

2018 **SAY ON PAY** AND PROXY RESULTS

RUSSELL 3000

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2018 CEO PAY RATIO RESULTS

4/11/2018

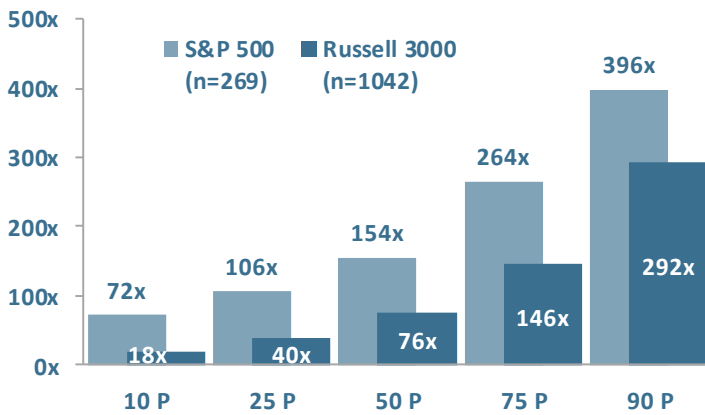
Russell 3000
1,042 Companies

CEO Pay Ratio Overview

The CEO Pay Ratio, which compares annual total compensation of a company's CEO and median employee, is a required disclosure for the first time in 2018.

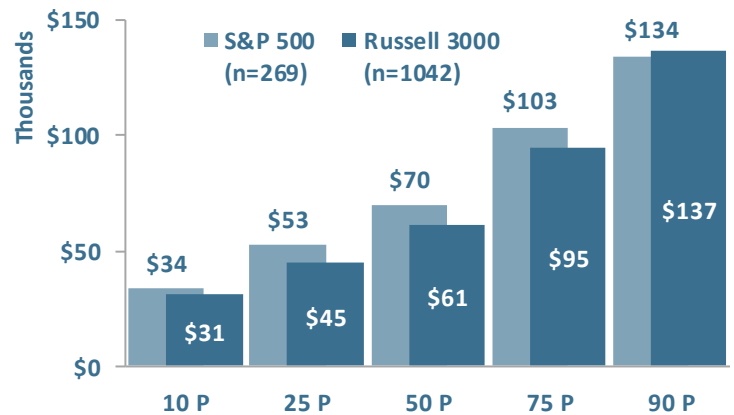
These Ratios will create headlines, despite the fact that differences in organizational structure, geographical workforce distribution, and business strategy are key elements for understanding differences in reported figures. Ascribing meaning to differences across companies and industries is difficult.

CEO Pay Ratio



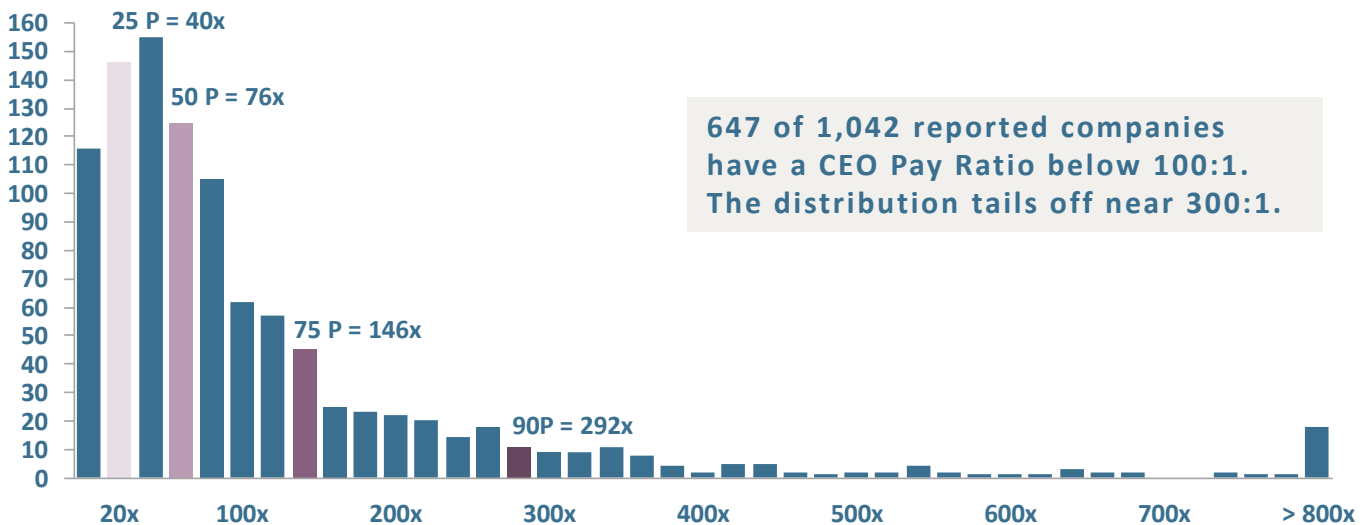
The median Ratio of the S&P 500 is two times the median Ratio of the Russell 3000

