U.S. Executive pay votes

2020 proxy season review

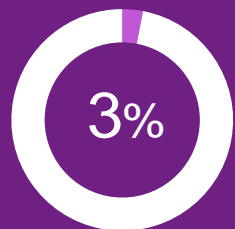March 2021

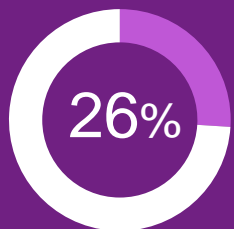**Willis Towers Watson**
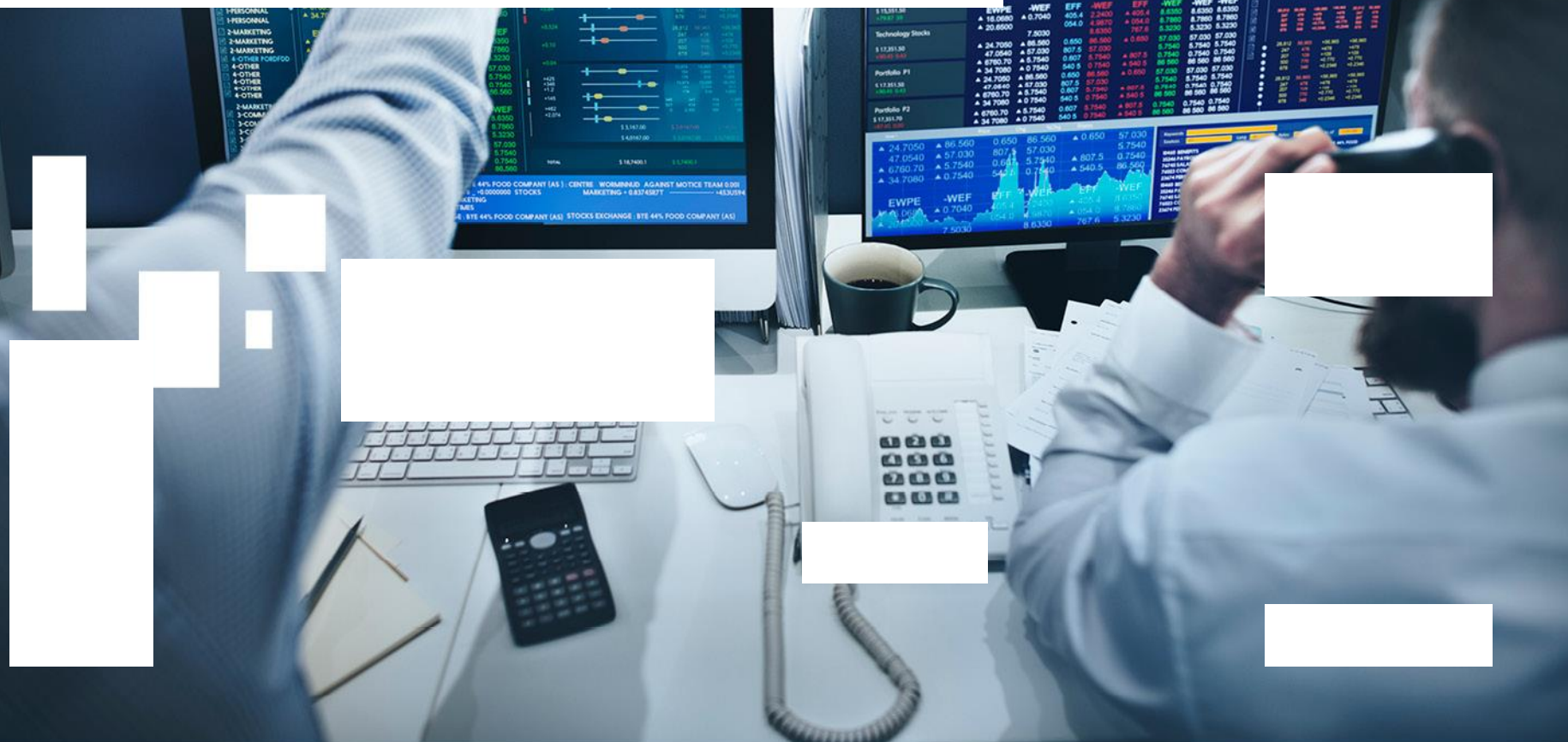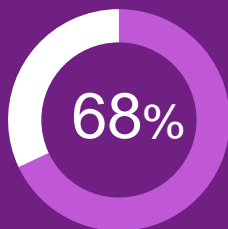
Executive summary

2020 by the numbers

Say-on-pay proposals

3%
Failure rate, similar to 2019

26%
Companies that failed say on pay and had negative vote recommendations for compensation committee members

68%
First-time failures

90%
Average support
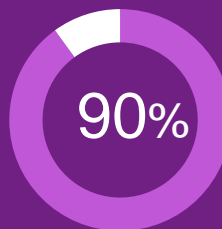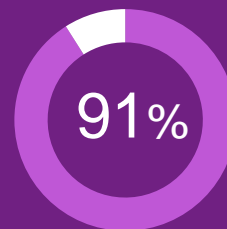
91%
Companies with support > 70%

Say-on-golden parachute proposals

17%
Failure rate

76%
Average support

34%
Institutional Shareholder Services (ISS) negative recommendations

Equity plans proposals

91%
No failures and stable support for equity plans

12%
ISS negative vote recommendation rate

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10 years of say on pay

Results over the first decade of mandatory say-on-pay votes

Historical say on pay snapshot

10 years of votes

Average say-on-pay support

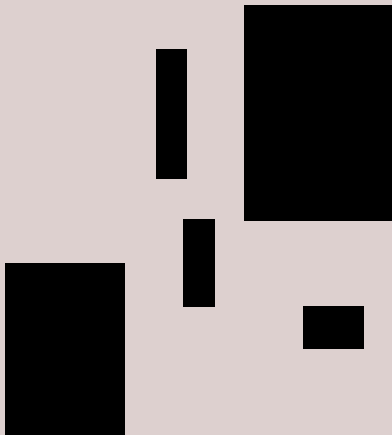| 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
90%	89%	90%	90%	91%	90%	90%	90%	90%	90%

Say-on-pay failures

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
44 (2%)	61 (3%)	58 (2%)	60 (2%)	61 (3%)	35 (2%)	34 (1%)	56 (3%)	57 (3%)	59 (3%)
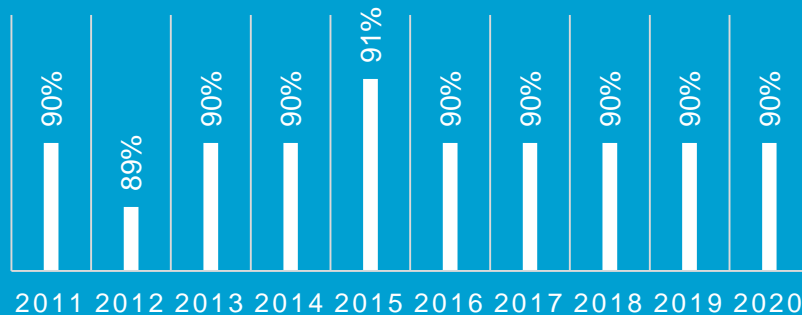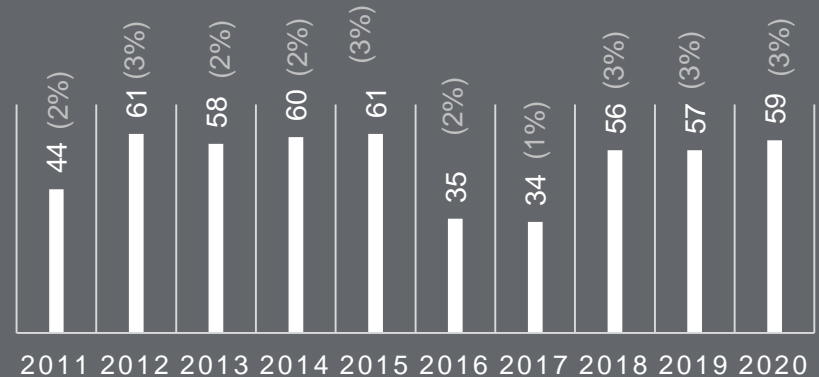
Numbers of votes tracked

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2,757	2,329	2,356	2,545	2,143	2,144	2,338	2,230	2,222	2,304

ISS "against" recommendations

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
12%	13%	14%	12%	12%	12%	12%	14%	13%	11%
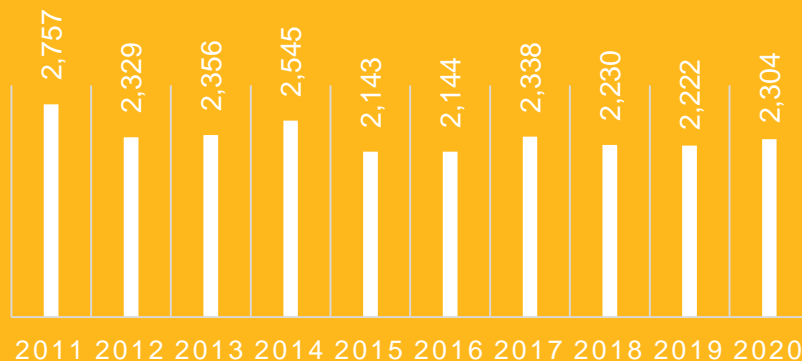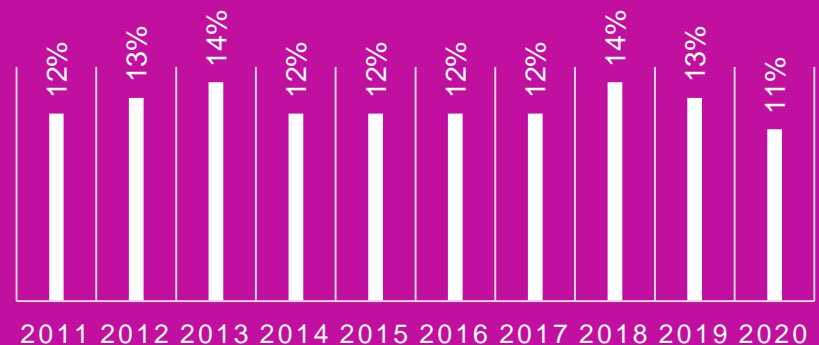
10 years of say-on-pay at a glance

Changes to compensation committees post-failure

24%
Frequency change for compensation committee **chairs** following a say-on-pay failure during the past 10 years

41%
Frequency change for compensation committee **members** following a say-on-pay failure during the past 10 years

Institutional Investors

13% SINCE 2012
Average of negative say on pay votes at Russell 3000 companies by **the largest 16 institutional investors** by assets under management

First-time failures (65% of all failures since 2016)

30% OF FIRST-TIME FAILURES

Had an average say-on-pay support **below 70%** prior to their first failure

29% OF FIRST-TIME FAILURES

Had an average say-on-pay support **between 70% and 90%** prior to their first failure

41% OF FIRST-TIME FAILURES

Had an average say-on-pay support **above 90%** prior to their first failure

Pay philosophy changes at *Fortune* 50 companies

42%
Increase of **clawback policies** at *Fortune* 50 companies from 2011 to 2020

38%
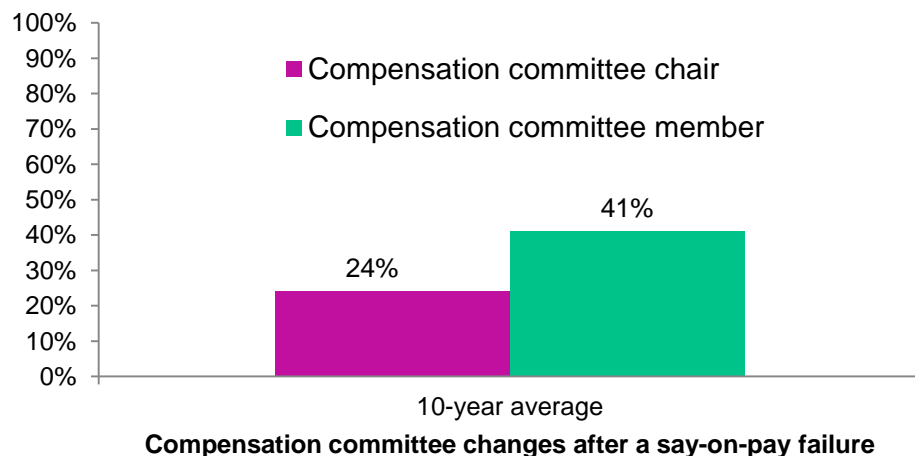Increase of **pledging/hedging policies** at Fortune 50 companies from 2011 to 2020

