Council of Institutional Investors®
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CII Policies on Executive Compensation Adopted September 17, 2019

Section 5.1 Core Objectives of Executive Pay

Executive compensation should be designed to attract, retain and incentivize executive talent for the purpose of building long-term shareholder value and promoting long-term strategic thinking. CII considers "the long-term" to be at least five years. Executive rewards should be generally commensurate with long-term return to the company's owners. Rewarding executives based on broad measures of performance may be appropriate in cases where doing so logically contributes to the company's long-term shareholder return.

Executive compensation should be tailored to meet unique company needs and circumstances. A company should communicate the board's basis for choosing each specific form of compensation, including metrics and goals. This may include industry considerations, business lifecycle considerations and other company-specific factors. Companies should explain how the components of the package tie to the company's core objectives and fit together to a collective end.

Executive compensation should be comprehensible. The compensation committee should consider whether participants, board members and investors are likely to understand the program and each of its components. Compensation practices that committee members would find difficult to explain to investors in reasonable detail are prime candidates for simplification or elimination.

Executive pay should be cost-effective and equitable. It is the job of the board of directors and the compensation committee specifically to ensure that executive compensation programs are effective, reasonable and rational with respect to critical factors such as company performance, industry considerations, risk considerations and compensation paid to other employees.

Section 5.2 Governance of Compensation

5.2a Compensation Committee

CII believes that reasonable, appropriately structured executive compensation is a key board responsibility performed mainly through the board's independent compensation committee and informed by annual shareholder say-on-pay votes and engagement with shareholders.

The compensation committee should devote its attention to adopting executive compensation practices that advance the above core objectives and avoiding practices that undermine or obscure them. The compensation committee should recognize that incentives can help or damage long-term shareholder value, with potential harm from pay and pay opportunities that are excessive or not calibrated appropriately for risk.

The committee should ensure that the structure of employee compensation throughout the company is fair, non-discriminatory and forward-looking, and that it motivates, recruits and retains a workforce capable of meeting the company's strategic objectives. The committee should be fully independent and abide by a process that provides for well-informed decision-making without undue influence from management or third parties influenced by management.

The committee should take into consideration employee compensation throughout the company as a reference point for setting executive pay consistent with the company's strategic objectives.

5.2b Independent Consultants and Advisors to the Compensation Committee

The compensation committee should identify, select, retain and, as necessary, terminate outside experts, including consultants, legal advisors and any other advisors as it deems appropriate, including when negotiating contracts with executives. The committee should disclose any management role in identifying or recommending one or more candidates as the committee's compensation consultant. Committees that retain compensation consultants should seek competitive bids at least every five years.

Individual compensation advisors and their firms should be independent of the client company and its executives and should not have conflicts of interest with board members. The independent advisors should report solely to the compensation committee. The committee should annually disclose an assessment of its advisors' independence along with a description of the nature and dollar amounts of services commissioned from the advisors and their firms by the client company's management. Companies should not agree to indemnify or limit the liability of compensation advisors or the advisors' firms.

Section 5.3 Transparency of Compensation

Compensation committees should make compensation disclosures (including those in the U.S.-style Compensation Disclosure and Analysis), as clear, straightforward and comprehensible as possible. Each element of pay should be clear to shareholders, especially with respect to any goals, metrics for their achievement and maximum potential total cost.

Descriptions of metrics and goals in the proxy statement should be at least as clear as disclosures described in other investor materials and calls. To the extent that compensation is performance-based, it is critical that investors have information to evaluate the choice of metrics, how those metrics relate to key company strategic goals, and how challenging the goals are. Any intra-period or *post hoc* discretionary adjustments to awards should be justified, disclosed and fully explained.

Section 5.4 Peers

A committee should design a pay program that is appropriate for that company. Overreliance on benchmarking to peer practices can escalate executive compensation and lead compensation committees to adopt pay practices that may not be optimal for their companies. It makes sense for a compensation committee to understand what peers are doing, but not necessarily to imitate peers. In making reference to peers, it is imperative that compensation committees have a clear-eyed understanding of how peers performed relative to the company.