Median Employee Compensation



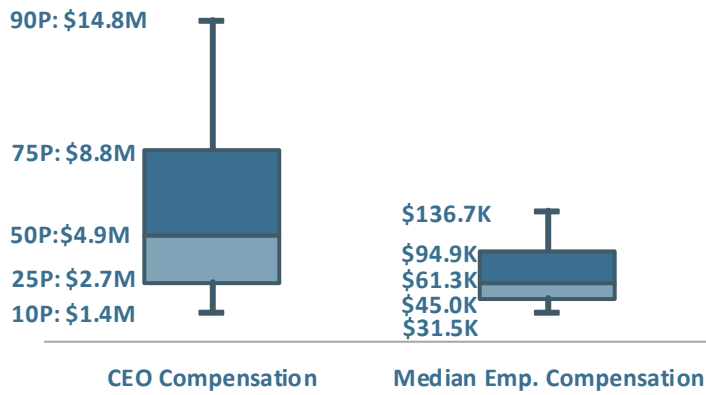
Median employee compensation for the S&P 500 is 17% higher than the Russell 3000 at the 25th percentile and 13% higher at the 50th percentile

Russell 3000 CEO Pay Ratio Distribution



647 of 1,042 reported companies have a CEO Pay Ratio below 100:1. The distribution tails off near 300:1.

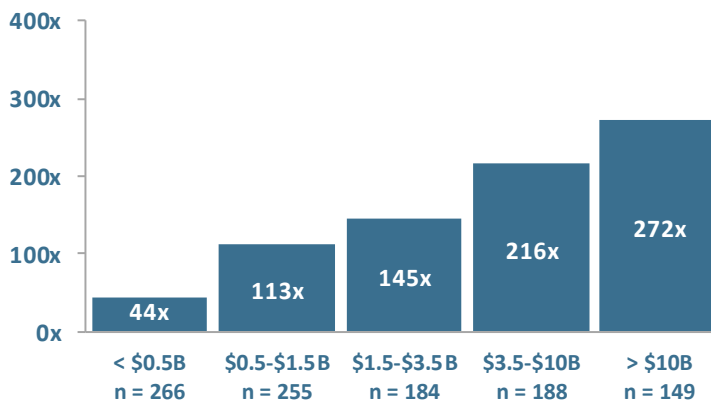
Russell 3000 CEO and Median Employee Compensation Variance



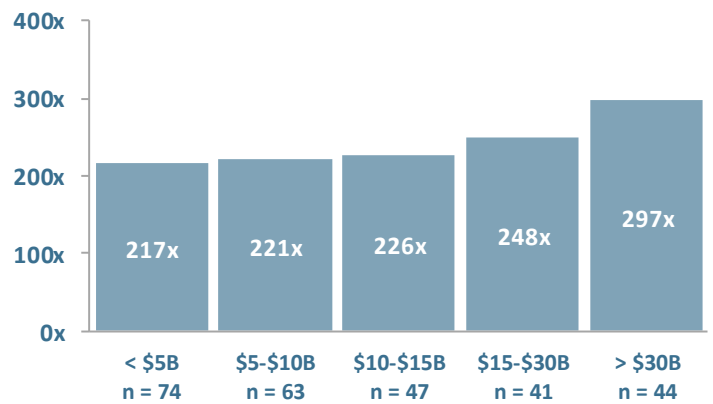
CEO Pay Ratio Observations

- The CEO Pay ratio is more heavily influenced by the magnitude and variance in CEO compensation than by the median employee compensation
- Company revenue, a primary determinant of CEO compensation, has a direct correlation with the CEO Pay Ratio
- The CEO Pay Ratio is inversely correlated with median employee compensation – companies with bottom quartile median employee compensation have significantly higher Ratios
- CEO compensation scales as company size increases, while median employee compensation has little correlation with company size

