

Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

**Pearl Meyer On Point:
Looking Ahead to Executive
Pay Practices in 2019**

Banking Edition



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Introduction

Pearl Meyer's "Looking Ahead to Executive Pay Practices – Banking Edition" is an annual online survey and serves as a valuable compensation planning tool. This year's survey was conducted in August and September of 2018, with input from 62 banks, including 40 publicly traded and 22 private. As with prior surveys, responses are broken out separately by company ownership type.

This year's survey addresses a number of fundamental compensation philosophy issues such as external benchmarking criteria and target pay positioning versus market. It also reports on expected pay outcomes for fiscal 2018 and projected pay opportunities for 2019, incentive plan design, and actions taken or anticipated in response to recent developments such as tax reform, gender pay equity discussions, and #metoo-related issues. Prevalence of and anticipated actions relating to redundant short-term and long-term incentive plan metrics are also explored for public company respondents.

Please feel free to contact me with any questions.

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Key Highlights

Compensation Committee Oversight Roles

- Compensation committee oversight responsibilities vary by ownership type. Pay is reviewed for all corporate officers by 33% of public company respondents compared with only 14% at privately held for-profit organizations.
 - Broader oversight typically correlates with company size—33% of respondents with assets greater than \$1B include all corporate officers versus 6% with assets of less than \$1B.
- Most committees (80%) are also responsible for non-employee director compensation and executive succession planning (71%), with 37% also overseeing leadership and talent development.
- Only 24% are currently involved in corporate culture oversight. Given the #metoo movement, we expect prevalence in this area to increase going forward.

Executive Compensation Philosophy

- Most respondents (62%) have a formal, written executive compensation philosophy. This prevalence is slightly higher for public companies (68%) versus non-public organizations (52%) and prevalence is also higher at larger banks (67% for banks greater than \$1B versus 50% of banks less than \$1B).
 - Twenty-one percent of respondents have an informal, undocumented philosophy.
 - Approximately 38% of non-public respondents do not have any compensation philosophy.
- When asked to rank the top three criteria for determining market benchmarking comparators, the most commonly cited response in rank order of importance are industry (74%), company size (57%), and geographic location (27%).
 - More than 75% of respondents did not list any of the following criteria among the top three: corporate governance practices, company performance, business model, or ownership type.
- Respondents are more likely to target base salaries at the 50th percentile than incentive compensation and total direct compensation.
 - Above median positioning for short-term incentives (STI), long-term incentives (LTI), and total direct compensation is more prevalent at larger banks and public banks.
- Most respondents (53%) did not make or don't anticipate changes to targeted positioning, while 33% increased pay positioning either due to competitive pressures or use of stretch goals and no respondents decreased targeted pay positioning.

Pay Projections

- Including 0% values, the average base salary increase projection for 2019 is 3.3% for the CEO and 3.5% for direct reports; median statistics remain at 3.0%, similar to prior years.
 - Projected increases for CEOs and direct reports at smaller banks are higher (3.9% and 4.8%, respectively) than those projected at the larger banks (3.1% for both the CEO and direct reports).
- Most respondents (73%) expect STI awards for 2018 to be at or above target, with only 2% forecasting no payout.

- Compared with 2017 actual awards, 53% of respondents expect similar annual incentive payouts for 2018; only 19% expect to pay out smaller incentive awards this year.
- Most respondents (76% of all respondents and 95% of public company respondents) expect 2019 grant date LTI award values to be similar or higher than 2018.

Tax Reform Impact

- Tax reform has not had a significant impact on executive compensation design or practices to date, as 55% of respondents are not making or considering any changes, 23% are considering some future action, and only 8% have actually made changes thus far.
- Most respondents (74%) have not made any changes to their incentive plan goal-setting and award determination process, although 16% expect to make greater use of discretionary assessments.

Annual Incentives

- Most companies (70% of the combined sample and 85% of public company respondents) have formulaic designs for senior executives with pre-defined weightings for metrics and award opportunities and a primary emphasis on corporate/business unit financial goals.
 - Prevalence of including individual goals for the CEO and direct reports is higher at larger banks and public banks.
- Approximately half of all respondents have made or are considering annual incentive plan design changes. The most common possibilities include adding new metrics (36%) and increasing the emphasis on objective metrics (17%).
- Nearly half of respondents (40%) tie a portion of annual incentives for senior executives to non-financial goals, with 22% using them as a moderating measure (i.e., to adjust award funding that is tied to objective financial goals up or down within a designated range).
 - Only 14% fund non-financial goals independently from other components and 5% require a minimum financial performance threshold to be met.
- Only 22% of respondents have formal provisions in the annual incentive plan to exclude unusual events from performance results, while most others (69%) may apply discretionary adjustments when deemed appropriate.
 - Almost half of respondents (45%) applied discretion to the most recent annual incentive payouts. Among those using discretion, the most common triggering events were changes in accounting or tax rules (56%) and non-recurring items/restructuring charges (36%).

Long-Term Incentives

- Long-term incentive (LTI) award vehicle prevalence varies by ownership type, with most public companies granting performance-based equity (60% of respondents) and/or time-based restricted stock/units (89%) to senior executives while private companies rely primarily on cash LTIP (43%).
 - Approximately 14% of private respondents grant time-based restricted stock/units and/or stock options.
 - Approximately 29% of private companies do not provide LTI awards to senior executives.
 - The emphasis on performance-based equity increases with company size—55% of respondents with assets above \$1B versus 6% with assets below \$1B.

