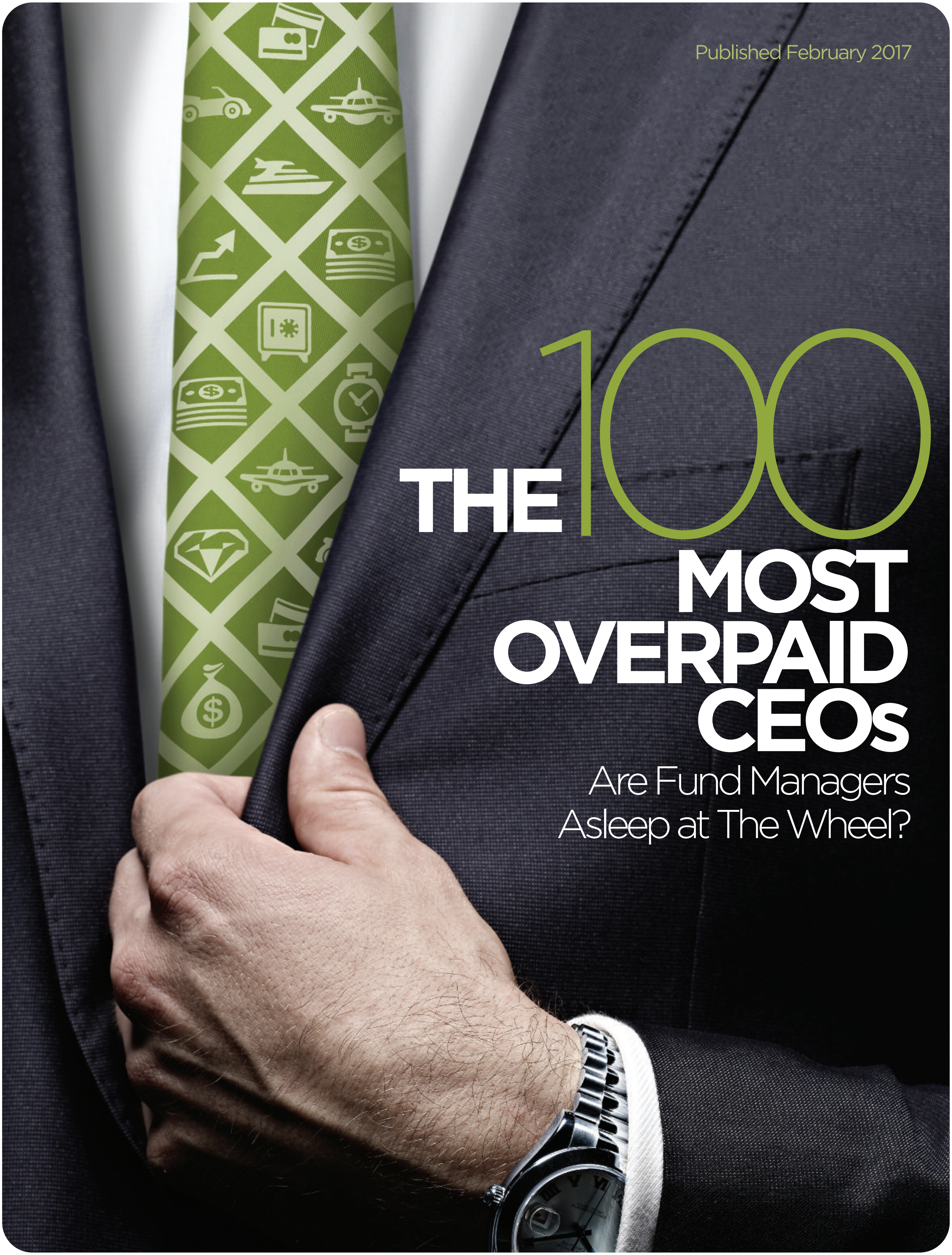

Published February 2017

THE 100 MOST OVERPAID CEOs

Are Fund Managers Asleep at The Wheel?

AUTHOR

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ACKNOWLEDGEMENTS

This report was made possible by the generous support of the Stephen Silberstein Foundation. Additional support was provided by the Arntz Family Foundation, The Keith Campbell Foundation for the Environment, Firedoll Foundation, Hanley Foundation, The Libra Foundation, Manaaki Foundation, New Belgium Family Foundation, Roddenberry Foundation, Roy and Patricia Disney Family Foundation, and Singing Field Foundation.

In this year's report, the third year of its release, we largely use the methodology from the prior years that was informed by conversations with many experts in the field. This report has also benefited from the input of outside reviewers.

Special thanks to:

- Onindo Khan whose support on this project was critical. His diligence, professionalism and attention to detail are outstanding.
- The HIP Investor team conducted a regression analysis, upon which a key component of this report rests, and provided measures used in the sustainability section of the report. HIP, founded in 2006, rates 32,000 investments on all aspects of sustainability (including corporate CEO pay) and how it links to future risk and return potential. Fabian Willskytt, Senior Vice President, and R. Paul Herman, HIP's CEO and founder, were extraordinarily helpful and responsive throughout the process, for the third year in a row.
- The mutual fund section of the report was based on data provided by Fund Votes, an independent project started in 2004 by Jackie Cook (CookESG Research). Fund Votes tracks institutional proxy voting, and Jackie Cook's knowledge of mutual fund families, voting practices, and the vagaries of Excel is without peer.
- Many state pension funds responded to requests for information, some with impressiveness, thoroughness, and speed. I want to thank the public servants doing anonymous but important work.
- Nell Minow, a long-time leader in the field of governance, for her special emphasis and encouragement on holding compensation committee members accountable.
- Good Jobs First, created a new database last year that allows anyone easy access to all fined violations from public agencies. We were grateful to use the service again this year, and urge others to make use of it as well.
- Stephen F. O'Byrne, of Shareholder Value Advisors; Mark Van Clieaf, of Organizational Capital Partners and Gary Lutin, of the Shareholder Forum took work they originally did for the New York Times and expanded it to cover the S&P 500. In addition to this data, their conversations have not only informed this issue of the report but given us ideas for examining this issue in the future.
- Robert Reich, whose writings have informed us for years, and whose most recent work *Saving Capitalism: For the Many, Not the Few* provides the most cogent articulation I've read on the structure and flaws of the current economic system.
- Thanks also to the additional professionals from industry and other sectors who provided peer reviews. Any errors or omissions are solely the responsibility of the author.
- We would also like to thank *As You Sow* staff Taraneh Arhamsadr, Andrew Behar, and Zoey Olbum for their research, editorial, and communications support. Interns Marge Landis and Sharada Weaver also assisted in gathering of data. Dan McCarthy provided critical research support on the voting practices of international funds.

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According to the Economic Policy Institute, “CEO pay grew an astounding 943% over the past 37 years, greatly outpacing the growth in the cost of living, the productivity of the economy, and the stock market, disproving the claim that the growth in CEO pay reflects the ‘performance’ of the company, the value of its stock, or the ability of the CEO to do anything but disproportionately raise the amount of his pay.”[1]

For the past two years we have highlighted the 100 most overpaid CEOs of S&P 500 companies, and the votes of large shareholders, including mutual funds and pension funds on their pay packages.

What has changed since the first report? Not much. Executive pay has continued to increase. Although mutual funds and pension funds are doing better at exercising their fiduciary responsibility by more frequently voting their proxies against some of the most outrageous CEO pay packages. Of the mutual funds with the largest changes in voting habits from last year, all of them opposed more of the pay packages than they had the prior year.

As we noted in our prior reports, the system in place to govern corporations has failed in the area of executive compensation. Like all the best governance systems, corporate governance relies on a balance of power. That system envisions directors representing shareholders and guarding the company’s assets from waste. It also envisions shareholders holding companies and executives accountable.