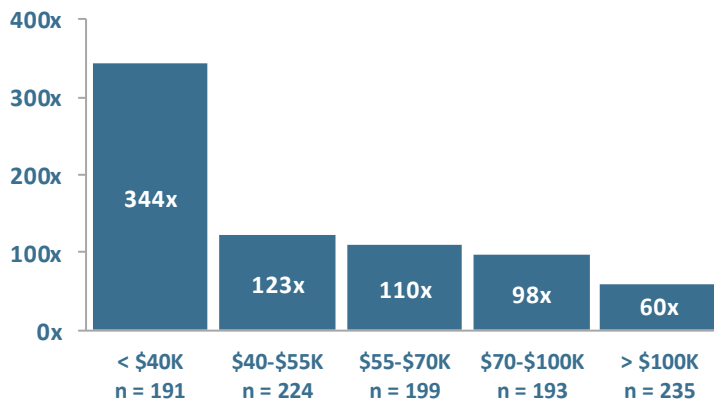
Russell 3000 Median CEO Pay Ratio by Revenue



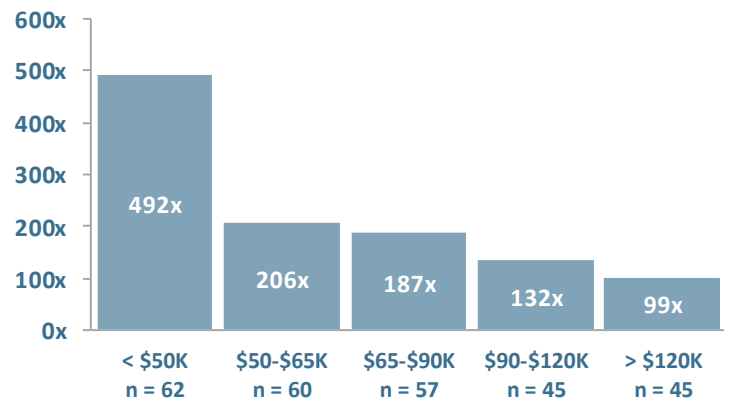
S&P 500 Median CEO Pay Ratio by Revenue



Russell 3000 Median CEO Pay Ratio by Median Employee Compensation



S&P 500 Median CEO Pay Ratio by Median Employee Compensation



Source: Semler Brossy data and analysis; Fundvotes, LLC; ISS Voting Analytics. Russell 3000 sample effective as of June 26, 2017.
*Excludes companies with no employees, no CEO, or CEOs with no compensation.

- The CEO Pay Ratio and CEO compensation show a strong positive correlation, while the Ratio and median employee compensation show an inverse, and weaker, correlation
- There is a particularly strong correlation between CEO Pay Ratio and CEO compensation for ratios below 100:1

CEO Compensation vs. CEO Pay Ratio



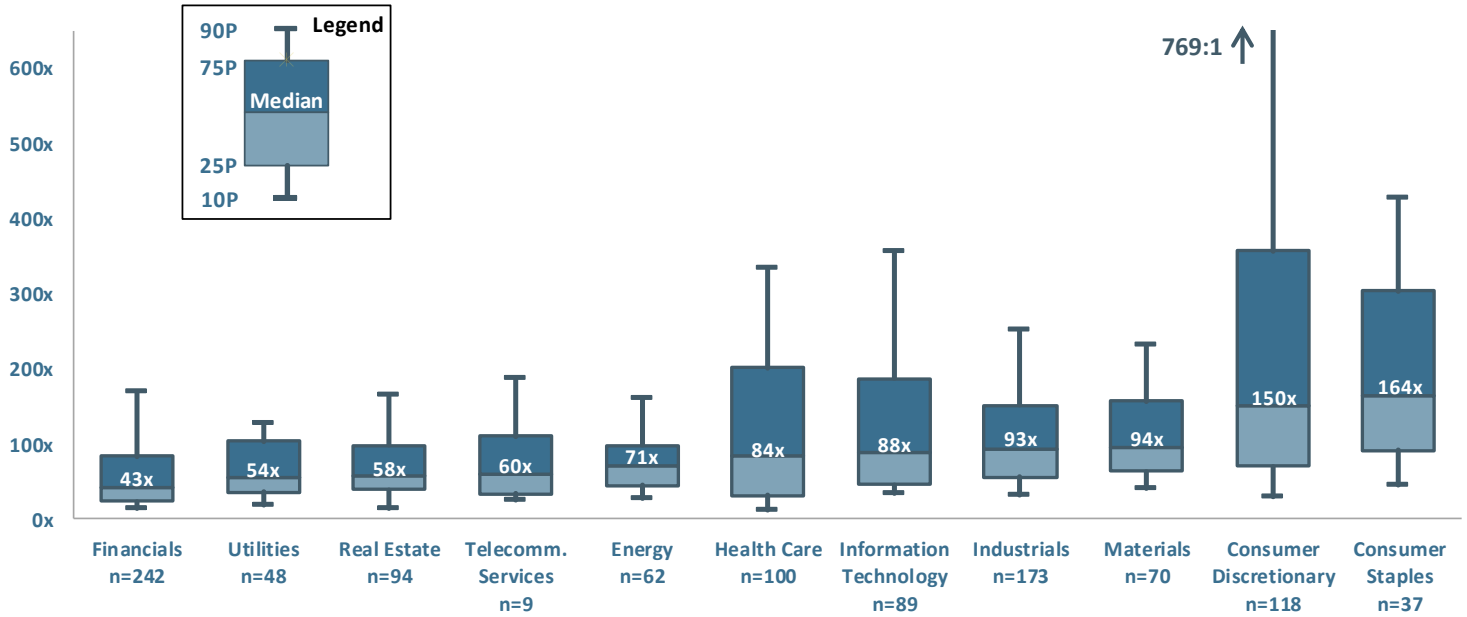
Median Employee Compensation vs. CEO Pay Ratio



