



2017 PROXY SEASON UPDATE

February 2017

John Roe

Managing Director, Head of ISS Analytics

John.Roe@ISSGovernance.com

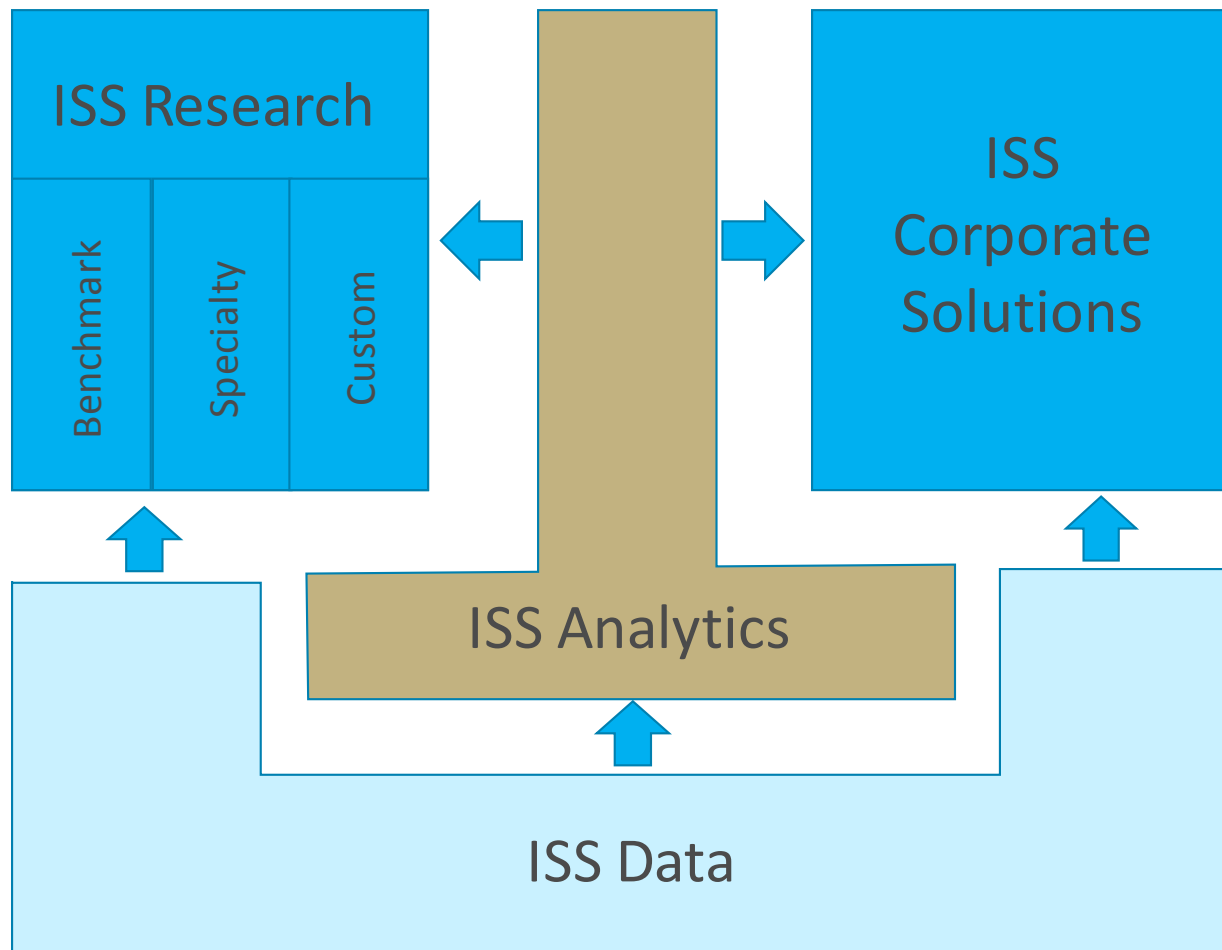
The Global Leader in Corporate Governance

www.issgovernance.com

TODAY'S AGENDA

- ✓ ISS structure and voting policy development
- ✓ 2017 developments in corporate governance
- ✓ ISS QualityScore: how it works, and recent changes
- ✓ 2017 ISS policy updates

Conceptual ISS organization structure*



- More than 900 employees in 18 offices across 12 countries
- Review and recommend on more than 350,000 agenda items at 28,000 public companies annually across 117 global markets
- Research staff averages 6 years of ISS tenure
- Owned by Vestar Capital Partners, a private equity firm
- Registered with the SEC as an RIA and subject to periodic inspection
- Strong physical and IT firewall separating ISS Research from ISS Corporate Solutions

** Does not include certain parts of the organization, including Securities Class Action Services and Global Proxy Voting*

ISS delivers policy and research services that cover a spectrum of shareholder interests to align with client philosophies as they serve their underlying clients

Benchmark ISS policies

- U.S. Benchmark Policy
- European Benchmark Policy
- NAPF Policy (for the UK)
- International Benchmark Policy

Specialty ISS Policies

- Taft-Hartley Labor Policy
- Socially Responsible Policy
- Faith-based Policy
- Sustainability Policy
- Public Fund Policy

Client-Specific policies

- 400+ client-specific custom policies
- Fastest growing area of research, as our clients increasingly want to execute votes consistent with either their overall governance philosophy or that of their clients

A real world example:

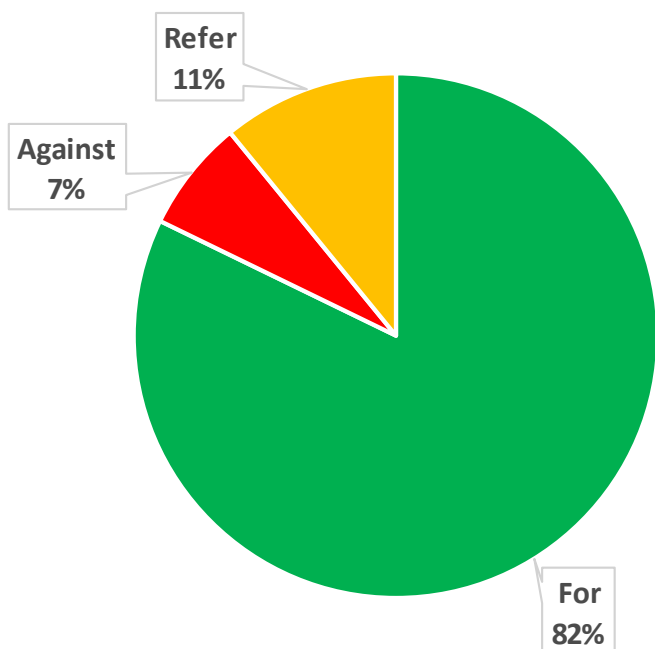
ISS produced more than 250 research reports for Apple's 2016 annual meeting, each based on a different policy implementation.

Institutions do not vote in lock-step with ISS

More than 200 custom policy vote recommendations issued on each of these firms

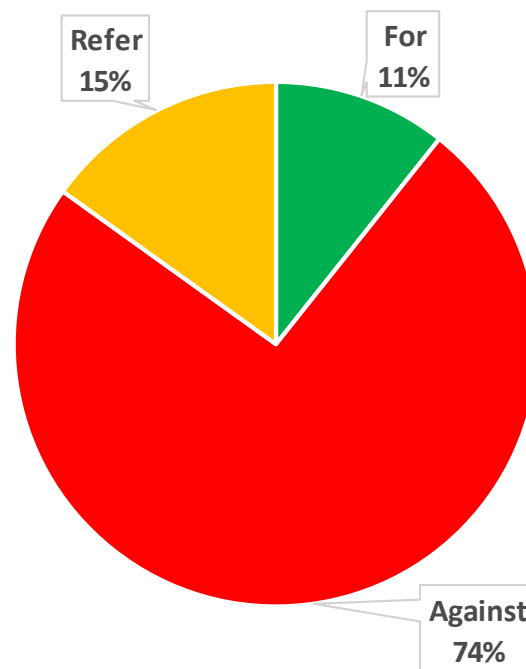
Widely-held S&P 500 company, received “For” recommendation from ISS

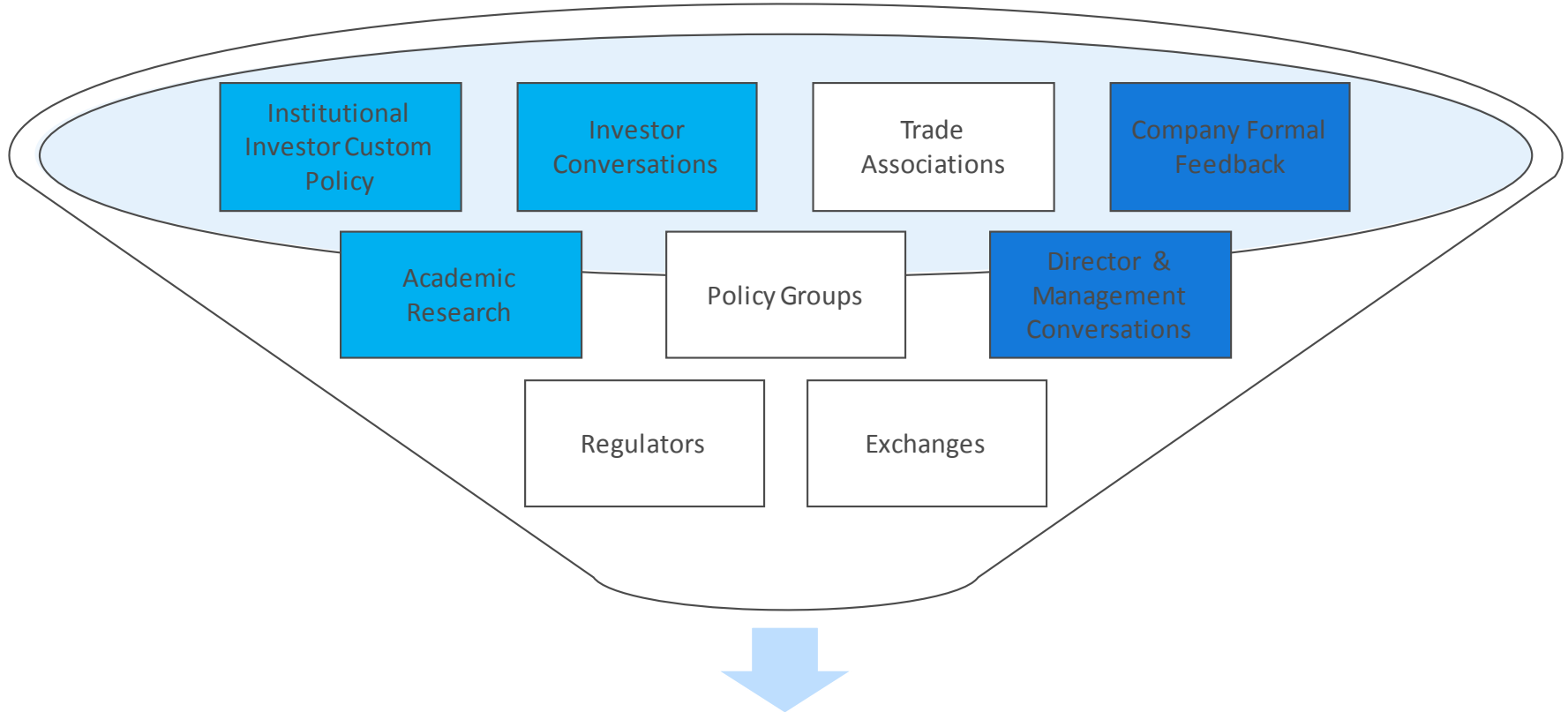
Recommendations issued under custom client voting policies