15%
Increase of **double-trigger policies** at Fortune 50 companies from 2011 to 2020

Changes at compensation committees following a failure

50%
Average of companies with compensation committee member change post-failure during the past four years, from 34% the previous five years

Compensation committee changes after a say-on-pay failure

Legend:
- ■ Compensation committee chair
- ■ Compensation committee member

10-year average: Chair 24%, Member 41%

Increase in companies with compensation committee member changes post-failure*

Year	Committee chair change	Committee member change
2011	21%	33%
2012	14%	29%
2013	27%	32%
2014	21%	40%
2015	21%	35%
2016	28%	50%
2017	30%	50%
2018	26%	50%
2019	27%	51%
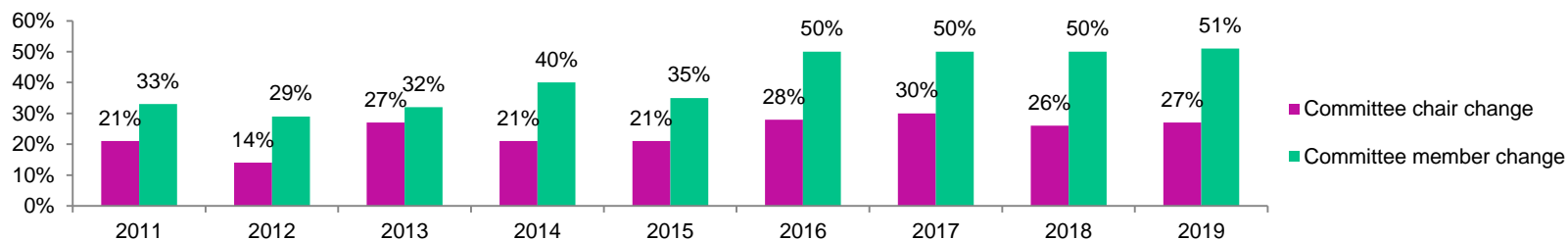
Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of compensation committee member changes at companies that failed say-on-pay from 2011 to 2020

*This analysis compares the composition of compensation committees prior to and after a say-on-pay failure.

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Pay philosophy changes at Fortune 50 companies

Companies have altered pay practices since say-on-pay was introduced

Practice	2020	2011
Stock ownership guidelines	96%	91%
Clawback policy	98%	56%
Removal of gross-ups (change-in-control)	89%	82%
Double-trigger for equity awards	51%	36%
Pledging/hedging policy	98%	60%

■ 2020 ■ 2011
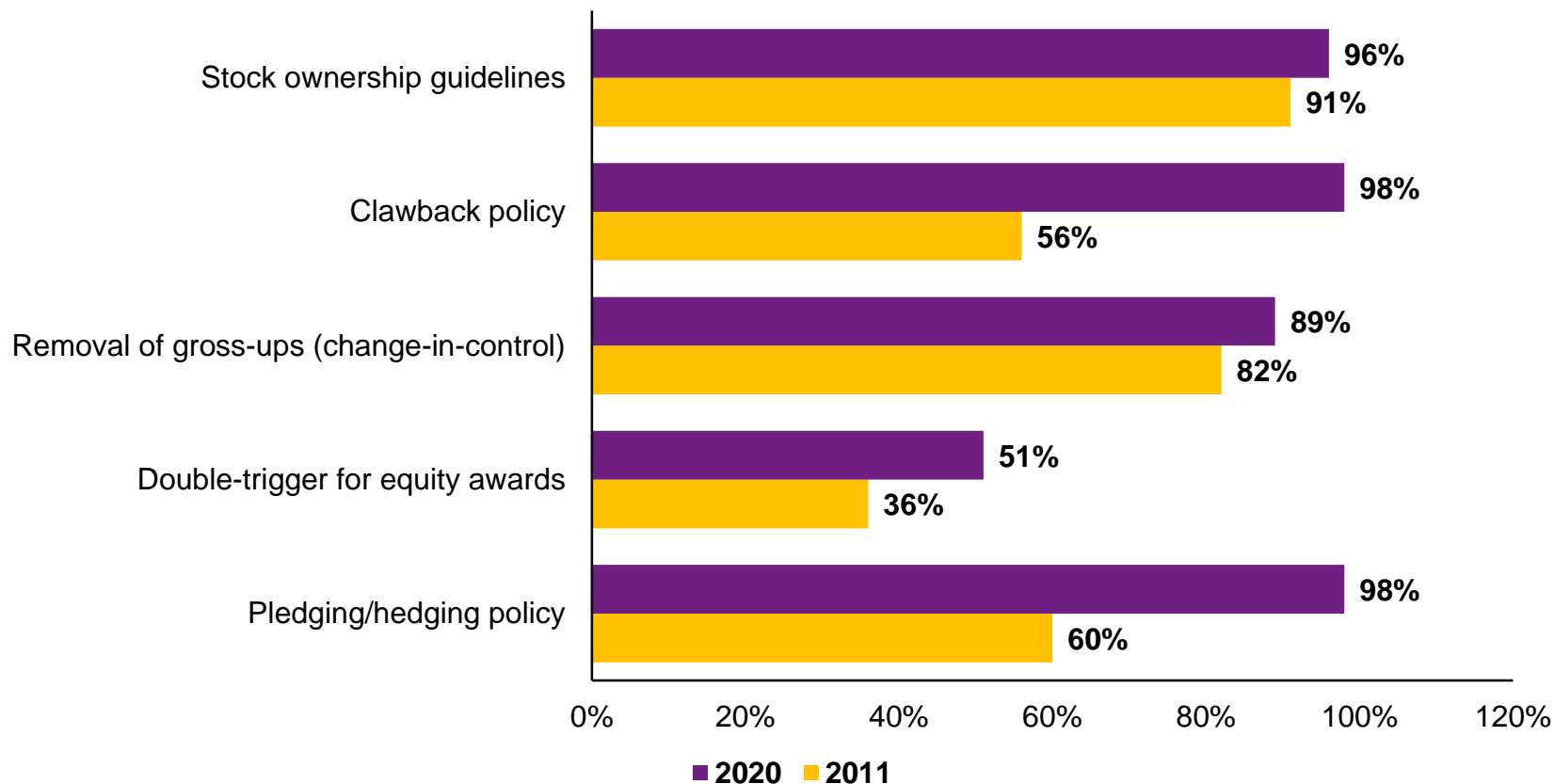
Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of Fortune 50 companies as of December 31, 2020

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First-time failures by industry since 2016

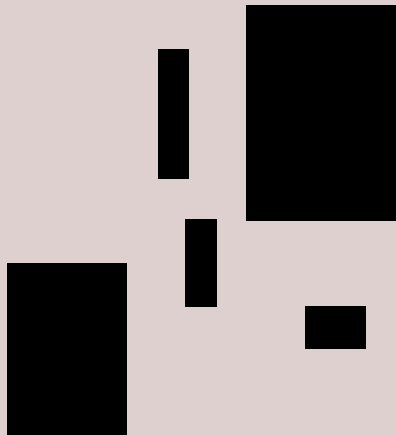Increased rate of first-time failures over the years

- We observe an increase of first-time failures in the past four years
- Information technology, health care and financials are the industries with the most first-time failures since 2016

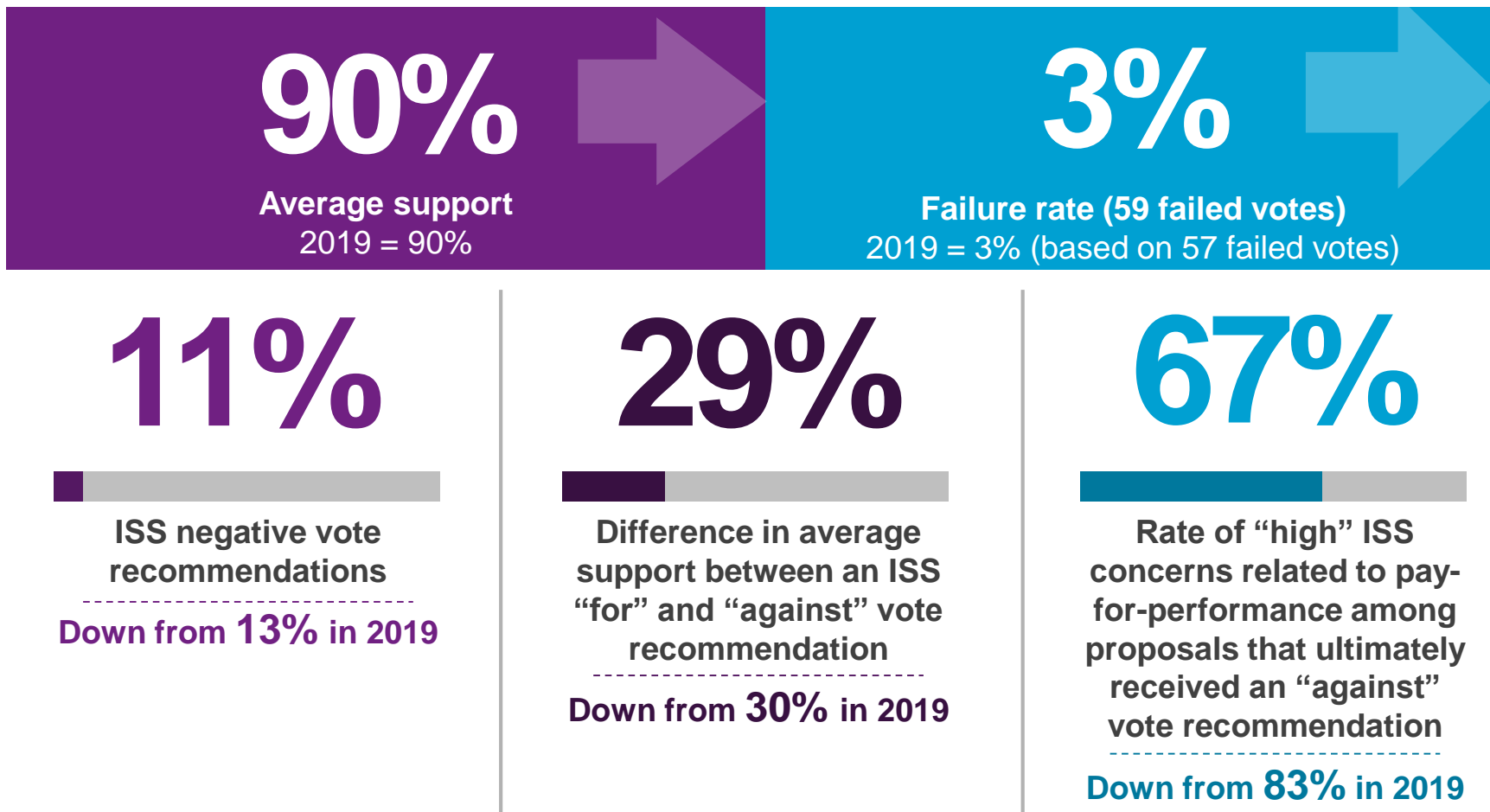| Industries*	Number of first-time failures					Total
	2016	2017	2018	2019	2020	
Information technology (n=303)	1	3	7	14	7	**32**
Health care (n=342)	2	3	5	5	11	**26**
Financials (n=411)	3	3	7	2	6	**21**
Consumer discretionary (n=285)	4	4	5	3	2	**18**
Real estate (n=161)	2	2	3	0	4	**11**
Communication services (n=80)	0	2	3	4	2	**11**
Industrials (n=346)	1	0	2	5	3	**11**
Energy (n=99)	3	1	2	1	2	**9**
Materials (n=122)	2	0	4	2	1	**9**
Consumer staples (n=93)	0	2	2	2	2	**8**
Utilities (n=62)	1	0	0	2	0	**3**
Total	**19**	**20**	**40**	**40**	**40**	
Percentage of overall failures	**54%**	**59%**	**71%**	**70%**	**68%**	

*Industries are based on GICS sectors; number of companies based on 2,304 say-on-pay results analyzed in 2020.