This governance system comes from a time when it was assumed that unhappy investors would simply sell their stakes if sufficiently dissatisfied with the governance of a company. It reflects a time when there were fewer intermediaries between beneficial holders and corporate executives. However, today more and more investors own shares through mutual funds, often investing in S&P 500 index funds. Individual investors are not in a position to sell their stakes in a specific company. The funds themselves are subject to a number of conflicts of interest and to what economists refer to with the oxymoronic-sounding term “rational apathy,” to reflect the expense of oversight in comparison to a pro rata share of any benefits.

Today, those casting the votes on the behalf of shareholders frequently do not represent the shareholders’ interests.

CEO compensation as it is currently structured does not work; rather than incentivize sustainable company growth, compensation plans increase disproportionately by every measure. Too often CEOs are rewarded for mergers and acquisitions instead of improving company performance. As noted in the *Financial Crisis Inquiry Report*, “Those [compensation] systems encouraged the big bet – where the payoff on the upside could be huge and the downside [for the individual executive] limited. This was the case up and down the line – from the corporate boardroom to the mortgage broker on the street.”[2] We note that the downside, which could include such features as environmental costs, may be limited for the individual, and instead borne by the larger society.

> The pay packages analyzed in this report are the companies that the majority of retirement funds are invested in.

Paying one individual EXCESSIVE amounts of money can lead people to make the false assumption that such compensation is justified and earned. It undermines essential premises of capitalism: the robust ‘invisible hand’ of the market as well as the confidence of those who entrust capital to third parties. Confusing disclosure coupled with inappropriate comparisons are then used to justify similar packages elsewhere. These systems perpetuate and exaggerate the destabilizing effects of income inequality, and may contribute to the stagnating pay of frontline employees.

As the report is now in its third year, **we have the ability to look back and see what happened to the companies identified in our report two years ago.** We've been saying the most overpaid CEOs under-deliver for shareholders. In examining this data from the following two years of our report, we have found dramatic results— not only does the group of 100 most overpaid CEO companies of the S&P 500 underperform the S&P 500 by **2.9 percentage points**, but the firms with the 10 most overpaid CEOs underperformed the S&P 500 index by an amazing **10.5 percentage points** and actually had a negative return, reducing the actual value of the companies' shares by **5.7 percent**. In summary, the firms with the most overpaid CEO's devastated shareholder value since our first report published in February 2015.

Identifying the 100 most overpaid CEOs in the S&P 500 was our purpose in writing this report. In undertaking this project we focused not just on absolute dollars, but also on the practices we believe to have contributed to bloated compensation packages.

Shareholders now supposedly have the right, since the enactment of the Dodd-Frank financial reform act, to cast an advisory vote on compensation packages. However, in today's world, most shareholders have their shares held and voted by a financial intermediary. This means that this critical responsibility is in the hands of a fiduciary at a mutual fund, an ETF, a pension fund, a financial manager, or people whose full-time job is to analyze the activities of the companies they invest in and monitor the performance of their boards, their CEOs, and their compensation.

A key element of the report has been **to analyze how mutual funds and pension funds voted on these pay packages. This year we vastly expanded the list of funds we looked at.** In response to excessive and problematic CEO pay packages, it should be noted that every fund manager has the power to vote against these compensation plans and withhold votes for the members of the board's compensation committee who created and approved them. In some cases, institutional investors should request meetings with members of the compensation committees to express their concerns. Institutional investors should be prepared to explain their votes on executive pay to their customers, and individuals should hold their mutual funds accountable for such decisions by expressing their displeasure directly to those that are also well compensated to protect and represent them.

Finally, again this year we looked at **the directors who serve on the compensation committees of these boards.**

KEY FINDINGS

Of the top 25 most overpaid CEOs, 15 made the list for the second year in a row, and 10 have been on the list for the third time. These rankings are based on a statistical analysis of company financial performance with a regression to identify predicted pay, as well as an innovative index developed by *As You Sow* that considers more than 30 additional factors.

The companies we listed in first report on overpaid CEOs has markedly underperformed the S&P 500 since that time. The 10 companies we identified as having the most overpaid CEOs, as a group underperformed the S&P 500 index by an incredible **10.5 percentage points** and actually demolished shareholder value as a group with a **negative 5.7 percent** financial return. In summary, the most overpaid CEO firms reduced shareholder value since our first report.

Many of the overpaid CEOs are insulated from shareholder votes, suggesting that shareholder scrutiny can be an important deterrent to outrageous pay packages. A number of the most overpaid CEOs are at companies with unequal voting structures and/or triennial votes, so shareholders did not have the opportunity to vote this year on the extraordinary packages. While the Say-on-Pay law allows less frequent votes, and shareholders can decide if they prefer to vote every one, two, or three years, the vast majority of companies hold annual votes on pay. We believe that the fact that our list of the top 25 overpaid CEOs includes several companies that do not hold annual votes on pay implies that such insulated companies are more willing to flaunt best practices on pay and performance.

The most overpaid CEOs represent an extraordinary misallocation of assets. Regression analysis showed **14 companies whose** CEOs received compensation at least $20 million more in 2015 than they would have garnered if their pay had been aligned with performance.

FIGURE 1 – TOP 25 MOST OVERPAID CEOs

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	CBS	Leslie Moonves	$56,773,822
2	Salesforce.com Inc	Marc Benioff	$33,362,903
3	Discovery Communications	David M. Zaslav	$32,377,346
4	General Growth Properties, Inc.	Sandeep Mathrani	$39,247,558
5	Regeneron Pharmaceuticals	Leonard S. Schleifer	$47,462,526
6	Oracle Corporation	Safra A. Catz and Mark V. Hurd	$106,488,798
7	Viacom	Philippe Dauman	$54,154,312
8	Vertex Pharmaceuticals Incorporated	Jeffrey M. Leiden	$28,099,826
9	Honeywell International Inc.	David M. Cote	$34,527,344
10	CVS Health Corporation	Larry J. Merlo	$28,943,054
11	Yahoo! Inc.	Marissa A. Mayer	$35,981,107
12	General Electric Company	Jeffrey R. Immelt	$32,973,947
13	General Motors Company	Mary T. Barra	$28,588,663
14	Morgan Stanley	James P. Gorman	$22,116,052
15	SL Green Realty Corporation	Marc Holliday	$23,047,749
16	Comcast	Brian L. Roberts	$36,248,269
17	ExxonMobil Corporation	Rex W. Tillerson	$27,297,458
18	Bed Bath & Beyond Inc.	Steven H. Temares	$19,409,668
19	Goldman Sachs Group, Inc. (The)	Lloyd C. Blankfein	$22,586,152
20	Wynn Resorts	Stephen A. Wynn	$20,680,391
21	Chesapeake Energy Corporation	Robert D. Lawler	$15,418,015
22	BlackRock, Inc.	Laurence D. Fink	$25,792,630
23	Ralph Lauren Corporation	Ralph Lauren	$23,957,577
24	Universal Health Services	Alan B. Miller	$20,477,031
25	Citrix Systems, Inc.	Robert M. Calderoni	$19,631,434

A primary goal of the report is to focus on mutual fund voting data. This data is disclosed on an annual basis for a proxy season that covers shareholder meetings held from July 1 of the previous year to June 30 of the present year. Therefore, a few companies with FYE dates other than 12/31 have issued proxy statement with more recent pay data. This is the compensation that was voted on during the prescribed time period.