- For respondents with LTI programs, 47% express LTI awards as a percentage of base salary, 12% as a fixed target dollar value, and 14% use fixed share grant guidelines.
 - Both public and private companies most commonly use salary multiples for senior executive LTI grants.
 - The use of a fixed number of shares is more prevalent at smaller banks (38%) whereas the majority of larger banks use salary multiples for senior executive LTI grants (55%).
 - For public company CEOs, the average target value mix projected for 2019 consists primarily of performance shares (48% weighting) and time-based restricted stock (42% weighting).
 - Performance-based cash represents 60% of the average LTI mix for private respondents.
 - Average overall weightings for direct reports are similar to those for CEOs.
- Among respondents who have made or are considering one or more LTI plan design modifications for 2019, the most common actions are adding new metrics (24%), changing weighting among existing metrics (9%), changing mix among existing award vehicles (7%), and increasing award opportunities (7%).
- Only 13% of respondents have formal provisions with LTI plans to adjust performance outcomes for unusual events, although 56% reserve the right to apply discretion as deemed appropriate.
 - Most respondents (75%) did not apply any discretion to the most recently completed LTI cycle where awards were tied to financial criteria. For those that did, the most common triggering events were non-recurring items/restructuring charges (56%), changes in accounting/tax rules (44%), and asset impairments (33%).

Gender Pay Equity and #MeToo Issues

- Approximately 44% of respondents plan to conduct a study on gender pay issues, with 31% focusing on the broader employee population and 13% limiting their review to management or senior executives.
- Only 9% of respondents have made or are considering changes to existing policies or agreements in response to the #metoo movement.
 - Seven percent of respondents (all of which are publicly traded) amended employment or severance arrangements and no respondents amended clawback policies to specifically include sexual misconduct.
 - Eleven percent of respondents reviewed existing arrangements but did not make any changes and 35% plan to review practices.



Redundant Incentive Plan Measures

- Most respondents include multiple financial performance metrics within STI plans (78%) and LTI plans (55%), with 28% using the same or similar metrics within both plans.
 - Prevalence of this practice is fairly consistent across ownership types and all sized banks.
- For respondents with redundant metrics, 60% use different measurement periods for STI versus LTI plans, while 40% use similar time frames.
- Most respondents with redundant metrics have maintained their incentive plan designs over multiple years (five or more years for 53% of these companies). Approximately 47% do not plan any changes, although 40% are unsure about potential changes.
- Among respondents considering design changes, most cite concerns with the effectiveness of existing metrics as opposed to proxy advisor feedback.



Compensation Committee Governance and Executive Pay Philosophy

Table 1	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which executive positions does your board's compensation committee review?						
CEO	79.9%	83.9%	81.3%	84.8%	86.4%	82.5%
All other named executive officers	65.9%	69.4%	68.8%	69.6%	54.5%	77.5%
Direct reports to the CEO	50.5%	43.5%	31.3%	47.8%	36.4%	47.5%
All Section 16 officers	38.1%	25.8%	6.3%	32.6%	13.6%	32.5%
Other	9.5%	9.7%	6.3%	10.9%	13.6%	7.5%
Which of the following tasks, in addition to executive compensation, are handled by the board's compensation committee?						
Board of director compensation	74.8%	79.7%	73.3%	81.8%	65.0%	87.2%
Executive succession planning	67.1%	71.2%	60.0%	75.0%	70.0%	71.8%
Corporate culture oversight	22.1%	23.7%	26.7%	22.7%	30.0%	20.5%
Leadership and talent development	41.1%	37.3%	33.3%	38.6%	40.0%	35.9%
Other	7.0%	8.5%	6.7%	9.1%	10.0%	7.7%
Does your company have an executive compensation philosophy?						
Yes, we have a formal documented philosophy	61.9%	62.3%	50.0%	66.7%	52.4%	67.5%
Yes, but it is an informal, unwritten philosophy	27.0%	21.3%	6.3%	26.7%	9.5%	27.5%
No	11.1%	16.4%	43.8%	6.7%	38.1%	5.0%



Compensation Committee Governance and Executive Pay Philosophy

Table 2	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which of the following criteria are most important to evaluate comparable organizations for market benchmarking?						
Industry						
Most Important	62.7%	74.2%	68.8%	76.1%	86.4%	67.5%
2nd Most Important	17.9%	8.1%		10.9%	4.5%	10.0%
3d Most Important	5.7%	1.6%		2.2%		2.5%
Not Selected	13.6%	16.1%	31.3%	10.9%	9.1%	20.0%
Company Size						
Most Important	17.9%	11.3%	25.0%	6.5%	9.1%	12.5%
2nd Most Important	47.0%	56.5%	31.3%	65.2%	50.0%	60.0%
3rd Most Important	14.7%	16.1%	6.3%	19.6%	18.2%	15.0%
Not Selected	20.4%	16.1%	37.5%	8.7%	22.7%	12.5%
Company Performance						
Most Important	2.5%					
2nd Most Important	5.0%	4.8%	6.3%	4.3%		7.5%
3rd Most Important	12.2%	19.4%	12.5%	21.7%	18.2%	20.0%
Not Selected	80.3%	75.8%	81.3%	73.9%	81.8%	72.5%
Geographic Location						
Most Important	0.7%	1.6%	6.3%			2.5%
2nd Most Important	3.9%	9.7%	18.8%	6.5%	18.2%	5.0%
3rd Most Important	11.5%	27.4%	43.8%	21.7%	45.5%	17.5%
Not Selected	83.9%	61.3%	31.3%	71.7%	36.4%	75.0%
Business Model						
Most Important	2.2%	3.2%		4.3%		5.0%
2nd Most Important	7.5%	9.7%	18.8%	6.5%	9.1%	10.0%
3rd Most Important	13.6%	11.3%		15.2%		17.5%
Not Selected	76.7%	75.8%	81.3%	73.9%	90.9%	67.5%
Corporate Governance Practices						
Most Important						
2nd Most Important	0.7%					
3rd Most Important						
Not Selected	99.3%	100.0%	100.0%	100.0%	100.0%	100.0%