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of first-time say-on-pay failures at Russell 3000 companies since 2016

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Say-on-pay snapshot

2020 Russell 3000 say-on-pay snapshot

90%
Average support
2019 = 90%

3%
Failure rate (59 failed votes)
2019 = 3% (based on 57 failed votes)

11%

ISS negative vote recommendations

Down from **13%** in 2019

29%

Difference in average support between an ISS "for" and "against" vote recommendation

Down from **30%** in 2019

67%

Rate of "high" ISS concerns related to pay-for-performance among proposals that ultimately received an "against" vote recommendation

Down from **83%** in 2019

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 2,304 Russell 3000 companies from January 1, 2020, to December 31, 2020, and 2,222 Russell 3000 companies reporting results in 2019. Institutional Shareholder Services (ISS) recommendations confirmed using ISS's Governance Analytics.
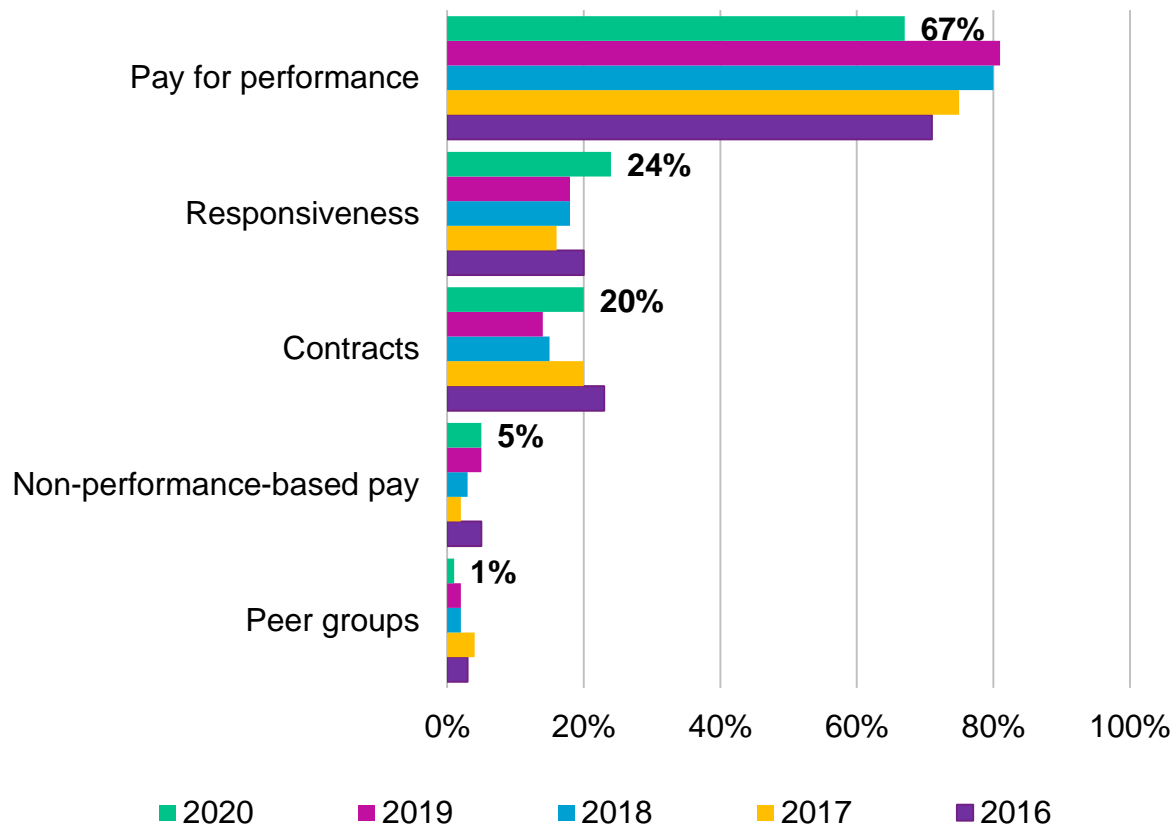
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Perceived pay-for-performance disconnects drive most ISS "against" recommendations

16%

of companies receiving an **"against"** recommendation had a **high level of ISS concern** in more than one category.

Rate of "high" concern cited by ISS for recommendations to vote against **say-on-pay** resolutions

- Pay for performance — 67%
- Responsiveness — 24%
- Contracts — 20%
- Non-performance-based pay — 5%
- Peer groups — 1%

Legend: ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016

Source: Willis Towers Watson's Global Executive Compensation Analysis Team. Areas of concern confirmed using ISS's Governance Analytics.

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Strong shareholder support remains the norm

The trend of 90%+ support continues
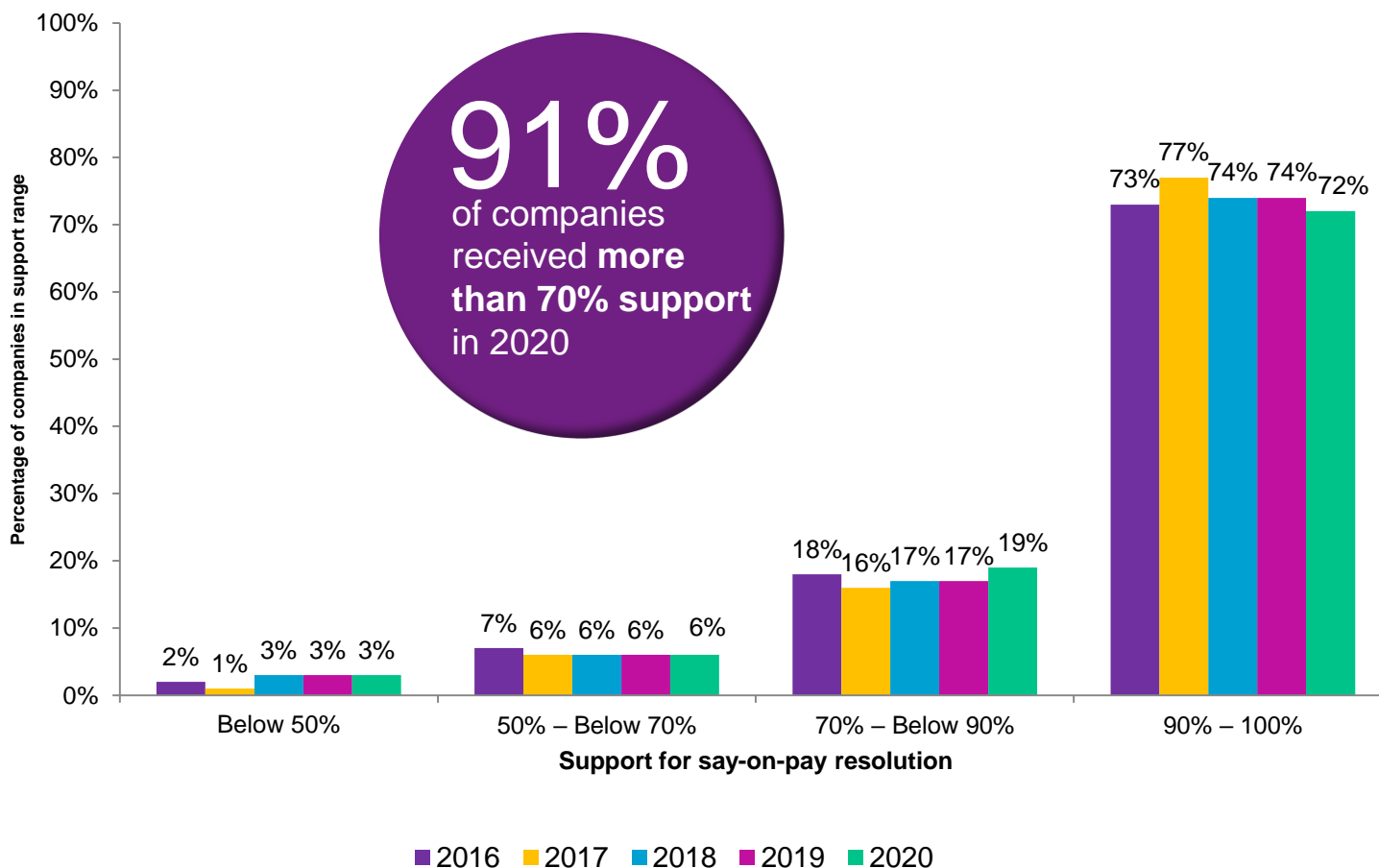
91% of companies received **more than 70% support** in 2020

Chart: Percentage of companies in support range vs. Support for say-on-pay resolution

Below 50%
- 2016: 2%
- 2017: 1%
- 2018: 3%
- 2019: 3%
- 2020: 3%

50% – Below 70%
- 2016: 7%
- 2017: 6%
- 2018: 6%
- 2019: 6%
- 2020: 6%

70% – Below 90%
- 2016: 18%
- 2017: 16%
- 2018: 17%
- 2019: 17%
- 2020: 19%

90% – 100%
- 2016: 73%
- 2017: 77%
- 2018: 74%
- 2019: 74%
- 2020: 72%

Legend: ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020

Source: Willis Towers Watson's Global Executive Compensation Analysis Team.

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Shareholder support and proxy advisor recommendations

ISS negative recommendations against say-on-pay decreased to 11% in 2020

- Average support based on "for" recommendations
- Average support based on "against" recommendations
- Rate of ISS "against" recommendations

