives and boards from a governance perspective going into 2019 is their ability to respond quickly and effectively to allegations of executive misconduct. Executive misconduct is not new. However, 2018 saw the dethroning of a large number of high profile executives resulting in material negative effects on stock prices and significant reputational harm. These incidents are costly to companies both in terms of direct costs of response including litigation and settlement, as well as indirect costs of distraction of management from strategic objectives.

> *"Boards must also be proactive and ensure that there are comprehensive policies and accompanying training programs that communicate a clear tone of intolerance for misconduct."*
>
> - Amy Freed, Hogan Lovells

The growing public intolerance of executive misconduct means that boards must have a crisis response mechanism that involves prompt disclosure to the board, swift independent investigation and an appropriate disciplinary response. No executive, regardless of seniority, should be considered beyond scrutiny, and allegations should be appropriately investigated regardless of whether they were learned or reported through formal or informal channels. Boards must also be proactive and ensure that there are comprehensive policies and accompanying training programs that communicate a clear tone of intolerance for misconduct. In addition, boards must also ensure that compensation arrangements are appropriately tailored so that executives who exit as a result of misconduct are not rewarded.

Finally, boards must be transparent with shareholders about the company's approach to these matters including the policies that are in place. When violations occur, boards must ensure that they are transparent about oversight failures and the steps that are undertaken to remedy those gaps.

Equilar: What key issues do you expect companies to focus on in 2019 as they consider proxy disclosures around critical governance topics? Is there a particular issue that may arise in 2019 that may not be on the radar?

Ron Schneider, DFIN: 2019 proxy disclosures are likely to follow three major trends which are receiving intensifying focus from investors. These trends are primarily driven by investor engagement and input, as opposed to new regulatory requirements.

- **Intensifying focus on gender and other aspects of diversity in the boardroom:** This topic extends beyond the current snapshot of board composition, and includes ongoing processes and practices that will shape the evolution of a board. Investors are increasingly becoming more proactive, and companies are becoming more transparent on several issues including: how a

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Beyond the Numbers (continued)

board's skill set meets the company's current and foreseeable strategic needs, structure and results of a board's evaluation and recruitment processes, board oversight of a growing array of risks, and board governance over ESG matters.

- **Correlation between executive compensation and company strategy:** Investor interest has evolved past ensuring an alignment of pay outcomes with performance. Today, investors are encouraging companies to communicate how its pay program supports the business strategy, and, if that strategy is evolving, how the pay program (vehicles, metrics, weightings, etc) is evolving concurrently. Recently, more and more companies are making great strides in answering these fundamental questions directly and credibly.
- **Closing the information gap on ESG/CSR issues:** Investors are seeking quantitative, decision-useful information about what is relevant and material to any particular company, in order to make key decisions. Currently, an information gap between what companies are disclosing and what investors are seeking exists. However, companies are making impressive strides to close this gap through CSR reports, investor presentations, proxies and annual reports.

Equilar: What are some best practices companies should consider in narrowing down what they decide to highlight in their proxies, and how they should do it? Has anything changed from past years? What are some best practices for the most effective navigational elements?

Ron Schneider, DFIN: Proxies are transforming from primarily SEC-focused disclosure forms ("Form 14A") to more broad-ranging, investor-focused communications documents that provide investors with the "why" of company practices, in addition to the "what."

The best guidance for what should be discussed in a proxy is derived from effective engagement with investors on corporate governance, executive compensation, sustainability and similar issues. These issues will certainly vary from company to company as well as between various investors.

For companies that have not yet effectively engaged with investors on these issues, an examination of both governance-leading companies—including recent finalists and winners at the annual Corporate Governance awards—and of your peer companies, is highly recommended. As peers and other companies elevate the scope and clarity of their messaging, this similarly raises the ante for what investors consider to be quality, useful disclosure.

"Proxies are transforming from primarily SEC-focused disclosure forms ("Form 14A") to more broad-ranging, investor-focused communications documents..."

- Ron Schneider, DFIN

From a content perspective, as proxies grow in length and complexity, it's important to recognize that different investor types use proxies for different purposes. Retail and employee investors treat proxies more as reading documents, by reviewing them carefully from front to back. Institutional investors report treating proxies more as reference documents, by reviewing topics and sections of interest to them. In both cases, sections such as robust CEO and/or board cover letters, proxy summaries, director nominee descriptions, and CD&A executive summaries are highly likely to be reviewed.

When considering proxy report design, navigational elements such as a detailed table of contents at the front of the document, page headers and footers inside the document, a logical flow of topics and a consistent hierarchy of primary, secondary and tertiary section headings are helpful.

Visual elements such as graphs, charts, callout boxes, checklists, timelines and similar devices can help draw the eye to key content and convey its messages quickly and with impact. The most effective visuals don't merely supplement, but in many cases, actually replace text.

Finally, in today's digital world, it's important to pay equal attention to the print version of the proxy—which is useful in generating retail voting participation—as well as to the SEC-filed and online-hosted version—which is reviewed by most larger institutional investors. Each should be clear, concise and as easy to navigate as possible.

Equilar: In light of recent legislation and heightened investor scrutiny on board composition, how will this affect proxy disclosures with respect to board evaluation? What are some effective ways companies are using the proxy to assess and address their board composition?

Lilian Tsu, Hogan Lovells: In the past several years, boards have come under increased pressure to focus on board composition and refreshment, including length of tenure, individual and aggregate skills mix and diversity. Companies also face demands to justify the contributions of individual directors and to conduct rigorous evaluations to ensure that the board functions effectively and with the right mix of skills. Investors are increasingly focused on disclosure over board process. Investors want to know that boards have a mechanism for regularly reviewing board composition and for boards to provide insight into the process the board uses to evaluate the qualifications and performance of current directors (both individually and as a group) in the context of the company's strategic needs. In particular, investors want to understand the alignment between a director's skills, background and experience with the board's requirements.

In response to the demand for additional disclosure into board process, companies have added matrices and/or graphics to illustrate the range of director skill sets. A skills matrix generally highlights a range of director attributes including gender and racial diversity, practical skills, industry knowledge, generational diversity and tenure on the board. Further, companies have enhanced disclosure on their director recruitment processes and policies in order to reassure investors that the board is committed to addressing board composition issues.

About the Contributors

Donnelley Financial Solutions (DFIN) is a leading global risk and compliance solutions company. We provide domain expertise, enterprise software and data analytics for every stage of our clients' business and investment lifecycles. Markets fluctuate, regulations evolve, technology advances, and through it all, DFIN delivers confidence with the right solutions in moments that matter. Learn about DFIN's end-to-end risk and compliance solutions online at DFINsolutions.com or you can also follow us on Twitter @DFINSolutions or on LinkedIn.

Download the 2018 "Guide to Effective Proxies" from DFIN. Visit info.dfinsolutions.com/proxy-guide-handbook-social for more information.

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Ron joined DFIN as Director of Corporate Governance Services in April, 2013. He is responsible for providing thought leadership on emerging corporate governance, proxy and disclosure issues.

Over the past four decades, Ron has advised senior management, the C-suite and boards of public companies of all sizes, industries and stages of growth facing investor activism, as well as challenging and sensitive proxy solicitations involving corporate governance, compensation and control issues.

His primary recent focus has been helping companies conduct engagement programs with their top institutional investors with the objective of identifying and addressing investor concerns through best practices in proxy disclosure.

At DFIN, Ron works closely with clients and our firm's sales and service teams to identify and implement appropriate changes to proxy statement design, content and navigation that fit each client's unique corporate culture and proxy-related objectives.

During his career he has managed more than 1,600 proxy solicitations, 200 tender or exchange offers and 30 proxy contests, with his proxy fight clients succeeding in over 70% of such situations.

Ron earned a B.A. in Economics from Princeton University.

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Methodology

Corporate Governance Outlook 2019, an Equilar publication, analyzed the proxy statements and shareholder voting results for Equilar 500 companies from 2014 to 2018. The Equilar 500 tracks the 500 largest, by reported revenue, U.S.-headquartered companies trading on one of the major U.S. stock exchanges (NYSE, Nasdaq or NYSE MKT), adjusted to approximate the industry sector mix of similar large-cap indices. The Equilar 100, a subset of the largest revenue reporting companies in the Equilar 500, was manually reviewed for specific examples of disclosure in targeted areas. Year one (2018) was defined as proxies filed from September 1, 2017 to August 31, 2018, and previous years were defined similarly. Disclosure examples were provided by DFIN and Equilar to highlight exemplary proxy communications and shareholder outreach.

The narrative portion of this report identifies trends in compensation and corporate governance disclosure practices at the Equilar 500 companies. DFIN and Hogan Lovells have provided independent commentary for context and color on companies' approach to governance issues and shareholder engagement.

Key Findings

1. While the total number of shareholder proposals at Equilar 500 companies has remained relatively consistent over the last five years, there was a marked decline by 30.1% in the number of shareholder proposals relating to environmental and social issues.

2. Nearly 75% of Equilar 500 companies mentioned or disclosed their shareholder engagement policies in their proxies, representing a continuous uptick since 2014.

3. 2018 saw the number of Say on Pay failures nearly double, while less than half of Equilar 500 Say on Pay votes met with 95% or greater approval.

4. In 2018, the median CEO Pay Ratio at Equilar 500 companies was 168 to 1, while the average CEO Pay Ratio was 271 to 1.

5. Over 500 directors in the Equilar 500 are within five years of their respective boards' mandatory retirement age, as of 2018. Additionally, nearly 80% of all mandatory retirement ages were either 72 or 75.