Compensation Committee Governance and Executive Pay Philosophy

Table 2	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which of the following criteria are most important to evaluate comparable organizations for market benchmarking?						
Ownership Type (Public, Private, Non-Profit)						
Most Important	3.2%					
2nd Most Important	3.9%					
3rd Most Important	16.1%	6.5%		8.7%	4.5%	7.5%
Not Selected	76.7%	93.5%	100.0%	91.3%	95.5%	92.5%
Peers Used by Analysts/Advisory Groups						
Most Important	6.5%	8.1%		10.9%	4.5%	10.0%
2nd Most Important	9.3%	9.7%	25.0%	4.3%	18.2%	5.0%
3rd Most Important	18.6%	12.9%	31.3%	6.5%	9.1%	15.0%
Not Selected	65.6%	69.4%	43.8%	78.3%	68.2%	70.0%
Other						
Most Important	0.7%					
2nd Most Important	0.7%					
3rd Most Important	1.4%	1.6%		2.2%		2.5%
Not Selected	97.1%	98.4%	100.0%	97.8%	100.0%	97.5%
Not Applicable						
Most Important	0.4%					
2nd Most Important						
3rd Most Important	1.4%	1.6%	6.3%		4.5%	
Not Selected	98.2%	98.4%	93.8%	100.0%	95.5%	100.0%
Other options answered above						
Most Important						
2nd Most Important						
3rd Most Important						
Not Selected	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



Compensation Committee Governance and Executive Pay Philosophy

Table 3	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	280	62	16	46	22	40
Where does your organization target executive compensation vs. the external market?						
Base Salary						
At or Near 25th Percentile	3.0%	5.3%	6.3%	4.9%	5.0%	5.4%
Between 25th and 50th Percentiles	5.7%	5.3%		7.3%		8.1%
At 50th Percentile	64.4%	49.1%	37.5%	53.7%	55.0%	45.9%
Between 50th and 75th Percentiles	14.0%	22.8%	18.8%	24.4%	15.0%	27.0%
At or Near 75th Percentile	7.2%	10.5%	25.0%	4.9%	15.0%	8.1%
No Targeted Positioning/Not Applicable	5.7%	7.0%	12.5%	4.9%	10.0%	5.4%
Short-Term Incentives						
At or Near 25th Percentile	1.2%	1.8%		2.5%		2.8%
Between 25th and 50th Percentiles	5.1%	5.5%	6.7%	5.0%		8.3%
At 50th Percentile	56.6%	52.7%	46.7%	55.0%	68.4%	44.4%
Between 50th and 75th Percentiles	21.5%	20.0%	13.3%	22.5%	10.5%	25.0%
At or Near 75th Percentile	4.7%	9.1%	13.3%	7.5%	10.5%	8.3%
No Targeted Positioning/Not Applicable	10.9%	10.9%	20.0%	7.5%	10.5%	11.1%
Long-Term Incentives						
At or Near 25th Percentile	1.9%	1.9%		2.5%		2.7%
Between 25th and 50th Percentiles	3.9%					
At 50th Percentile	47.9%	44.4%	21.4%	52.5%	47.1%	43.2%
Between 50th and 75th Percentiles	22.2%	25.9%	21.4%	27.5%	11.8%	32.4%
At or Near 75th Percentile	10.1%	13.0%	28.6%	7.5%	17.6%	10.8%
No Targeted Positioning/Not Applicable	14.0%	14.8%	28.6%	10.0%	23.5%	10.8%



Compensation Committee Governance and Executive Pay Philosophy

Table 3	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	280	62	16	46	22	40
Where does your organization target executive compensation vs. the external market?						
Total Direct Compensation						
At or Near 25th Percentile	1.2%	1.7%		2.3%		2.6%
Between 25th and 50th Percentiles	5.0%	5.0%	12.5%	2.3%	4.5%	5.3%
At 50th Percentile	50.4%	40.0%	25.0%	45.5%	40.9%	39.5%
Between 50th and 75th Percentiles	24.4%	28.3%	12.5%	34.1%	13.6%	36.8%
At or Near 75th Percentile	9.3%	13.3%	25.0%	9.1%	22.7%	7.9%
No Targeted Positioning/Not Applicable	9.7%	11.7%	25.0%	6.8%	18.2%	7.9%
Has your organization recently made, or plans on making, changes to targeted pay positioning for executives?						
We've increased targeted pay positioning due to competitive pressures	10.4%	14.8%	12.5%	15.6%	13.6%	15.4%
Increased due to use of stretch goals or heavy emphasis on performance-based pay	12.3%	14.8%	6.3%	17.8%	4.5%	20.5%
We've decreased targeted pay positioning due to external scrutiny/regulatory developments	1.1%					
Decreased due to cost constraints/market conditions	2.2%					
No change made or planned	61.2%	52.5%	56.3%	51.1%	50.0%	53.8%
Unsure	8.6%	14.8%	25.0%	11.1%	31.8%	5.1%
Increased/decreased due to other	4.1%	3.3%		4.4%		5.1%