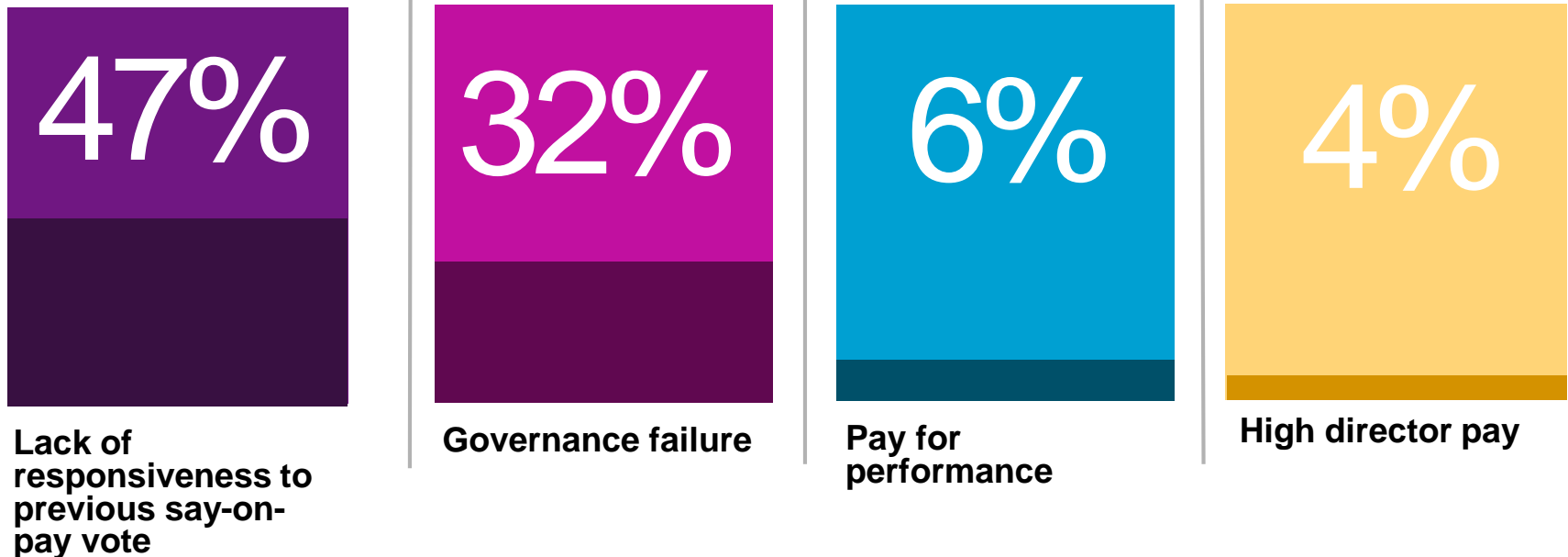|	2016	2017	2018	2019	2020
Average support based on "for"	94%	94%	94%	94%	93%
(gap)	28%	26%	31%	30%	29%
Average support based on "against"	66%	68%	63%	64%	64%
Rate of ISS "against"	12%	12%	14%	13%	11%
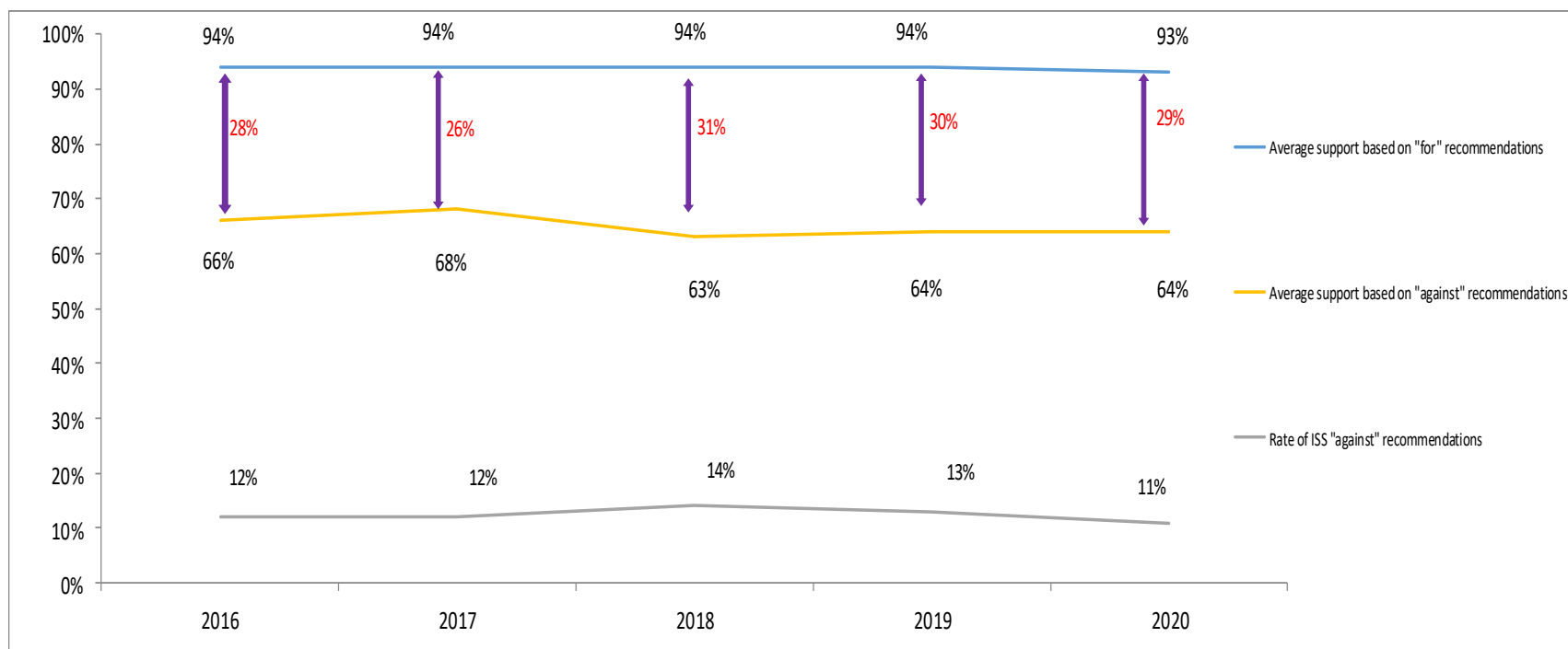
Source: Willis Towers Watson's Global Executive Compensation Analysis Team. ISS recommendations confirmed using ISS's Governance Analytics.

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Opposition to compensation committee members at companies with a negative say-on-pay vote recommendation

26% of companies receiving an "against" recommendation also had a "withhold" recommendation on compensation committee members during the same year

Main reasons leading to "withhold" recommendations

47%	32%	6%	4%
Lack of responsiveness to previous say-on-pay vote	**Governance failure**	**Pay for performance**	**High director pay**

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 68 Russell 3000 companies that received a "withhold" vote against compensation committee members and a negative recommendation for say on pay. ISS areas of concern confirmed using ISS's Governance Analytics.

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Opposition to compensation committee members at companies that failed say on pay

19% of compensation committee members at companies that failed say on pay also received a negative vote recommendation from ISS

Average support for compensation committee members at companies that failed

54%

**Average support for compensation committee members with a withhold recommendation**

87%

Average support for compensation committee members with a positive recommendation

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 59 companies that failed say on pay as of December 31, 2020.

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Pay-for-performance snapshot

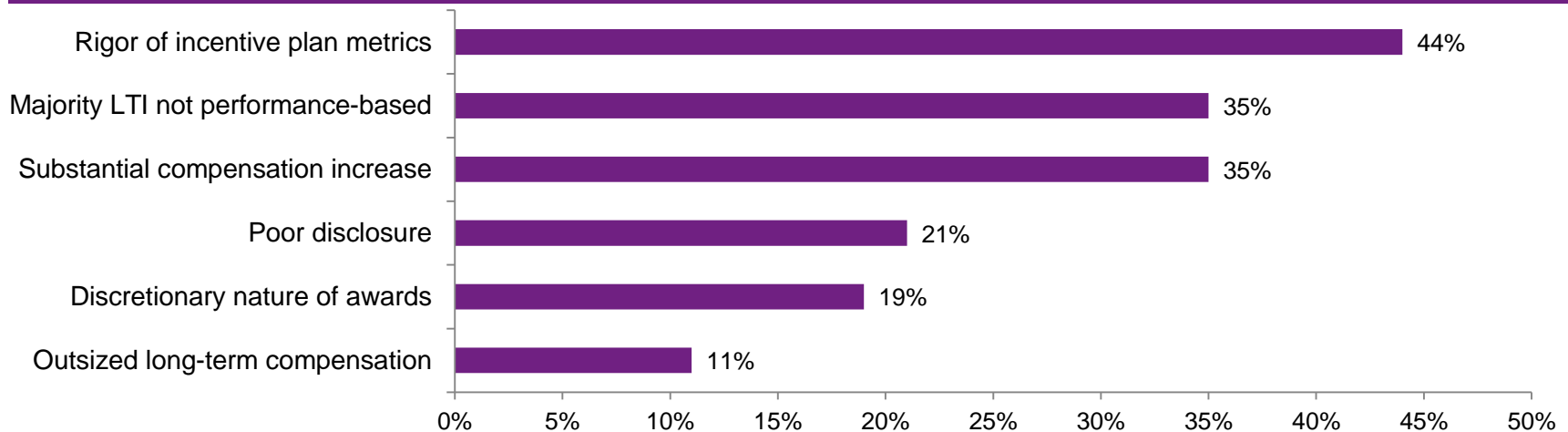**Willis Towers Watson** **I.I'I'I.I**
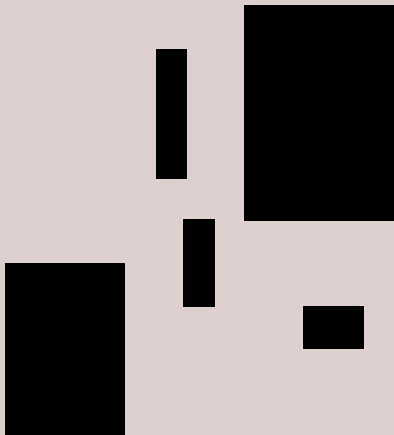
Pay-for-performance concern

50%

of 2020 *failures* with high pay-for-performance concern report a substantial compensation increase as an issue.

Rigor of incentive plan metrics is a concerning issue among 44% of companies reporting a *high pay-for-performance concern*, up from 38% in 2019.

Common issues for companies with a high pay-for-performance concern

| Issue	Percentage
Rigor of incentive plan metrics	44%
Majority LTI not performance-based	35%
Substantial compensation increase	35%
Poor disclosure	21%
Discretionary nature of awards	19%
Outsized long-term compensation	11%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 176 Russell 3000 companies that received a high concern for pay for performance and a negative recommendation for say on pay. ISS areas of concern confirmed using ISS's Governance Analytics.

Pay for performance and three-year total shareholder return (TSR)

High pay and low TSR trigger lower vote support

- Companies with low TSR receive more opposition from ISS and less shareholder support
- Magnitude of pay and low TSR still appear to be key factors as they drive opposition to say on pay

Pay and performance compared with say-on-pay vote outcome in 2020
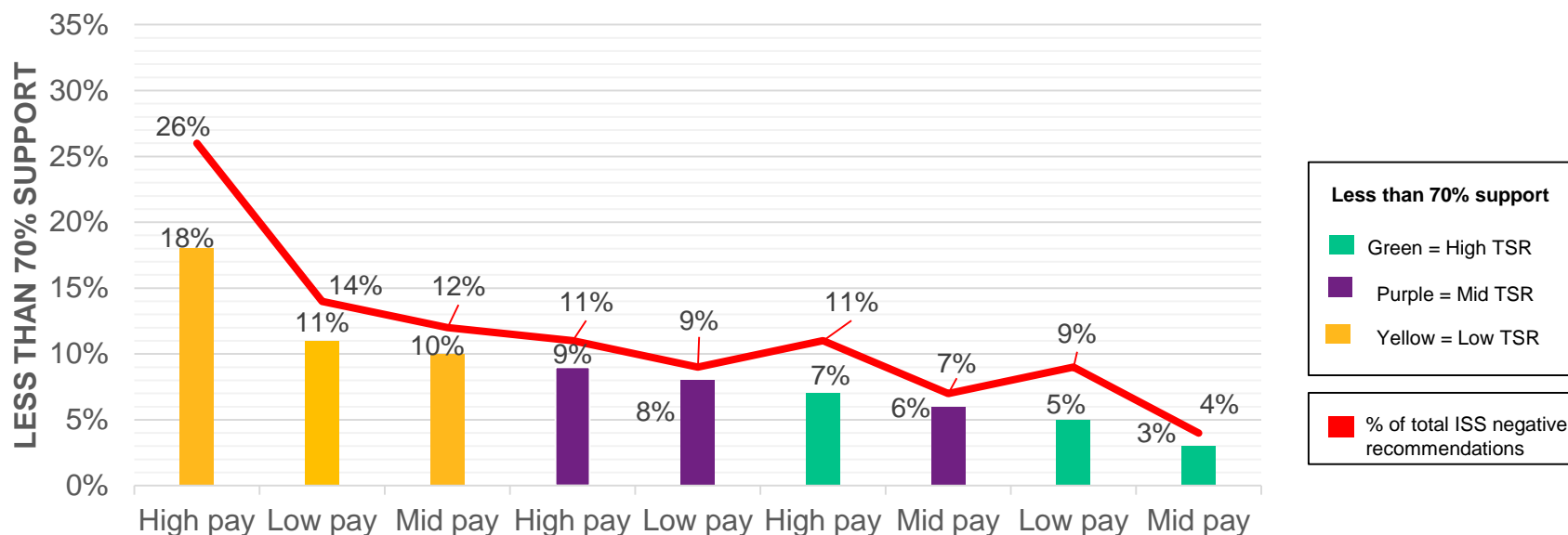
Note: Pay is total CEO pay disclosed in the Summary Compensation Table; performance is TSR over the 2016 to 2019 period for each Russell 3000 company. "High," "mid" and "low" are those in the top third, middle third and lower third in each category.