Widely-held S&P 500 company, received “Against” recommendation from ISS

Recommendations issued under custom client voting policies





After feedback and direction is sourced from a wide variety of constituencies, ISS identifies governance areas for new policies or policy adjustments

Influence Policy

Policy Survey

- Give feedback on issues emerging areas of ISS policy focus
- Typically late July or early August
- Results publicly released in September

Draft Policy Comment Period

- Give feedback on emerging ISS policy and implementation
- Two-week period typically opens late October

Make the company's case to ISS Research

Outside proxy season

- Brief ISS on company situation and results of shareholder feedback efforts
- Best time is October through January

Inside proxy season

- Correct material factual errors in ISS research reports
- Engage with ISS as soon as the material factual error is found
- May not result in a change of ISS vote recommendation

Ensure accurate company data

QualityScore Data Verification

- Free verification open year-round, except between proxy filing and ISS research report publishing
- Special “data preview and verification” period prior to each methodology update

Equity Comp Plan Data Verification

- Review and update data used in ISS' equity compensation plan analysis prior to ISS evaluation
- Register in advance

Peer Group Submission

- Seed ISS compensation peer selection process with the peers you will publish in your upcoming proxy
- Held twice annually; in late November for companies with meetings Feb 1 – Sept 15, and in early July for all others

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✓ 2017 developments in corporate governance

ISS QualityScore: how it works, and recent changes

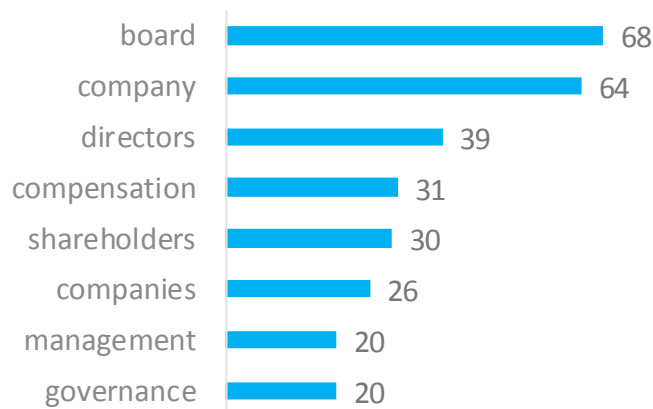
2017 ISS policy updates

In the last eight months, two separate industry groups have put forward stewardship principles

COMMONSENSE CORPORATE GOVERNANCE PRINCIPLES



Word frequency analysis



Source: <http://www.governanceprinciples.org/>



CORPORATE GOVERNANCE FRAMEWORK FOR U.S. LISTED COMPANIES:

Principle 1: **Boards** are accountable to shareholders.

Principle 2: Shareholders should be entitled to **voting rights** in proportion to their economic interest.

Principle 3: **Boards** should be responsive to shareholders and be proactive in order to understand their perspectives.

Principle 4: **Boards** should have a strong, independent leadership structure.

Principle 5: **Boards** should adopt structures and practices that enhance their effectiveness.

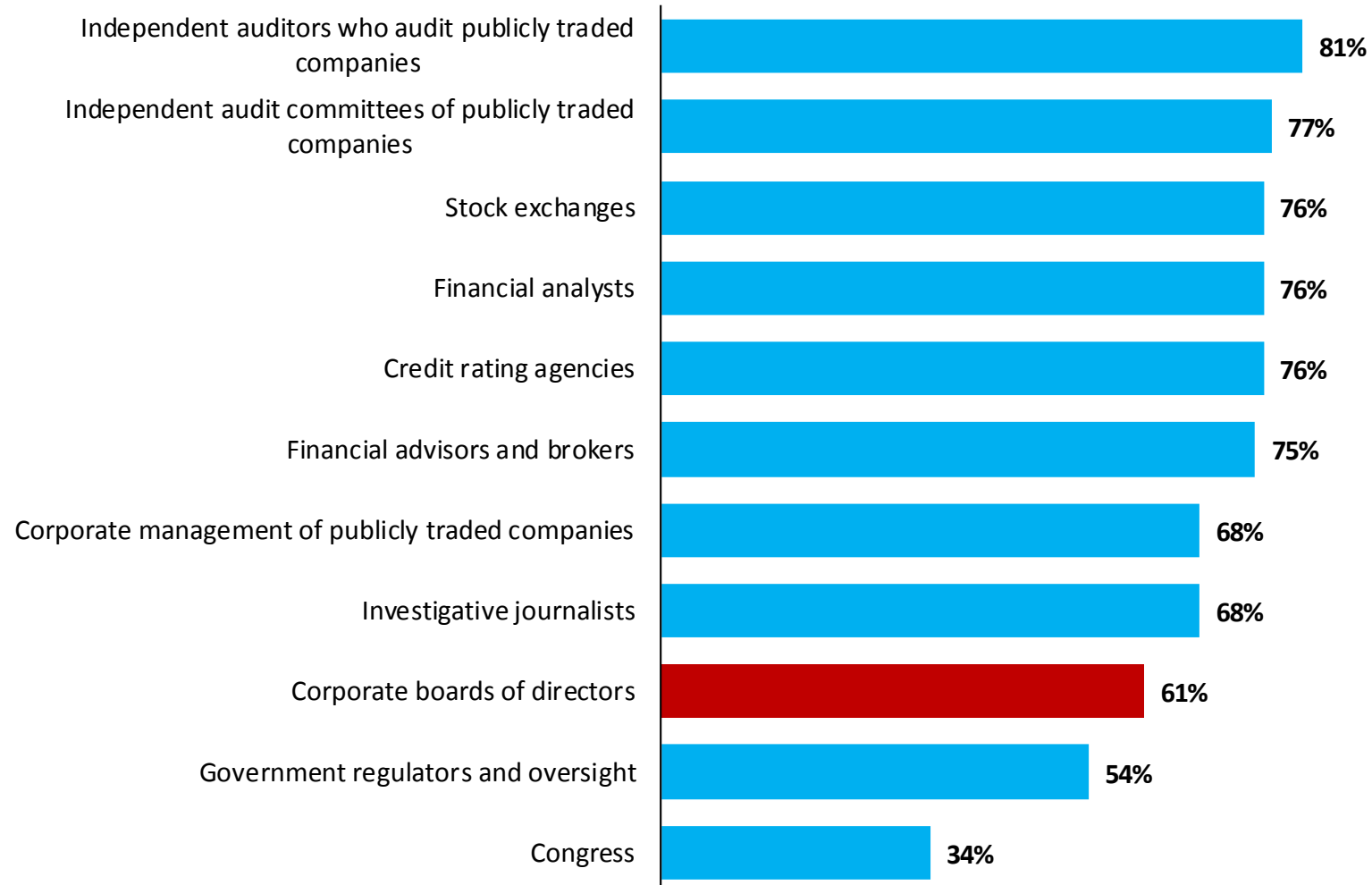
Principle 6: **Boards** should develop management incentive structures that are aligned with the long-term strategy of the company.

Source: <https://www.isgframework.org/corporate-governance-principles/>

Why more focus? Perhaps in part because main-street investors have little confidence in boards

How much confidence do you have that each stakeholder is effective in protecting investors?

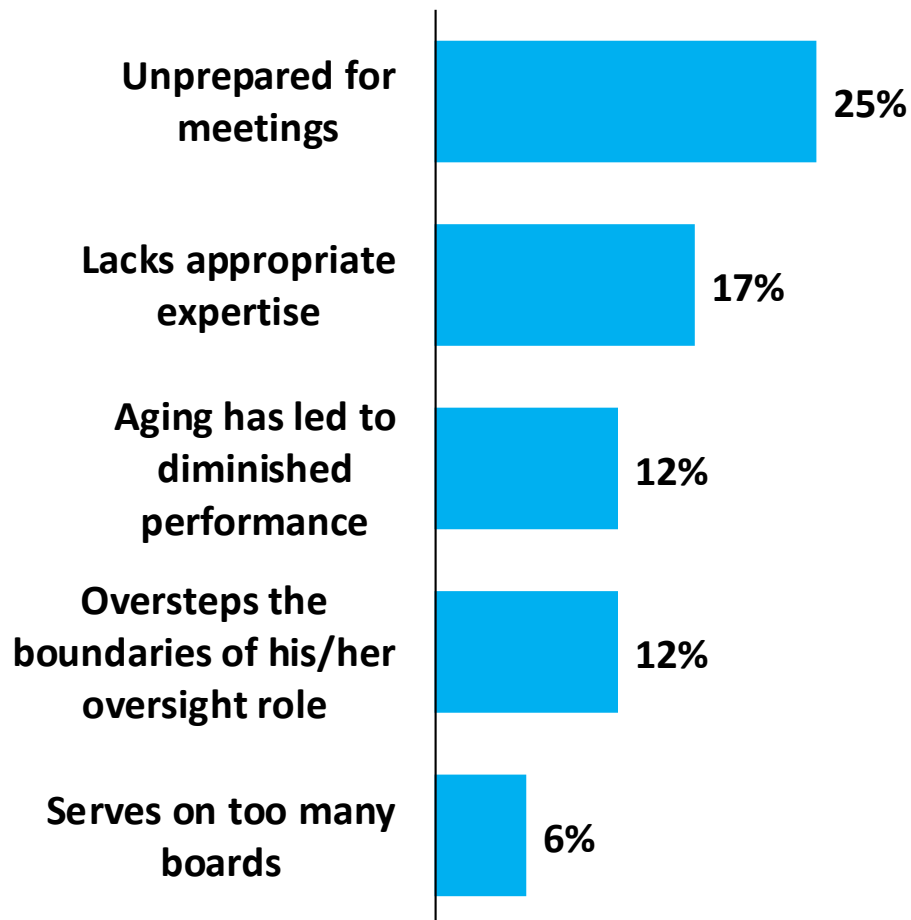
Percent of respondents agreeing that there was “a great deal”, “quite a bit”, or “some” confidence in each stakeholder group



According to PwC's 2016 annual director survey, what percent of directors said that there was a director on their current board that should be replaced?