Pay Projections

Table 4	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
What is your organization's anticipated average base salary percentage increase (excluding promotional increases) for the upcoming year for the CEO?	3.1%	3.3%	3.9%	3.1%	3.0%	3.4%
What is your organization's anticipated average base salary percentage increase (excluding promotional increases) for the upcoming year for the CEO's direct reports?	3.2%	3.5%	4.8%	3.1%	3.4%	3.6%
Based on 2018 financial results (year-to-date and projected), how do you expect annual incentives earned in Fiscal 2018 to compare to 2018 "target" annual incentive opportunities?						
Significantly above target (+120% of target to maximum)	11.0%	6.8%	12.5%	4.7%	15.0%	2.6%
Above target (101% to 120%)	25.5%	28.8%	37.5%	25.6%	30.0%	28.2%
Target (100%)	28.2%	37.3%	18.8%	44.2%	35.0%	38.5%
Below target (80% to 99%)	22.4%	13.6%	12.5%	14.0%	10.0%	15.4%
Significantly below target (less than 80%)	7.8%	5.1%	6.3%	4.7%	5.0%	5.1%
No payout (0%)	0.8%	1.7%	6.3%			2.6%
Not applicable (we do not have target award opportunities)	4.3%	6.8%	6.3%	7.0%	5.0%	7.7%
Based on 2018 financial results (year-to-date and projected), how do you expect annual incentives earned in Fiscal 2018 to compare with actual awards earned in Fiscal 2017?						
Higher	24.5%	28.8%	31.3%	27.9%	25.0%	30.8%
About the same	47.4%	52.5%	43.8%	55.8%	60.0%	48.7%
Lower	26.1%	18.6%	25.0%	16.3%	15.0%	20.5%
Not applicable	2.0%					
How do you expect the grant date value of the next long-term incentive awards for executives (likely set in early 2019) to compare to early 2018 awards?						
Considerably higher than 2018	2.4%	1.7%		2.3%		2.6%
Somewhat higher than 2018	23.9%	35.6%	18.8%	41.9%	20.0%	43.6%
About the same as 2018	51.4%	39.0%	37.5%	39.5%	20.0%	48.7%
Lower than 2018	6.3%	3.4%		4.7%		5.1%
Considerably lower than 2018	1.2%					
Not applicable	14.9%	20.3%	43.8%	11.6%	60.0%	



Tax Reform Impact

Table 5	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Have the new tax laws under the Tax Cuts and Jobs Act changed your company's approach to executive compensation?						
Yes	3.5%	8.3%	12.5%	6.8%	14.3%	5.1%
No	68.5%	55.0%	75.0%	47.7%	57.1%	53.8%
Not yet, but may in the future	15.0%	23.3%	12.5%	27.3%	9.5%	30.8%
Unsure	13.1%	13.3%		18.2%	19.0%	10.3%
How have tax law changes impacted, or are likely to impact, your company's executive pay mix and practices?						
Increased emphasis on "non-performance-based" pay (e.g., base salary, time-based restricted stock)	10.9%	10.5%	0.0%	13.3%	0.0%	14.3%
Decreased emphasis on stock options	13.0%	15.8%	0.0%	20.0%	0.0%	21.4%
Increased emphasis on other "performance-based" pay (e.g., short-term incentives or long-term incentives tied to objective goals)	41.3%	52.6%	75.0%	46.7%	60.0%	50.0%
Lengthened long-term incentive award vesting periods	6.5%	10.5%	25.0%	6.7%	40.0%	0.0%
No changes to executive pay mix and practices were made or are anticipated	50.0%	42.1%	25.0%	46.7%	40.0%	42.9%
Other	4.3%	0.0%	0.0%	0.0%	0.0%	0.0%
How have tax law changes impacted, or how are they likely to impact, your company's incentive plan goal-setting and award determination practices?						
Increased use of non-formulaic performance metrics	8.7%	5.3%	0.0%	6.7%	0.0%	7.1%
Relaxed (expanded) timing of when goals are finalized	4.3%	5.3%	0.0%	6.7%	0.0%	7.1%
Eliminated use of "umbrella" plans or minimum "enabling" formulas for award funding	4.3%	5.3%	0.0%	6.7%	0.0%	7.1%
Increased use of discretionary award determinations	17.4%	15.8%	50.0%	6.7%	40.0%	7.1%
No changes to incentive plan goal-setting and award determination practices were made or are anticipated	67.4%	73.7%	50.0%	80.0%	60.0%	78.6%
Other	10.9%	0.0%	0.0%	0.0%	0.0%	0.0%



Tax Reform Impact

Table 5	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
What adjustments, if any, has your company made, or expects to make, for outstanding long-term incentives tied to multi-year financial goals that were granted prior to 2018?						
Adjust goals to fully exclude tax law change impact	10.6%	15.8%	25.0%	13.3%	20.0%	14.3%
Adjust goals to partially exclude tax law change impact	4.3%	5.3%		6.7%		7.1%
Maintain original goals with no anticipated discretion applied	4.3%	5.3%	25.0%		20.0%	
Maintain original goals and use discretion for award determinations	14.9%	26.3%	25.0%	26.7%	20.0%	28.6%
No adjustments for outstanding long-term incentives tied to multi-year financial goals were made or are expected	57.4%	47.4%	25.0%	53.3%	40.0%	50.0%
Other	8.5%					