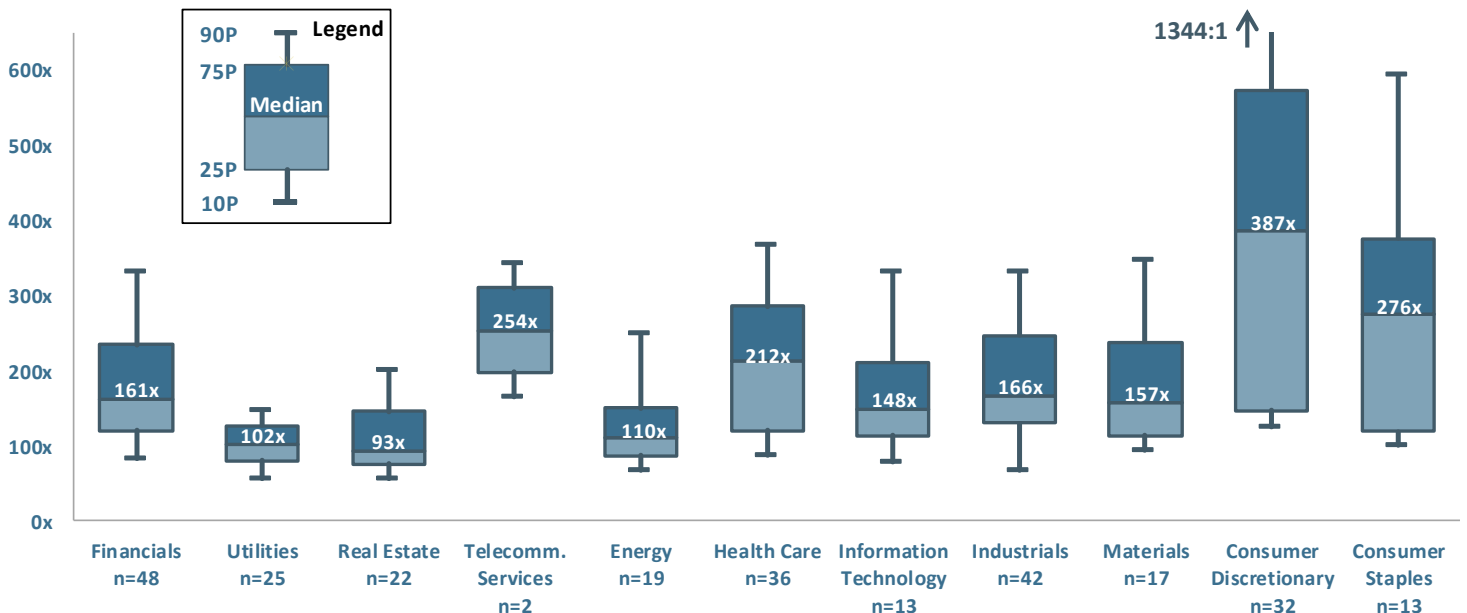
Source: Semler Brossy data and analysis; Fundvotes, LLC; ISS Voting Analytics. Russell 3000 sample effective as of June 26, 2017.
*Excludes companies with no employees, no CEO, or CEOs with no compensation.