Source: Willis Towers Watson's Global Executive Compensation Analysis Team. ISS areas of concern confirmed using ISS's Governance Analytics.
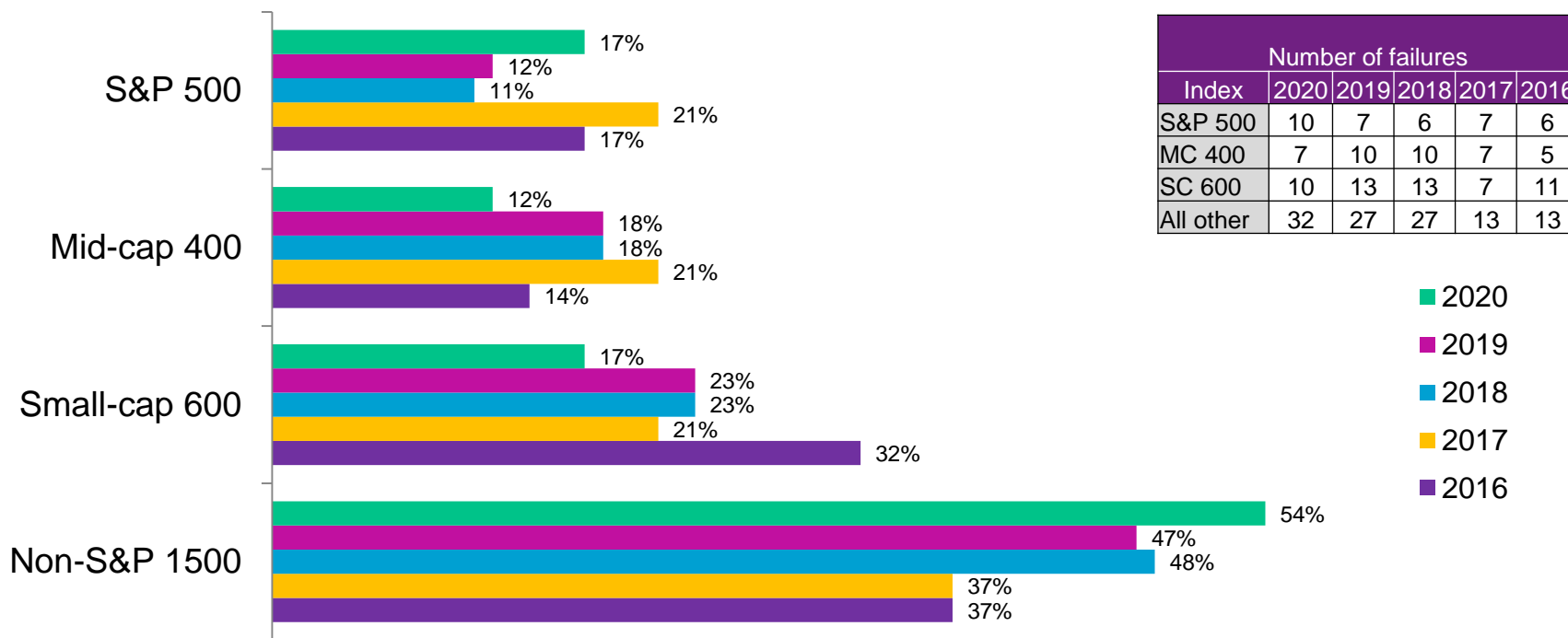
Say-on-pay trends
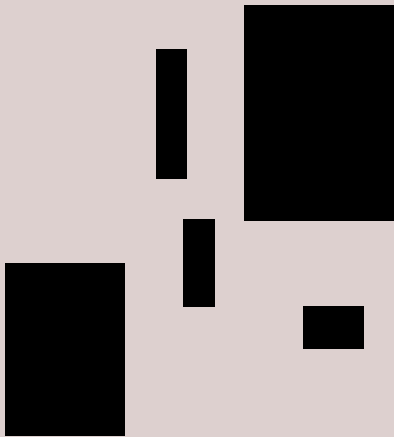
Comparison of say-on-pay failures by company size

The majority of failures were at companies outside of the S&P 1500

Lowest rate of failures at mid-cap 400 and small-cap 600 in 2020*

Number of failures					
Index	2020	2019	2018	2017	2016
S&P 500	10	7	6	7	6
MC 400	7	10	10	7	5
SC 600	10	13	13	7	11
All other	32	27	27	13	13

Legend:
- 2020
- 2019
- 2018
- 2017
- 2016

S&P 500
- 2020: 17%
- 2019: 12%
- 2018: 11%
- 2017: 21%
- 2016: 17%

Mid-cap 400
- 2020: 12%
- 2019: 18%
- 2018: 18%
- 2017: 21%
- 2016: 14%

Small-cap 600
- 2020: 17%
- 2019: 23%
- 2018: 23%
- 2017: 21%
- 2016: 32%

Non-S&P 1500
- 2020: 54%
- 2019: 47%
- 2018: 48%
- 2017: 37%
- 2016: 37%

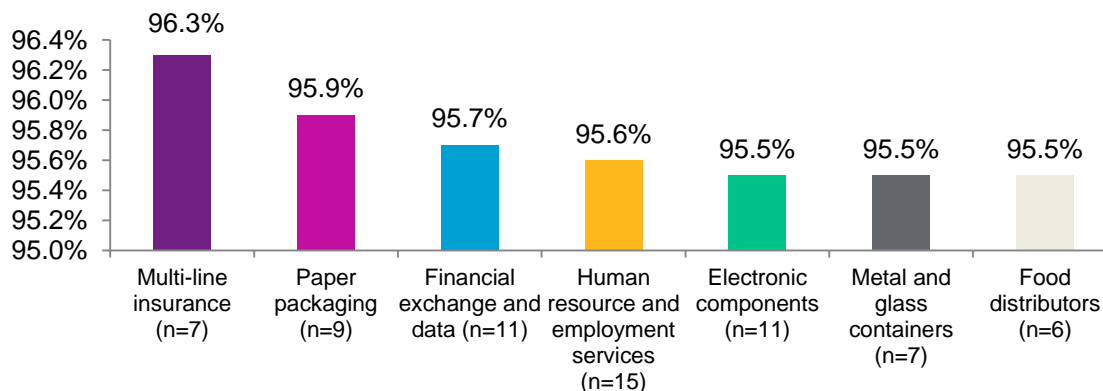*Percentage of failures relative to the total number of failures

Source: Willis Towers Watson's Global Executive Compensation Analysis Team.

Average say-on-pay results by industry in 2020

22 out of 154
industries had average support level of 95% or greater
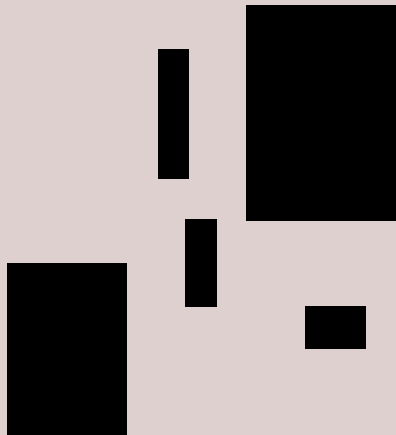
Industries with more than 95% average support

Multi-line insurance (n=7)	96.3%
Paper packaging (n=9)	95.9%
Financial exchange and data (n=11)	95.7%
Human resource and employment services (n=15)	95.6%
Electronic components (n=11)	95.5%
Metal and glass containers (n=7)	95.5%
Food distributors (n=6)	95.5%

Industries with the lowest average say-on-pay support

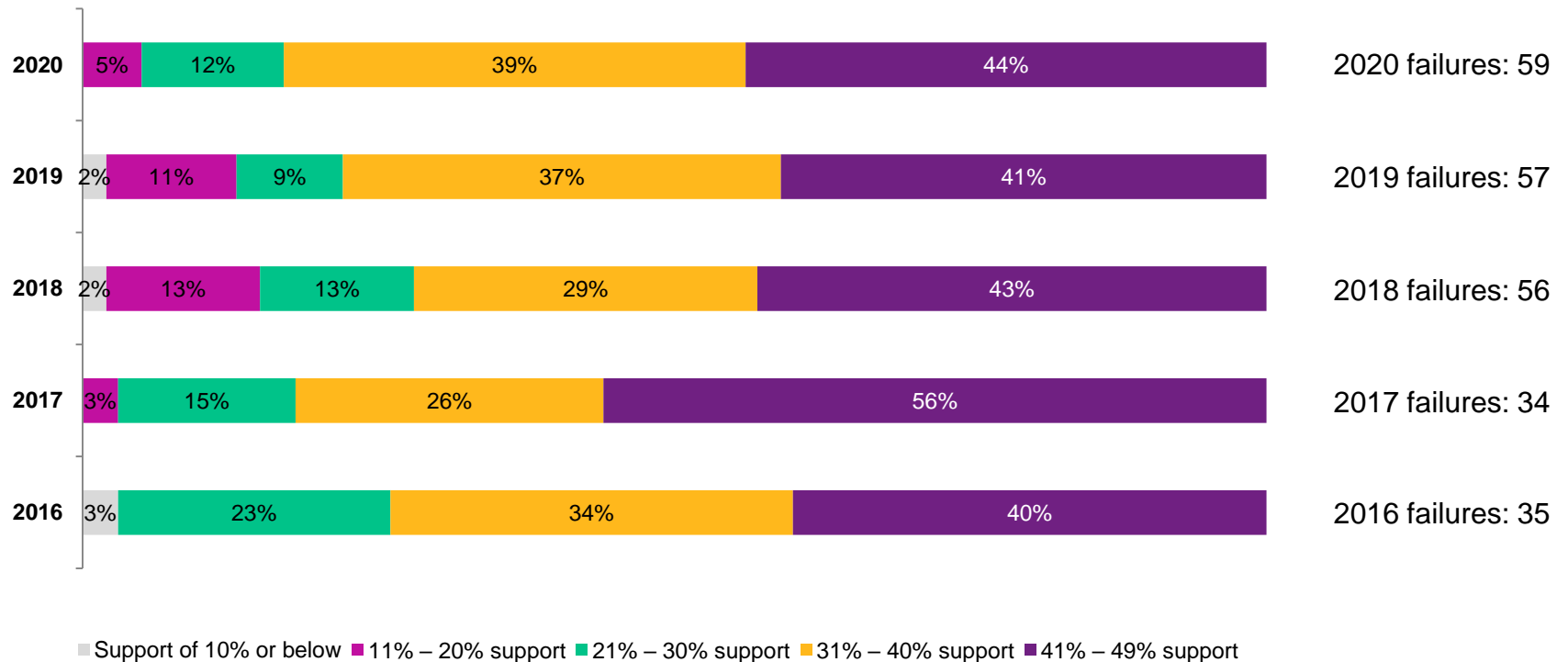| GICS primary industry	Average support
Commercial printing (n=6)	75.3%
Oil and gas drilling (n=7)	79.3%
Air freight and logistics (n=10)	79.8%
Education services (n=11)	82.7%
Life sciences tools and services (n=22)	83.2%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team. Industry classifications were based on the Global Industrial Classification System (GICS). Results are included for those industries with six or more companies in the group (n=the number of companies in the industry). For this analysis, all companies with less than 50% support are considered to have failed say on pay.