Annual Incentives

Table 6	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which of the following statements best describes the structure of your organization's current short-term incentive (bonus) plan?						
We have pre-established target award opportunities and assigned weightings for performance metrics	79.1%	70.0%	50.0%	77.3%	42.9%	84.6%
We have pre-established target award opportunities but no pre-assigned weightings for performance metrics	9.3%	15.0%	25.0%	11.4%	28.6%	7.7%
An aggregate award pool is funded based on performance and allocated equitably among participants	4.7%	5.0%	12.5%	2.3%	14.3%	
We do not have pre-established target award opportunities or assigned weightings for performance metrics	3.9%	5.0%	6.3%	4.5%	9.5%	2.6%
Not applicable we do not have a short-term incentive plan	3.1%	5.0%	6.3%	4.5%	4.8%	5.1%
If your organization has a formulaic short-term incentive plan, what are the approximate weightings (out of 100%) for each of the following performance metric categories (in 2018 and 2019) for senior executives? Please use 0% for inapplicable categories.						
CEO - 2018						
Corporate/Business Unit: Financial/Objective	78.9%	83.6%	93.3%	81.7%	84.3%	83.4%
Corporate/Business Unit: Non-Financial/Discretionary	11.3%	8.1%	5.0%	8.7%	12.9%	6.9%
Individual Goals	9.6%	8.3%	1.7%	9.7%	2.9%	9.7%
Total	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%
CEO - 2019 (anticipated)						
Corporate/Business Unit: Financial/Objective	79.7%	83.1%	93.3%	81.0%	84.3%	82.8%
Corporate/Business Unit: Non-Financial/Discretionary	10.5%	8.3%	5.0%	9.0%	12.9%	7.2%
Individual Goals	9.6%	8.6%	1.7%	10.0%	2.9%	10.0%
Total	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%



Annual Incentives

Table 6	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
If your organization has a formulaic short-term incentive plan, what are the approximate weightings (out of 100%) for each of the following performance metric categories (in 2018 and 2019) for senior executives? Please use 0% for inapplicable categories.						
CEO Direct Reports - 2018						
Corporate/Business Unit: Financial/Objective	75.9%	78.1%	92.0%	75.7%	86.7%	76.3%
Corporate/Business Unit: Non-Financial/Discretionary	12.4%	6.9%	6.0%	7.1%	8.3%	6.7%
Individual Goals	11.5%	15.0%	2.0%	17.2%	5.0%	17.1%
Total	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%
CEO Direct Reports - 2019 (anticipated)						
Corporate/Business Unit: Financial/Objective	76.0%	76.9%	92.0%	74.4%	82.5%	75.8%
Corporate/Business Unit: Non-Financial/Discretionary	12.4%	9.4%	6.0%	9.9%	12.5%	8.7%
Individual Goals	11.4%	13.7%	2.0%	15.7%	5.0%	15.5%
Total	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%



Annual Incentives

Table 7	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which of the following actions (if any) has your organization recently taken, or intends to take, within the short-term incentive plan for senior executives?						
Added new financial metrics	23.2%	27.6%	31.3%	26.2%	38.1%	21.6%
Added new non-financial metrics	10.8%	8.6%	12.5%	7.1%	14.3%	5.4%
Increased the emphasis on objective performance metrics	15.2%	17.2%	12.5%	19.0%	19.0%	16.2%
Increased the emphasis on discretionary metrics	2.4%	5.2%	18.8%	0.0%	14.3%	0.0%
Increased the emphasis on individual performance	8.0%	6.9%	6.3%	7.1%	4.8%	8.1%
Widened performance range spreads (e.g., +/- percentage spread vs. target goal)	10.8%	3.4%	6.3%	2.4%	9.5%	0.0%
Narrowed performance range spreads	4.4%	5.2%	0.0%	7.1%	4.8%	5.4%
Increased award opportunities	8.8%	8.6%	6.3%	9.5%	9.5%	8.1%
Decreased award opportunities	1.2%	1.7%	6.3%	0.0%	4.8%	0.0%
Not applicable - no design changes made or contemplated	43.6%	44.8%	25.0%	52.4%	23.8%	56.8%
Not applicable - no short-term incentive plan for senior executives	2.0%	5.2%	18.8%	0.0%	9.5%	2.7%
Unsure	7.2%	8.6%	12.5%	7.1%	14.3%	5.4%
If your organization includes non-financial metrics within the senior executive short-term incentive plan, how do they impact award funding?						
Non-financial metrics are separately funded, but only if some minimum level of corporate performance is achieved	10.3%	5.2%		7.1%	4.8%	5.4%
Non-financial metrics are separately funded, with no requirement for a minimum level of corporate performance	16.5%	8.6%	12.5%	7.1%	9.5%	8.1%
Award based on financial metrics; non-financial metrics used as multiplier to adjust award up/down within range	18.9%	22.4%	37.5%	16.7%	14.3%	27.0%
Not applicable	43.6%	48.3%	37.5%	52.4%	52.4%	45.9%
Unsure	8.2%	12.1%	12.5%	11.9%	19.0%	8.1%
Other	2.5%	3.4%		4.8%		5.4%



Annual Incentives

Table 7	Total	Banking	Asset Size		Form of Ownership	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Does your organization's annual incentive plan include formal provisions for excluding unusual events when assessing performance results?						
No formal provisions in plan company addresses any potential adjustments on an as-needed basis	54.6%	69.0%	68.8%	69.0%	61.9%	73.0%
No formal provisions in plan company does not make adjustments to plan	4.8%	1.7%	6.3%			2.7%
Yes, annual incentive plan includes formal provisions	35.3%	22.4%	25.0%	21.4%	23.8%	21.6%
Unsure	5.2%	6.9%		9.5%	14.3%	2.7%
For the most recent annual incentive payout, did the company make any discretionary adjustments for certain financial items?						
Yes	32.5%	44.8%	50.0%	42.9%	33.3%	51.4%
No	59.5%	48.3%	50.0%	47.6%	52.4%	45.9%
Unsure	7.9%	6.9%		9.5%	14.3%	2.7%
What events or changes warranted the use of discretion in the annual plan payment?						
Asset write-downs/goodwill impairment	24.1%	20.0%	12.5%	23.5%	14.3%	22.2%
Non-recurring items/restructuring charges	51.9%	36.0%	0.0%	52.9%	0.0%	50.0%
Share buy-backs	3.8%	8.0%	0.0%	11.8%	0.0%	11.1%
Changes in tax/accounting rules	38.0%	56.0%	50.0%	58.8%	57.1%	55.6%
Extraordinary changes in interest rates	3.8%	4.0%	0.0%	5.9%	0.0%	5.6%
Extraordinary (unplanned) foreign exchange (FX) changes	11.4%	4.0%	0.0%	5.9%	0.0%	5.6%
Other	30.4%	24.0%	50.0%	11.8%	42.9%	16.7%
What is the anticipated level of discretionary adjustments for Fiscal 2018 award determinations as compared with Fiscal 2017?						
Increase in positive discretion	7.2%	12.3%	12.5%	12.2%	15.0%	10.8%
Decrease in positive discretion	4.0%	5.3%	12.5%	2.4%	10.0%	2.7%
Increase in negative discretion	0.4%					
About the same level of discretion	40.2%	42.1%	50.0%	39.0%	45.0%	40.5%
Not applicable - no discretionary adjustments are anticipated	34.9%	28.1%	18.8%	31.7%	15.0%	35.1%
Unsure	13.3%	12.3%	6.3%	14.6%	15.0%	10.8%