- CEO Pay Ratios differ greatly by sector among companies in the Russell 3000, and even more so among companies in the S&P 500
- CEO pay typically scales more proportionately than median employee compensation as company size increases, illustrated by higher CEO Pay Ratios among S&P 500 constituents relative to Russell 3000 constituents across nearly all sectors
- The composition of a company's workforce and the use of seasonal or part-time employees are primary drivers of high CEO Pay Ratios at the 75th and 90th percentiles in the Consumer Staples and Consumer Discretionary sectors

Russell 3000 CEO Pay Ratio Variance by GICS Sector



S&P 500 CEO Pay Ratio Variance by GICS Sector



Source: Semler Brossy data and analysis; Fundvotes, LLC; ISS Voting Analytics. Russell 3000 sample effective as of June 26, 2017.
*Excludes companies with no employees, no CEO, or CEOs with no compensation.

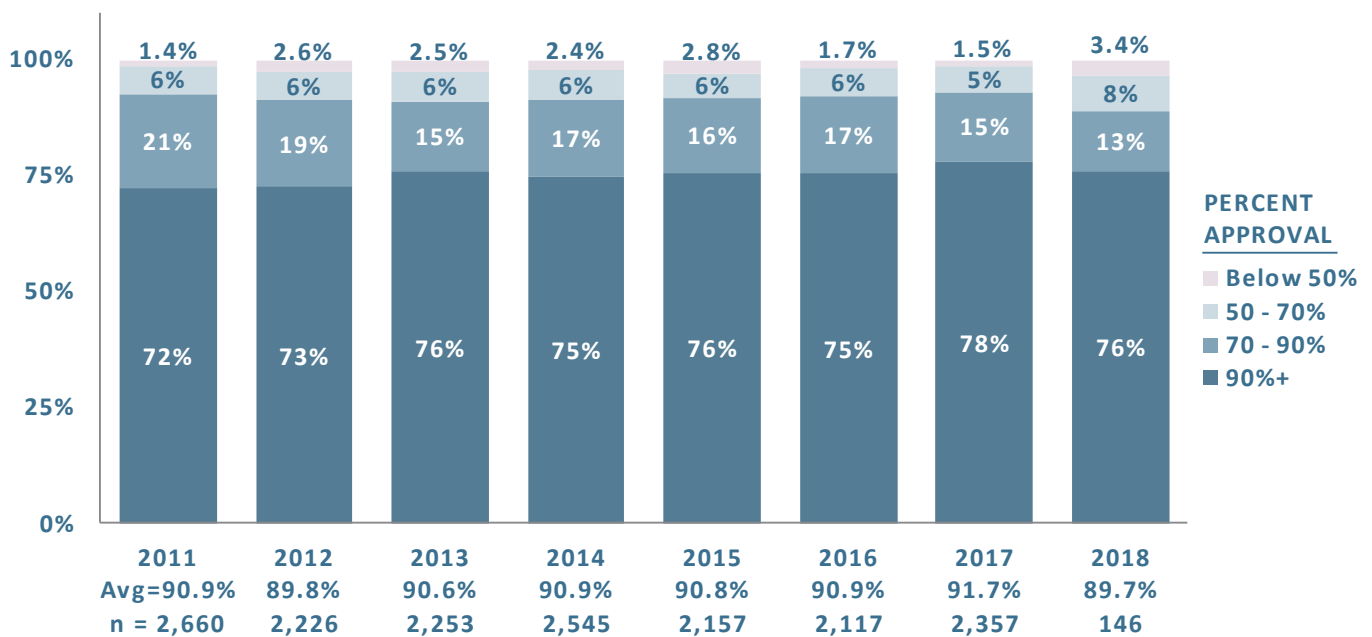
2018 SAY ON PAY RESULTS

4/11/2018

Russell 3000
146 Companies

Breakdown of Say on Pay Vote Results

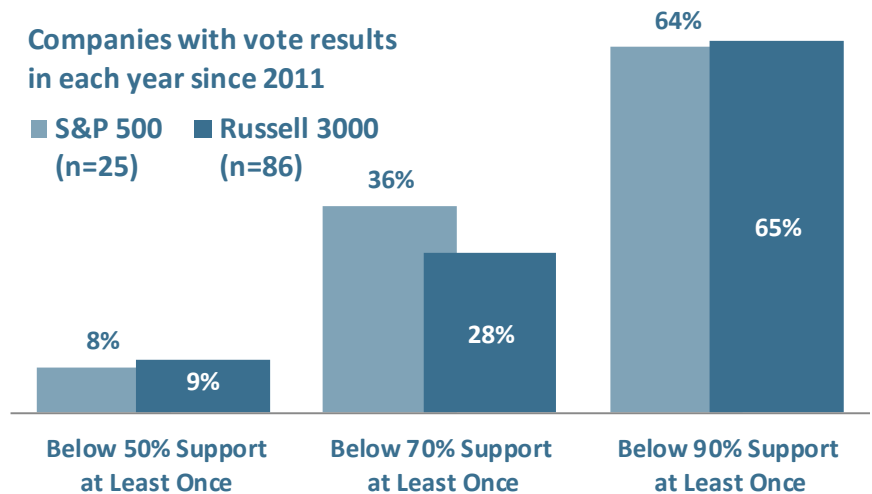
Five Russell 3000 companies (3.4%) have failed Say on Pay in 2018. No companies have failed since the last report.