Compensation committee members have an important responsibility to guard against opportunistic peer group selection. Compensation committees should disclose to investors the basis for the particular peers selected, and should aim for consistency over time with the peer companies they select. If companies use multiple peer groups, the reasons for such an approach should be made clear to investors.

Section 5.5 Elements of Compensation

A variety of executive compensation approaches are valid, depending on analysis of the company's particular circumstances. Shareowners look to the compensation committee to determine pay approach, but expect clear disclosure to investors on the elements of pay, and why the committee determined to structure pay in a particular manner. Shareowners also look to the compensation committee to set goals, but expect clear disclosure of the goals.

Most U.S. companies provide salary, an annual bonus and a long-term incentive. However, this approach need not be written in stone. It could simplify and sharpen compensation at certain companies to focus pay on salary and a single incentive plan, for example to make an annual award of long-vesting restricted shares or restricted share units. We would expect such an approach to focus on a long-term incentive and alignment, although there may be circumstances for which sharper focus on relatively short-term incentives makes sense (e.g., in some turnaround situations with highly challenging near-term requirements).

5.5a Fixed pay

Fixed pay is a legitimate element of senior executive compensation. Compensation committees should carefully consider and determine the right risk balance for the particular company and executive. It can be appropriate to emphasize fixed pay (which essentially has no risk for the employee) as a significant pay element, particularly where it makes sense to disincentivize "bet the company" risk taking and promote stability. Fixed pay also has the advantage of being easy to understand and value, for the company, the executive and shareholders. That said, compensation committees should set pay considering risk-adjusted value, and so, to the extent that fixed pay is a relatively large element, compensation committees need to moderate pay levels in comparison with what would be awarded with contingent, variable pay.

5.5b Time-vesting restricted stock

For some companies, emphasis on restricted stock with extended, time-based vesting requirements—for example, those that might begin to vest after five years and fully vest over 10 (including beyond employment termination)—may provide an appropriate balance of risk and reward, while providing particularly strong alignment between shareholders and executives.

Extended vesting periods reduce attention to short-term distractions and outcomes. As full-value awards, restricted stock ensures that executives feel positive and negative long-term performance equally, just as shareholders do. Restricted stock is more comprehensible and easier to value than performance-based equity, providing clarity not only to award recipients, but also to compensation committee members and shareholders trying to evaluate appropriateness and rigor of pay plans.

5.5c Performance-based compensation

Performance-based compensation in the form of a cash incentive plan or performance stock units may be an appropriate incentive tool, particularly to encourage near-term outcomes that generate progress toward the achievement of longer-term performance. For reasons described below, however, compensation committees should apply rigorous oversight and care when designing and approving these award types.

Performance-based compensation plans are a major source of today's complexity and confusion in executive pay. Metrics for performance and performance goals can be numerous and wide-ranging. They often are based on non-GAAP "adjusted" measures without reconciliation to GAAP. Investors need sufficient information to understand how the plan works. Performance-based award programs typically are more difficult to understand, more difficult to value and more vulnerable to obfuscation than time-vesting restricted stock.

Performance-based plans also are susceptible to manipulation. Executives may use their influence and information advantage to advocate for the selection of metrics and targets that will deliver substantial rewards even without superior performance (e.g., target awards earned for median performance versus peers). Except in extraordinary situations, the compensation committee should not "lower the bar" by changing performance targets in the middle of performance cycles. If the committee decides that changes in performance targets are warranted in the middle of a performance cycle, it should disclose the reasons for the change and details of the initial targets and adjusted targets.

The compensation committee should ensure that performance-based programs are not too complex to be well understood by both participants and shareholders, that the underlying performance metrics support the company's business strategy, and that potential payouts are aligned with the performance levels that will generate them. In addition, the proxy statement should clearly explain such plans, including their purpose in context of the business strategy and how the award and performance targets, and the resulting payouts, are determined. Finally, the committee should consider whether long-vesting restricted shares or share units would better achieve the company's long-term compensation and performance objectives, versus routinely awarding a majority of executives' pay in the form of performance shares.