Long-Term Incentives (LTIs)

Table 8	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which of the following LTI award vehicles does your organization grant to senior executives?						
Stock options	41.4%	27.6%	37.5%	23.8%	14.3%	35.1%
Time-based restricted stock/units	65.7%	62.1%	37.5%	71.4%	14.3%	89.2%
Performance-based stock/units	57.4%	41.4%	6.3%	54.8%	9.5%	59.5%
Performance-based cash	21.5%	20.7%	37.5%	14.3%	42.9%	8.1%
Phantom stock	6.0%	3.4%	6.3%	2.4%	4.8%	2.7%
Not applicable	8.4%	12.1%	12.5%	11.9%	28.6%	2.7%
Other	3.6%	6.9%	12.5%	4.8%	14.3%	2.7%
How are target grant levels for senior executives determined?						
Target LTI award values expressed as a percentage of base salary	37.1%	46.6%	25.0%	54.8%	33.3%	54.1%
Target LTI award values expressed as a fixed dollar value	33.9%	12.1%		16.7%	4.8%	16.2%
Fixed number of shares (grant guidelines)	10.8%	13.8%	37.5%	4.8%	9.5%	16.2%
Award pool allocation	4.0%	8.6%	18.8%	4.8%	9.5%	8.1%
Not applicable	11.2%	17.2%	18.8%	16.7%	42.9%	2.7%
Other	3.2%	1.7%		2.4%		2.7%

Long-Term Incentives (LTIs)

Table 8	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
If your organization uses pre-established target values for LTI grants, what are the approximate weightings (out of 100%) for each of the following LTI award vehicles (in 2018 and 2019) for senior executives? Please enter 0% for inapplicable categories.						
CEO - 2018						
Stock Options	13.6%	8.2%	0.0%	9.1%	0.0%	10.2%
Time-Based Restricted Stock/Units	30.4%	37.1%	33.3%	37.5%	17.8%	41.9%
Performance-Based Stock/Units	39.0%	39.5%	0.0%	43.9%	5.8%	47.9%
Performance Cash Awards	14.2%	11.9%	66.7%	5.9%	59.7%	0.0%
Phantom Stock	2.8%	3.3%	0.0%	3.7%	16.7%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CEO - 2019 (anticipated)						
Stock Options	13.2%	7.9%	0.0%	8.8%	0.0%	9.8%
Time-Based Restricted Stock/Units	29.0%	32.7%	33.3%	32.6%	18.0%	36.2%
Performance-Based Stock/Units	40.6%	43.1%	0.0%	47.7%	5.8%	52.0%
Performance Cash Awards	14.5%	13.1%	66.7%	7.4%	59.5%	2.0%
Phantom Stock	2.8%	3.2%	0.0%	3.6%	16.7%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CEO Direct Reports - 2018						
Stock Options	13.3%	10.8%	0.0%	12.0%	0.0%	13.5%
Time-Based Restricted Stock/Units	32.6%	36.8%	33.3%	37.2%	18.3%	41.5%
Performance-Based Stock/Units	37.1%	35.0%	0.0%	38.9%	3.2%	42.9%
Performance Cash Awards	14.3%	14.0%	66.7%	8.2%	61.8%	2.1%
Phantom Stock	2.7%	3.3%	0.0%	3.7%	16.7%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
CEO Direct Reports - 2019 (anticipated)						
Stock Options	12.8%	10.5%	0.0%	11.6%	0.0%	13.0%
Time-Based Restricted Stock/Units	31.0%	34.7%	33.3%	34.8%	18.3%	38.6%
Performance-Based Stock/Units	38.2%	35.3%	0.0%	39.1%	3.3%	43.0%
Performance Cash Awards	15.3%	16.3%	66.7%	10.9%	61.7%	5.4%
Phantom Stock	2.7%	3.2%	0.0%	3.6%	16.7%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



Long-Term Incentives (LTIs)