Shareholder Voting Trends

Corporate Governance Outlook 2019

Data Points

- The number of shareholder proposals at Equilar 500 companies peaked in the fiscal years of 2015 and 2016 *(Fig.1)*
- From 2016 to 2018, the number of shareholder proposals fell by 9.5% *(Fig.1)*
- Compensation proposals were consistently the least common category of proposals from 2014 to 2018, likely due to the fact that Say on Pay already gives the shareholders a voice *(Fig. 2)*
- There was a 40% decrease in compensation proposals from 2016 to 2017 *(Fig. 2)*
- General shareholder rights proposals jumped in prevalence by 56.3% from 2017 to 2018, representing the largest percent increase in any category for successive years *(Fig. 2)*
- Proposals relating to social and environmental issues represent the largest proposal category during the last five fiscal years, ranging from 37%-52.1% of all proposals *(Fig. 2)*

Figure 1 Shareholder Proposals, Equilar 500

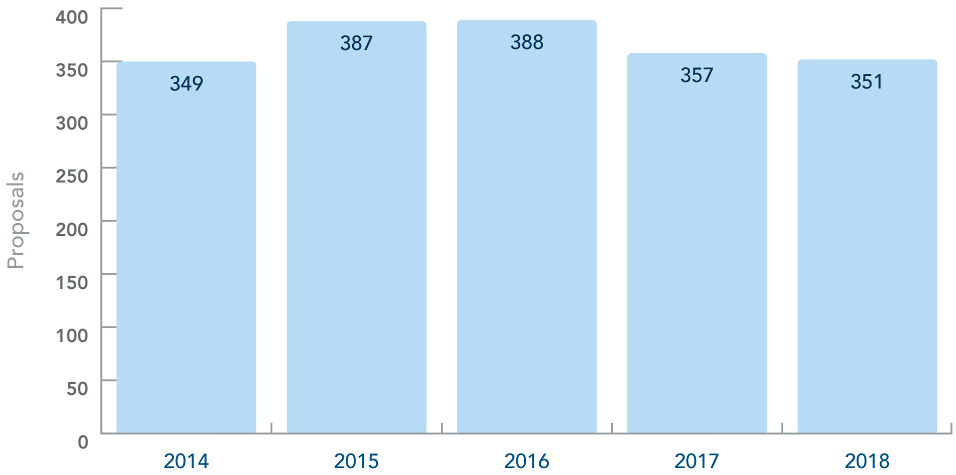
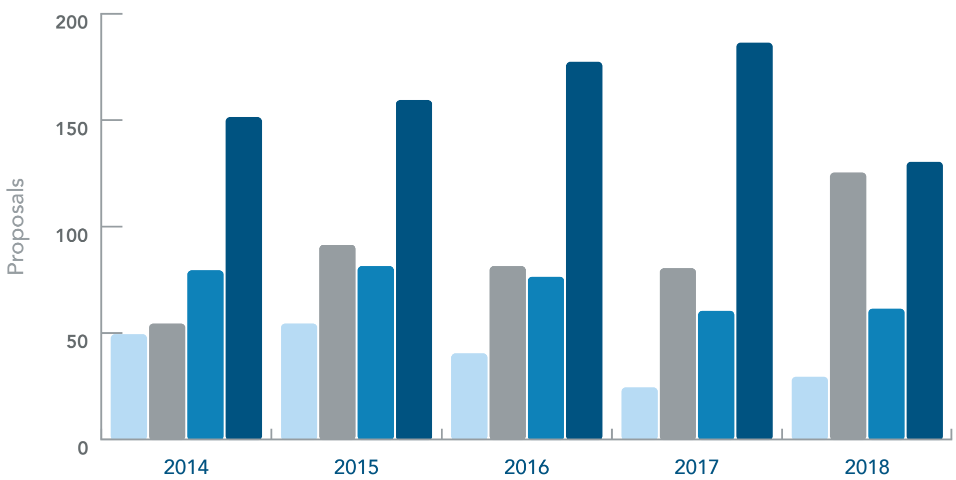


Figure 2 Shareholder Proposals by Type



	2014	2015	2016	2017	2018
COMP	49	54	40	24	29
GEN SH	54	91	81	80	125
BD MGMT	79	81	76	60	61
SOC & EI	151	159	177	186	130

Abbreviation Key:

COMP = Compensation
GEN SH = General Shareholder Rights
BD MGMT = Board Management
SOC & EI = Social and Environmental Issues

Disclosure Example 1 Corporate Social Responsibility

AT&T (T)
DEF 14A (p.39)
Filed 3/12/18

AT&T dedicated an entire page of its 2018 proxy to the company's efforts on the ESG front. With environmental and social issues representing the largest category for shareholder proposals, more and more companies are making an effort to disclose how they are making an impact on these critical issues. In this instance, AT&T does an exceptional job of breaking down efforts by category as well as key environmental goals.

Corporate Governance

Corporate Social Responsibility

AT&T's Corporate Social Responsibility (***CSR***) approach is based on the foundational belief in the interconnection of our long-term business success and the strength of our communities and world.

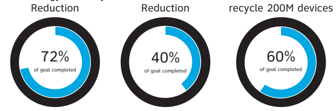
Governance

AT&T's commitment to CSR is embedded in every company level, and oversight rests with the Public Policy and Corporate Reputation Committee of the AT&T Board of Directors. Our CSR Governance Council is led by our Chief Sustainability Officer and comprises senior executives representing business areas linked to CSR topics deemed most material by our stakeholders. Our Code of Business Conduct puts our values in action and lays out expectations for employees, including our commitments to ethics, diversity, privacy, the environment and our communities. Our Principles of Conduct for Suppliers outlines expectations for working with AT&T, and covers topics including sustainable business practices, diversity, conflict minerals, ethics and labor rights, and we score and measure progress. Every new contract agreement with suppliers requires they acknowledge the principles.

Environment

Our technology plays a critical role in transitioning to a more resource-efficient world by addressing harmful effects of climate change, increasing business resiliency, and improving daily lives. Increased use of technology brings the challenge of greater energy consumption and carbon emissions, and need for greater reuse and recycling. These challenges drove us to establish a 2025 goal to enable carbon savings 10x the footprint of our operations. To meet the goal, we are enhancing the efficiency of our network, investing in renewable energy and delivering sustainable customer solutions. Additional noted progress:

2020 Goals



Social

Safety: An increasingly mobile world brings with it new challenges. That's why we were pioneers in raising awareness of distracted driving, and remain passionate about making our roads safer, having collected more than 21 million pledges to avoid distracted driving. We're also educating consumers about online safety. Info at digitalyou.att.com, laterhaters.att.com, itcanwait.com.

Education: Since 2008 we've committed more than $400M through our Aspire program to student success and career readiness. We've added more focus on tech education to help close the gap between job opportunity and needed skills. Signature efforts include affordable on-line masters, and nanodegrees, which offer new pathways to high-demand tech jobs. Internally, the focus is a massive reskilling program for employees who want to update technical capabilities as we transition to a software defined network. Our internal education was supported with $250 million in training and $34 million in tuition assistance.*

Inclusion and Diversity: Led by the Chairman's Diversity Council and our Chief Diversity Officer, we are honored to be number 3 on DiversityInc's Top 50 and are committed to continuing and growing our leadership. Relevant stats: Retention rates for women and people of color are 90% and 92%, respectively; More than 136,000 total memberships in our 12 Employee Resource Groups; our diversity supplier spend reached $14.2B. More at att.com/diversity.

Contributions: More than 5.4 million hours of time and talent donated by employees and retirees, and more than $139 million in community support via social innovation, employee and company donations.*

CSR progress validated through listings on Dow Jones Sustainability North America Index, Bloomberg Gender Equality Index, FTSE4Good Index, Euronext Vigeo Eiris World 120 and US 50 Indices, and Climate Change Leadership Tier of the Carbon Disclosure Project. Our sustainability report at about.att.com/csr/reporting contains comprehensive goals, metrics and issue briefs which align to Global Reporting Initiative guidelines. More information at about.att.com/csr.

* 2016 actuals, but largely representative of annual impact.

AT&T 2018 Proxy Statement | 39 |

DFIN Commentary

With respect to ESG issues, if investors feel that portfolio companies are understanding the need, burnishing their credentials and expanding their disclosures in these areas, it's advised to table confrontational tactics such as filing proposals, to let companies deliver on promised changes and disclosures. Of course, if investors again feel dissatisfied with the pace or depth of change based on quiet diplomacy tactics, they can always revert to filing additional proposals.

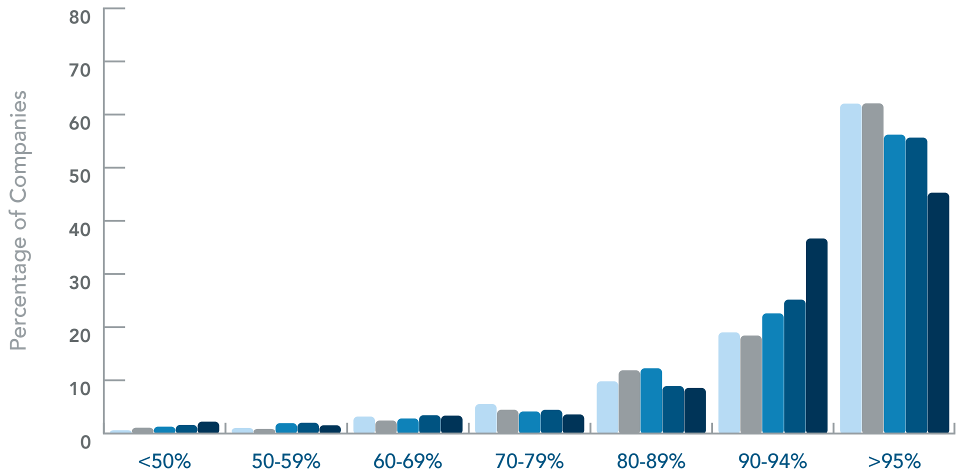
Hogan Lovells Commentary

Various interest groups including shareholders, asset managers, activist investors, private equity funds, ESG ratings firms, trade groups, politicians and regulators are engaging public companies on various ESG-related topics including sustainability reporting, climate change, gender pay equity, board and workplace diversity, political lobbying activities, the opioid crisis, and gun control. Perhaps one reason for the decrease in the number of ESG-related shareholder proposals is a significant increase in negotiated withdrawals of submitted proposals. As a result of the increasing pressure to support ESG-related issues, it is likely that many withdrawals were the result of a company's willingness to engage with shareholder proponents to negotiate an agreement for the company to take actions and make additional disclosures in order to appease shareholders on ESG-related demands.