Shareholder votes on pay are wide-ranging and inconsistent, with pension funds far better at exercising their fiduciary responsibilities. This report, representing the broadest survey of institutional voting ever done on the topic, shows that pension funds are more likely to vote against overpaid packages than mutual funds. Using various state disclosure laws, we were able to collect data from over 30 pension funds. The data shows some pension funds approving just 18% of these overpaid CEO pay packages, to others approving as many as 93% of them.

Mutual funds, on the other hand, are far more likely to approve of these overpaid CEO pay packages even though among mutual funds there is wide variation. Of the mutual funds with the largest changes in voting habits from last year, all of them opposed more of the pay packages than they had the prior year. In addition to the trending votes, several funds have indicated that, at a minimum, they will be reviewing pay more closely. Of the largest mutual funds, Dimensional Fund Advisors opposed 53% of these packages, while Blackrock opposed only 7% of them. Some funds seem to routinely rubber stamp management pay practices, enabling the worst offenders and failing in their fiduciary duty. TIAA-CREF, the leading retirement provider for teachers and college professors, is more likely to approve high-pay packages than almost any other institution of its size with support level of 90%.

Directors, who should be acting as stewards of shareholder interests, should be held individually accountable for overseeing egregious pay practices. A number of directors serve on two or more overpaid S&P 500 compensation committees. We list the companies that over-paying directors serve on, and identify individuals who serve on two or more 'overpaid' S&P 500 compensation committees.

INTRODUCTION

CEO pay is a core contributor to America's extreme and growing income inequality. The Economic Policy Institute (EPI) notes that over the period of 1978 to 2015, the inflation-adjusted pay of a typical worker grew by about 0.4% a year (a total of 10% over 35 years) while the pay of a typical CEO grew almost a hundred-fold CEO Pay grew an astounding 943% over the past **37 years, nearly doubling the growth of the S&P 500 at 544% and the Dow Jones Industrial Average at 543% over the same time period.**[3]

Based on the EPI data, HIP Investor extended the analysis showing a longer time frame of 50 years. This longer time frame, as seen in the table below, provides an even more striking contrast; it covers five decades and multiple business cycles, booms, and busts.

In the introduction of his important new book, *Saving Capitalism: For the Many, Not the Few*,[4] Robert Reich notes that, "The meritocratic claim that people are paid what they are worth in the market is a tautology that begs the questions of how the market is organized and whether the organization is morally and economically feasible."[5] The organization of the market for CEO pay is particularly warped, with compensation consultants, questionable peer groups, and overpaid directors all playing a role.

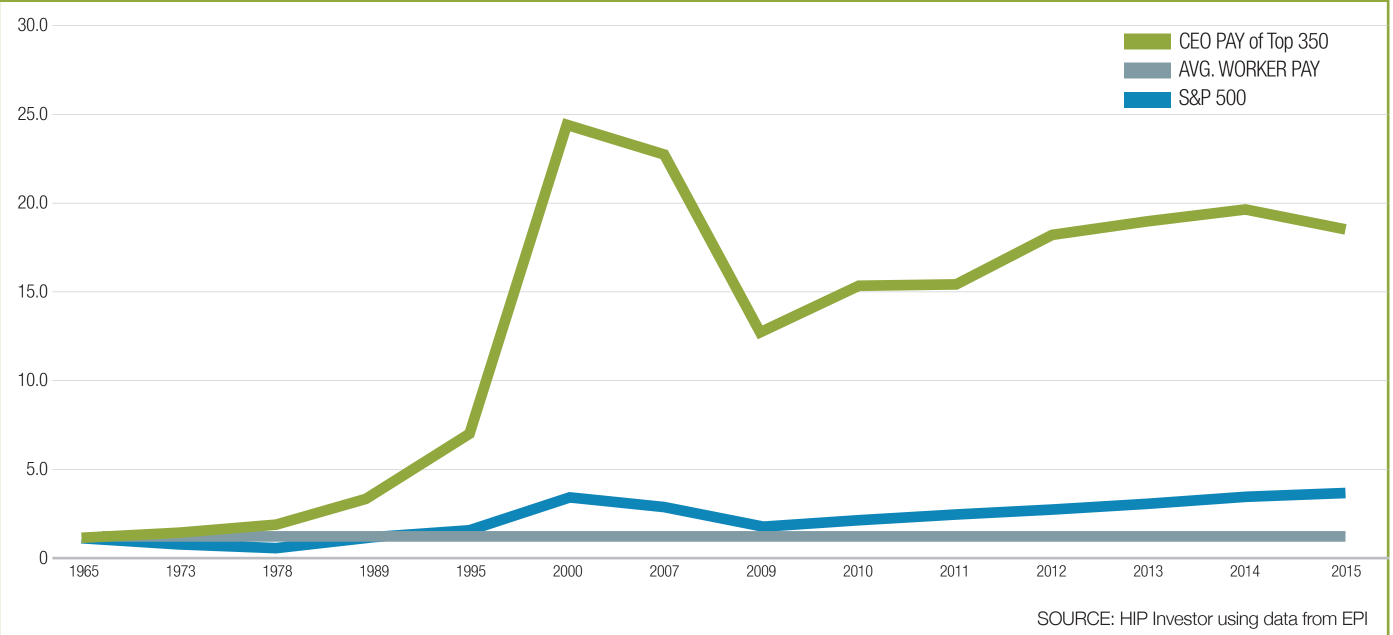
In order to hide the true cost of ever-increasing CEO pay from the company, its shareholders, and also reduce taxes that both the company and the CEO might otherwise have to pay, executive compensation has come to be structured in overly-complex ways. Numerous studies have shown that there is virtually no correlation between the pay of a CEO and the performance of a company.[6] Indeed, it has been argued that the structure of many CEO pay packages actually incentivizes bad decisions and bad behavior.

Simply put, it is not good for our society and overall economic growth to keep putting more and more money in the hands of just a few people. It raises the cost of capital for US companies and reduces our competitiveness. It's also neither accurate nor wise to attribute the performance of an entire corporation, with its tens or hundreds of thousands of employees, to just one or two people.

Simply put, it is not good for economic growth to keep putting more and more money in the hands of just a few people. It raises the cost of capital for US companies and reduces our competitiveness.

In order to bring the problem of excessive CEO pay into focus, this report analyzes the CEO pay packages at the nation's top 500 corporations (as determined by the S&P 500 list), and identifies the top 100 most overpaid – the worst 20%. Since shareholders now have the opportunity to cast an advisory vote on these pay packages as a result of the Dodd-Frank financial reform act, they may want to consider expressing their concern that these pay packages are not only excessive, but also not in their personal financial interests, nor in the interests of our society.

FIGURE 2 – GROWTH OF CEO PAY COMPARED TO WORKER PAY, STOCK MARKET PERFORMANCE OVER 50 YEARS



Based on EPI data but showing a longer time frame of 50 years. This provides an even more striking contrast over multiple business cycles, booms, and busts.

We also analyzed how the largest investors in these companies, namely mutual funds and public pension funds, have voted their shares on this matter, and thus which ones are properly exercising their fiduciary responsibility, and which are acquiescing in squandering of company resources.. Lack of transparency along with multiple layers of agency costs obstructs a free market response and undermines the credibility and efficiency of public companies.

Directors designated to be the stewards of shareholders' interests have too often compromised on that responsibility, particularly when it comes to compensation. This report provides information and insight on the compensation committee directors who serve at the companies with the worst overpay problems.

Finally, the report concludes with detailed information on our methodology and the factors we considered when analyzing the CEO pay packages.

***As You Sow* believes that now is the time for shareholders, particularly those with fiduciary responsibilities, to become more engaged in their analysis of executive pay and those who award these packages.** The 100 most overpaid CEOs deserve more scrutiny.

