

“What’s Keeping Boards Up at Night”

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Current State

- Has your board and/or compensation committee asked about pay equity?
- Have you presented detailed findings to the board/compensation committee?
- What has been the board/committee's reaction to date?

What is driving board interest in topics beyond executive pay?



- Board members are monitoring these topics and/or specifically asking where their companies stand with respect to these issues
 - As board members engage directly with shareholders, awareness is increasing
 - As a result, the mandate of the compensation committee is evolving
- Discussions around the role of the compensation committee are taking place with greater prominence in external forums

A closer look: the BlackRock letter & human capital management

- BlackRock, one of the largest institutional investors, has kept the discussion of purpose, strategy, and human capital front and center

Key themes from Larry Fink's 2018 letter to CEOs

Strategy

Companies should articulate their strategy for long-term growth and regularly discuss it with shareholders

Social purpose

Companies must have a social purpose that benefits a variety of constituents

Long-term value creation

Important from two perspectives: that of the investor as fiduciary and that of companies to achieve their full potential

A closer look: the BlackRock letter & human capital management (cont'd)

- The broad topic of HCM can take many forms in shareholder discussions

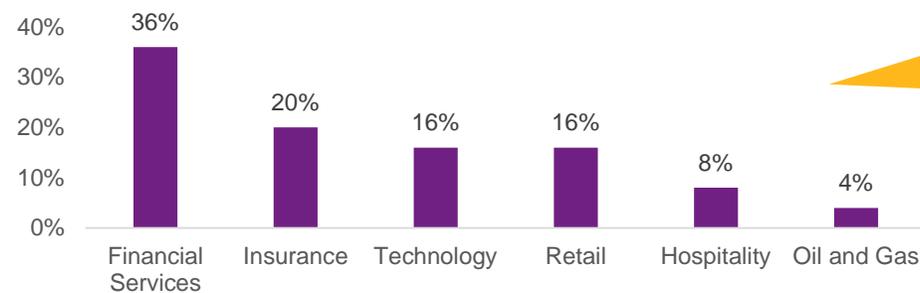
HCM topics* that investment managers may examine

- Employee engagement outcomes
- Gender and other diversity characteristics
- Employee turnover, hiring and retention
- Employee health and safety
- Linking HCM performance to executive compensation
- Fair labor practices
- Oversight of supply chain
- Ethics
- Company culture
- HCM risks as part of the risk management process

**Topics are expected to vary based on industry and audience (management or board)*

A closer look: shareholder proposals & ESG topics

- Shareholder proposal activity (ESG is mainly on diversity, pay equity, and sustainability)
 - ISS and Glass Lewis include this topic in their 2018 proxy voting guidelines
- 25 proposals¹ were filed in 2018 (Russell 3000 companies), even if fewer proposals went to a shareholder vote



- Continued focus on financial services and technology companies
- Investors casting wider net; including big players in insurance/healthcare and retail

1. ISS Governance Analytics database

A closer look: shareholder proposals & ESG topics (cont'd)

- Increased focus by institutional investors
 - \$1 of every \$4 under professional management is now in ESG space (~\$22 trillion)²
 - 60% of the investors think companies should disclose information on gender pay³
 - State Street, BlackRock, and others are proactive in their messaging and votes
- Disclosure of I&D and gender pay is already mandatory in some countries:
 - In the UK, the mandatory disclosure requirement went live in 2018 and several companies reported the wage gap between men and women
 - EU requires sustainability reports, which are to include diversity reporting

2. Survey by Morgan Stanley Institute for Sustainable Investing and Morgan Stanley Investment Management

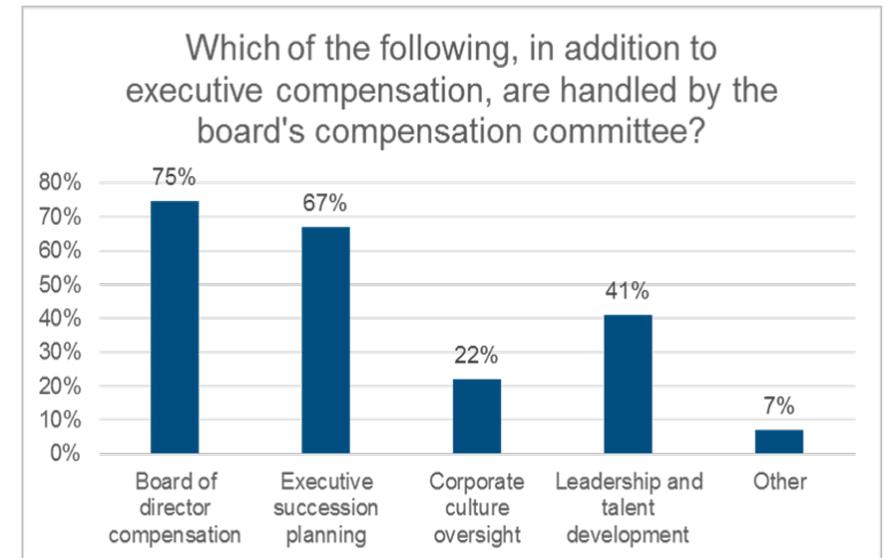
3. ISS Policy Application Survey 2017

The evolving compensation committee

In aggregate, these topics are driving compensation committees to reconsider their role in business risk and talent management