Data Points

- 81.6% of Equilar 500 companies had a Say on Pay percentage greater than 90% *(Fig. 3)*
- Beginning in 2018, over half of Equilar 500 companies had a Say on Pay approval percentage below 95%, which was a stark change from the previous four years, when The majority of companies fell into the "greater than 95%" category for Say on Pay approval *(Fig. 3)*
- Though 2018 featured the least amount of companies receiving more than 95% Say on Pay approval, it also had the most prevalent amount of companies receive 90% or greater approval *(Fig. 3)*
- The number of Say on Pay failures has been steadily increasing since 2014, and experienced a large jump in 2018 *(Fig. 4)*
- From 2017 to 2018, the number of Say on Pay failures nearly doubled from 6 to 11 *(Fig. 4)*

Figure 3 Say on Pay Voting Trends



	<50%	50-59%	60-69%	70-79%	80-89%	90-94%	>95%
2014	0.4%	0.9%	3.0%	5.4%	9.6%	18.8%	61.9%
2015	0.9%	0.7%	2.3%	4.3%	11.7%	18.2%	61.9%
2016	1.1%	1.8%	2.6%	4.0%	12.1%	22.4%	56.0%
2017	1.4%	1.8%	3.3%	4.3%	8.7%	25.0%	55.5%
2018	2.0%	1.4%	3.2%	3.4%	8.4%	36.5%	45.1%

Figure 4 Say on Pay Failures

Year	Say On Pay Failures
2014	2
2015	4
2016	5
2017	6
2018	11

DFIN Commentary

A year-over-year increase in failures among the 500 largest companies from six to 11 seems alarming, but viewed on a percentage basis, is from 1.2% to 2.2%. If viewed over a longer period, this "failure rate" remains close to the traditional 2% rate. For this reason we do not believe any conclusions can be drawn at this level. If the rate increases again next year, such as to above 3%, then it would be important to examine each specific situation to identify any common features driving the increase. While votes below 50%, or absolute "failures" certainly receive attention, for most companies, Say on Pay is graded on a sliding scale. This means successively greater levels of opposition will increase the scrutiny of these companies and their proxies in the following year.

This typically means that proxy advisors and investors will look for the company's responsiveness to the vote which can include post-meeting engagement with investors, evaluation of feedback and perhaps some actions taken in response, such as changes to certain compensation practices that investors and/or proxy advisors objected to, as well as clearer discussion of other perhaps misunderstood or under-appreciated practices.

For ISS, this greater scrutiny level is now 75%, meaning proposals receiving 25% or more opposition (as a percentage of votes cast) will receive greater scrutiny the following year with an eye toward company responsiveness to that level of opposition. Glass Lewis now uses below 80% support/above 20% opposition as its level for greater scrutiny. Investor Vanguard uses an even tighter 90/10% guideline for greater scrutiny the following year.

Disclosure Example 2 Shareholder Engagement Initiatives

General Motors (GM)
DEF 14A (p.38)
Filed 4/27/18

In GM's disclosure on shareholder initiatives, the company dedicated a callout box to discuss Say on Pay practices with its shareholders.

▶ Shareholder Engagement Initiatives

We view shareholder engagement as an important and continuous cycle. During 2017, members of the Board met in-person with shareholders representing approximately 25% of our outstanding common stock. In addition, during 2017, one or more members of management were involved in more than 75 in-person and telephonic meetings with investors representing more than 45% of shares outstanding. These discussions, say-on-pay voting results, and other factors are key drivers in assessing our compensation programs.

SHAREHOLDER SAY-ON-PAY

The Compensation Committee seeks to align the Company's executive compensation program with the interests of the Company's shareholders. The Compensation Committee considers the results of the annual Say-On-Pay vote, input from management, input from its independent compensation consultant, and investor engagement initiatives when setting compensation for our executives. In 2017, 96.3% of our shareholders voted in favor of our compensation programs. Discussions with investors and shareholder Say-On-Pay voting are key drivers in our compensation design to continue alignment between our compensation programs and the interests of shareholders.

The Company values investor feedback and will continue to seek feedback through engagement initiatives to align our executive compensation programs with shareholder expectations. We made changes to our compensation plans that commenced at the start of 2017 to further align the interests of our senior leaders with those of our shareholders.

What We Heard	How We Responded
Maintain pay for performance	We continue to evolve our pay practices to support our pay-for-performance philosophy. For 2017, we added an individual performance measure into our STIP while continuing Company focus on EBIT-adjusted and Adjusted AFCF. In our LTIP we now measure both ROIC-adjusted and TSR performance relative to our OEM peers while replacing RSUs with Stock Options to further align the interests of our most senior leaders with those of our shareholders.
Continue to invest in the future	Our LTIP places a focus on investing in our future. By continuing to place a focus on ROIC and measuring performance relative to OEM peers, we are incentivizing our most senior leaders to make investments in the future of GM while delivering a return on investment that outperforms other OEMs.
Consider ESG performance when making pay decisions	The Company introduced our vision of a future with zero crashes, zero emissions, and zero congestion in 2017. Several key ESG results are discussed in the proxy statement summary on page 6 and in "Executive Compensation—Compensation Overview—Our Company Performance" on page 36. In addition, we introduced an individual performance component weighted at 25% for our STIP. Please see pages 48–53 where we discuss individual performance results, including results that had a positive impact on ESG measures.
Look at performance relative to automotive industry peers	Our PSUs measure both Relative ROIC-adjusted and Relative TSR against the Company's OEM peers to motivate our leaders to perform at the top of the industry regardless of business cycles.
Keep compensation plans simple	We simplified our compensation plans in 2017 to focus our most senior leaders on both key operational performance measures and individual results in the STIP. This change added a complete line of sight into compensation for each senior leader. We adjusted the LTIP to focus senior leaders on outperforming our peers and increasing stock price to create value for our shareholders.