THE 100 MOST OVERPAID CEOS

As You Sow begins with a forthright acknowledgement of our assessment that many S&P 500 CEOs are overpaid in comparison to the pay of CEOs of large complex European, Canadian, Australian, and Japanese companies, and far out of proportion to the value they provide to society. Thus our clear focus is on the "most overpaid" executives at companies where we believe pay is too high (i.e., above peers, taking a higher and higher share of company profits), particularly in light of performance considerations.

The current system of executive pay distorts incentives, leading to a short-term focus rather than sustainable growth. Executive pay may represent, and in some cases encourage, poor allocation of resources. Indeed, an important new study this year by the Institute for Policy Studies entitled: "Money to Burn: How CEO Pay is Accelerating Climate Change," illustrates how oil companies' executives receive bonuses based on short-term operation metrics, such as those related to reserves. This metric distorts the impact of industry-wide trends, undermines long-term planning, rewards increased production of carbon intensive products, and exacerbates the risk of stranded assets.

Pay is often structured in such a way that it encourages a myopic focus on the short term, rewarding executives that extract profit by acting in ways that harm employees, the environment, and often the consumer, with no clawbacks for long-term consequences or externalized costs. Finally, excessive pay packages contribute to the destabilizing effects of income inequality and make consumers and employees wonder if they are playing in a game rigged against them.

To complete this study, we purchased data from Institutional Shareholder Services (ISS), Glass Lewis, HIP Investor, and The Analyst's Accounting Observer. As noted in the acknowledgements, several academics and investors were also generous with data and insights.

HIP Investor ran several statistical analyses of the S&P 500 as of June 30, 2016, using two types of factors: financial performance and executive pay. These analyses identified a best-fit line for predicting pay based on performance. This prediction is compared to actual pay, to see how much the package exceeded such a prediction. Companies were then ranked in order of excess of pay over performance.

The financial performance measure we ultimately chose was five-year Total Shareholder Return (TSR). We chose TSR because we come from the perspective of shareholders and this is the best commonly accepted measure to evaluate company performance used by shareholders.

As noted more fully in the methodology section, we do not believe that TSR is necessarily an appropriate compensation metric under which to reward CEO performance as we do not believe the CEO is a primary driver of stock price. Numerous academic studies (detailed most recently in Michael Dorff's *Indispensable and Other Myths: Why the CEO Pay Experiment Failed and How to Fix It*) show there is little alignment between pay and stock performance, and too often CEOs have received windfalls based on purely external factors. Yet, it is the delivery of wealth to stockholders that is used by CEOs, boards, and compensation consultants as the primary justification for high-pay. In this study, while disputing the validity of that alignment, we focus on CEOs of companies that would be overpaid even if that assumption were true.

We began this report with conversations with a variety of experts to identify quantitative data points under which companies could be measured and ranked. The data was gathered from a number of sources and grouped into categories:

- Pay and performance: issues with incentive and equity pay
- Promoters of the upward spiral: companies with practices that contribute to inflationary pay
- High executive pay at the expense of long-term company sustainability
- Other expert evaluations: the consensus of concern

Over 30 variables were identified and analyzed within this conceptual framework, while others were considered and not used. On most variables, simple rankings were performed and those ranked in the bottom 20% of the S&P 500 received a red flag. In order to highlight the most extremely problematic issues – rather than just giving one red flag to the worst 100 – we awarded an extra point for the 10 worst companies in some categories. This focus on the worst of the worst allowed us to focus more clearly on the most extreme outliers. Other data points were calculated differently, often comparing companies with problematic practices to those with highly paid CEOs. Each item is described more fully in the sections that follow. The total number of red flags then ranked companies – from the highest with 25 flags down to the companies with none. Those on our final list had a median of 11 flags. By contrast, there were 170 companies in the S&P 500 that had three or fewer flags.

The two rank orderings – one created with a statistical analysis, and another with broader considerations – were weighted equally in deriving the final ranking. As discussed more fully below, several companies with unequal voting structures hold triennial Say-on-Pay shareholder votes and therefore did not hold a Say-on-Pay vote during the period covered by this study.

In lieu of these, we selected seven additional companies to the vote analysis list (see Appendix B).

The majority of data based on proxy statement disclosure was gathered through a subscription to ISS's ExecComp Analytics.

Here's an example of how the calculation works: Viacom's TSR has been negative in the two-, three-, and five-year time-frame and over the last two years shareholders lost almost one third of their value invested in Viacom. Meanwhile Viacom (owner of Paramount Pictures, MTV, BET, and Nickelodeon) awarded their CEO $54 million in compensation. If existing pay packages bore a simple linear relationship to performance, we would only predict a pay of roughly $12 million, leading to a calculation of $42 million in excess pay. That means that Viacom pays their CEO Philippe Dauman 350% more than they should.

Viacom also received 16 separate red flags under *As You Sow's* analysis. In the overall ranking Viacom made it to the seventh worst company concerning CEO pay. Among other malpractices, primarily the excessive use of options and disregard for pay at peer companies, earned them the flags. These practices lead to Viacom making the Top 10 in the pay and performance category as well as the Top 20 in the compensation inflator category, both discussed more fully in our methodology section.

Of the 25 most overpaid CEOs 10 companies have now appeared on the full list for three years: CBS, Comcast, CVS Health, Discovery Communications, Exxon Mobil, Honeywell International, Oracle, Regeneron Pharmaceuticals, Salesforce, and Viacom. Of the 100 companies on the full list (see appendix A), there are 46 that have been on both prior lists, and 64 that are repeats from last year.

FIGURE 3 – TOP 25 MOST OVERPAID CEOs

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	CBS	Leslie Moonves	$56,773,822
2	Salesforce.com Inc	Marc Benioff	$33,362,903
3	Discovery Communications	David M. Zaslav	$32,377,346
4	General Growth Properties, Inc.	Sandeep Mathrani	$39,247,558
5	Regeneron Pharmaceuticals	Leonard S. Schleifer	$47,462,526
6	Oracle Corporation	Safra A. Catz and Mark V. Hurd	$106,488,798
7	Viacom	Philippe Dauman	$54,154,312
8	Vertex Pharmaceuticals Incorporated	Jeffrey M. Leiden	$28,099,826
9	Honeywell International Inc.	David M. Cote	$34,527,344
10	CVS Health Corporation	Larry J. Merlo	$28,943,054
11	Yahoo! Inc.	Marissa A. Mayer	$35,981,107
12	General Electric Company	Jeffrey R. Immelt	$32,973,947
13	General Motors Company	Mary T. Barra	$28,588,663
14	Morgan Stanley	James P. Gorman	$22,116,052
15	SL Green Realty Corporation	Marc Holliday	$23,047,749
16	Comcast	Brian L. Roberts	$36,248,269
17	ExxonMobil Corporation	Rex W. Tillerson	$27,297,458
18	Bed Bath & Beyond Inc.	Steven H. Temares	$19,409,668
19	Goldman Sachs Group, Inc. (The)	Lloyd C. Blankfein	$22,586,152
20	Wynn Resorts	Stephen A. Wynn	$20,680,391
21	Chesapeake Energy Corporation	Robert D. Lawler	$15,418,015
22	BlackRock, Inc.	Laurence D. Fink	$25,792,630
23	Ralph Lauren Corporation	Ralph Lauren	$23,957,577
24	Universal Health Services	Alan B. Miller	$20,477,031
25	Citrix Systems, Inc.	Robert M. Calderoni	$19,631,434

See Appendix A for full data table of the 100 most overpaid CEOs.