35%

Reasons why directors should be replaced



Board self-regulation

1. Board refreshment
2. Refreshment mechanisms
3. Quality of board evaluation processes
4. Track record of willingness to surface and act on internal issues
5. Director compensation – size and structure
6. Stock pledging
7. Director continuing education / professional development
8. Role rotation

Transparency, engagement, & responsiveness

1. Willingness to engage with shareholders / evidence of effective engagement
2. Presence of an easily-accessible inbound engagement channel
3. Responsiveness to low-support management proposals
4. Responsiveness to shareholder proposals
5. Compensation program transparency
6. Clarity of and depth of corporate governance guidelines

Composition & structure

1. Gender diversity
2. Other measures of diversity (ethnic, racial, background, experience, age, etc)
3. Director skills & capabilities
4. Long tenure directors
5. Director affiliations / associations
6. In cases of combined chair/CEO, presence of an empowered lead independent director
7. Board and committee independence
8. Interlocks

Track record and outcomes

1. Company financial performance record relative to peers over the median director's tenure
2. Director track record at other companies (both performance and risk/events)
3. Governance / risk management failures at current company and with other directorships – financial restatements, material failures, and more
4. Executive compensation program outcomes

Risk management

1. Strategic risk management
2. Financial / financial engineering risk management (Capital structure risk, credit ratings movement)
3. Environmental & social risk / sustainability risk
4. Regulatory risk management (late filings / restatements / etc.)
5. Succession risk management (clarity around succession planning for executives, and possibly for directors)
6. Internal risk management (whistleblower protection)
7. Idiosyncratic risk management

1. The populist movement extends to the boardroom: Proxy Access, Part Three

- Low tolerance for deviating substantially from the standard 3/3/20/20 formula
- Investors are looking to 'fix' or amend companies' proxy access laws to make them more shareholder friendly
- Two proposals have been granted No Action by the SEC; seven have been denied

2. Brighter focus on board composition, refreshment, succession planning, evaluation, and accountability

- Board composition, diversity, and refreshment continue to be hot-buttons
- Expect to see more focus on skills and capabilities evaluations on an individual director level
- Board evaluations may move to more interview based rather than traditional surveys

3. With SEC rulemaking slowing, prospect of greater private ordering

- Recent scandals shine the spotlight on companies' clawback policies
- Many trends and political realities continue to propel —or oppose— corporate governance change
- The new administration has frozen all new and pending regulations

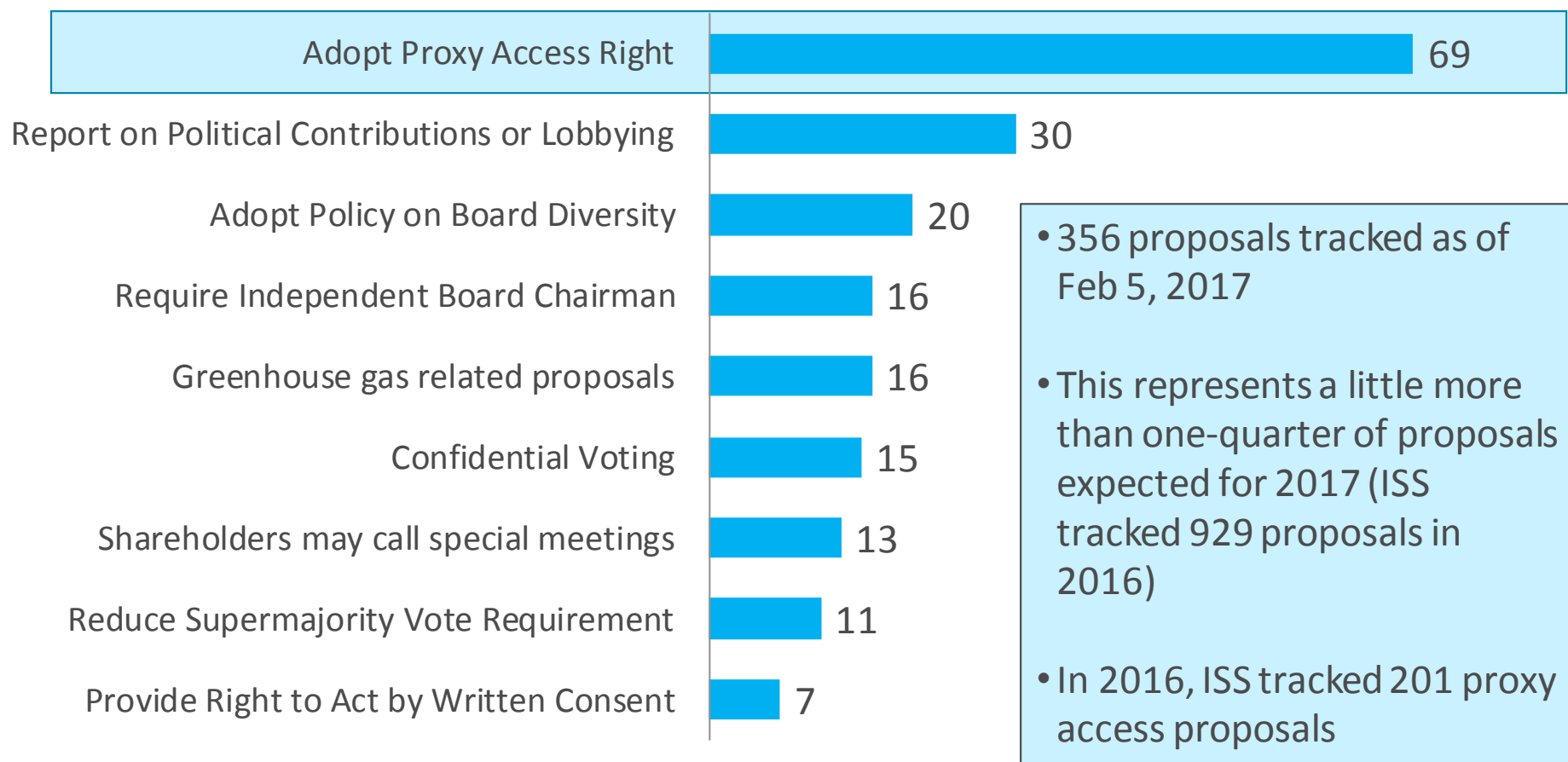
4. Decreasing tolerance for IPOs with rights-limiting governance structures

- Increased scrutiny from proxy advisors and institutional investors is here
- Unequal voting rights is a key focus, and could impact director elections year after year unless the dual-class structure is removed or sunsetted

5. Aftermath of COP21 and increasing focus on climate change and sustainability

- Increased attention on climate risk may impact how companies think about disclosure.
- Michael Bloomberg's Task Force on Climate-related Financial Disclosures may thrust this topic into the spotlight

Shareholder proposals at Russell 3000 companies public as of Feb 21, 2017



TODAY'S AGENDA

ISS structure and voting policy development

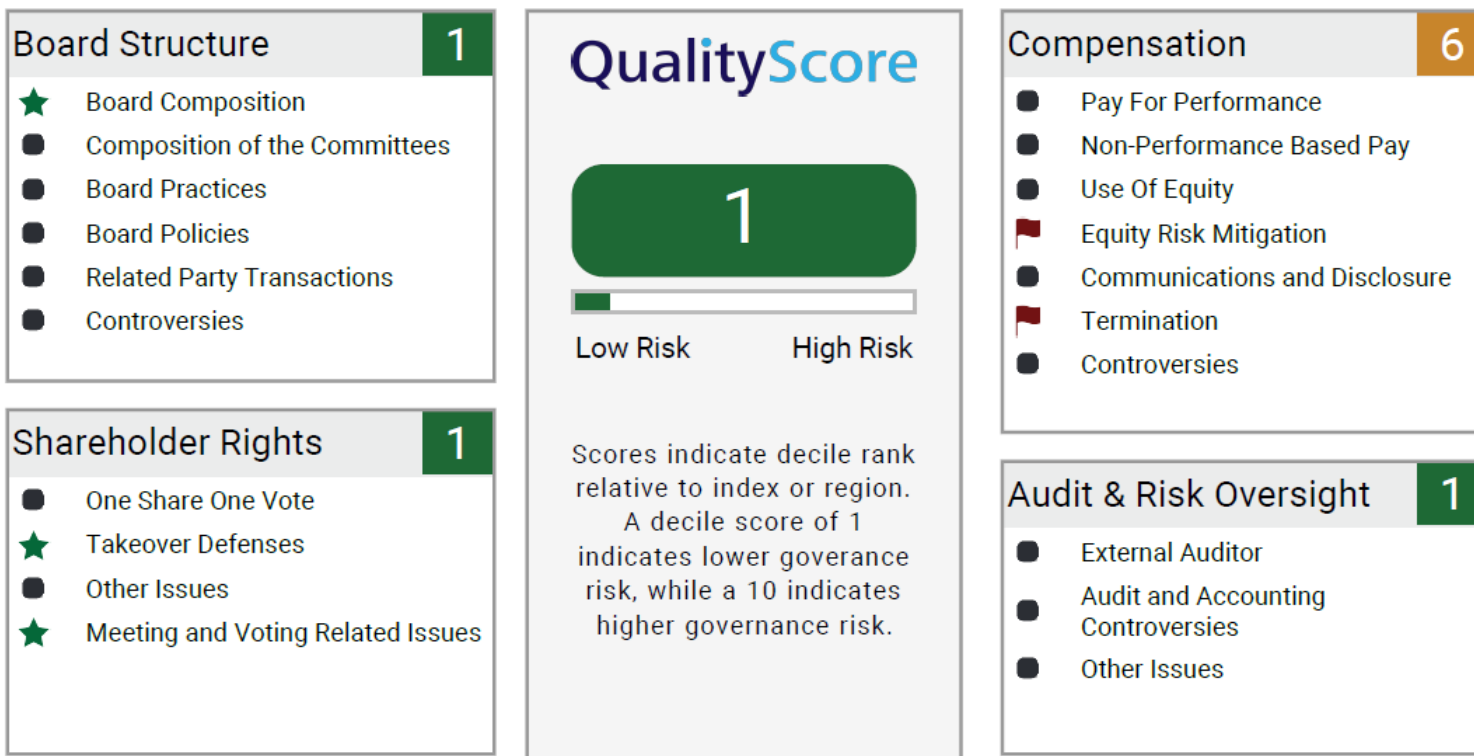
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ISS QualityScore