Table 9	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Which of the following actions (if any) has your organization recently taken, or intends to take, within the long-term incentive plan for senior executives?						
Added new award vehicles	10.3%	5.6%	0.0%	7.7%	5.3%	5.7%
Changed mix among existing award vehicles, with no new vehicles added	13.6%	7.4%	6.7%	7.7%	5.3%	8.6%
Added new performance metrics	20.2%	24.1%	20.0%	25.6%	21.1%	25.7%
Changed weighting among existing metrics, with no new metrics added	7.4%	9.3%	6.7%	10.3%	0.0%	14.3%
Widened performance range spreads (e.g., +/- percentage spread vs. target goal)	3.7%	3.7%	0.0%	5.1%	5.3%	2.9%
Narrowed performance range spreads	2.9%	1.9%	0.0%	2.6%	0.0%	2.9%
Increased length of performance cycles	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Shortened length of performance cycles	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Increased award opportunities	9.1%	7.4%	0.0%	10.3%	5.3%	8.6%
Decreased award opportunities	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Not applicable - no design changes made or contemplated	41.7%	38.9%	40.0%	38.5%	36.8%	40.0%
Not applicable - no LTI plan for senior executives	8.7%	13.0%	26.7%	7.7%	31.6%	2.9%
Unsure	9.5%	14.8%	13.3%	15.4%	15.8%	14.3%
Does your organization's long-term incentive plan include formal provisions for excluding unusual events when assessing performance results?						
No formal provisions in plan - company addresses any potential adjustments on an as-needed basis	43.0%	55.6%	50.0%	57.9%	52.6%	57.1%
No formal provisions in plan - company does not make adjustments to plan	20.9%	16.7%	18.8%	15.8%	15.8%	17.1%
Yes, LTI plan includes formal provisions	25.1%	13.0%	18.8%	10.5%	10.5%	14.3%
Unsure	11.1%	14.8%	12.5%	15.8%	21.1%	11.4%
For the most recent long-term incentive payout, did the company make any discretionary adjustments for certain financial items?						
Yes	11.9%	16.4%	6.3%	20.5%	5.0%	22.9%
No	76.6%	74.5%	87.5%	69.2%	80.0%	71.4%
Unsure	11.5%	9.1%	6.3%	10.3%	15.0%	5.7%



Long-Term Incentives (LTIs)

Table 9	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
What events or changes warranted the use of discretion in the long-term incentive plan payout?						
Asset write-downs/goodwill impairment	27.6%	33.3%	0.0%	37.5%	0.0%	37.5%
Non-recurring items/restructuring charges	51.7%	55.6%	0.0%	62.5%	100.0%	50.0%
Share buy-backs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Changes in tax/accounting rules	55.2%	44.4%	100.0%	37.5%	0.0%	50.0%
Extraordinary changes in interest rates	3.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Extraordinary (unplanned) foreign exchange (FX) changes	10.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Organizational change or reorganization	17.2%	22.2%	0.0%	25.0%	0.0%	25.0%
Change in strategy	3.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	20.7%	11.1%	0.0%	12.5%	0.0%	12.5%
What is the anticipated level of discretionary adjustments for Fiscal 2018 LTI award determinations as compared with Fiscal 2017?						
Increase in positive discretion	2.9%	5.6%	6.7%	5.1%	10.5%	2.9%
Decrease in positive discretion	0.4%					
Decrease in negative discretion	0.4%	1.9%		2.6%		2.9%
About the same level of discretion	30.2%	42.6%	46.7%	41.0%	31.6%	48.6%
Not applicable - no discretionary adjustments are anticipated	53.7%	40.7%	46.7%	38.5%	42.1%	40.0%
Unsure	12.4%	9.3%		12.8%	15.8%	5.7%



Gender Pay Equity and #MeToo Issues

Table 10	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Has your company planned a study on gender pay equity?						
Yes, at the broad-based employee level	36.4%	30.9%	25.0%	33.3%	30.0%	31.4%
Yes, at the management team level	12.1%	10.9%	6.3%	12.8%	15.0%	8.6%
Yes, for named executive officers (NEOs)	5.9%	1.8%	0.0%	2.6%	0.0%	2.9%
We have discussed the issue, but have no current plans to do a study	23.0%	23.6%	37.5%	17.9%	25.0%	22.9%
No	28.9%	38.2%	43.8%	35.9%	35.0%	40.0%
Unsure	9.2%	3.6%	0.0%	5.1%	10.0%	0.0%
Is your organization making, or considering, any changes to the executive employment/severance arrangements or clawback policies in response to the #MeToo movement and other recent corporate scandals?						
Yes, we reviewed existing arrangements and policies but did not make any changes	11.3%	10.9%	12.5%	10.3%	10.0%	11.4%
Yes, we amended our employment contracts or severance arrangements	2.9%	7.3%	6.3%	7.7%	0.0%	11.4%
Yes, we amended our clawback policies	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
No, we have not discussed these issues in-depth, but will review our practices	27.5%	34.5%	37.5%	33.3%	40.0%	31.4%
No, we have not discussed these issues and have no plans to do so	35.0%	32.7%	31.3%	33.3%	30.0%	34.3%
Unsure	20.8%	12.7%	6.3%	15.4%	20.0%	8.6%
Yes, we have taken other actions	2.9%	1.8%	6.3%	0.0%	0.0%	2.9%
If your organization made changes to executive compensation arrangements or policies, which of the following actions were taken?						
Expanded the definition of "Cause" within employment/severance agreements to specifically include sexual misconduct	18.8%	20.0%	0.0%	33.3%		20.0%
Expanded the list of triggering events within clawback policies to specifically include sexual misconduct	12.5%	20.0%	0.0%	33.3%		20.0%
Added new performance metrics to incentive plans relating to a safe workplace environment, corporate culture and/or employee satisfaction	0.0%	0.0%	0.0%	0.0%		0.0%
Not applicable	56.3%	60.0%	100.0%	33.3%		60.0%
Unsure	0.0%	0.0%	0.0%	0.0%		0.0%
Other	18.8%	20.0%	0.0%	33.3%		20.0%