TREND ANALYSIS

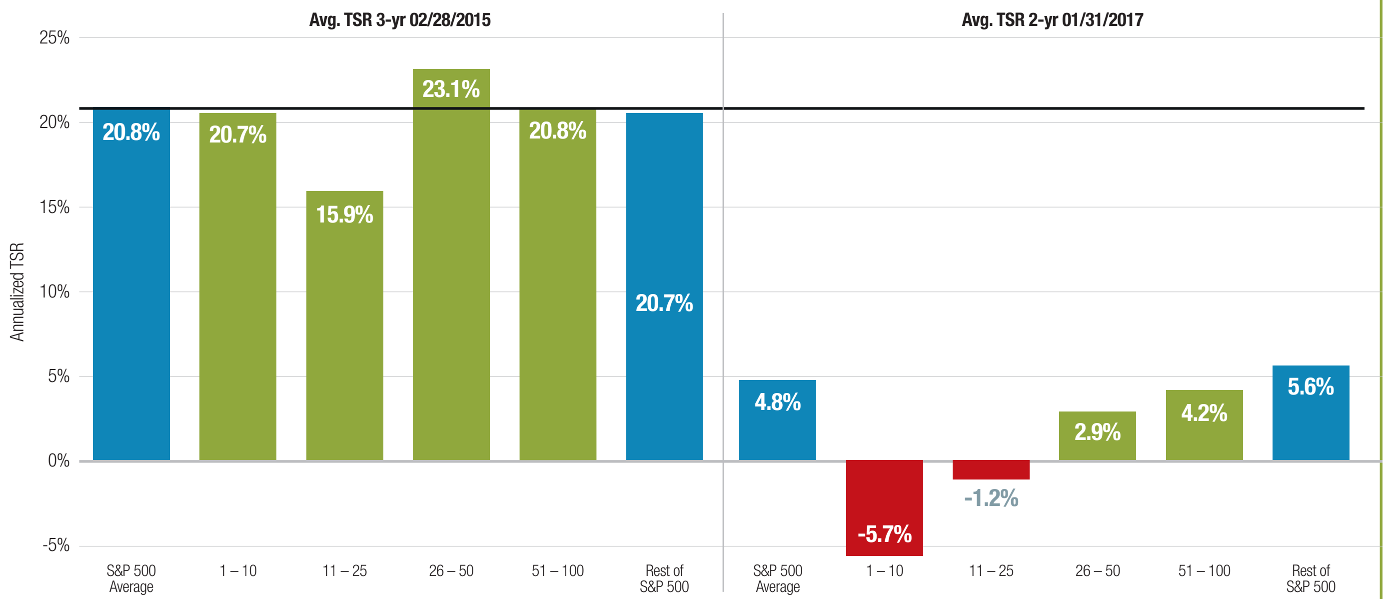
As we approached our third consecutive year of the Most Overpaid CEOs report, we decided to look into how the companies in our inaugural overpaid list performed financially – on total shareholder return (TSR), which counts stock price gains and losses and reinvested dividends – since our first report in February 2015. We had already noted last year that the most overpaid company on the list for the prior year, Nabors Industries, an oil and gas company, had dropped off the S&P 500 due to its dramatic decline in shareholder value. We then analyzed how the other 99 overpaid CEO firms might have lagged with poor performance.

Our team analyzed the top 100 overpaid CEOs from 2015's report comparing the 100 firms with the Most Overpaid CEOs financial performance for shareholders to the S&P 500 index, the major benchmark of the diversified US economy. We also analyzed the total shareholder return (TSR) for sub-groups of most-overpaid CEO firms, in buckets of the top 10, ranks 11-25, 26-50, and 51-100; and then the rest of the S&P 500.

FIGURE 4 – MOST OVERPAID CEOS UNDER-DELIVER FOR SHAREHOLDERS

Tiers of The 100 Most Overpaid CEO Firms lagged the S&P 500 since our first Report

(top 100 as a group; TSR calculated for past three years ending 2/28/2015; and annualized two-year period from 2/28/2015 to 1/31/2017)



In the three years prior to the publication of our first report, the top and bottom sub-groups of of the companies with the most overpaid CEO's performed about "average" in line with the S&P 500 returns of 20.8%. This in itself underlines a lack of connection between overpay and overperformance. In the two years following the first report, firms with the 10 most overpaid CEOs underperformed the S&P 500 index by a gaping **10.5 percentage points** and actually reduced the actual value of the companies' shares by **negative 5.7 percent**.

Overall, this suggests that Overpaid CEOs can be a significant drag on shareholder value, underperform the index, and may be a fundamental leading indicator of future risks – and in this case lagging and even negative shareholder return.

Investors using this information from our first report could have short-sold, divested, or underweighted the Most Overpaid 100 firms as a group and they would have increased investment returns. It may be, as experts have foretold, that overpaid CEOs are an early signal of larger corporate governance issues, a factor to which all investors, advisors, fund managers and retirement plans should pay very close attention.

SAY-ON-PAY

The data in this report suggests that Say-on-Pay may be having a real effect. As noted earlier, we've observed highest pay at companies that are insulated in some manner from annual shareholder votes. The fact that companies appear to be awarding mega-compensation packages on years when their shareholders don't vote suggests that they may fear shareholder backlash.

Also, as can be seen below, pension funds are starting to pay attention to this issue by revisiting their guidelines and/or reconsidering their voting practices. Since 2011, under provision 951 of the Dodd-Frank Act, shareholders vote on compensation as presented in the company's annual proxy statement for the five named executive officers (NEOs).[7] This provision grew out of decades of shareholder advocacy at hundreds of companies demanding disclosure on CEO pay. The role that over-sized executive compensation incentive packages played in the 2008 financial meltdown also became evident. When President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into federal law on July 21, 2010 it included this provision.[8]

According to Fund Votes the average level of support for Say-on-Pay proposals at S&P 500 companies in 2015 was 92.25%, nearly the same as it had been in 2014 and 2013. The relatively high level of support received on compensation matters is occasionally cited by compensation consultants to rationalize existing pay levels and structures.

However, this reflects the fact that votes cast are generally insulated from the opinion of actual investors. In fact most Americans underestimate the pay of CEOs, but disagree with even their own lower-than-true assumptions. Stanford's Rock Center on Corporate Governance conducted a survey of over 1,200 individuals on the public perception of CEO pay. Nearly three quarters of the respondents disapproved of the ratio of CEO to average worker compensation. The results are more compelling when another factor is considered: most of those taking the survey vastly underestimated the true pay figures. Sixty-two percent responded that CEOs should not earn beyond a certain amount, regardless of the company's size or performance.[9]

The real test of Say-on-Pay is reform, not simply a majority vote; not simply a punishment of those that violate corporate governance standards but an encouragement toward best practices. As SEC Commissioner Luis Aguilar observed, Say-on-Pay has increased communication between issuers and shareholders and has resulted in positive changes to many companies.

Shareholders have had some success at persuading companies to adopt better pay practices. A Towers Watson study noted that in 2013 a significant number of companies made changes after their annual Say-on-Pay vote failed to garner majority support.[10] Among the changes: 44% have added a clawback provision to allow a company the possibility of reclaiming compensation in limited cases, and similar percentages have adjusted their compensation mix (i.e., what percentage of stock vs. cash, short-term vs. long-term) or included more rigorous metrics. Other actions taken have included adding a hedging and/or pledging policy, adding or amending stock ownership guidelines, making peer group changes, or adding new performance-based awards.

PROXY ADVISOR RECOMMENDATIONS

Large institutional shareholders frequently rely on proxy advisors to evaluate pay packages. These advisors, led by Institutional Shareholder Services (ISS) and Glass Lewis, conduct evaluations of companies related to peers and some other factors. In some cases, they highlight areas of concern and yet still issue recommendations of support.

While we believe that proxy advisors have generally been too inclined to recommend support of unreasonably large pay packages, their policies have resulted in some changes in practices. One example of a change is that the tax gross-up, once common policy, is disappearing.