What compensation committees are considering:

- 1. Consideration of a broader remit:** Traditional focus was on the executives, but some compensation committees are considering revisions to committee charters to include the employee broader population
- 2. New focus on talent:** Compensation committees are the only board committee close to talent, so ESG activity on topics such as pay fairness is driving a new conversation
- 3. Consideration of new incentive metrics:** Tying executive pay to shareholder returns *and* positive impact on society



Source: Pearl Meyer On Point Survey

Expansion of compensation committee charters

| Company | Notable Provisions |
|--------------------|--|
| Alphabet | “The Committee will also broadly oversee matters relating to the attraction, motivation, development and retention of Employees” |
| Amazon | “...The Committee periodically receives and reviews reports on complaints, allegations, and incidents regarding workplace discrimination and harassment reported pursuant to the Code of Business Conduct and Ethics.” |
| Caterpillar | “The committee shall provide general oversight over the company’s policies and initiatives related to immigration, equal employment and equal opportunity, diversity and inclusion, and labor relations.” |
| JP Morgan | “Receive reports from management regarding significant conduct issues and any related employee actions, including compensation actions.” |
| Mastercard | “Periodically review key diversity initiatives and human resources policies and practices, including those related to organizational engagement and effectiveness and employee development programs.” |
| Pfizer | “Overseeing the administration of the Company’s cash-based and equity-based compensation plans that are shareholder approved and/or where participants include members of the ELT or Senior Leadership Council (SLC), including pay equality and non-discrimination by gender or against protected groups” |

Questions indicating I&D challenges may exist

CUSTOMER CONCERNS:

- Does the company reflect me and my values?
- Is this a company I feel good about supporting?
- How has the company responded publicly to issues related to I&D?

BOARD CONCERNS:

- What reputational risks are created by pay inequity
- Does investing in I&D make business sense for the company?
- How does I&D reflect the company's reputation in the market?
- Is the board diverse?

PEOPLE CONCERNS:

- Is the company attracting and retaining the right talent, especially from crucial talent segments?
- Do employees feel welcome and engaged at work?
- Are people operating at their highest potential?

MANAGEMENT CONCERNS:

- Are employees fairly evaluated?
- Does leadership makeup reflect that "everyone has a fair chance" at the company?
- Do unconscious biases exist?

CULTURE CONCERNS:

- Do employees feel that they can speak up at work?
- Is everyone entitled to "bring their whole self to work"?
- Are differences in the workplace valued?

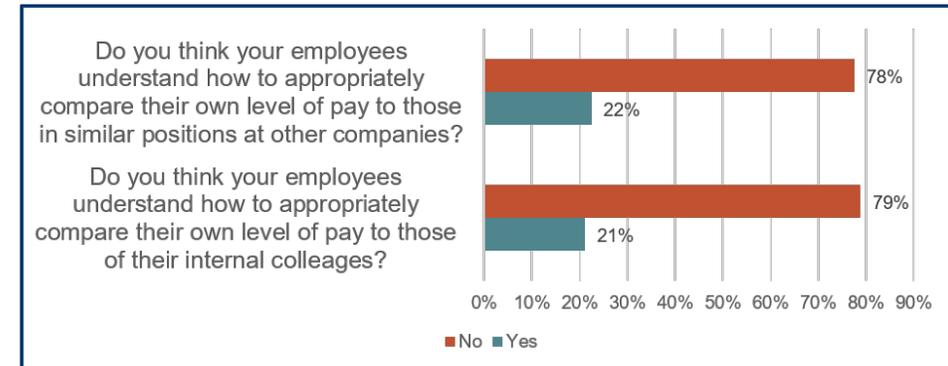


Get ahead of the narrative

- Know where you stand – continue to monitor your rewards programs so you are prepared for questions
 - Differentiate responses between pay gap and pay equity issues
- Take the initiative to inform the board that you are conducting these activities
 - Are there ways to tap into Board interest/experience/ expertise?

Communication matters

- With the board
 - High-level results (pay gap vs. pay equity)
 - Strategic responses
- With employees
 - Doing the “right things”
 - Opportunity to improve understanding about pay programs
 - Positive findings can help with recruiting and retention
- With the public (shareholders, customers, media, etc.)
 - Positive findings can enhance corporate reputation



Source: Pearl Meyer 2018 Communicating Compensation Survey



Questions?