QUALITYSCORE OVERVIEW



Annual methodology review process

New governance factors proposed; sourced similar to policy process

ISS examines impact of factors on governance risk

Final factor list, factor weighting, and answer credits determined

Issuer data verification period, prior to publishing new scores, on all data

Data collection and daily scoring process

Collect and verify governance data

- Real-time data (8-Ks, etc)
- Data verification updates
- New proxy filings
- More

Score governance data using quantitatively-derived methodology

Rank companies for final QualityScore

Sample company profile scoring excerpt – Board Composition Subcategory

Points available data is **notional** – not what is used in QualityScore

QualityScore Factor Answer	Question points available	Percentage of points earned	Points Earned
62.50% of the directors are independent and were elected by shareholders. (Q10)	2.38	75%	1.78
42.86% of the non-executive directors on the board have lengthy tenure. (Q13)	0.32	43%	0.14
The roles of Chairman and CEO have not been separated. (Q14)	1.07	14%	0.15
The company has identified a lead independent director. (Q16)	0.79	100%	0.79
0% of the directors are family members of majority shareholders, executives or former executives (within the past five years). (Q205)	0.45	100%	0.45
12.50% of the directors are former or current employees of the company. (Q206)	0.52	100%	0.52
0 woman/women serve(s) on the board of directors. (Q304)	0.22	0%	0.00
The board has not set up any mechanism to encourage director refreshment. (Q349)	Non-Scored	Non-Scored	Non-Scored
0% women serve on the board. (Q354)	0.20	0%	0.00
28.57% of the non-executive directors on the board have been there for less than six years. (Q355)	0.39	86%	0.33

Subchapter Total: 4.16 Points

Converting raw scores to decile scores happens behind the scenes

Company Name	Total Compensation Raw Score	Compensation Decile
TELUS Corporation	7.0214	1
The Toronto-Dominion Bank	6.8014	1
BCE Inc.	5.8187	1
...
Metro Inc.	3.5632	2
Capital Power Corporation	3.5525	2
Enerplus Corporation	3.5143	2
...
Empire Company Limited	2.6034	3
Canadian Tire Corporation, Limited	2.5493	3
West Fraser Timber Co. Ltd.	2.5128	3
...
Brookfield Asset Management Inc.	1.5421	4
Precision Drilling Corp.	1.5174	4
Boardwalk Real Estate Investment Trust	1.4205	4
...
Kinross Gold Corporation	0.5574	5
BlackBerry Limited	0.4908	5
Superior Plus Corp.	0.4433	5
...

- For each pillar, and overall, companies are stack-ranked according to raw points earned
- Top 10% of stack-rank receives a “1” decile; next 10% receives a “2”, and onward. Ties go to the company
- Scores are computed daily, and your score is affected not only by your decisions but also the decisions of other companies

Focus on board structure and shareholder rights; some factor weights updated

Board Structure

1. What proportion of non-executive directors has been on the board less than 6 years?
2. Does the board have any mechanisms to encourage director refreshment? **(Non-scored)**
3. Does the company disclose the existence of a formal CEO and key executive officer succession plan?
4. What is the proportion of women on the board?
5. Has the board adequately responded to low support for a management proposal?

Shareholder Rights and Takeover Defenses

6. Does the company have a fee shifting provision?
7. Does the company have an exclusive venue/forum provision?
8. Does the company have a representative claim limitation or other significant litigation rights limitations?
9. Can the board materially modify the company's capital structure without shareholder approval?
10. What is the ownership threshold for proxy access? **(Now scored, previously incorporated in non-scored proxy access factor)**
11. What is the ownership duration threshold for proxy access? **(Now scored, previously incorporated in non-scored proxy access factor)**
12. What is the cap on shareholder nominees to fill board seats from proxy access? **(Now scored, previously incorporated in non-scored proxy access factor)**
13. What is the aggregation limit on shareholders to form a nominating group for proxy access? **(Now scored, previously incorporated in non-scored proxy access factor)**

Compensation

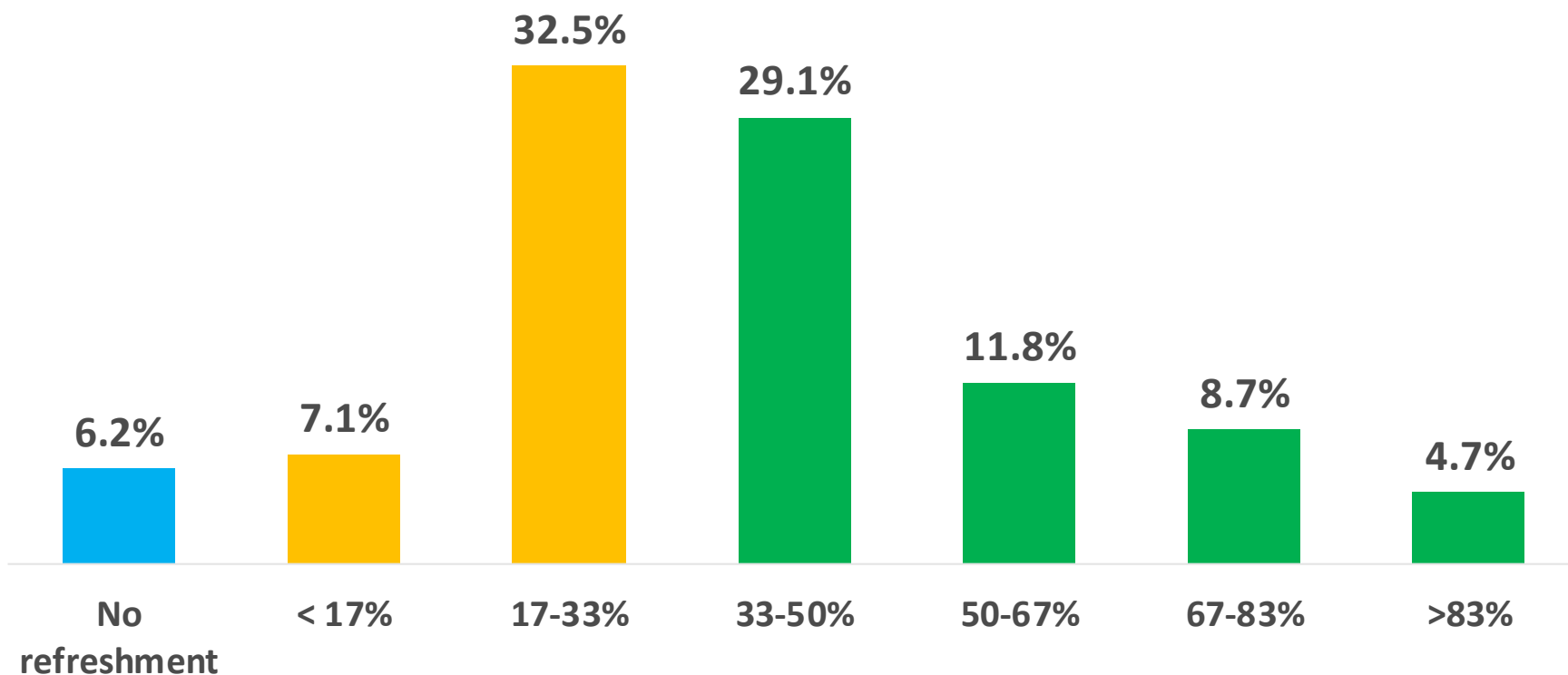
14. Does the company employ at least one metric that compares its performance to a benchmark or peer group (relative performance)?

Audit and Risk Oversight

15. What is the tenure of the external auditor? **(Non-scored)**

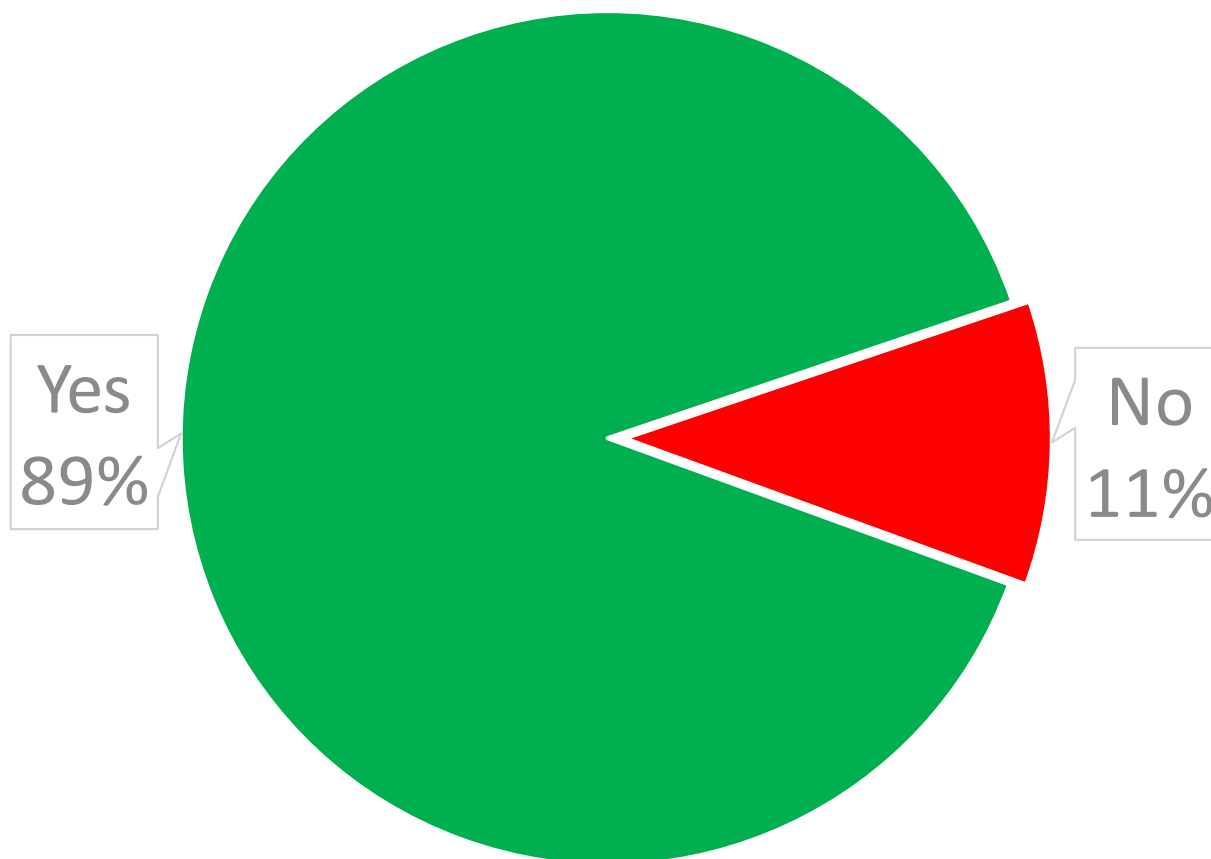
Q355: What proportion of non-executive directors has been on the board less than 6 years?