Figure 5 Director Approval in 2018

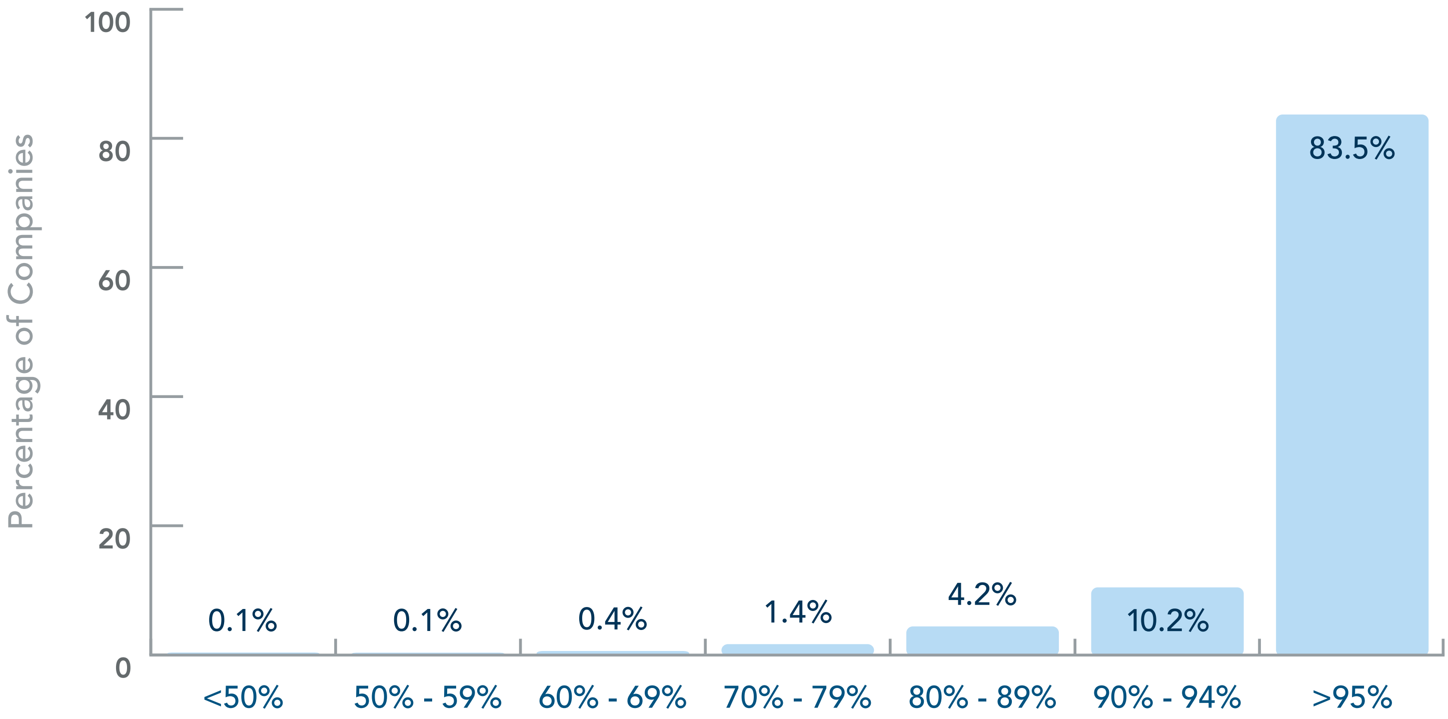


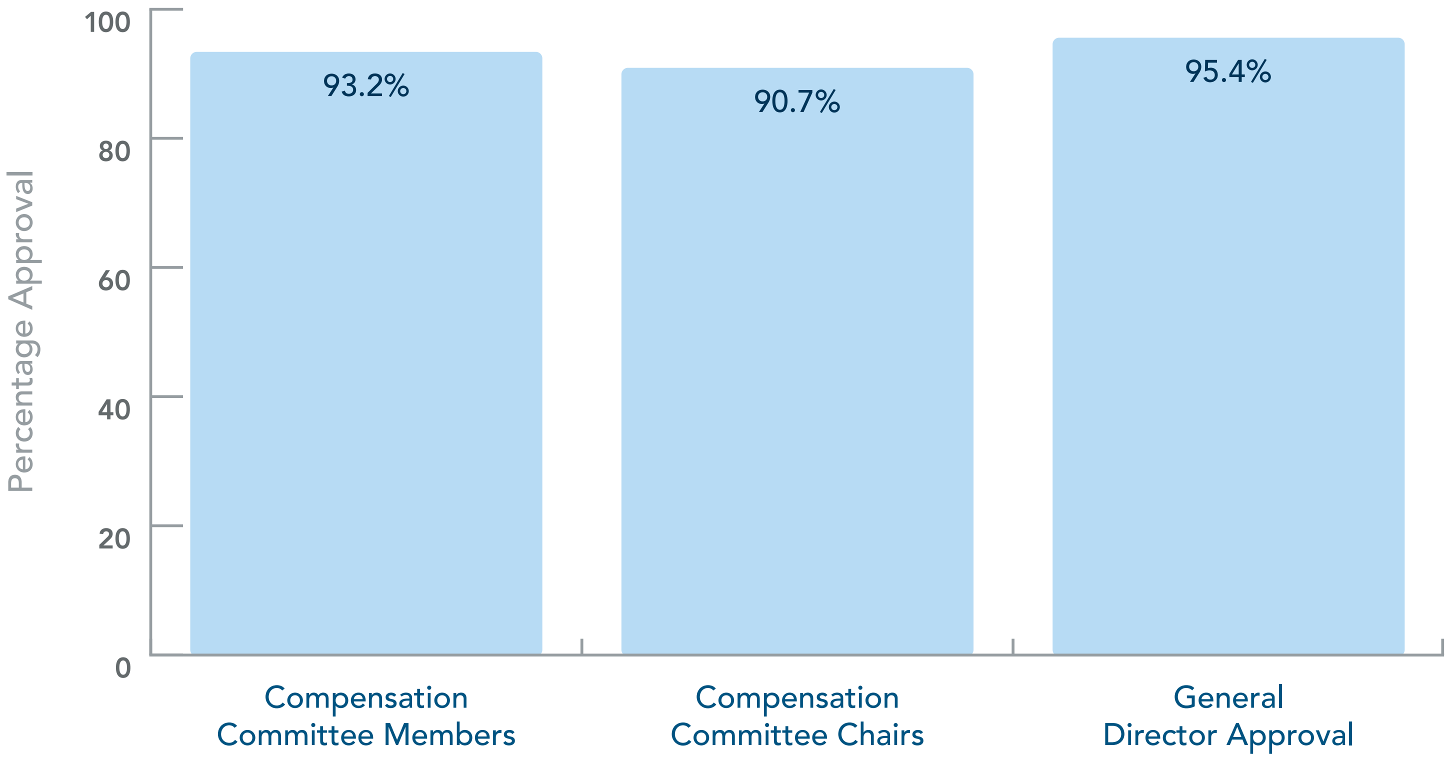
Figure 6 Director Approval by Committee Membership in 2018

Percentile	Audit	Compensation	Executive	Finance	Nominating and Governance	Technology
10th Percentile	93.5%	90.9%	92.2%	94.6%	91.1%	93.2%
25th Percentile	96.9%	95.7%	95.7%	97.3%	95.8%	96.5%
Median	98.6%	97.9%	97.4%	98.8%	97.9%	98.7%
75th Percentile	99.4%	99.0%	98.9%	99.5%	99.0%	99.4%
90th Percentile	99.7%	99.5%	99.4%	99.8%	99.5%	99.6%

Data Points

- Nearly 94% of directors in the Equilar 500 had an approval percentage greater than 90% *(Fig. 5)*
- Only a miniscule percentage—0.1%—of directors did not receive at least 50% of votes for approval *(Fig. 5)*
- Overall, a vast majority, 83.5%, of directors at Equilar 500 companies saw approval ratings over 95% *(Fig. 6)*
- Of 4,747 total directors included in the analysis, only five directors received failing votes in 2018, while four directors received failing votes in 2017 *(Fig. 6)*
- Members of compensation committees varied the most in terms of approval in 2018, with a range of 8.3% between the 10th and 90th percentile *(Fig. 6)*
- Compared to 2017, approval ratings at the lowest percentile increased slightly across all committees *(Fig. 7)*

Figure 7 Median Compensation Committee Approval After a Failed Say on Pay Vote, 2014-2018



Data Points

- While general director approval was relatively high at 95.4%, the median compensation committee chair received 4.7 percentage points fewer in terms of approval *(Fig. 7)*
- In that same vein, the median compensation committee member had 2.2 percentage points fewer than median general director approval *(Fig. 7)*

DFIN Commentary

Before Say on Pay votes became required of most U.S. companies in 2011, investors with concerns about executive compensation–whether about pay amounts, alignment with performance, or dilution caused by equity grants—could either a) vote against amendments to the plans, such as when companies seek to replenish grant pools, b) against the members of the compensation committee (even in years when there was no equity proposal), or c) against the full board.

Fast forward to the Say on Pay era, and investors still have two basic options: vote against the Say on Pay proposal, vote against the compensation committee (or the committee chair)–or both.

Much of this 4.7% disparity likely occurs in the year after a poor Say on Pay vote, where investors are applying greater scrutiny to the pay program generally, and responsiveness to the prior year's vote in particular. If investors are not sufficiently satisfied with the company's response, or their disclosure of their response, they can raise the ante and use the board vote in addition to the proposal vote.

Data Points

- Six times as many approved proxy access proposals were adopted than those that were approved and not adopted *(Fig. 8)*
- Of the proxy access proposals that were not approved, half were adopted anyway *(Fig. 8)*
- At only 12 approvals, there were significantly fewer proxy access proposals approved in 2018 compared to 2017 *(Fig. 8)*
- There were eight contested elections in 2018, compared to 2016, when there were only two *(Fig. 9)*
- Eight contested elections is the most to occur in the Equilar 500 in the last five years, showcasing the ability of shareholders to challenge companies *(Fig. 9)*

Figure 8 Proxy Access Proposals and Implementation in 2018

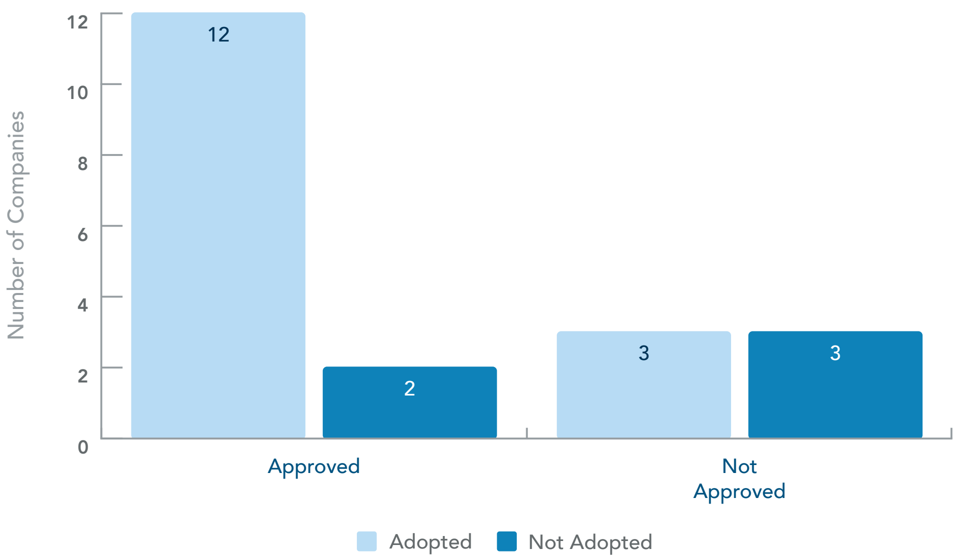
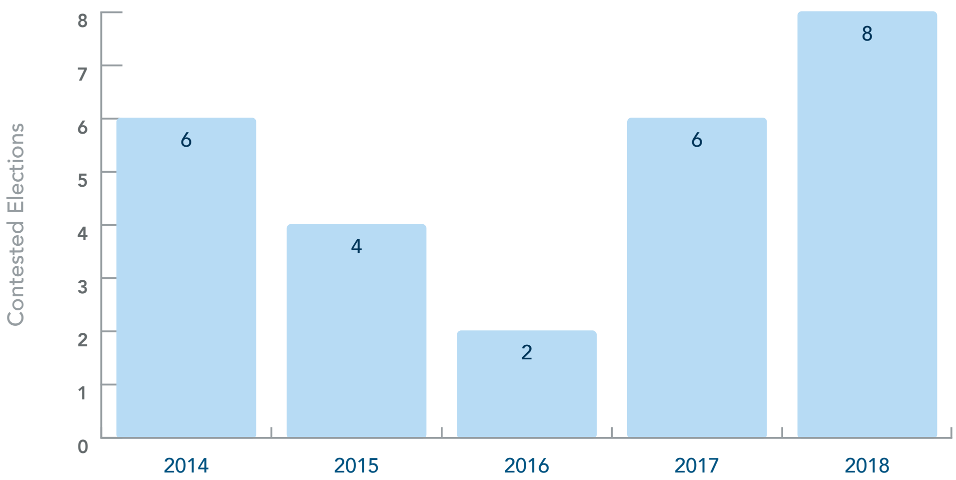