*Data based on 154 primary industries

Say-on-pay failures

Comparison of say-on-pay support levels at companies that failed say-on-pay votes

Year	Data	Failures
2020	5% / 12% / 39% / 44%	2020 failures: 59
2019	2% / 11% / 9% / 37% / 41%	2019 failures: 57
2018	2% / 13% / 13% / 29% / 43%	2018 failures: 56
2017	3% / 15% / 26% / 56%	2017 failures: 34
2016	3% / 23% / 34% / 40%	2016 failures: 35

■ Support of 10% or below ■ 11% – 20% support ■ 21% – 30% support ■ 31% – 40% support ■ 41% – 49% support

Source: Willis Towers Watson's Executive Compensation Resources. Support levels reflect data for all Russell 3000 companies with 50% or less support in each year.
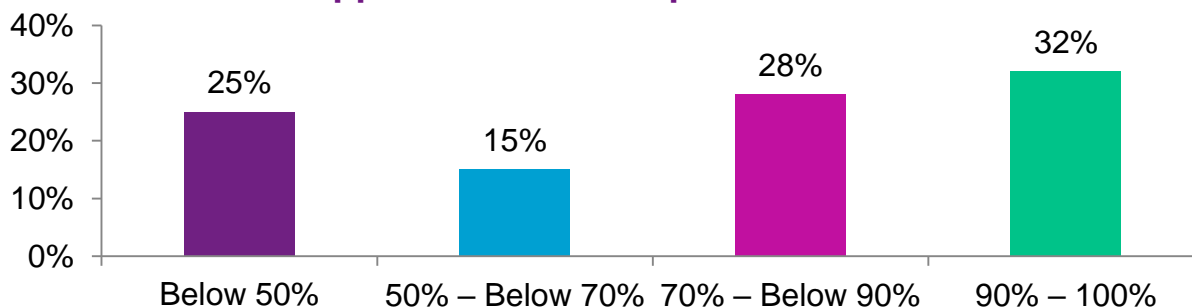
Most companies that failed in 2019 improved their results in 2020

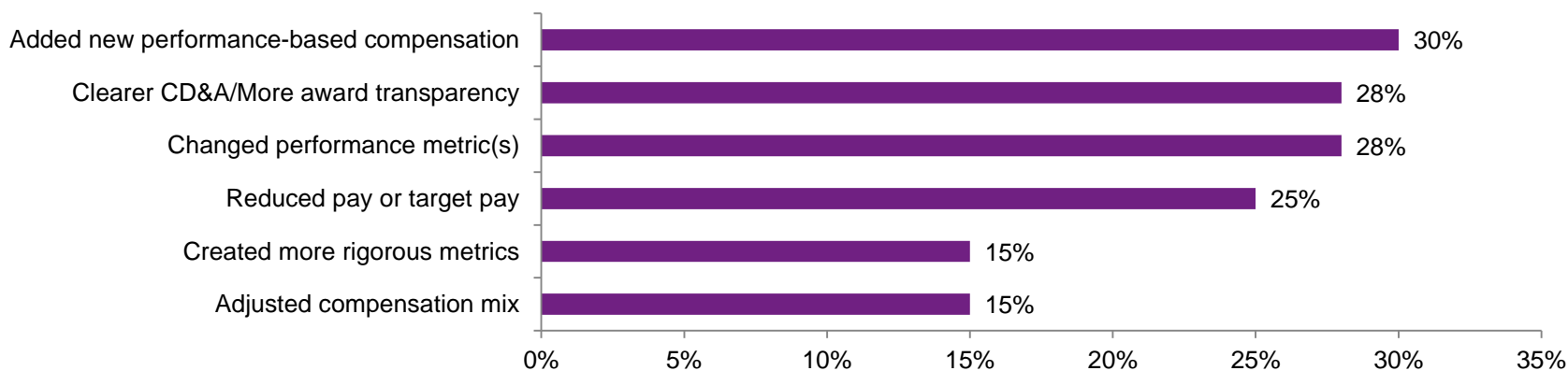75% of companies recovered from last year's say-on-pay failure

36%

Average year-over-year increase in shareholder support for companies failing in 2019

2020 support level for companies that failed in 2019*

Category	Value
Below 50%	25%
50% – Below 70%	15%
70% – Below 90%	28%
90% – 100%	32%

Most common compensation program changes disclosed after failed 2019 vote

Change	Value
Added new performance-based compensation	30%
Clearer CD&A/More award transparency	28%
Changed performance metric(s)	28%
Reduced pay or target pay	25%
Created more rigorous metrics	15%
Adjusted compensation mix	15%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team.

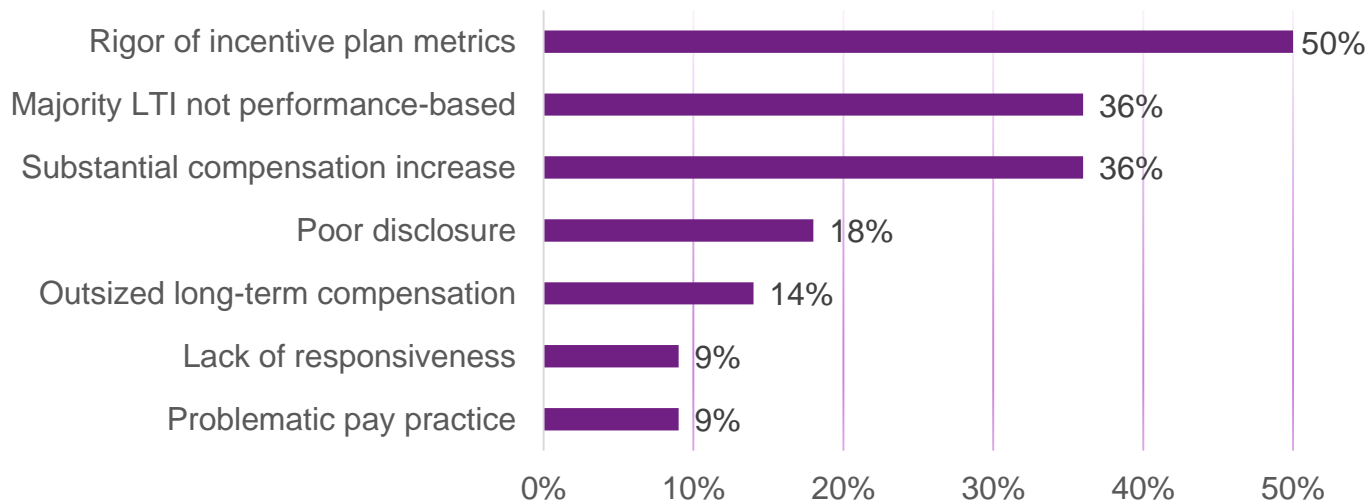*Based on 53 companies that failed in 2019 and have filed voting results for say on pay in 2020

40 companies failed say on pay for the first time in 2020
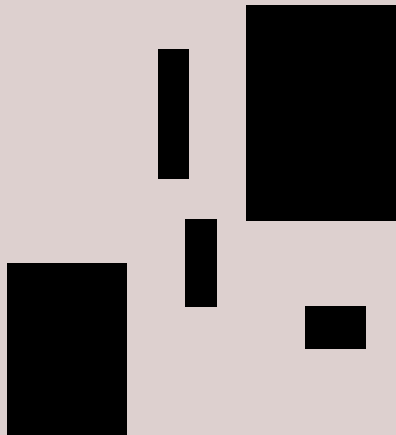
68%
of failures are *first-timers*

- 28% of first-time failures are from the health care industry followed by information technology (18%) and financials (15%)
- 55% of first-time failures are non-S&P 1500 companies, and 23% are S&P 500 companies

Common issues at first-time failures

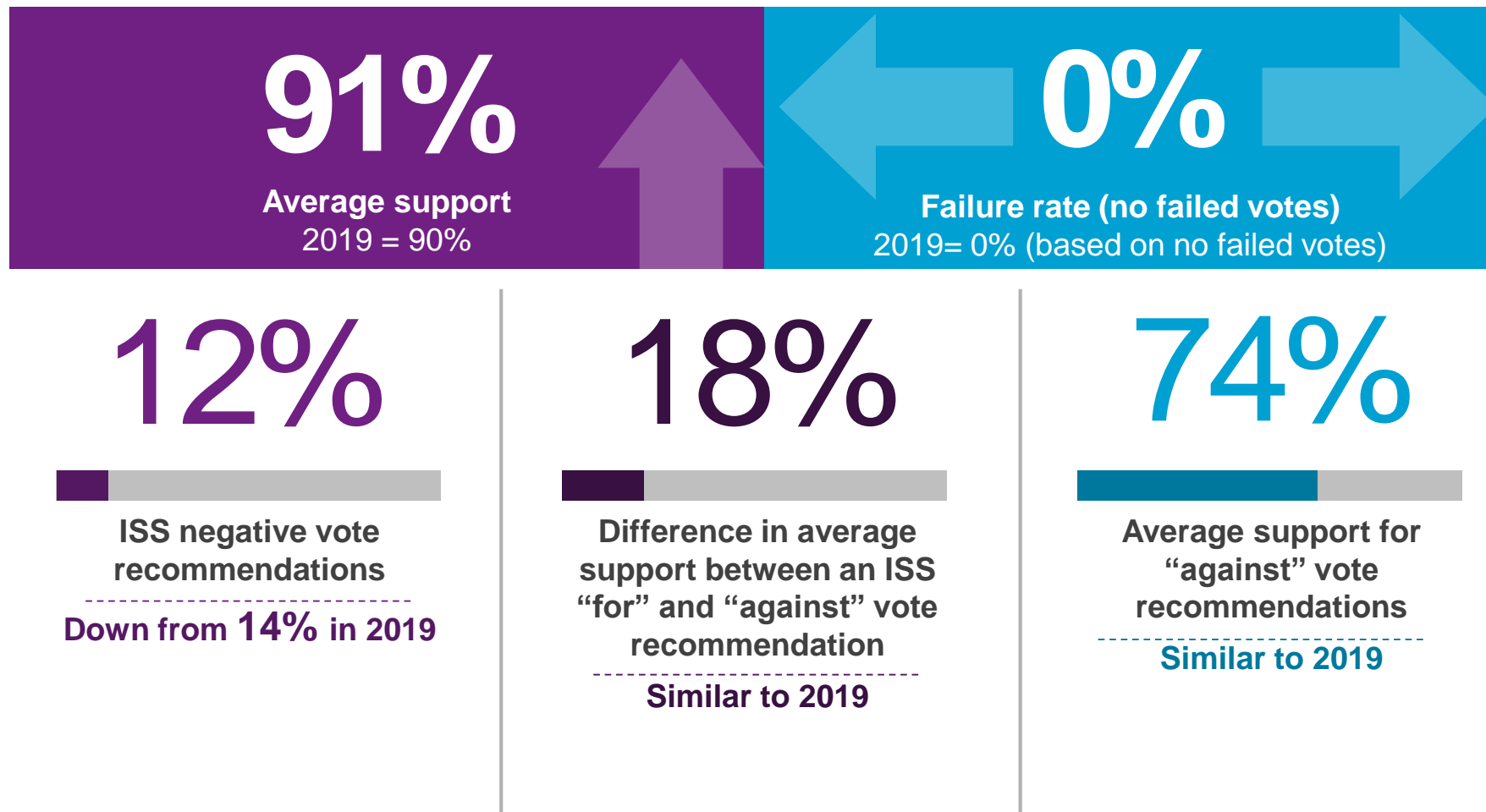| Issue	Percentage
Rigor of incentive plan metrics	50%
Majority LTI not performance-based	36%
Substantial compensation increase	36%
Poor disclosure	18%
Outsized long-term compensation	14%
Lack of responsiveness	9%
Problematic pay practice	9%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team review of 40 Russell 3000 companies that failed say on pay for the first time as of July 17, 2020. ISS areas of concern confirmed using ISS's Governance Analytics.

Equity plans

2020 S&P 1500 equity plan voting results snapshot
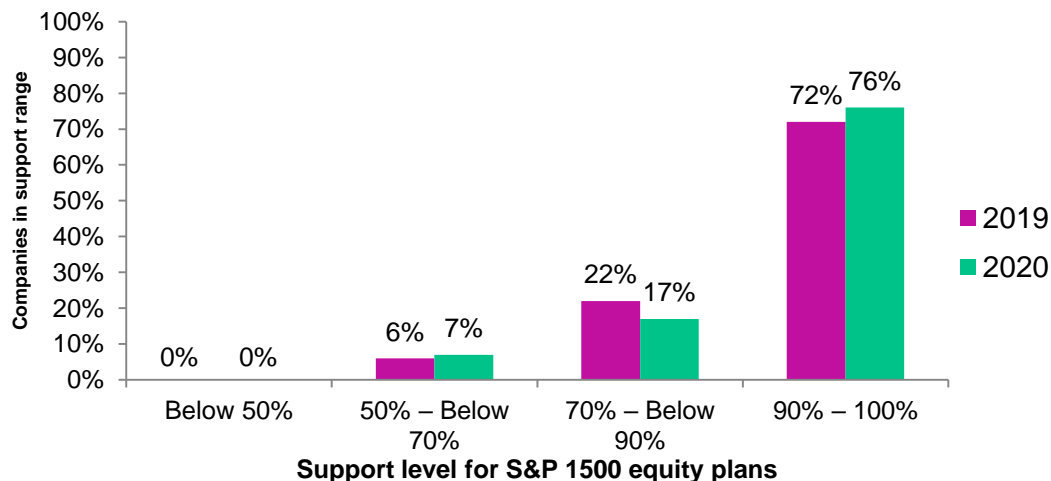
91%
Average support
2019 = 90%

0%
Failure rate (no failed votes)
2019= 0% (based on no failed votes)