5.5d Stock options

Depending on a company's risk and financial profile, a compensation committee may have valid reason to compensate executives in part with stock options. They may be essential for a small, growth-stage company with more promising ideas than cash but illogical for a mature, large-cap company not seeking to encourage transformative risk-taking. Thoughtful calibration by the compensation committee to the company's current and intended position on the risk spectrum is important. CII opposes option backdating and option repricing, whether achieved through amending exercise prices or cancelling and replacing outstanding options with lower exercise prices.

Section 5.6 Stock Ownership Guidelines

Stock ownership policies help align the interests of executives and shareholders. Companies should require executives to reach and maintain a minimum level of full-value company stock holdings—often stated as a multiple of their salary, more meaningfully expressed as a percentage of shares obtained —and should bar executives and directors from hedging activity that reduces alignment.

The ownership guideline should apply until at least one year following the executive's departure from the company. Those not in compliance should be barred from liquidating stock-based awards (beyond tax obligations) until satisfaction of the guideline.

Some boards may determine that a hold-to-departure requirement or hold-beyond-departure requirement for *all* stock-based awards held by the highest-level executives is an appropriate and workable commitment to long-termism. Other boards may consider such restrictions unnecessary to the extent that awards include extended vesting periods.

Section 5.7 Compensation Recovery

Clawback policies should ensure that boards can refuse to pay and/or recover previously paid executive incentive compensation in the event of acts or omissions resulting in fraud, financial restatement or some other cause the board believes warrants recovery, which may include personal misconduct or ethical lapses that cause, or could cause, material reputational harm to the company and its shareholders. Companies should disclose such policies and decisions to invoke their application.

5.8 Poor Pay Practices

5.8a Gross-ups
CII generally opposes tax gross-ups for senior executives not provided to employees.

5.8b Employment Contracts, Severance and Change-of-control Payments
Various arrangements may be negotiated to outline terms and conditions for employment and to provide special payments following certain events, such as a termination of employment with or without cause or a change in control. The Council believes that these arrangements should be used on a limited basis.

> Employment Contracts: Companies should only provide employment contracts to executives in limited circumstances, such as to provide modest, short-term employment security to a newly hired or recently promoted executive. Such contracts should have a specified termination date (not to exceed three years). Contracts should not be "rolling" on an open-ended basis.

Severance Payments: Executives should not be entitled to severance payments in the event of termination for poor performance, resignation under pressure or failure to renew an employment contract. Company payments awarded upon death or disability should be limited to compensation already earned or vested.

In the event of a change in control, companies should not permit automatic accelerated vesting of all equity awards not yet awarded, paid or vested. A board's compensation committee may have discretion to permit full, partial or no accelerated vesting of equity awards not yet awarded, paid or vested. For example, adjustments may be appropriate to account for the actual performance delivered or the proportional amount of time that passed from the beginning of the performance or vesting period to the trigger date. If the board decides to accelerate awards in full, the company should disclose in the relevant public filing a detailed rationale of the decision and how it relates to shareholder value.

Change-in-control Payments: Any provisions providing for compensation following a change-in-control event should be "double-triggered." That is, such provisions should stipulate that compensation is payable only after a control change actually takes place and if a covered executive's job is terminated because of the control change.

Transparency: The compensation committee should fully and clearly describe the terms and conditions of employment contracts and any other agreements covering the executive oversight group and reasons why the compensation committee believes the agreements are in the best interests of shareholders.

Timely Disclosure: New executive employment contracts or amendments to existing contracts should be promptly disclosed.

Shareholder Ratification: Shareholders should ratify all employment contracts, side letters or other agreements providing for severance, change-in-control or other special payments to executives exceeding 2.99 times average annual salary plus annual bonus for the previous three years.

5.8c Perks and Retirement Arrangements

Company perquisites blur the line between personal and business expenses. Executives, not companies, should be responsible for paying personal expenses. The compensation committee should ensure that any perquisites are warranted and have a legitimate business purpose, and it should consider capping all perquisites at a de minimis level. Supplemental retirement plans, deferred compensation plans, and other retirement arrangements for executives can result in hidden and excessive benefits. They should be consistent with the retirement program covering the general workforce.