ISS recommended shareholders vote against Say-on-Pay packages at 30 of the 100 companies with overpaid CEOs. However, an additional 16 companies received an ISS QuickScore (a single score that measures a company's level of overall corporate governance risk in compensation) in the lowest 20% percentile. ISS also offers specific clients different voting policies with different recommendations. The Taft-Hartley policy, used primarily by labor affiliated funds, recommended voting against pay at 41% of the companies on the list, while the SRI policy recommended against 34%. Glass Lewis recommended against 38, including 17 where it gave D or F grades under their pay-for-performance grading system. There were an additional 39 companies on the 100 most overpaid CEOs list that received D or F grades from Glass Lewis, but where the advisory firm recommended votes in favor of the pay packages.

Egan-Jones Proxy Services, established in 2002 by Egan-Jones Ratings Co., is a leading independent provider of proxy research, recommended against 56 of the companies.

Marco Consulting, which provide proxy voting services to Taft Hartley and Public Funds, recommended shareholders vote against packages at 69% of the companies we identified as most overpaid. Proxy Impact, a company that provides proxy voting and shareholder engagement services for socially responsible investors, voted against 90% of the packages.[11] The highest level of alignment came from the Pensions & Investment Research Consultants Ltd. (PIRC), based in the United Kingdom, which recommended against 94 of the pay packages we highlighted.

However, even when proxy advisors do recommend pay packages there is some evidence that they are not as powerful as was once thought. Recent analysis by Proxy Insight finds, however, that funds are more likely to vote counter to the recommendations of their proxy advisor when there was a vote recommendation against the package. According to the press release, "Proxy Insight analyzed voting on Advisory Say-on-Pay ('SoP') resolutions in the US and UK in 2015 and 2016 for 10 of the largest institutional investors and compared each vote to the recommendations from ISS and Glass Lewis."[12] They found a high correlation in general between recommendations and votes, but that correlation fell sharply – from above 80% to below 30% in some cases – when the recommendation was to vote against.

Proxy advisors are just that, advisors. Funds have their own guidelines and do not always follow advisors' recommendations. It appears to us that some mutual fund firms are ignoring the advice of advisors and are approving the pay of overpaid CEOs.

The generally high level of support for these proposals is being cited as support for high pay packages, rather than simply a predilection to support the proposal. In a report issued by a compensation consultant firm Pay Governance in December 2016 asked the question, "Are shareholders dissatisfied with the U.S. executive pay model?" and answered "No," citing as evidence the high average votes these non-binding proposals receive.[13] The document appears focused on soothing directors who may be considering exercising authority and pushing back on compensation.

A few weeks later, a letter sent by Amra Balic, head of Blackrock's investment stewardship in Europe to 300 companies in the United Kingdom appeared to counter that statement noting that annual non-binding shareholder votes should not be used to justify pay increases." Specifically, according to the Guardian, the letter noted. "Pay should only be increased each year, if at all, at the same level of the wider employee base, and in line with inflation," noting that, "In case of a significant pay increase year-on-year that is out of line with the rest of the workforce, BlackRock expects the company to provide a strong supporting rationale. Large increases should not be justified principally by benchmarking.[14]

A number of funds, Blackrock among them, have defended their lack of voting opposition to a philosophical preference for engagement, believing that the most effective way to effect corporate governance is through dialogue.

We do not believe engagement or vote opposition is an 'either/or' proposition. If large funds with access can have conversations that result in substantive changes, that is a positive step. However, those conversations tend be kept private. As noted above with gross-up, many agreed to changes that can be easily reversed. When a company makes a positive reform it is loudly trumpeted, yet when that reform is reversed it is a footnote in an obscure filing.

There is no way to verify whether these negotiations are having a meaningful effect on pay, and in fact the trends over time suggest they are not.

At the same time, we believe these investors should cast a vote against the plan if they have concerns. The votes are the only way mutual fund clients and pension fund participants can evaluate a fund's stance on pay. These votes are non-binding, but serve as an important marker for all parties. Compensation consultants have used high average votes as an indication that shareholders are happy with executive compensation as it currently stands.

There are several signs that investors are increasing their focus on the issue. Both Vanguard and Blackrock have announced increased hiring of analysts.[15]

In 2016, State Street Global Advisors (SSGA) "developed a screen to identify companies that may be building up reputational risk due to the current quantum of C-Suite compensation." For years, like many investors, SSGA focused its attention on pay for performance. This year, for the first time, the company is considering as well the outright size of pay. Norges, the central bank of Norway, manages the largest sovereign wealth fund in the world, as discussed in the section on international funds, and has also announced that it will be following more rigorous examination.

Capital Group, whose holdings of $1.4 trillion make it one of the largest holders of U.S. stock, oversees the big American Funds mutual fund family and has also sharpened its public critique. Alan Berro, senior portfolio manager at Capital Group, told Reuters: "There has been this continued escalation where everybody wants to be in the upper quartile. Once one guy raises it, they all want those raises, and we are willing to say no."[16]

MUTUAL FUND VOTES

Mutual funds hold 25% of U.S. equities. Yet, time and time again, the largest seem to rubber stamp managements' recommendations. As detailed below, mutual funds – some more than others – tend to routinely rubber stamp their approval of the compensation packages of the 100 most overpaid CEOs.

This happens in part because of the complicated nexus of self-interest of mutual fund companies that manage billions in corporate pension and other retirement plans. At large fund companies in particular, the fund may be seeking to sell retirement or financial management services to the company while at the same time being forced to express in its vote either approval or disapproval of the pay package of the company's overpaid CEO.

A 2005 study shows that the more a fund family relies on pension and 401(k) business, the more management friendly these funds are.[17] In many cases it appears funds do not conduct adequate review of this important duty.

Yet, even in cases where there is a great deal of agreement on the state of the problem, some mutual funds continue to vote in favor of the proposals.

> "A shareholder vote – even if advisory – represents an opportunity to introduce a new voice, breaking the self-reinforcing cycle in which board, executives, and consultants give one another the same, affirmative message on how they are handling CEO pay. The way to collapse a social cascade or to disrupt a groupthink dynamic is to break in with new information, with a strong, dissenting voice."
>
> - Michael B. Dorff, Professor of Law, Southwestern Law School, *Indispensable and Other Myths: Why the CEO Pay Experiment Failed and How to Fix It*[18]

This section of the report is based on data provided by Fund Votes, an independent project started by Jackie Cook (CookESG Research) in 2004, when the SEC required for the first time that mutual funds must disclose their complete proxy voting records for the year.[19] The Fund Votes database covers proxy votes reported in N-PX filings by approximately 230 fund families, including the largest fund groups by assets under management, well-known brand names, and a number of SRI mutual fund families. The database also incorporates certain proxy vote data disclosed online by large North American public pension funds. Mutual fund filings containing their voting records, known as NP-X, are complex and Cook's proprietary tools for analyzing and representing the large volumes of data make her the leading tracker of institutional proxy voting.

Each year's N-PX filing is due August 31 and covers the most recent 12-month period ending June 30. One element of complexity is that each fund family includes multiple funds. In some cases, different votes might be recorded for the same resolution on the same ballot by different funds within a fund family. These cases may reflect different ways in which proxy votes are managed within fund families. Some fund complexes coordinate votes centrally while others might delegate proxy voting to individual fund managers.