Percentage of companies by level of board refreshment



- Board refreshment is measured as the percentage of non-executive directors currently sitting on the board with less than six years of service. The factor excludes executive directors from the numerator and the denominator
- Any proportion more than 1/3 is graded full credit; more than half of all companies receive full credit on this factor
- Recent IPO companies are excluded from scoring
- Refreshment mechanisms are also now tracked, but not factored into QualityScore scores

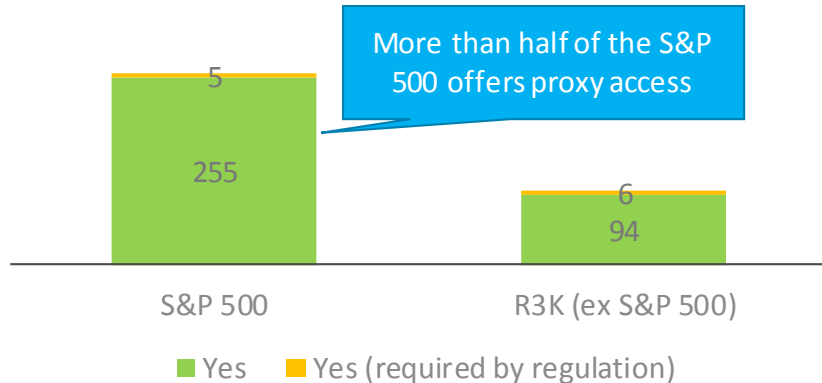
Q348: Does the company disclose the existence of a formal CEO and key executive officers succession plan?



- Succession planning is becoming increasingly important to investors
- The strong majority of issuers across the Russell 3000 disclose that they have a succession plan for the CEO and key executive officers
- To receive credit on this factor, you do not need to disclose the details of the succession plan

Q346, Q359, Q360, Q361, Q362: Proxy access, proxy access, proxy access

Companies offering proxy access to shareholders



- Proxy Access is now a scored factor
- There is a scoring differentiation between companies that are required to have proxy access (such as Canadian companies that are included in U.S. QualityScore), but haven't gone beyond what is required

Q359: What is the ownership threshold for proxy access?

Q360: What is the ownership duration threshold for proxy access?

Q361: What is the cap on shareholder nominees to fill board seats from proxy access?

Q362: What is the aggregation limit on shareholders to form a nominating group for proxy access?

Proxy access coverage in QualityScore now going down to the high-level features of the proxy access provision

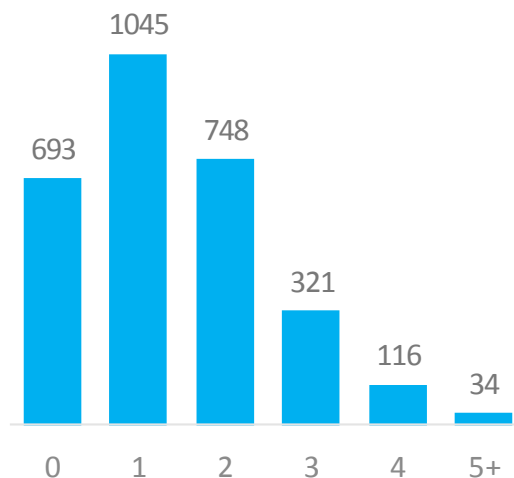
In 2016:

What is the number of women on the board?

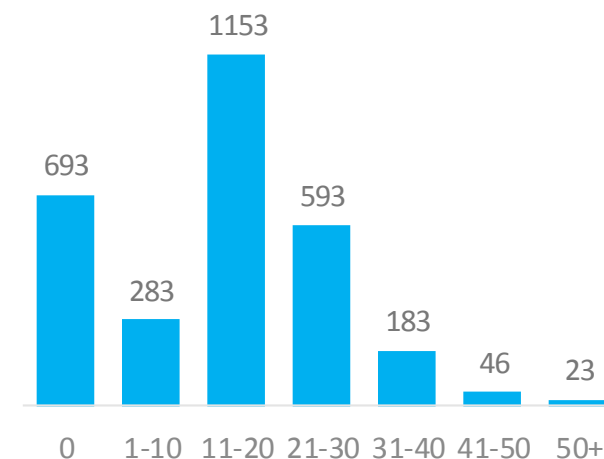


In 2017:

What is the number of women on the board?



What is the proportion of women on the board?



Q353: Does the company employ at least one metric that compares its performance to a benchmark or peer group (relative performance)?

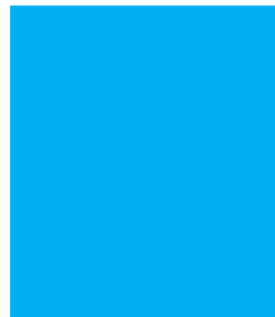
Percentage of companies that use at least one relative performance benchmark

55.4%



S&P 500

25.8%



Russell 3000

- Increasingly, investors are looking for certainty that the outcomes of an executive compensation package make sense in the context of industry and broader market results
- Implementing a relative performance measure, giving an indication of company performance compared to other companies, gives investors increased comfort that pay and performance are well aligned
- Modifier metrics, such as a TSR modifier on an LTIP, will receive credit on this factor as long as the modifiers are meaningful (at least 15% impact on underlying payout)

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ISS QualityScore: how it works, and recent changes

✓ 2017 ISS policy updates

1. Director overboarding

- Implementation of lower thresholds for non-executive directors (announced in 2015)

2. Prohibitions on shareholders' right to amend the bylaws

- ISS to issue negative director recommendations until the right is granted

3. Newly public companies' voting structure

- ISS to issue negative recommendations until capital structure is simplified

4. Compensation policy updates

- Qualitative use of non-TSR performance measures; still support annual say-on-pay

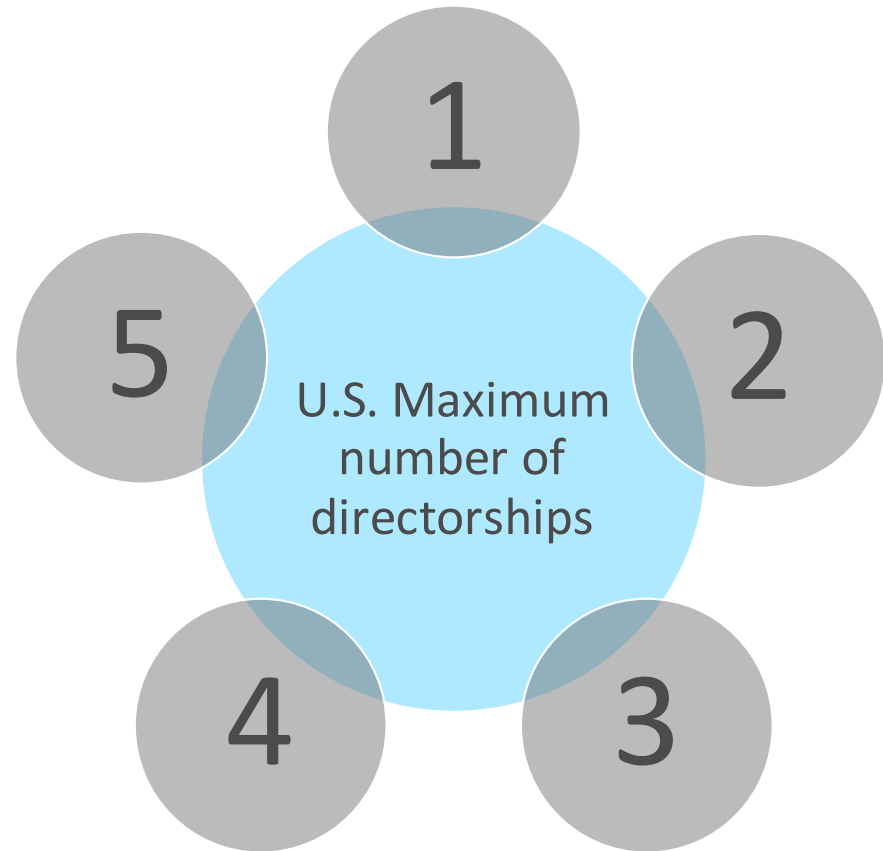
In the U.S., non-CEO directors serving on more than five public company boards will be affected by the policy change

In the United States:

- Current policy recommendation is a 'Withhold' or 'Against' vote for directors serving on more than six public company boards
- The new recommendation is a 'Withhold' or 'Against' vote for directors serving on more than five public company boards