12%
ISS negative vote recommendations
- -
Down from 14% in 2019

18%
Difference in average support between an ISS "for" and "against" vote recommendation
- -
Similar to 2019

74%
Average support for "against" vote recommendations
- -
Similar to 2019

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 384 S&P 1500 companies that had a new or materially amended plan with voting results from January 1, 2020, to December 31, 2020, and 277 companies in 2019. ISS recommendations confirmed using ISS' Governance Analytics.
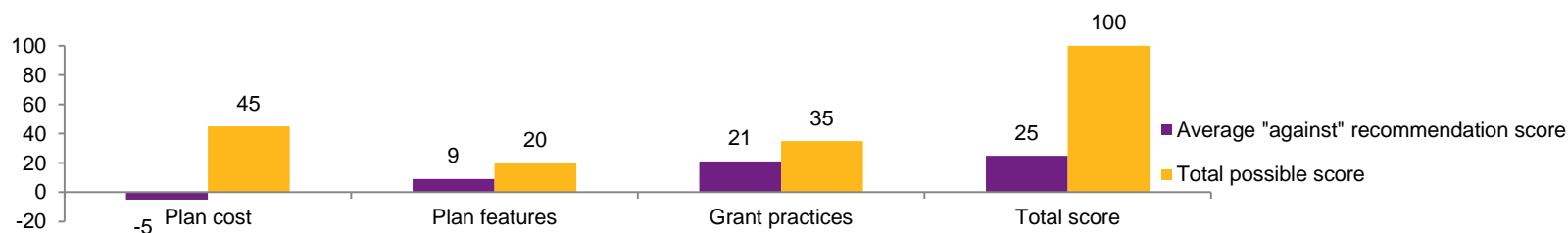
Spotlight on equity plans

93%
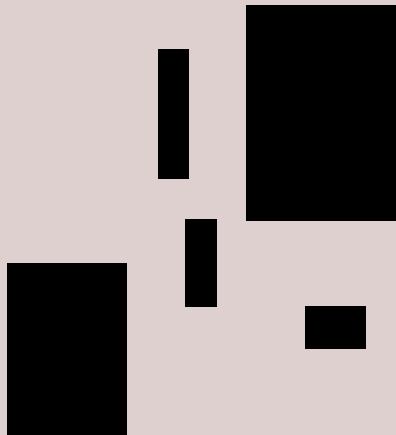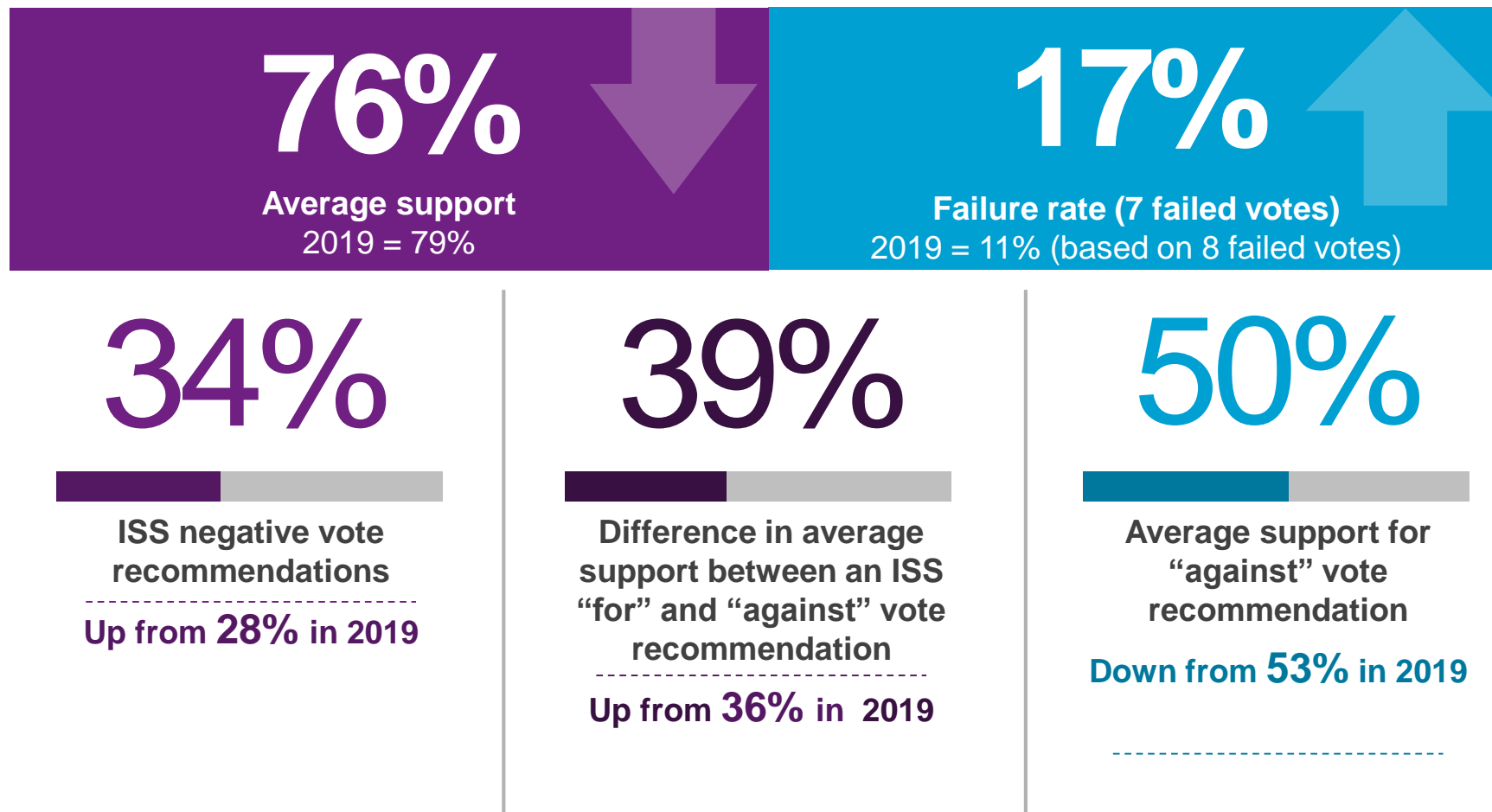S&P 1500 equity plans with support above 70% in 2020 (down from 94% in 2019)

Support level for S&P 1500 equity plans

Companies in support range:
- Below 50%: 2019 0%, 2020 0%
- 50% – Below 70%: 2019 6%, 2020 7%
- 70% – Below 90%: 2019 22%, 2020 17%
- 90% – 100%: 2019 72%, 2020 76%

Legend: 2019, 2020

Plan cost is the number one concern for those with "against" recommendations*

	Average "against" recommendation score	Total possible score
Plan cost	-5	45
Plan features	9	20
Grant practices	21	35
Total score	25	100

Say-on-parachutes

2020 say-on-parachute snapshot

76%
Average support
2019 = 79%

17%
Failure rate (7 failed votes)
2019 = 11% (based on 8 failed votes)

34%
ISS negative vote recommendations

Up from **28%** in 2019

39%
Difference in average support between an ISS "for" and "against" vote recommendation

Up from **36%** in 2019

50%
Average support for "against" vote recommendation
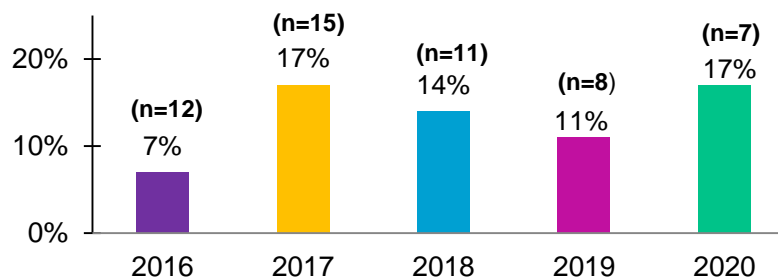
Down from **53%** in 2019

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 41 Russell 3000 companies holding a say-on-parachute vote from January 1, 2020, to December 31, 2020, and 72 Russell 3000 companies reporting results in 2019. ISS recommendations confirmed using ISS's Governance Analytics.

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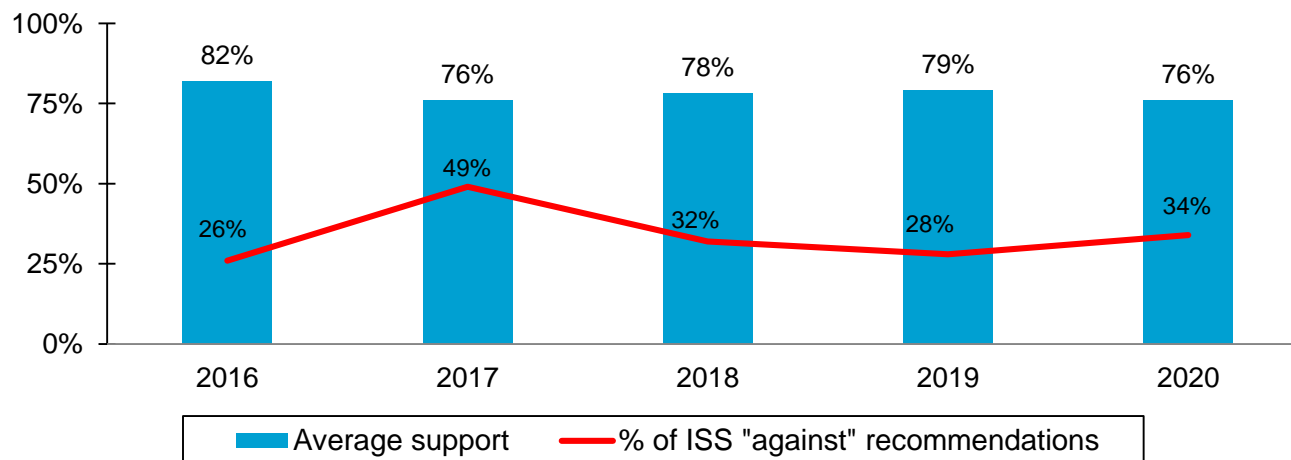
Say-on-parachute overview

79%

Average support for all say-on-parachute votes since the requirement was introduced (average support for related mergers was 97%)

Say-on-parachute failures by year

	2016	2017	2018	2019	2020
	(n=12)	(n=15)	(n=11)	(n=8)	(n=7)
	7%	17%	14%	11%	17%

ISS opposition to say-on-parachute resolutions increased in 2020

Say-on-parachute vote summary

	2016	2017	2018	2019	2020
Average support	82%	76%	78%	79%	76%
% of ISS "against" recommendations	26%	49%	32%	28%	34%