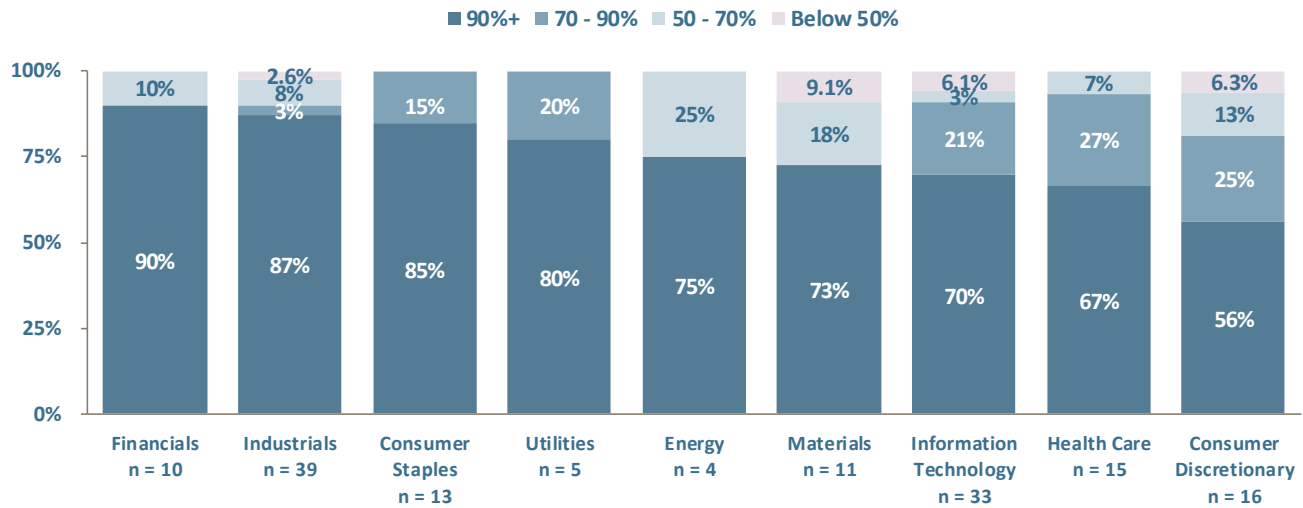
Since the Last Report

- While early in the proxy season, if the current failure rate (3.4%) were to continue, it would be the highest observed rate since voting began
- The 89.7% average vote result thus far in 2018 is 200 basis points lower than the 2017 average
- Over one-third of the S&P 500 has had vote support below 70% at least once since 2011
- 9% of Russell 3000 and 8% of S&P 500 companies with vote results in each year since 2011 have failed Say on Pay at least once

Likelihood of a Low Say on Pay Vote

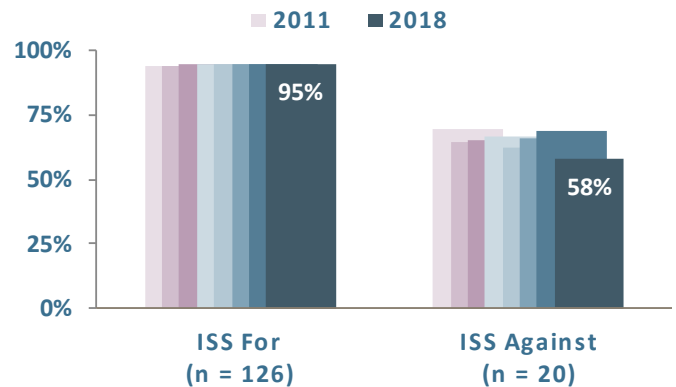


Say on Pay Vote Results by GICS Sector



ISS Impact on Say on Pay Vote Results

- Say on Pay vote results are 37% lower at companies that received an ISS “Against” recommendation, which is a slight decrease from our last report
- Difference in vote results for companies receiving “For” and “Against” will likely converge towards the historical average of 25-30% as more vote results are released
- This is an interesting initial data point worth watching as the season progresses and could be an early indication of lower average support across the board and increased alignment of institutional shareholder voting with ISS recommendations