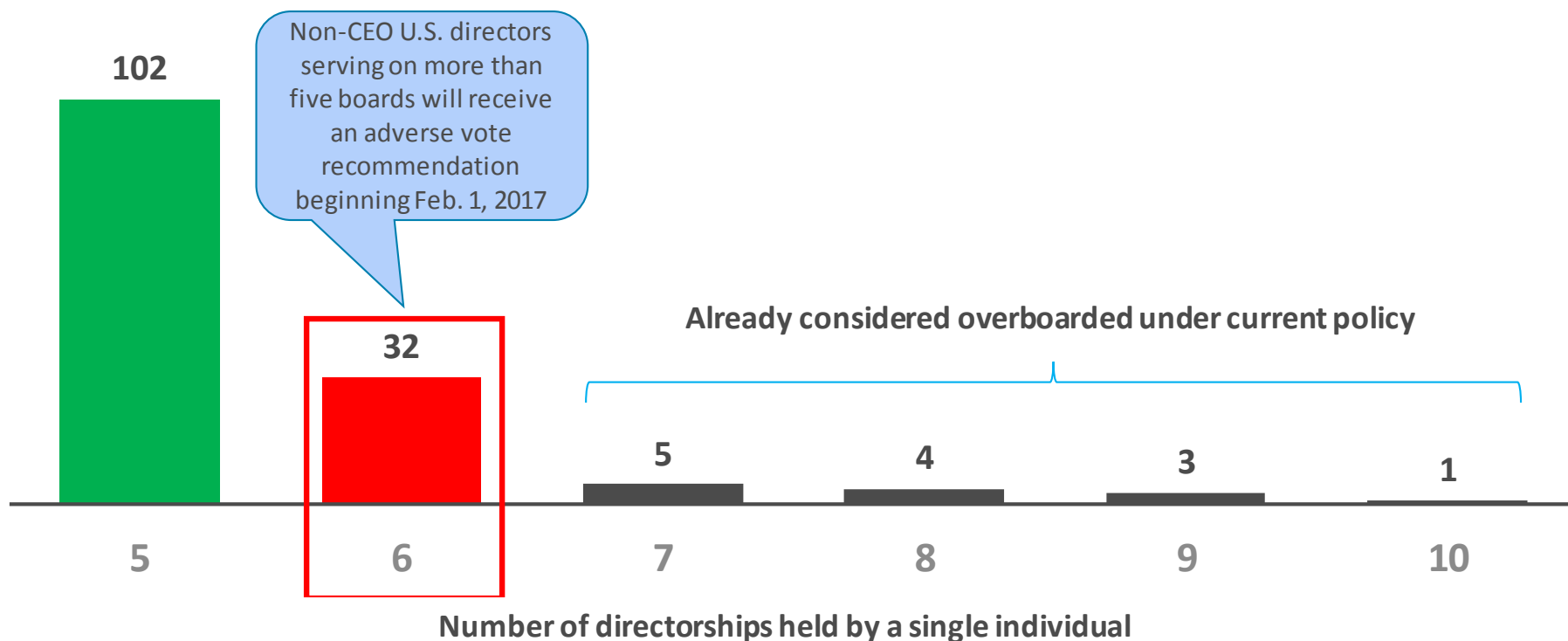
For TSX companies in Canada:

- ISS will recommend against directors serving on more than four public company boards



**Non-executive chairmen will continue to be evaluated
by ISS as non-employee directors in 2017**

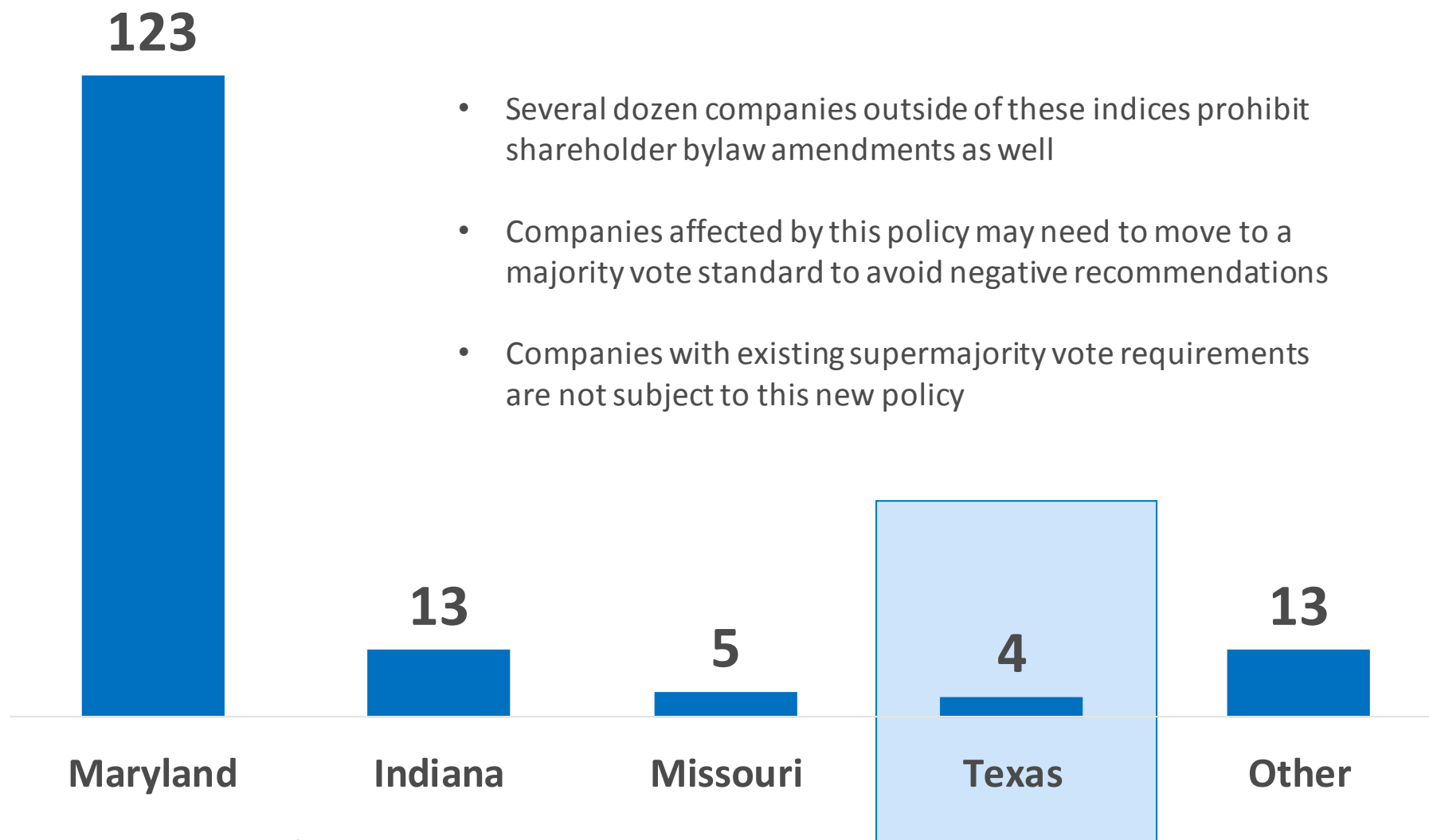
Number of directors serving on five or more boards



Had ISS gone with a stricter “no more than 4” policy for non-CEO directors in the U.S., an additional 102 directors would have been affected.

Starting in 2017, ISS may target directors at companies where shareholders cannot amend the bylaws

Number of companies prohibiting bylaw amendments by shareholders, by state of incorporation



Source: ISS Governance QualityScore data as of January 27, 2017

TECHNOLOGY NEWS | Tue Feb 21, 2017 | 4:44am EST

Snap arrives in London to woo skeptical investors ahead of IPO



FILE PHOTO: A billboard displays the logo of Snapchat above Times Square in New York March 12, 2015. To match Analysis SNAP-IPO/HARDWARE REUTERS/Lucas Jackson/File Photo

1/2

2 Reasons to Stay Far Away From the Snap Inc. IPO

An unproven business model and an unprecedented concentration of power make Snap Inc. a hard pass.

Timothy Green (TMFBargainBin)
Feb 14, 2017 at 8:11AM

With its S-1 filing finally made public, **Snap Inc. (NYSE:SNAP)** is close to selling shares to the public for the first time. The company, known for its wildly popular Snapchat app, is expected to raise around \$3 billion and be valued in the ballpark of \$25 billion. Snap only started running ads in late 2014, producing just \$404 million of revenue last year. If a price-to-sales ratio above 60 doesn't scare you away, here are two more reasons to stay far away from this hyped-up IPO.

Revenue growth means nothing

Snap grew its revenue by nearly a factor of eight between 2015 and 2016. That growth is what has investors excited, but it's really not as impressive as it seems. User growth drove a portion of this increase, with daily active users jumping from 50 million in early 2014 to over 150 million today. But the ramping of ads, from none in late 2014, was the main driver.

If you take any ad-free platform with daily active users measured in the tens or hundreds of millions and start showing ads, revenue is going to explode no matter what. A monkey could be in charge of Snap's ad business at this point, and the company would still be posting incredible revenue growth.

AUTHOR




Timothy Green
(TMFBargainBin)

Tim writes about technology and consumer goods stocks for 1 Motley Fool. He's a value investor at heart, doing his best to avoid hyped-up nonsense. Follow him on Twitter.

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 Feb 14, 2017 at 8:11AM

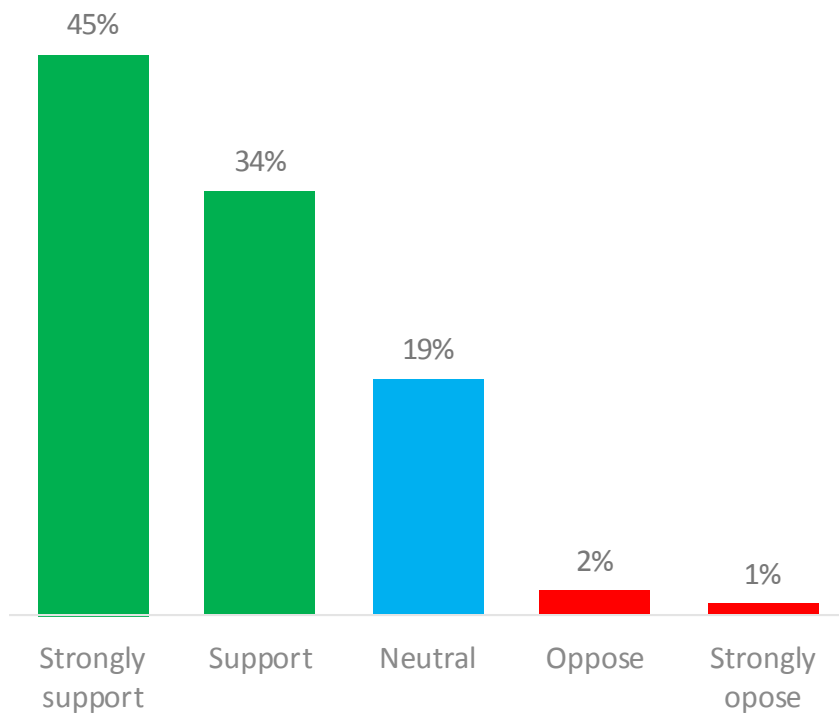
 Technology and Telecom

In 2017, ISS may issue negative director recommendations at such companies perennially unless the dual-class structure is subject to a sunset provision or removed