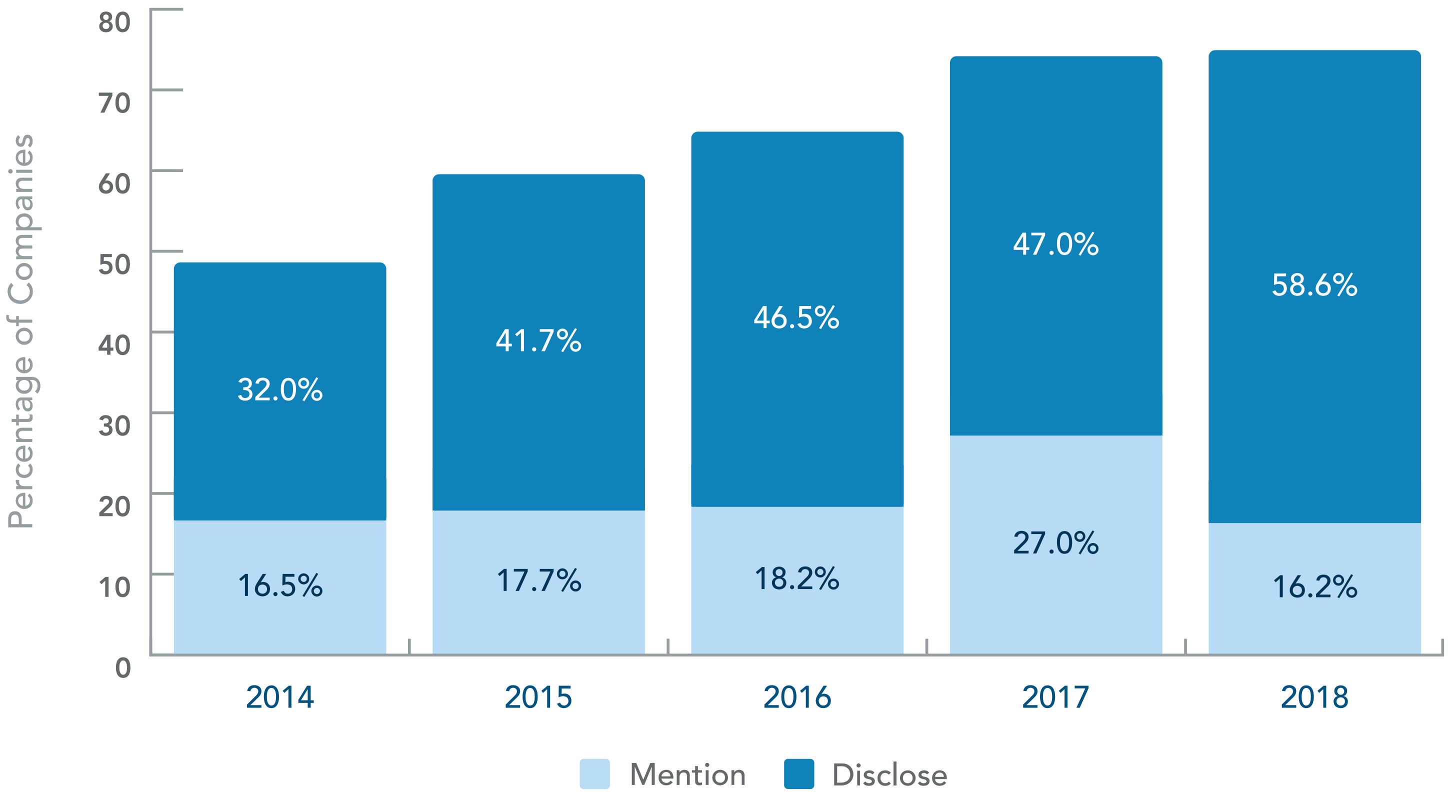
Figure 9 Contested Elections



Governance Disclosure Trends

Corporate Governance Outlook 2019

Figure 10 Shareholder Engagement Disclosure, Equilar 100



Data Points

- 24.7% more company proxies disclosed their shareholder engagement policies in 2018 compared to those that disclosed their policies 2017 *(Fig. 10)*
- However, 40% fewer company proxies mentioned their shareholder engagement policies compared to those who did so in 2018 *(Fig. 10)*
- Nearly three out of every four Equilar 100 proxies mentioned or disclosed their shareholder engagement policies in 2018, a slight uptick from the percentage who did so in 2017 *(Fig. 10)*

DFIN Commentary

Overall, if you combine the two forms of "engagement disclosure" – fairly general "mentions" and the more detailed "disclose," we see that the sum of companies discussing their engagement practices has consistently gone up. In fact, recalling the first year of Equilar data on this topic which was in the review of 2011 proxies, then, the number of companies discussing engagement in any fashion was – brace yourself – one. Clearly more large companies in 2011 were "engaging" than were "describing or disclosing" policies/practices, and thus not taking credit for this best practice activity at all.

Now, while the percentage of companies large and small that practice some level of governance engagement with investors continues to increase, what has increased more rapidly is the practice of companies actually discussing engagement practices in some form or another. In other words, the gap between "engagers" and "engagement disclosers" is narrowing.

As for the distinction between those that mention engagement and those that more specifically discuss engagement practices/policies, this may indeed identify those distinctions in practice. Other cases may be a result of poor or vague disclosure of more robust practices. In either event, these figures appear to point to two related trends: more companies are describing engagement overall, and of those, more 2017 "vague disclosers" became "clear disclosers" in 2018.

Hogan Lovells Commentary

As shareholder engagement becomes more prevalent at public companies of all sizes, companies are increasingly disclosing their shareholder engagement activities in the proxy statement. Companies traditionally disclosed their engagement efforts in response to a significant issue, such as low support for a Say on Pay vote or significant support for a shareholder proposal. In this context, detailed disclosure of a company's engagement was necessary to show that the company has adequately responded to the vote and thereby avoid negative voting recommendations from proxy advisory firms. However, detailed disclosure of shareholder engagement activities has now expanded beyond the single issue situations and has become a more standard feature of proxy statement disclosure.

Data Points

- A mere five companies fell into the "less than 50%" category with a ratio range of 140 all the way to 961:1 *(Fig. 11)*
- The median and average were closest in the 70-79% bucket at 204.5 and 223, respectively *(Fig. 11)*
- In 2018, there were significant upticks in the average and median CEO Pay Ratios for companies with 80-89% in Say on Pay Approval percentage over those falling into the 70-79% bucket, as the average CEO Pay Ratio rose by 70.4% and the median CEO Pay Ratio rose by 27.6% *(Fig. 11)*
- The median CEO-to-average-NEO Pay Ratio has remained mostly consistent from 2014 to 2018, rising by only 0.6 during that time period *(Fig. 12)*
- There was a significant rise from 3.01 to 3.12 in the average CEO-to-average-NEO Pay Ratio from 2017 to 2018 *(Fig. 12)*

Figure 11 CEO Pay Ratio by Say on Pay Approval Percentage

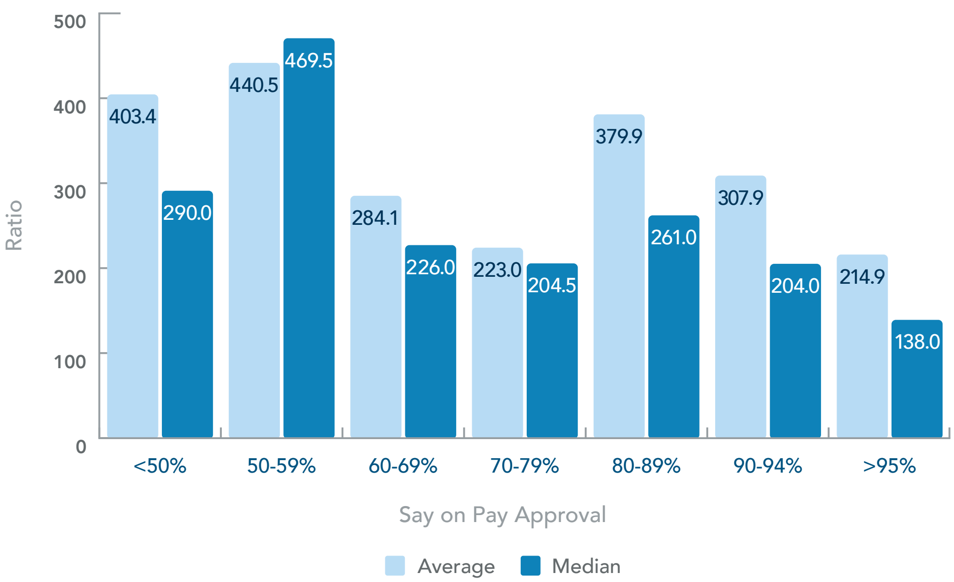
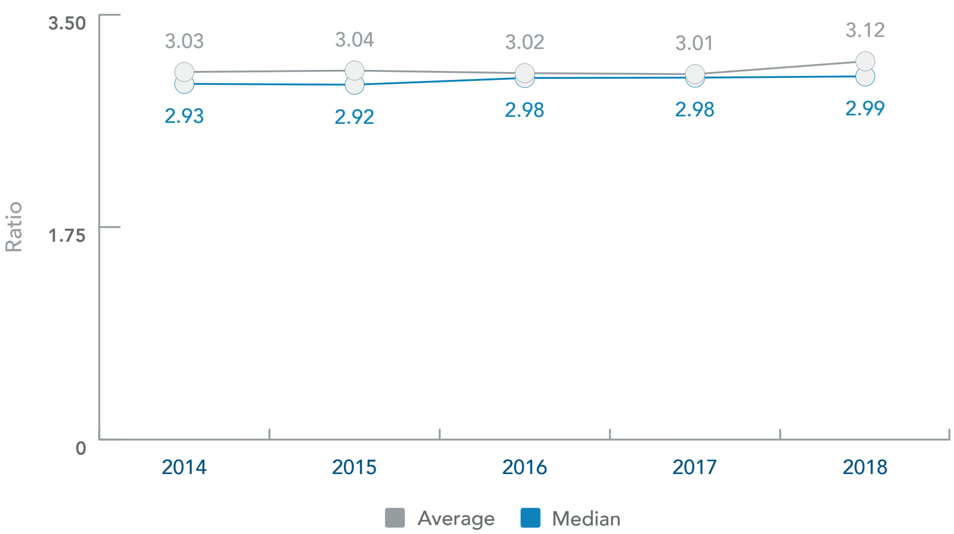


Figure 12 CEO-to-Average-NEO Pay Ratio



Create Effective Executive Compensation Plans

Equilar Insight allows you to create custom reports based on specific criteria, including a defined peer group, industry type and revenue to compare where your executive pay levels rank among your peers. By selecting the TrueView option in the data source menu, you can view how total compensation of executive positions is more accurately depicted by blending both Top 5 proxy data and Top 25 survey data.