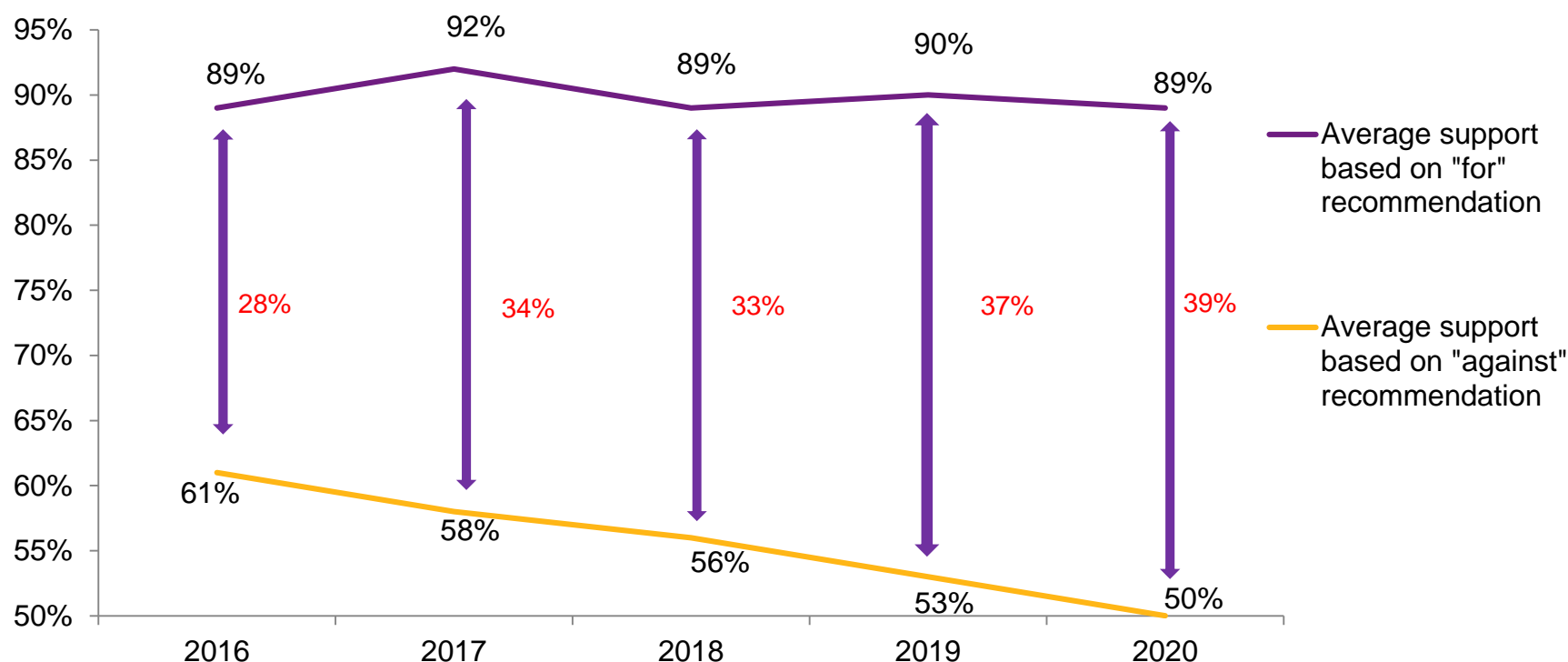■ Average support — % of ISS "against" recommendations

Source: Willis Towers Watson's Global Executive Compensation Analysis Team analysis of say-on-parachute votes at 460 Russell 3000 companies reporting results since 2016 (with 174 companies reporting in 2016, 174 in 2016, 81 in 2018, 72 in 2019 and 41 in 2020). ISS recommendations confirmed using ISS's Governance Analytics.

Say-on-parachute support
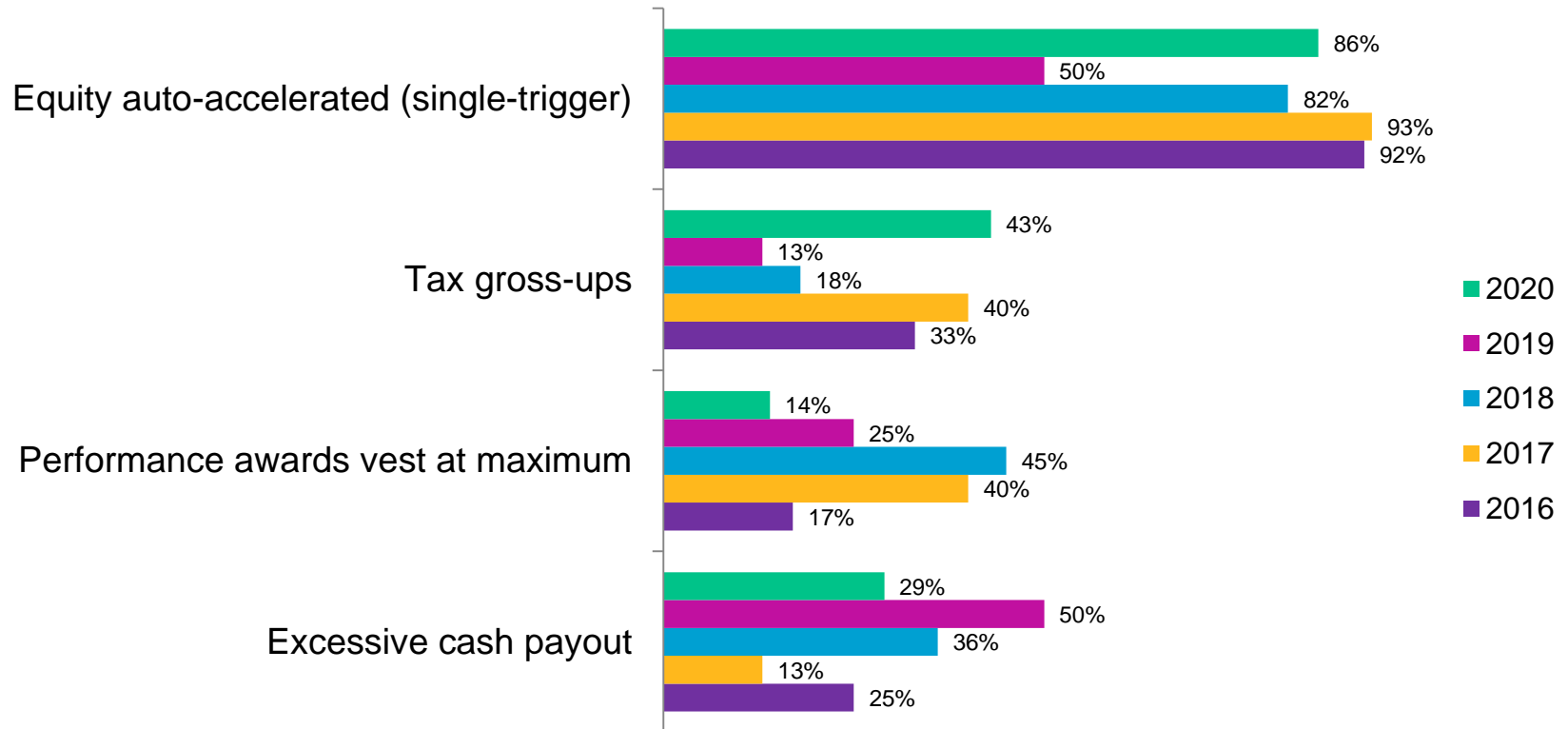
ISS impact remains strong in 2020

Difference in average support between "for" and "against" recommendations from ISS is the highest in 2020

Average support based on "for" recommendation

Average support based on "against" recommendation

2016: 89% / 61% / 28%
2017: 92% / 58% / 34%
2018: 89% / 56% / 33%
2019: 90% / 53% / 37%
2020: 89% / 50% / 39%

Source: Willis Towers Watson's Global Executive Compensation Analysis Team analysis of say-on-parachute votes at 460 Russell 3000 companies reporting results since 2016 (with 174 companies reporting in 2016, 174 in 2016, 81 in 2018, 72 in 2019 and 41 in 2020) . ISS recommendations confirmed using ISS's Governance Analytics.

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Areas of concern at failed say-on-parachute resolutions

Single-trigger vesting of awards is the main concern

Equity auto-accelerated (single-trigger)
- 2020: 86%
- 2019: 50%
- 2018: 82%
- 2017: 93%
- 2016: 92%

Tax gross-ups
- 2020: 43%
- 2019: 13%
- 2018: 18%
- 2017: 40%
- 2016: 33%

Performance awards vest at maximum
- 2020: 14%
- 2019: 25%
- 2018: 45%
- 2017: 40%
- 2016: 17%

Excessive cash payout
- 2020: 29%
- 2019: 50%
- 2018: 36%
- 2017: 13%
- 2016: 25%

Legend: ■ 2020 ■ 2019 ■ 2018 ■ 2017 ■ 2016

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of 7 Russell 3000 companies that failed say on parachute from January 1, 2020, to December 31, 2020 (8 in 2019 , 11 in 2018, 15 in 2017 and 12 in 2016). ISS areas of concern confirmed using ISS's Governance Analytics.
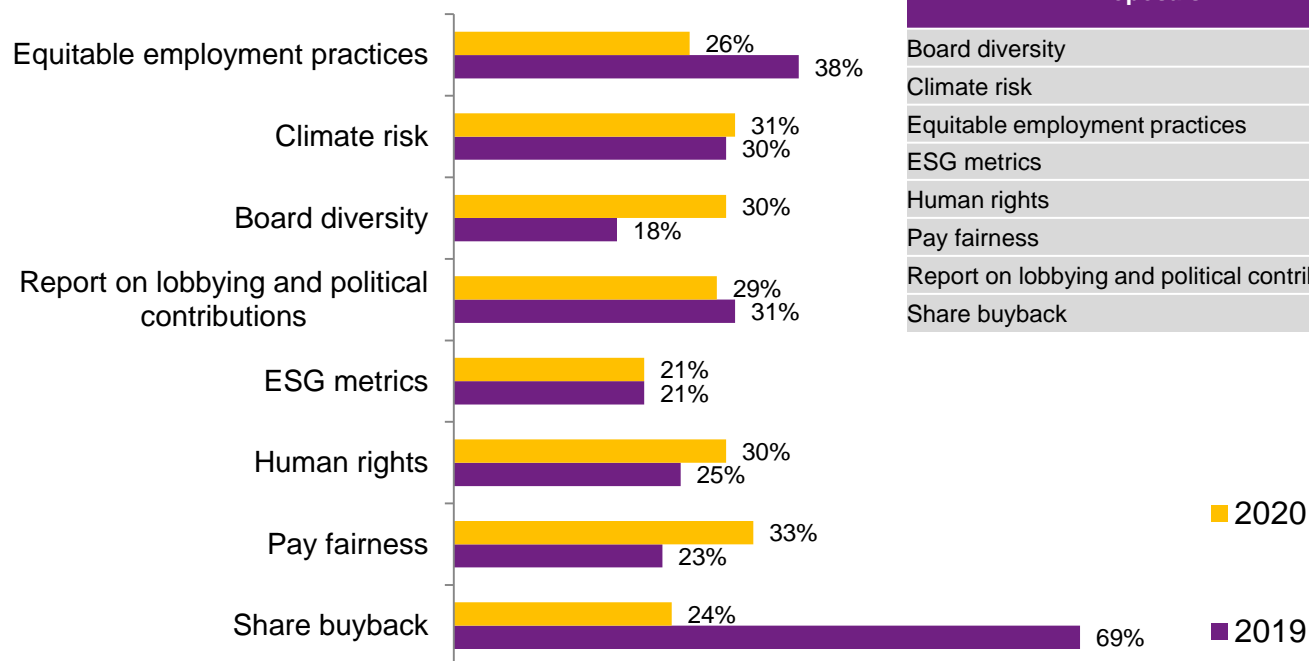
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ESG shareholder proposals
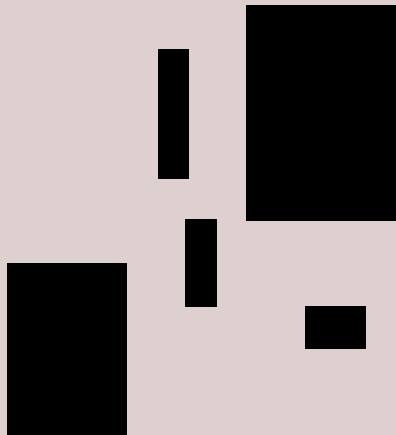
Environmental, social and governance (ESG) shareholder proposals

Increase in level of support for board diversity proposals

Consistent support for report on ESG metrics proposals

Average support for ESG proposals

Equitable employment practices: 26% (2020), 38% (2019)
Climate risk: 31% (2020), 30% (2019)
Board diversity: 30% (2020), 18% (2019)
Report on lobbying and political contributions: 29% (2020), 31% (2019)
ESG metrics: 21% (2020), 21% (2019)
Human rights: 30% (2020), 25% (2019)
Pay fairness: 33% (2020), 23% (2019)
Share buyback: 24% (2020), 69% (2019)

■ 2020
■ 2019

Proposals*	Filed		Voted	
	2020	2019	2020	2019
Board diversity	33	47	22	12
Climate risk	30	18	13	2
Equitable employment practices	21	17	8	8
ESG metrics	17	18	8	10
Human rights	52	41	24	18
Pay fairness	33	29	18	15
Report on lobbying and political contributions	43	39	29	25
Share buyback	16	11	10	4

*Difference between filed and voted proposals made by withdrawals

Source: Willis Towers Watson Global Executive Compensation Analysis Team analysis of executive compensation-related governance, social and environmental shareholder proposals voted in 2020 using ISS's Governance Analytics.

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