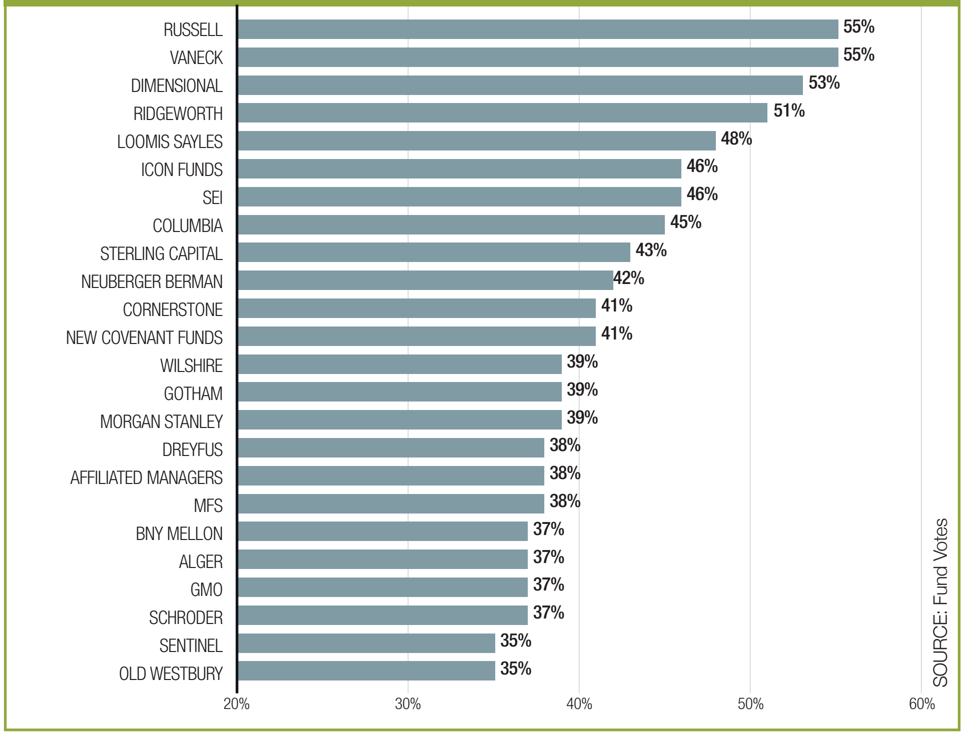
In order not to overweight votes on securities held more widely across a fund group compared to those held by only a few funds, each vote on each resolution is recorded only once across a fund family. The 'effective unique vote' with respect to a specific resolution is the vote cast by at least 75% of funds across the entire fund family. In most instances, all funds across a fund family will vote identically. The 75% threshold is applied in cases where one or more funds within a family of funds vote inconsistently on single resolution. Cook believes that the effective unique vote count method provides the most accurate method of analyzing a fund group's position on a single resolution (see Appendix B for a comparison of outcomes when counting all votes across a fund family with the effective unique vote count).

Support for Say-on-Pay resolutions at the fund family level is calculated as the percent of votes cast 'for,' using the sum of votes 'for,' 'against,' and 'abstain' as the denominator.

Of the 100 companies that were on our initial list, several did not hold Say-on-Pay votes between July 1, 2015 and June 30, 2016, in many cases because they are the rare companies that hold executive compensation votes only once every three years. In other cases, it was an issue of timing. Expedia, which paid its CEO an extraordinarily high package, did not hold an annual meeting during the covered timeframe so does not appear on the list although it otherwise would have. We therefore did not include the overpaid CEOs of those companies when doing the analysis of fund voting. We instead added an equal number overpaid CEO companies to the list to, with particular attention to those that received low shareholder votes and which multiple advisory firms recommended against. Our methodology highlights companies with the highest CEO pay, but CEOs may be overpaid even with pay below the S&P 500 median, or have particularly problematic practices that inspire shareholders to vote against a package. By adding some companies such as these to our list when collecting pay votes, we call attention to issues besides that of the sheer quantum of pay.

Fund Votes identified 64,225 votes the advisory pay proposals across 3,613 funds belonging to 230 fund families on the 100 Say-on-Pay resolutions that came to vote at the annual general meeting (AGM) of the 100 companies surveyed for this report. As the focus has in the past been on the largest family of funds, new additions tended to be smaller fund groups. Of the 230 fund groups, the analysis focused on the 114

FIGURE 5 – MUTUAL FUND FAMILIES WITH HIGHER RIGOR ON EVALUATING "OVERPAID CEO" RESOLUTIONS

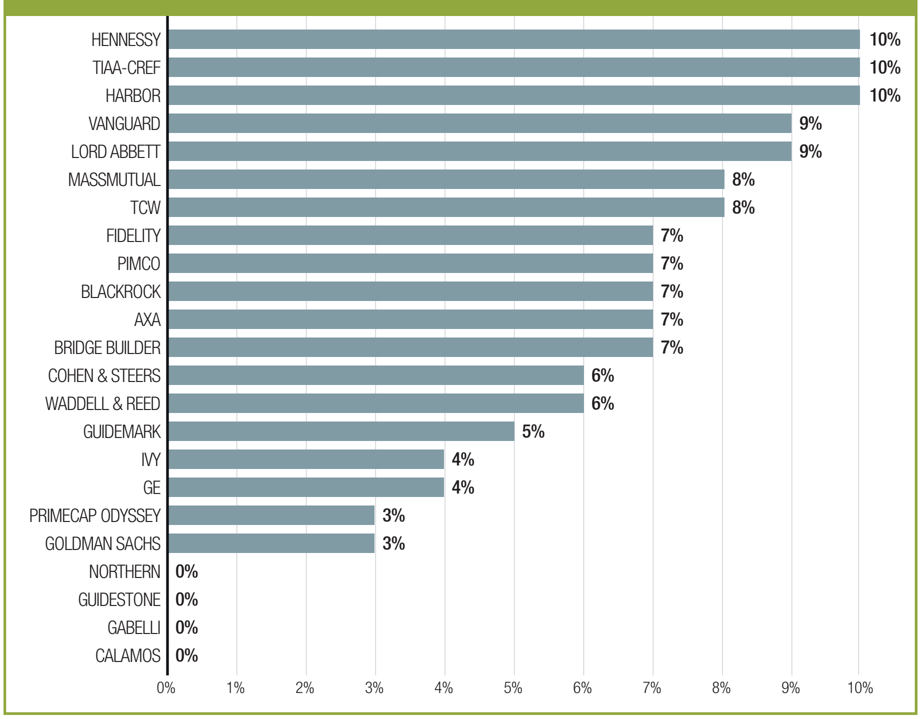


** Funds that had less than 25 votes at the representative companies were excluded from this list.*

See Appendix B for full data table of mutual fund votes on advisory votes on executive compensation.

Ranked from those that opposed the highest number of overpaid CEO package, these mutual fund families have shown that they were more likely to vote against excessive pay of CEOs.