ISS Year over Year Breakdown

- Nineteen companies (13.3%) received one “For” and one “Against” recommendation from ISS during the last two years
- Only 4% of companies received ISS “Against” recommendations in each of the last two years

		2018 Rec.	
		“For”	“Against”
2017 Rec.	“For”	83% of companies (n=119)	9% of companies (n=13)
	“Against”	4% of companies (n=6)	4% of companies (n=6)

Likely Causes of Votes Under 50% in 2018

2018 Failed Say on Pay Vote Results¹

Russell 3000, n=5

Company	Say on Pay Vote Results			Number of Failures	Likely Causes of Votes Under 50%						
	2018 ▼	2017	YOY		Pay and Performance Relation	Problematic Pay Practices	Rigor of Performance Goals	Shareholder Outreach and Disclosure	Non-Performance Based Equity	Special Awards/ Mega-Grants	Benchmarking Practices
	AECOM	48%	52%		-4%	1	X		X	X	
Commercial Metals Co.	44%	95%	-51%	1		X				X	
The Walt Disney Co.	44%	84%	-40%	1			X			X	
Sanmina Corp.	31%	76%	-45%	1	X	X	X				
Nuance Communications, Inc.	10%	33%	-24%	5	X			X	X		
Count (n=5)					3	2	3	2	1	2	0

¹ As of April 9, 2018.

FOR MORE INFORMATION, VISIT US AT SEMLERBROSSY.COM

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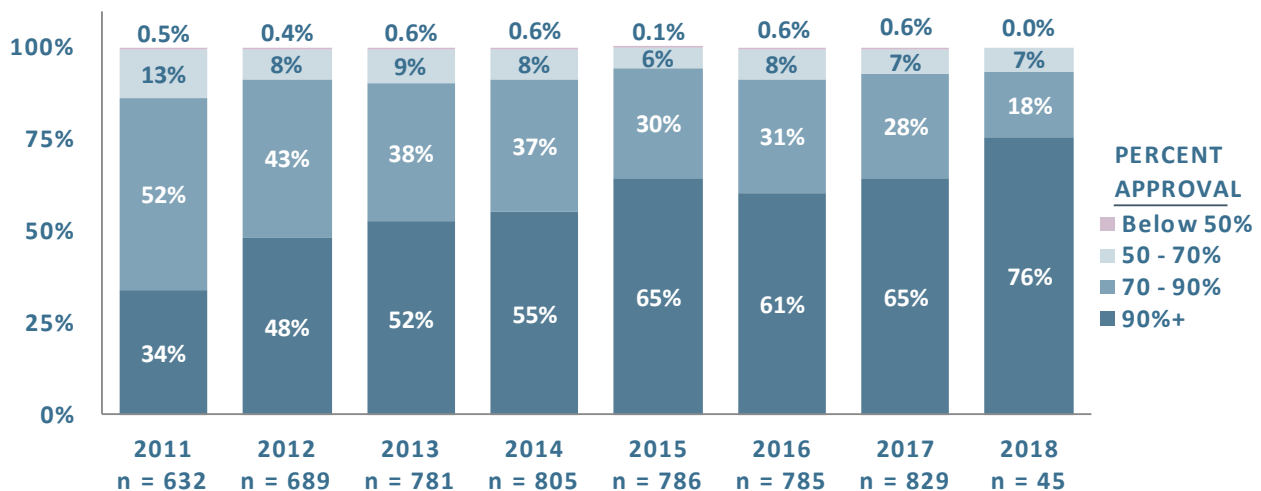
2018 EQUITY PROPOSAL RESULTS