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Disclosure Example 3 CEO Pay Ratio

Valero (VLO)
DEF 14A (p.57)
Filed 3/21/18

As 2018 was the first year the CEO Pay Ratio was a required SEC disclosure, there was some uncertainty on what the “correct” way to disclose the ratio was. While there is still not a definite answer, Valero’s disclosure of the ratio clearly shows the breakdown of median employee pay against CEO pay in a brief and concise manner.

PAY RATIO DISCLOSURE

The following disclosure is required by Item 402(u) of SEC Regulation S-K.

The median of the annual total compensation of all employees of Valero, except our CEO, for 2017 was $192,837, and the annual total compensation of our CEO, Mr. Gorder, for 2017 was $22,532,260 (as disclosed in the Summary Compensation Table). As a result, our CEO’s 2017 annual total compensation was 117 times that of the median annual total compensation of all employees of Valero.

To determine the median of the annual total compensation of all employees as of Dec. 31, 2017, we first identified the median employee using the sum of base pay, annual bonus, and the grant date fair value of long-term incentive awards. Once the median employee was identified, we then determined that median employee’s annual total compensation using the Summary Compensation Table methodology set out in Item 402(c)(2)(x) of SEC Regulation S-K.

	Median Employee to CEO Pay Ratio	
	Median Employee ($)	**CEO ($)**
Salary	94,256	1,585,000
Stock Awards	—	12,734,060
Non-Equity Incentive Plan Compensation	10,660	3,800,000
Change in Pension Value and Nonqualified Deferred Compensation Earnings	54,935	4,269,202
All Other Compensation	32,986	143,998
Total Compensation	192,837	22,532,260
Median Employee to CEO Pay Ratio	1:117	

DFIN Commentary

Companies followed a range of disclosure patterns, from short and sweet, to more detailed discussions to include methodology, any exclusions employed, a description of a “median employee” and their role in the organization. Some companies have even provided supplemental ratios to put what may be considered “outlier” ratios into context.

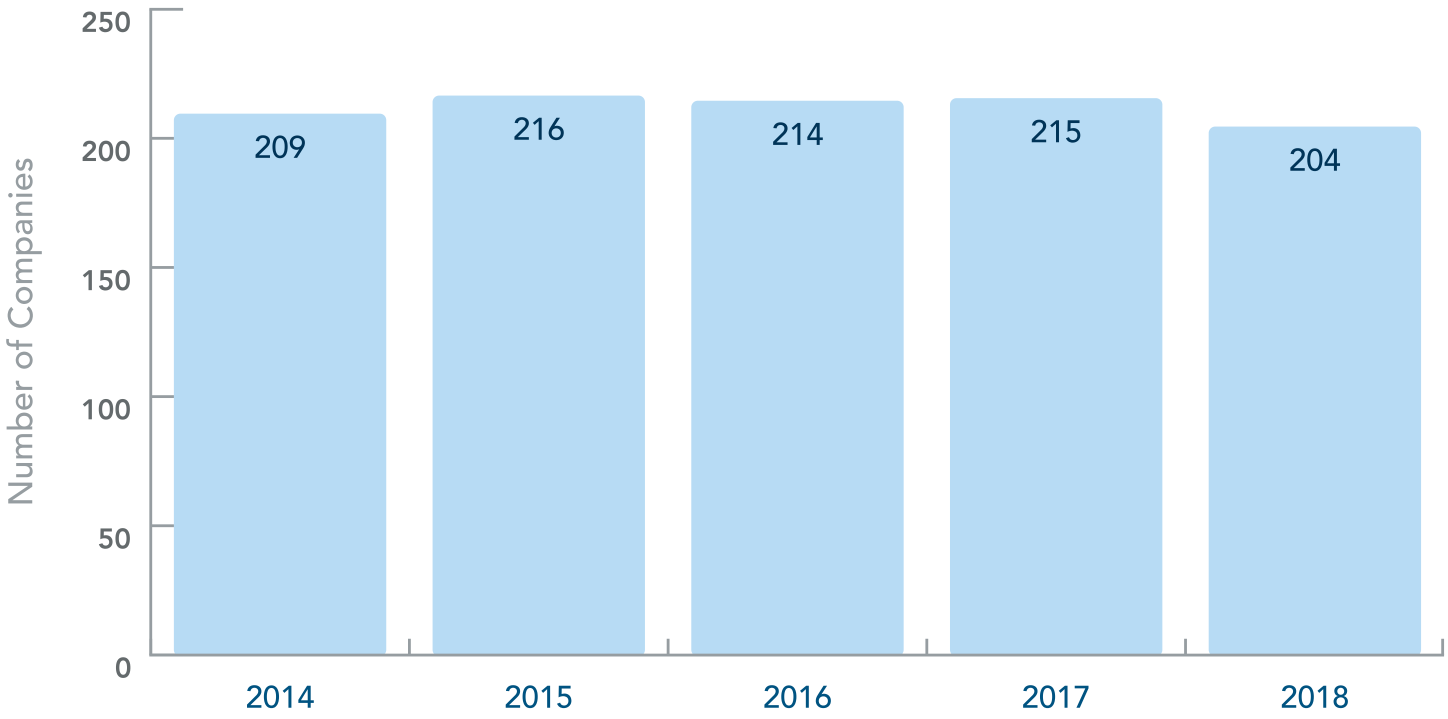
The new news of these disclosures is not CEO pay, but rather who a company considers to be the median employee, and what it implies about the company’s business model. Since many companies are permitted to use the same median employee calculation for up to three years, the complexity of calculating “year two” ratios should be greatly reduced.

A major exception, however, relates to the fact that average U.S. CEO tenure is now under seven years. This means that one in six companies will experience a CEO transition in any given year. One-time recruitment or “make whole” payments to new CEOs can inflate their reported pay in a transition year, so many of these companies should anticipate disclosing supplemental ratios to account for the impact of non-recurring payments.

Hogan Lovells Commentary

For the initial season of pay ratio disclosures, companies and their advisors devoted tremendous amounts of time and resources to developing their methodologies to identify their median employee and drafting the required disclosures. In the end, most companies opted to keep their disclosure brief and not add information not required under the SEC Rule. As companies now look to year two of these disclosures, the focus likely will be on changing as little as possible and hoping that the new ratio will be consistent with last year’s. Given the overall muted reaction to last year’s disclosures, companies will be reluctant to overhaul what was so carefully crafted last year. Of course, if a new median employee is selected due to either a) changes in the employee population or compensation programs or b) significant changes in the median employee’s compensation or the termination of employment of the median employee, then the company will need to explain the reasons for selecting a new median employee and how the new employee was selected. While the initial instinct may be to provide a lengthy explanation under these circumstances, ultimately companies probably will determine that, as with the other portions of their pay ratio disclosures, less is more. Going forward, year-over-year consistency in disclosures most likely will be the goal. However, one unknown is what the impact will be of the recent interest of certain institutional investors in expanded disclosures.

Figure 13 Companies That do not Align Executive Pay With TSR



Data Points

- From 2014 to 2018, an average of 212 companies (42.5% of the Equilar 500) did not align executive pay with TSR *(Fig. 13)*
- The number of companies aligning executive pay with TSR fell by 5.1% from 2017 to 2018 *(Fig. 13)*

Disclosure Example 4 CEO Compensation and TSR Performance

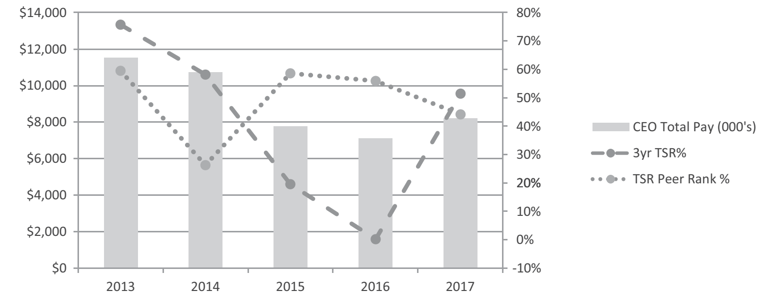
Dover Corporation (DOV)
DEF 14A (p.37)
Filed 3/22/18

Dover Corporation clearly depicts the relationship between its CEO pay and performance over time. The number of Equilar 500 companies that align executive pay with total shareholder return (TSR) declined from 2017 to 2018—a sign that pay for performance is indeed still a hot-button governance topic.

COMPENSATION DISCUSSION AND ANALYSIS

The following chart demonstrates the variability of the CEO's compensation, and the relationship between CEO pay and our performance over time, consistent with our pay-for-performance philosophy.