Redundant Measures in Incentive Plans

Table 11	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Does your organization's short-term incentive (STI) plan have more than one financial metric?						
Yes	76.7%	78.0%	92.3%	73.0%	82.4%	75.8%
No	16.5%	12.0%		16.2%	5.9%	15.2%
Unsure	4.2%	6.0%	7.7%	5.4%	11.8%	3.0%
We do not have a short-term incentive plan	2.5%	4.0%		5.4%		6.1%
Does your organization's long-term incentive (LTI) plan have more than one financial metric?						
Yes	56.3%	54.7%	50.0%	56.4%	55.6%	54.3%
No	27.7%	24.5%	14.3%	28.2%		37.1%
Unsure	6.3%	5.7%	7.1%	5.1%	11.1%	2.9%
We do not have a long-term incentive plan	9.7%	15.1%	28.6%	10.3%	33.3%	5.7%
Are there instances where current STI and LTI plans for your company incorporate the same or similar financial metrics (e.g., return on invested capital (ROIC) is a measure in both your STI and LTI plan)?						
Yes	35.4%	27.3%	31.3%	25.6%	15.0%	34.3%
No	45.3%	40.0%	31.3%	43.6%	30.0%	45.7%
Unsure	9.5%	16.4%	12.5%	18.0%	25.0%	11.4%
We do not have both a short- and a long-term incentive plan	9.9%	16.4%	25.0%	12.8%	30.0%	8.6%
If your organization includes the same or similar financial metrics for both a short-term and a long-term incentive plan, do the measures generally correlate over different periods of time?						
Yes	67.4%	60.0%	60.0%	60.0%	100.0%	50.0%
No	24.4%	40.0%	40.0%	40.0%		50.0%
Unsure	8.1%					
If your organization includes the same financial metric for both a short-term and a long-term incentive plan, have any of the proxy advisory firms (e.g., ISS) expressed criticism of your plans due to "redundant" measures?						
Yes	26.2%					
No	61.9%	100.0%	100.0%	100.0%	100.0%	100.0%
Unsure	11.9%					



Redundant Measures in Incentive Plans

Table 11	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
If your organization includes the same/similar financial metrics for both a short-term and a long-term incentive plan, how long has the "redundant" incentive structure been in place?						
One year	14.6%	26.7%	20.0%	30.0%	33.3%	25.0%
Two to four years	42.7%	20.0%	20.0%	20.0%		25.0%
Five to 10 years	32.9%	53.3%	60.0%	50.0%	66.7%	50.0%
More than 10 years	9.8%					
If your organization has "redundant" incentive plan metrics, do you plan to, or are you considering, moving away from this plan design?						
Yes	17.4%	13.3%		20.0%		16.7%
No	52.3%	46.7%	80.0%	30.0%	100.0%	33.3%
Unsure	30.2%	40.0%	20.0%	50.0%		50.0%
If your organization plans to move away from "redundant" incentive plan metrics, or is reevaluating their use, what is the general reason?						
Sensitivity to proxy advisor feedback	6.7%					
Concerns over general effectiveness of measurement framework	66.7%	50.0%		50.0%		50.0%
Other	26.7%	50.0%		50.0%		50.0%



Demographics

Table 12	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
What is your role?						
Board member: compensation committee	18.0%	24.6%	18.8%	26.7%	9.1%	33.3%
Board member: not on compensation committee	3.2%	3.3%	12.5%		4.5%	2.6%
Employee of the company: c-level executive	15.8%	21.3%	43.8%	13.3%	31.8%	15.4%
Employee of the company: human resources	59.4%	47.5%	18.8%	57.8%	50.0%	46.2%
Other	3.6%	3.3%	6.3%	2.2%	4.5%	2.6%
Please select the appropriate revenue range (or asset size for financial institutions) for the most recently completed fiscal year:						
Under \$100 million	10.0%					
\$100 million to less than \$300 million	6.5%	4.8%	18.8%		13.6%	
\$300 million to less than \$1 billion	17.9%	21.0%	81.3%		36.4%	12.5%
\$1 billion to less than \$3 billion	22.6%	25.8%		34.8%	18.2%	30.0%
\$3 billion to less than \$10 billion	19.4%	22.6%		30.4%	27.3%	20.0%
\$10 billion to less than \$20 billion	10.8%	6.5%		8.7%		10.0%
\$20 billion to less than \$30 billion	4.7%	8.1%		10.9%	4.5%	10.0%
\$30 billion or greater	8.2%	11.3%		15.2%		17.5%
In the question above, are you reporting revenue range or asset size?						
Revenue range	72.0%	3.2%	6.3%	2.2%	4.5%	2.5%
Asset size	28.0%	96.8%	93.8%	97.8%	95.5%	97.5%
What is your organization's ownership status?						
Private for-profit	22.7%	22.6%	43.8%	15.2%	63.6%	
Private not-for-profit/mission-based	7.6%	12.9%	25.0%	8.7%	36.4%	
Public (ticker symbol):	69.7%	64.5%	31.3%	76.1%		100.0%
Is your organization:						
U.S. only	51%	97%	100%	95.70%	100%	95%
Global with less than 50% of revenue generated outside the U.S.	37.5%	3.2%		4.3%		5.0%
Global with more than 50% of revenue generated outside the U.S.	11.6%					



Demographics

Table 12	Total	Banking	Asset Size		Ownership status	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Private	Public
Number of Organizations	279	62	16	46	22	40
Please indicate your organization's industry below (Global Industry Classification Standard sector code is noted in parentheses):						
Consumer Discretionary (GICS 25)	5%					
Consumer Staples (GICS 30)	4.0%					
Energy (GICS 10)	7.6%					
Financials (GICS 40)	27.9%	100.0%	100.0%	100.0%	100.0%	100.0%
Health Care (GICS 35)	10.9%					
Industrials (GICS 20)	6.9%					
Information Technology (GICS 45)	6.9%					
Materials (GICS 15)	2.9%					
Real Estate (GICS 60)	3.3%					
Telecommunication Services (GICS 50)	1.4%					
Utilities (GICS 55)	3.3%					
Other	19.9%					



About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Jose.



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