4/11/2018

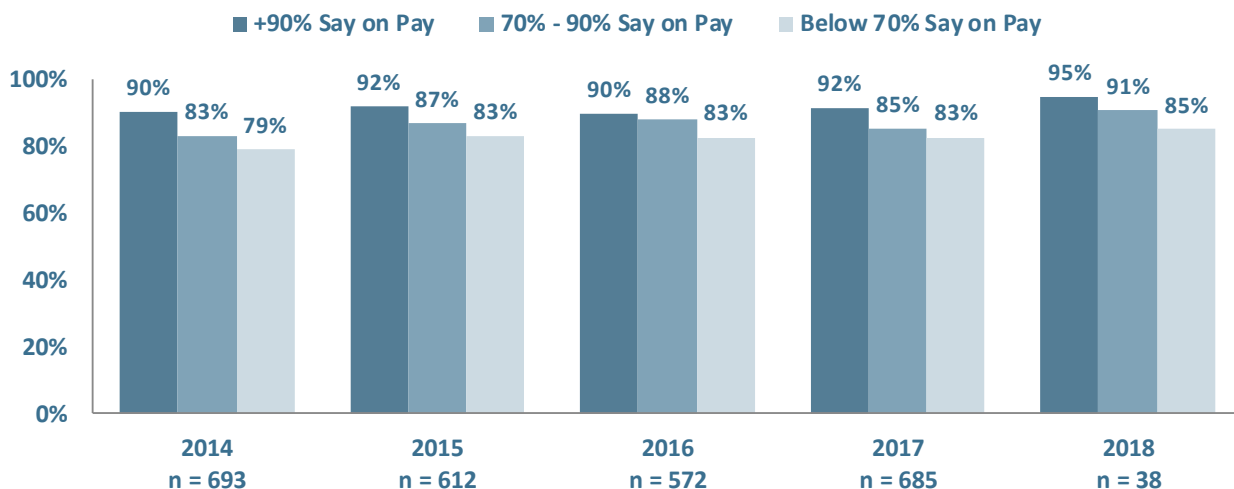
Russell 3000
45 Companies

- 76% of equity proposals in 2018 have received vote support above 90% – if this current rate were to continue, 2018 would have the highest support for equity proposals since 2011
- Only 27 (0.50%) of the 5,352 equity plan proposal votes since 2011 have received less than a majority vote
- Over the past five years, we have observed that companies that receive Say on Pay support below 70% also receive about 10 percentage points less support on equity plan votes in the same year

Breakdown of Equity Plan Proposal Votes



Impact of Say on Pay on Equity Plan Proposal Votes



2018 DIRECTOR ELECTION RESULTS

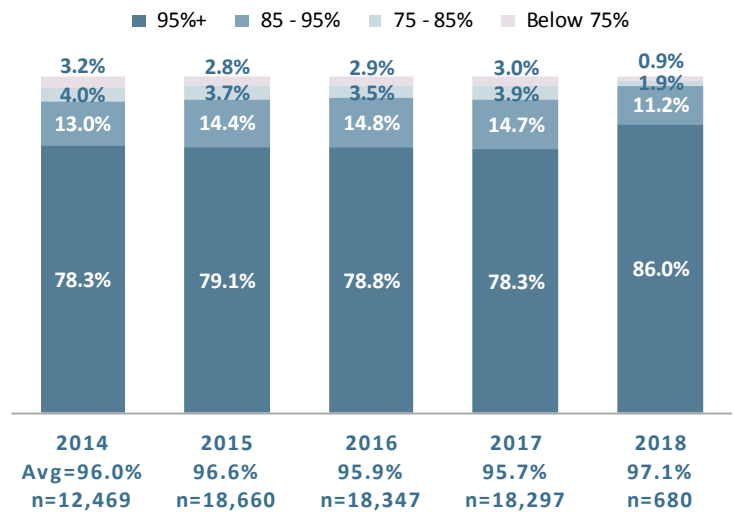
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Russell 3000
680 Directors

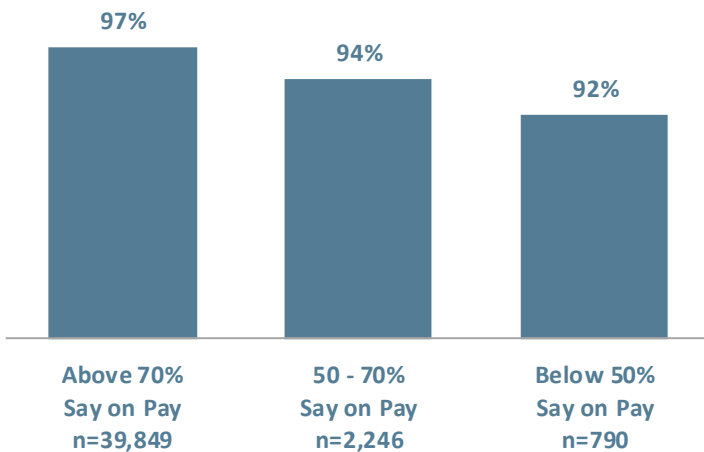
Director Election Observations

- No director nominees have received vote support below 50% in 2018 – historically, 0.31% of director nominees have received vote support below 50%
- Average director election vote support at companies that received a Say on Pay vote below 50% in the prior year is 5% lower than at companies that received above 70% vote support
- Early 2018 season vote support for both male and female director nominees is higher than each of the previous four years. We'll be watching this data point as the season progresses as it may be an early indication of a deviation from the consistent level of vote support from 2014 to 2017

Historical Director Election Results



Average Director Election Support in Year following Say on Pay (2015-2018)



Director Election Results by Gender