CEO Compensation and TSR Performance(1)



(1) *The CEO's total pay included in the chart represents the amount of compensation reported in the "Total" column, minus the amount reported in the "Changes in Pension Value and Nonqualified Deferred Compensation Earnings" column, as applicable, in the Summary Compensation Table for each year.*

(2) *Three-year Total Shareholder Return ("TSR") data was not available for Fortive Corporation ("Fortive"), so it is not included in the 2016 or 2017 TSR Peer Rank %.*

For a discussion of the elements of our executive compensation program, including incentive-based pay, see "Elements of Executive Compensation — Long-Term Incentive Compensation."

2017 Say-on-Pay Advisory Vote and Shareholder Outreach

96% Say on Pay support | **53%** Shares Outstanding Contacted | **33%** Shares Engaged

In 2017, our executive compensation program received 96% approval from our shareholders, which was the same level of support received in 2016, signifying shareholders' ongoing approval of our compensation program. In 2017, we continued our shareholder engagement program. We reached out to holders of over 53% of our outstanding shares and met or spoke with governance professionals and portfolio managers at investors holding approximately 33% of our outstanding shares. In addition to the governance topics detailed earlier in this proxy statement, we had thoughtful discussions with our shareholders regarding our compensation program. Our investors told us they believe Dover's pay practices are aligned with our pay-for-performance philosophy. The Board appreciated the feedback it received, particularly regarding shareholder opinions on our metrics and the rigor of our target selection. The Compensation Committee will continue to consider this feedback, as well as the results from future shareholder advisory votes, in its ongoing evaluation of executive compensation programs and practices at Dover.

DOVER CORPORATION – *2018 Proxy Statement 37*

Data Points

- 78.9% of the Equilar 500 companies that disclose them had mandatory retirement ages of 72 or 75 *(Fig. 14)*
- 91.6% of companies have a retirement age between 72 and 75 *(Fig. 14)*
- 518 directors in the Equilar 500 are nearing retirement age in 2018, while 67 are either at or one year above a disclosed retirement age *(Fig. 15)*
- Among all directors at or within 5 years of their board's mandatory retirement age, only 26 are actually at retirement age, significantly fewer than those nearing retirement age and showcasing that most directors do end up retiring once reaching the mandatory age *(Fig. 15)*

Figure 14 Director Retirement Age

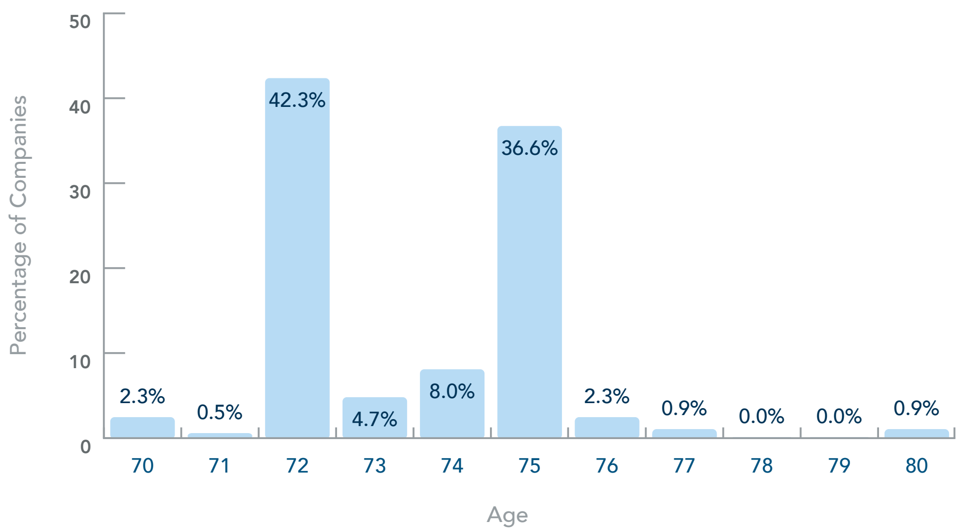
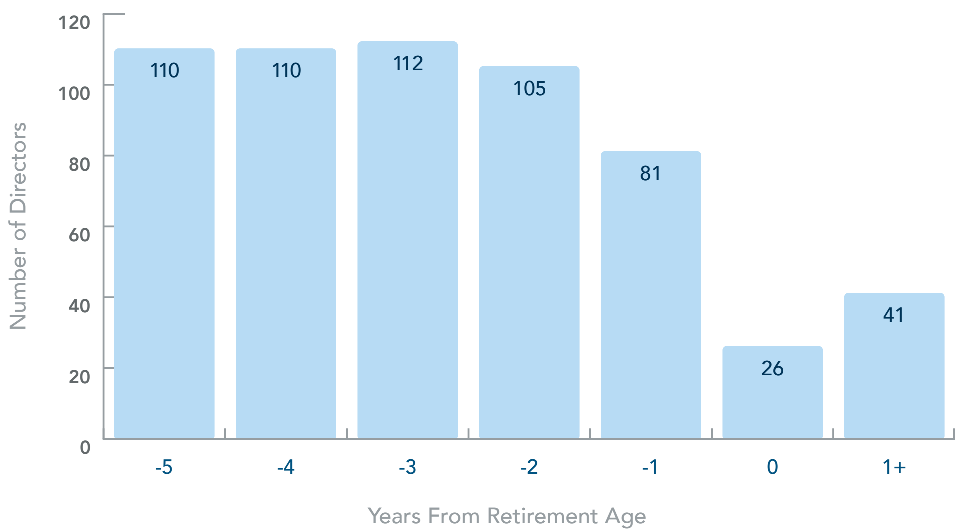


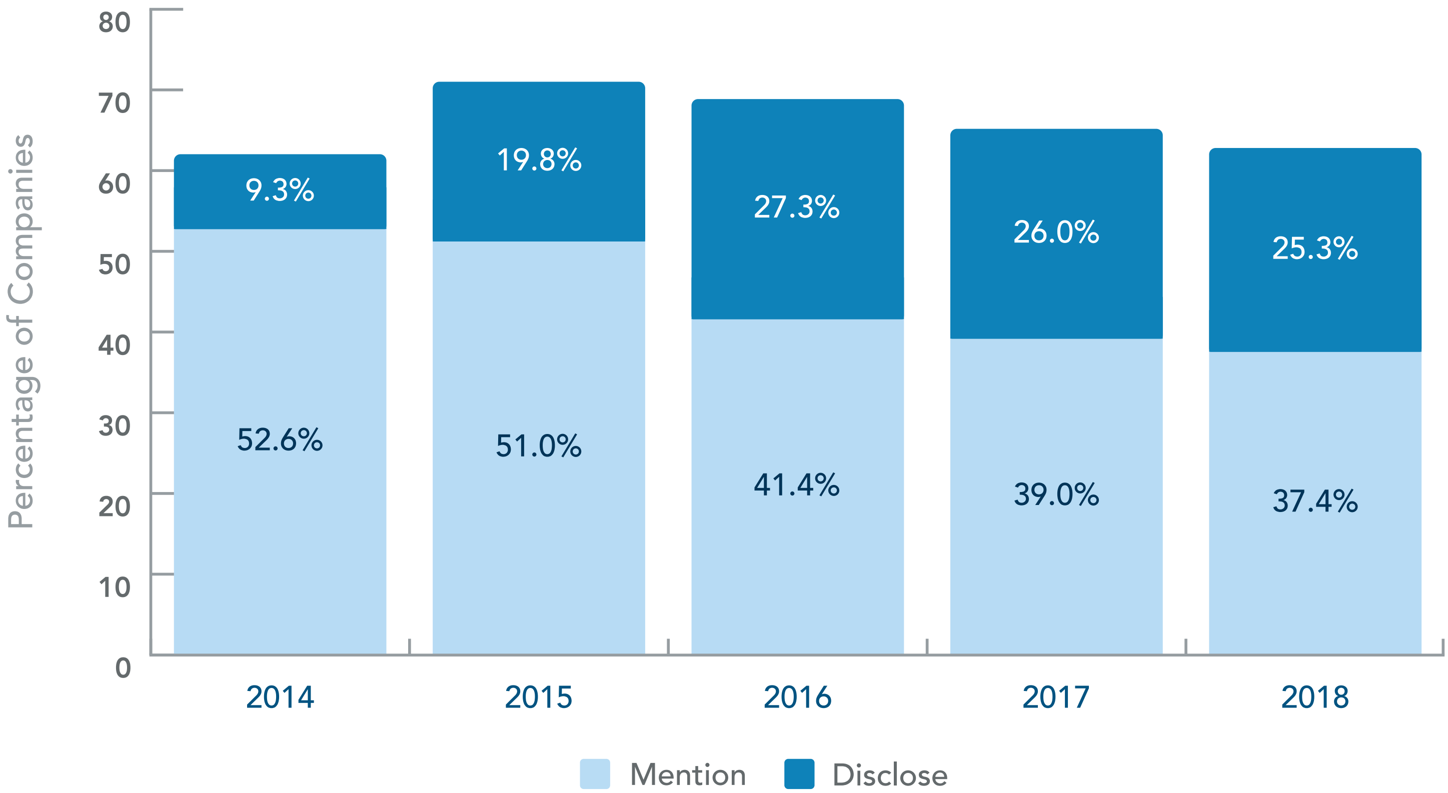
Figure 15 Directors Nearing Retirement Age



Hogan Lovells Commentary

As investors continue to focus on board composition, including average tenure, having a mandatory retirement age can be a useful tool to guide expectations for length of service and to ease what might otherwise be difficult conversations for under-performing directors. However, mandatory retirement ages, which are often set above 70 years, can be blunt instruments that do not take into account individual circumstances or needs of the board. As a result, boards may be willing to waive the mandatory retirement age for one or more directors, particularly in cases where the director in question lends a particular body of knowledge, a skill or a quality to the board that may not be easily replaced. In granting waivers, boards should be cognizant that waiving the mandatory retirement age for a particular director may set an expectation for other members of the board that are approaching the age limit.