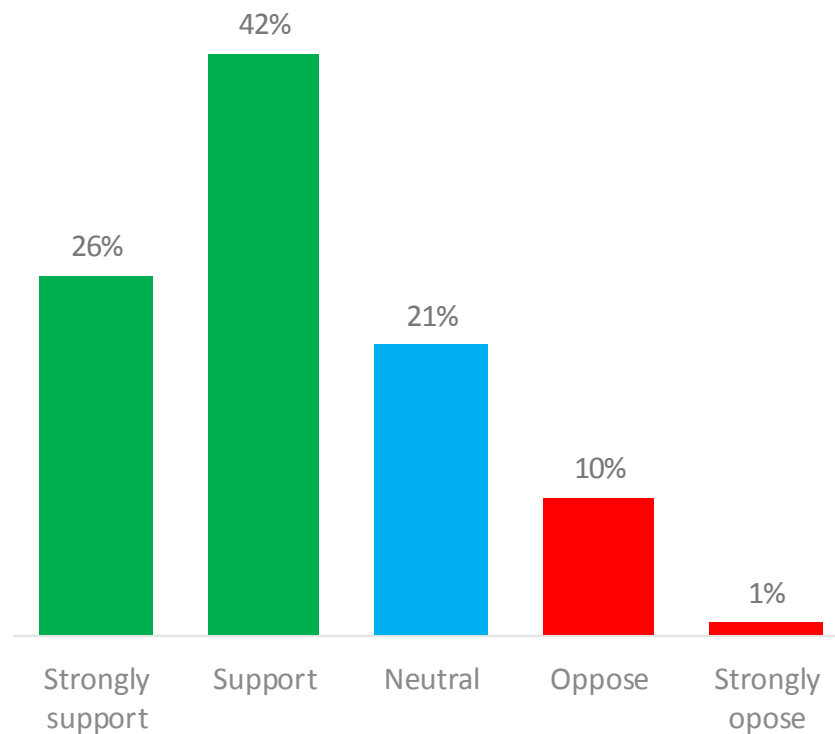
- 20 companies that held their first meeting of public shareholders in 2016 had dual-class structures

Would you or your organization generally support the incorporation of other financial metric(s) in addition to TSR into the ISS P4P quantitative screens as a better way to identify potential pay-for-performance misalignment?

Investor responses

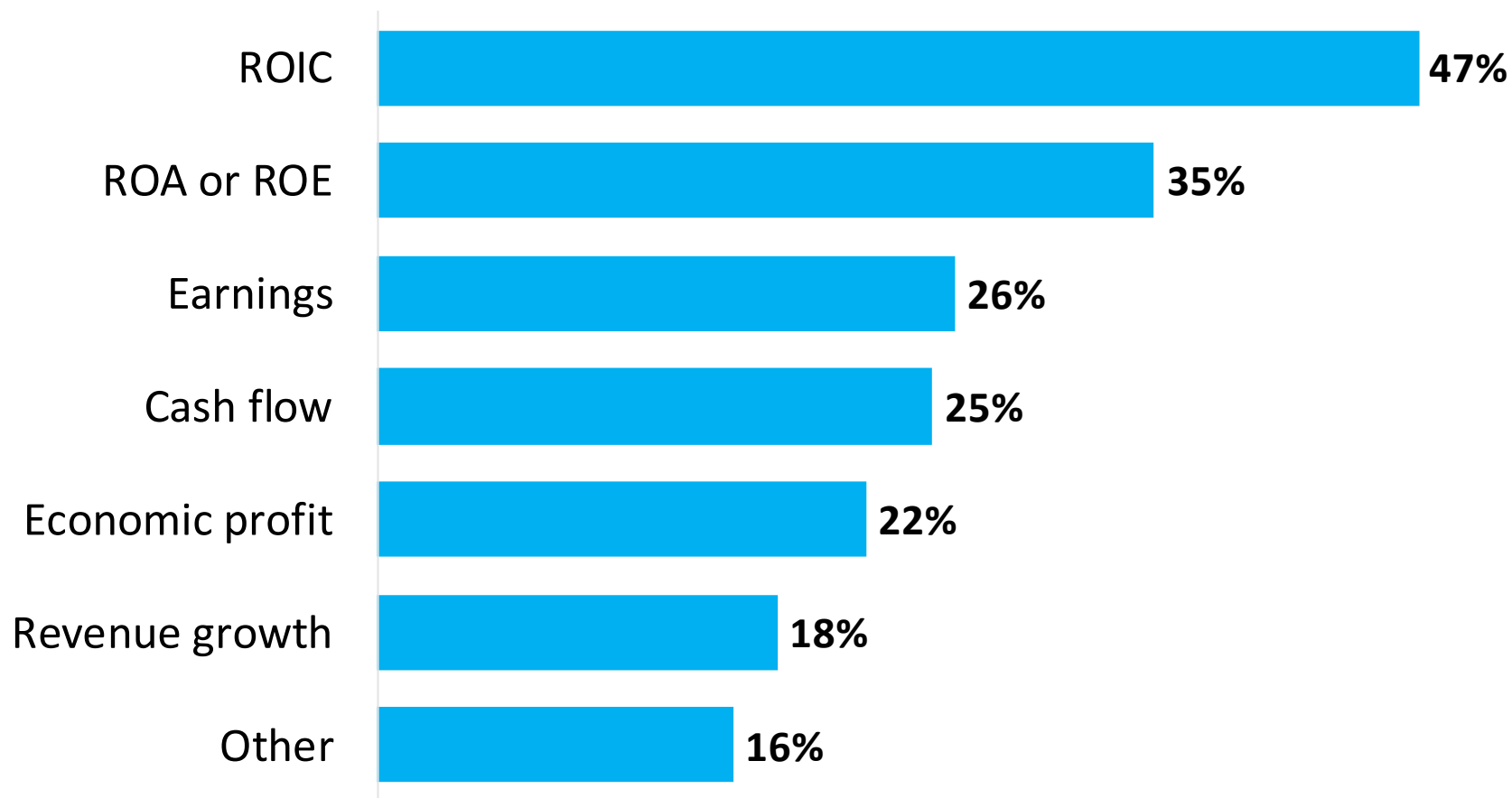


Issuer responses



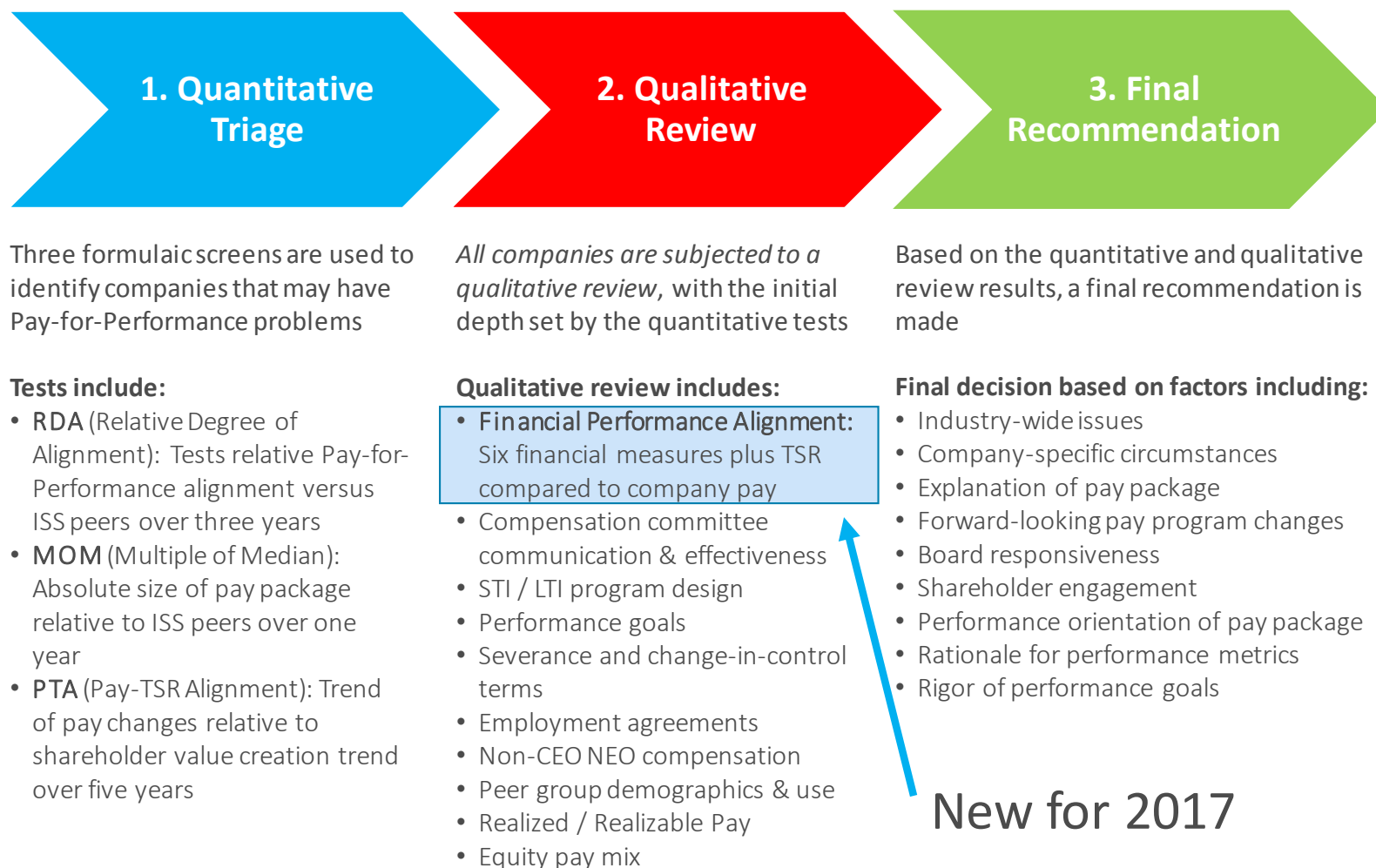
Issuers and investors agree: metrics other than TSR should be used to evaluate pay and performance alignment.