Figure 16 Board Evaluation Disclosure, Equilar 100



Data Points

- Approximately one out of every four Equilar 100 companies disclosed their board evaluation policies in 2018 *(Fig. 16)*
- The portion of companies that disclose their board evaluation policies has nearly tripled over the period from 2014 to 2018 *(Fig. 16)*
- 62.7% of companies mentioned or disclosed their board evaluation processes in 2018 *(Fig. 16)*

Disclosure Example 5 Board Evaluation

Invesco (IVZ)
DEF 14A (pgs.13-14)
Filed 3/27/18

Invesco uses a combination of text and visual elements to discuss their board evaluation and recruiting processes and results in an easy-to-understand manner. Companies are getting ahead of the conversation when it comes to board evaluation processes and they are displaying it with greater detail in their proxies.

Director independence

For a director to be considered independent, the Board must affirmatively determine that the director does not have any material relationship with the company either directly or as a partner, shareholder or officer of an organization that has a relationship with the company. Such determinations are made and disclosed according to applicable rules established by the New York Stock Exchange ("NYSE") or other applicable rules. As part of its independence determinations, the Board considers any direct or indirect relationship between a director (or an immediate family member of such director) and the company or any third party involved with the company. As part of its independence determinations with respect to director Sarah E. Beshar, the Board considered (i) a real estate lease by the company of certain office space located in New York, New York from Marsh & McLennan ("MMC") which employs Ms. Beshar's spouse as an executive officer (Executive Vice President and General Counsel); and (ii) various human resources-related transactional and administration services (e.g., third-party benefits administration and benchmarking market data) which are non-professional and nonadvisory in nature provided by subsidiaries of MMC. The total amount paid to MMC in 2017 for all such items was less than one percent (1%) of MMC's 2017 publicly reported revenue. In accordance with the rules of the NYSE, the Board has affirmatively determined that it is currently composed of a majority of independent directors, and that the following current directors are independent and do not have a material relationship with the company: Sarah E. Beshar, Joseph R. Canion, C. Robert Henrikson, Ben F. Johnson III, Denis Kessler, Sir Nigel Sheinwald, G. Richard Wagoner, Jr. and Phoebe A. Wood.

Board evaluation process

1 Annual board and committee evaluations	The Board engages an independent external advisor specializing in corporate governance to coordinate the Board's self assessment by its members. The advisor has each director complete a questionnaire and then performs one-on-one confidential interviews with directors. In addition to the questionnaires and interviews of each director, interviews are also conducted with those members of executive management who attend Board meetings on a regular basis.
2 Report to board	The advisor prepares and presents in person a report to the Board, which discusses the findings of the advisor based upon its reviews. The report also discusses governance trends which the Board may want to take into consideration.
3 Board and committee review	The Board then discusses the evaluation to determine what action, if any, could further enhance the operations of the Board and its committees.

Director recruitment

The Nomination and Corporate Governance Committee identifies and adds new directors using the following process:

1 Determine candidate pool	The Nomination and Corporate Governance Committee reviews and updates its criteria for prospective directors based on succession planning for directors, to fill gaps in skill sets among current directors and to address new or evolving needs of the company. The company utilizes each of the following to aid in this process: - Independent directors - Independent search firms
2 Review recommendations	Candidates meet with members of the Nomination and Corporate Governance Committee, the Board Chair and the other Board members who assess candidates based on several factors, including whether the nominee has skills that will meet the needs of the company's long-term strategic objectives and will bring diversity of thought, global perspective, experience and background to our Board. While the Committee routinely considers diversity as a part of its deliberations, it has no formal policy regarding diversity.
3 Make recommendations to the board	Due diligence is conducted, including soliciting feedback on potential candidates from persons outside the Company. Qualified candidates are presented to the Board of Directors.
4 Outcome	Three new directors since 2013 adding the following skills and traits to our Board: - Gender Diversity - Public Company CEO - Global business leadership - Government experience - Financial and accounting expertise - Industry experience - Non-U.S. Directors - Legal Experience - Executive leadership

The Nomination and Corporate Governance Committee believes there are certain minimum qualifications that each director nominee must satisfy in order to be suitable for a position on the Board, including that such nominee:

- be an individual of the highest integrity and have an inquiring mind, a willingness to ask hard questions and the ability to work well with others;
- be free of any conflict of interest that would violate any applicable law or regulation or interfere with the proper performance of the responsibilities of a director;
- be willing and able to devote sufficient time to the affairs of the company and be diligent in fulfilling the responsibilities of a director and Board committee member; and
- have the capacity and desire to represent the best interests of the shareholders as a whole.

DFIN Commentary

Board evaluations take various forms, and for good reason, are conducted outside of public view. That being said, the level of scrutiny of boards by investors and other stakeholders continues to increase, with intensifying focus on gender and other forms of diversity in the boardroom (including age, tenure, ethnicity, and skills and qualifications).

Companies with little or no gender diversity on their boards are particular targets of investors such as the New York City Comptroller's office, State Street Global Advisors and many others. Companies can't change the "snapshot in time" of their board diversity, but those that are actively seeking to increase it, often point investors to their robust board evaluation and director recruitment processes–activities implemented that should yield greater diversity in the future.

In some cases, these companies have enhanced their evaluation and recruitment practices. In other cases, they have enhanced their disclosure about these practices, or both. This can buy time until the process yields tangible results, or investors run out of patience–whichever occurs first.

Hogan Lovells Commentary

The self-evaluation process varies considerably from company to company. Virtually all boards begin the process by distributing a questionnaire seeking each director's assessment of the effectiveness of a list of board and committee processes (on a scale of 1 to 5, for example, or "strongly disagree" to "strongly agree"). The questionnaire leaves space for directors to explain their answers if they want to, and asks directors to raise any other issues that may be of interest or concern.

Boards differ in whether they ask directors to assess their fellow directors individually, but in any case directors generally do not have access to other directors' questionnaires. Instead, a designated person, usually someone from the legal department or outside counsel, reviews the questionnaires and provides a summary report to the board. Occasionally the board may retain an independent governance consultant firm, in which case the assessment is generally more extensive, involving a personal interview with each director and resulting in a written report that includes recommendations for improving board processes or composition.

Surveys show that many directors do not find the self-evaluation process particularly helpful. That may be because the process at their companies has become a routine "compliance" exercise. Boards should strive not to let this happen, by re-assessing the self-evaluation process regularly to assure that it elicits constructive criticism and eventual dialogue. If undertaken thoughtfully, the self-evaluation process will not be perceived as a demonstration of board collegiality, but instead will lead to both improvements in board processes and a greater willingness on the part of directors to speak candidly at board meetings, particularly regarding strategy, risk and board refreshment.

Data Points

- 29.3% more companies disclosed their CEO succession plan in their proxies in 2018 than those who did so in 2017 *(Fig. 17)*
- While 75.2% of Equilar 100 companies disclosed or mentioned their CEO succession plan in their proxies in 2014, 86.1% did so in 2018 *(Fig. 17)*
- 67 CEO appointments occurred at Equilar 500 companies in 2018, of which 51 appointments were internal promotions *(Fig. 18)*
- Compared to 2017, there were 19.4% more CEO transitions in 2018 *(Fig. 18)*

Figure 17 CEO Succession Plan Disclosure, Equilar 100

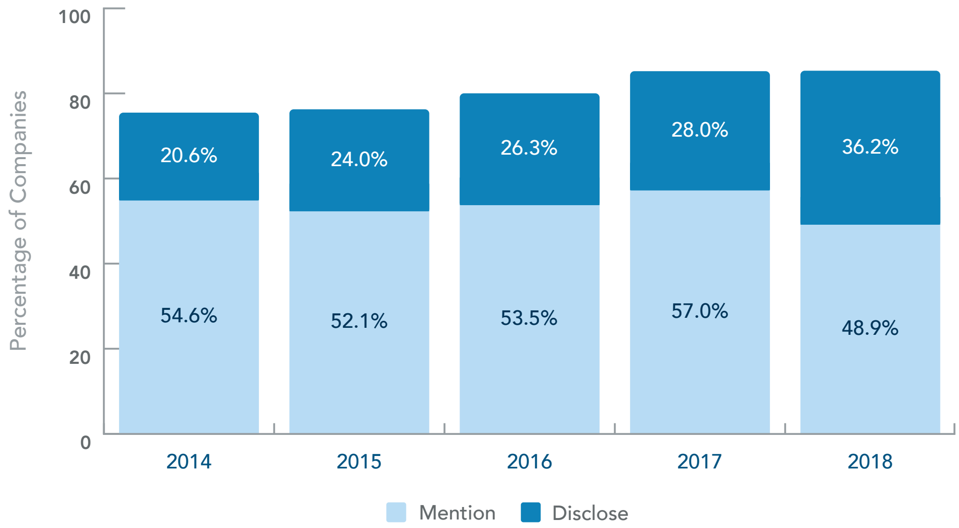
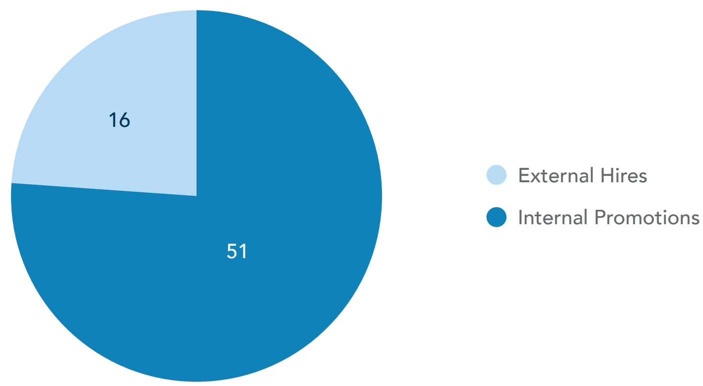


Figure 18 CEO Transitions in 2018



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