Which other financial metrics would you support being incorporated into the quantitative model (select up to two):

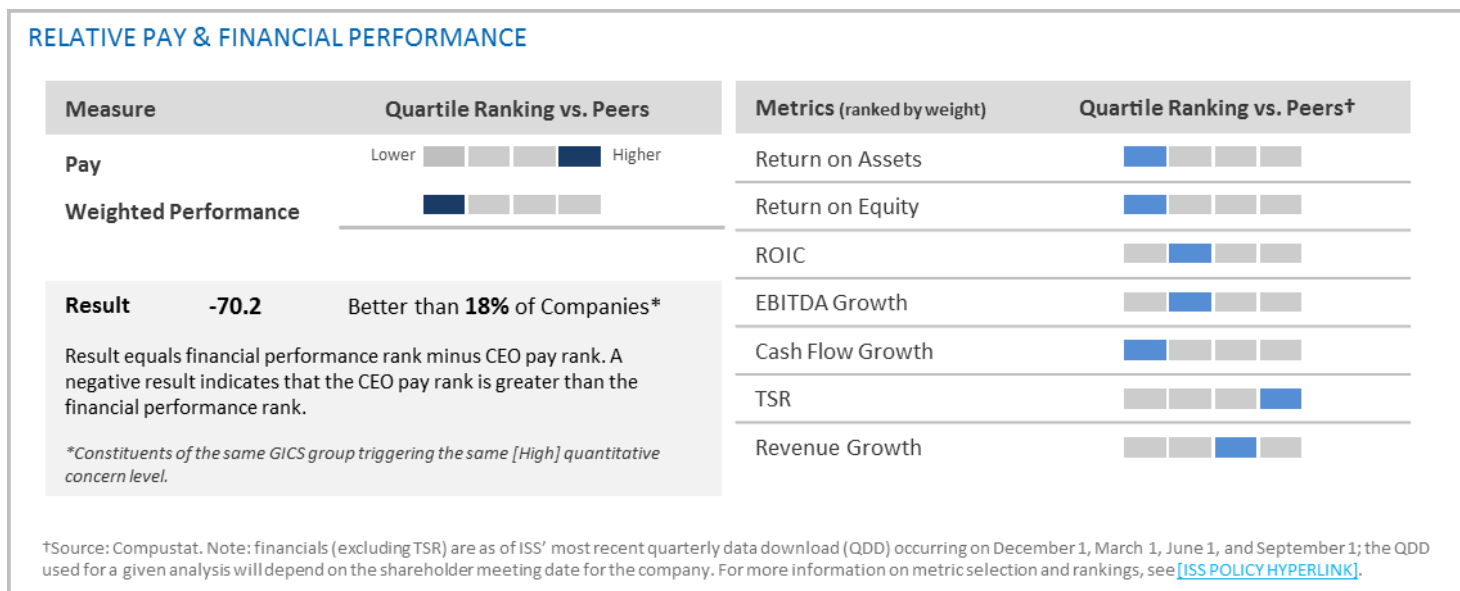


All companies receive a basic qualitative review

High-level ISS Research Pay-for-Performance evaluation process



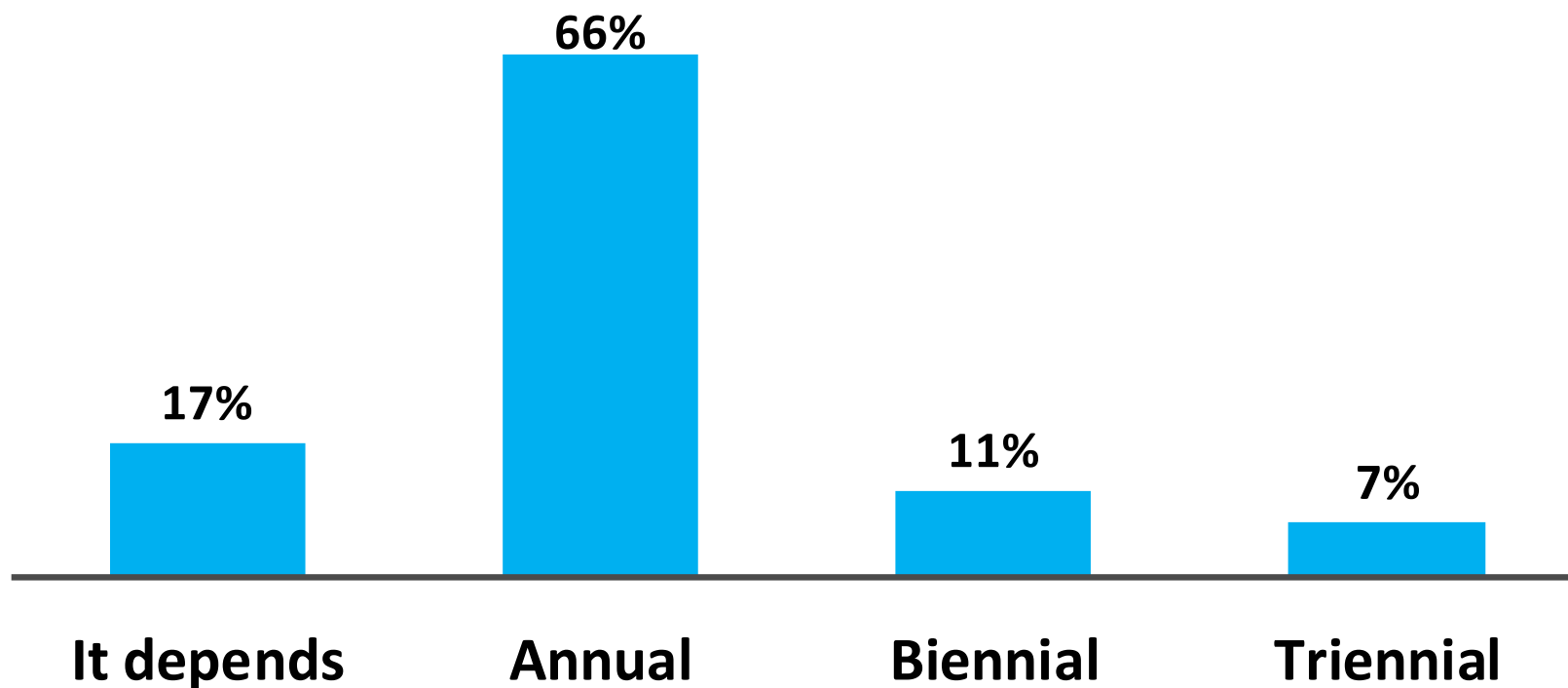
Sample metric presentation (subject to change)



1. Analysis is part of the *qualitative* pay-for-performance review
2. There are no threshold scores or concern levels assigned for 2017
3. Metrics are weighted differently by industry; not all metrics used in all industries
4. Performance is compared on a relative basis against the ISS peer group
5. Performance data comes from CompuStat, and will be on a GAAP basis
6. No items will be measured on a per-share basis

2016-2017 ISS policy survey: What frequency of advisory "say on pay" votes do you or does your organization favor for U.S. companies?

Institutional investor responses



Source: 2016-2017 ISS annual policy survey results.

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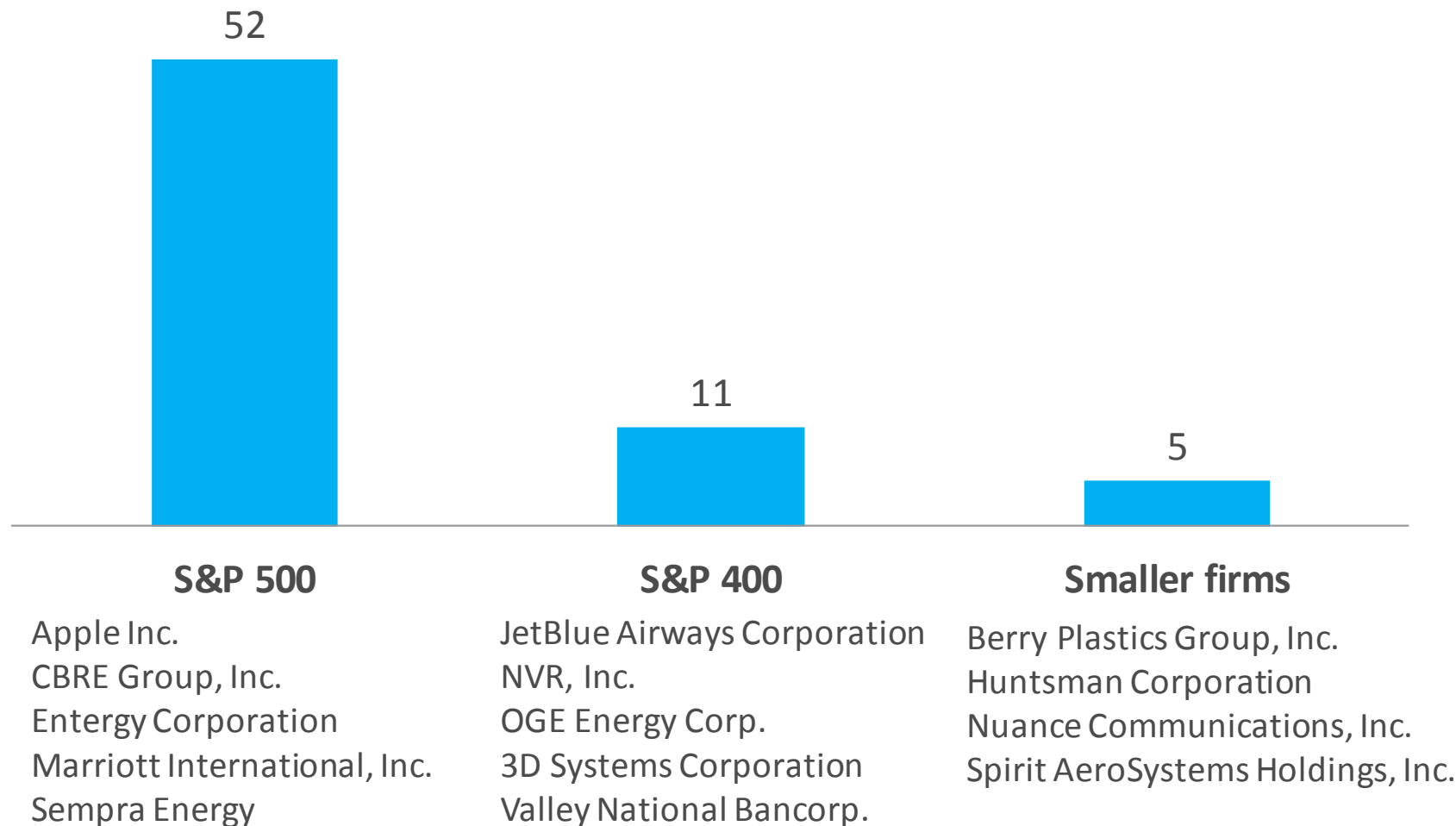
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2017 Proxy Access shareholder proposals by index*



* One firm has two proposals pending, Skyworks Solutions, Inc., accounting for difference between 60 proposals and 68 companies
Source: ISS Shareholder Proponent Database

Investors are increasingly choosing annual say-on-pay frequency

- ❖ ISS will continue to recommend annual say-on-pay frequency for all U.S. companies.
- ❖ Investors still largely favor an annual cadence.

Outcomes on Say-on-Pay Frequency Votes, 2011-2016