FIGURE 6 – MUTUAL FUND FAMILIES MOST LIKELY TO RUBBER STAMP "OVERPAID CEO" RESOLUTIONS

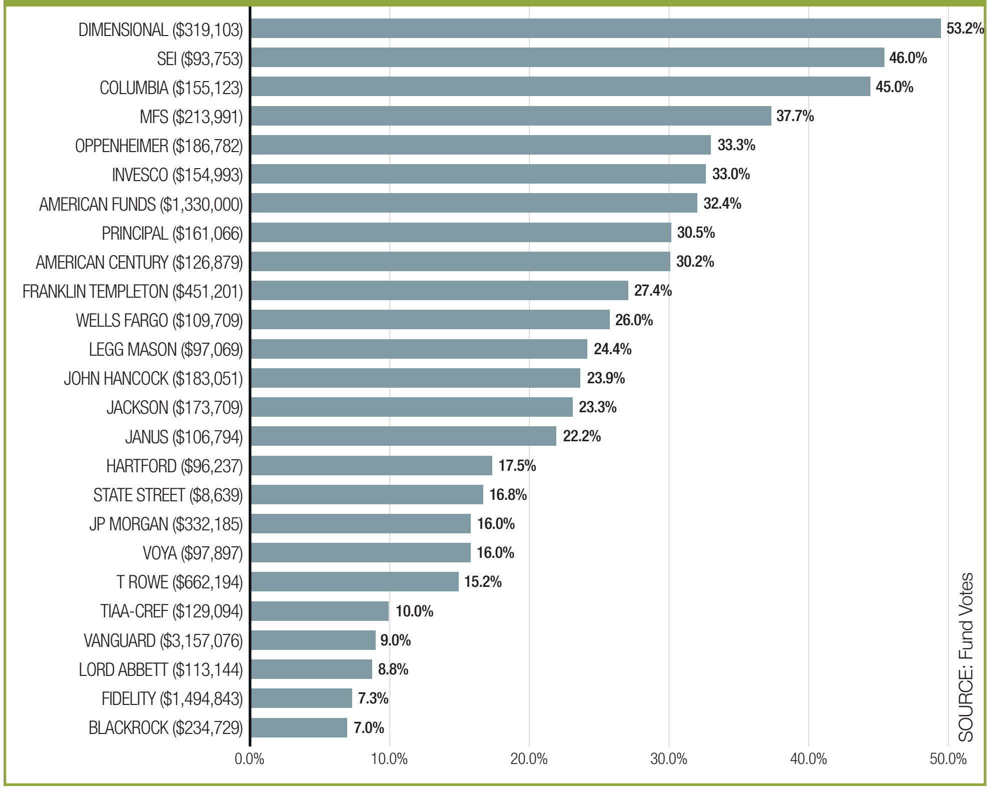


** Funds that had less than 25 votes at the representative companies were excluded from this list.*

funds that Morningstar provides AUM data for and that also voted on at least 25 resolutions across all funds in the fund family. An additional four smaller SRI fund groups that didn't meet either or both of these two criteria were included in the main survey, bringing the total to 118 funds analyzed.

For the third year in a row both Steward and Calamos, two smaller-sized fund groups, voted in favor of pay packages at all the companies we reviewed, suggesting a high probability that they routinely vote in favor of all such packages. Such an apparently automatic approval reveals a singular lack of attention to an important fiduciary duty. Berkshire Hathaway also supported every one of the proposals, but only holds four of the surveyed companies in their portfolio.

FIGURE 7 – OPPOSITION TO "OVERPAID CEO" RESOLUTIONS AT 25 LARGE MUTUAL FUND FAMILIES

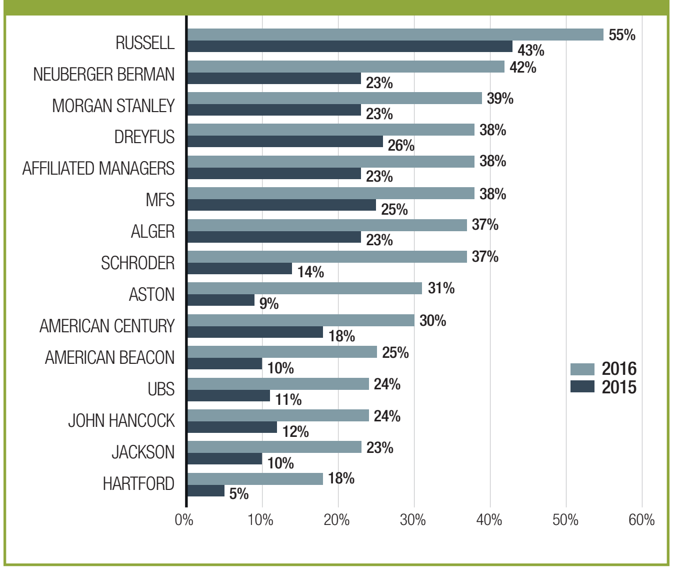


** Fund domestic security holdings from Morningstar data as of November 2016.*

State Street appears on this chart by virtue of its large size as an asset manager (State Street Global Advisors).

The average level of support across 25 large fund groups has decreased somewhat from last year – from approving 82% of the overpaid CEO packages last year to approving just 76% of them this year. In our first report two years ago, there were only four large fund groups that voted against 30% of the overpaid packages. Now, two years later, the number of large fund groups that exercise their fiduciary responsibility and vote against 30% of overpaid packages has more than doubled to 10.

FIGURE 8 – GREATEST YEAR OVER YEAR CHANGE

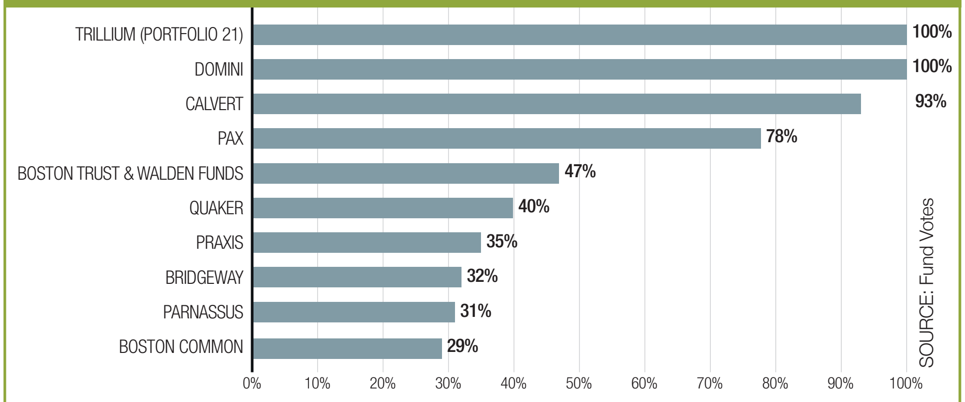


For the first time, one fund group – Dimensional Fund Advisors (DFA) – voted against a slight majority of the pay packages of overpaid CEOs. The largest fund is Vanguard, with $3.2 trillion in assets under management as of November 15, 2016. Last year Vanguard voted against only three pay packages of overpaid CEOs on our list. This year they tripled their level of opposition and voted against nine overpaid CEOs. This is still a shockingly low number, one that is way below almost every other fund manager's, as Vanguard approves of 91% of the large pay packages of overpaid CEOs. The smallest of the 25 is the family of funds managed by Goldman Sachs with $86.8 billion.

Figure 8 shows the changes in voting records. Notably, in 2014 Dimensional supported the pay packages at nearly 80% of the excessively paid CEOs in its portfolio but with a more rigorous evaluation. By 2016 it supported only 47% of the current list of overpaid CEOs. While Dimensional is one of the largest mutual fund families in the world with assets of $460 billion it is not as well-known since it is open only to investors who use an approved registered investment advisor. Dimensional has a special working relationship with leading financial academics, including Nobel Prize winner Eugene Fama who is their chief scientist.

This year when we did the year-over-year comparison we found that all fund groups that reflected significant changes in overall approval of overpaid CEO pay, changed in the right direction: they voted against more overpaid CEO packages than they had in the past. The highest percentile change was Schroder – 23% less support this year over last year, from 86% support to 63% support. The Aston fund last year voted in support of 91% of the overpaid CEO companies they held in their portfolio; and this year they only supported 69%. There were a few funds that moved the other direction – supporting a higher number of overpaid packages – but such changes were by smaller margins.

FIGURE 9 – OPPOSITION TO "OVERPAID CEO" RESOLUTIONS AT SRI FUNDS



As to be expected, Socially Responsible Investing (SRI) funds were more likely to vote against excessive pay packages. Five of the 11 SRI funds surveyed approved less than 50% of the overpaid CEO pay packages. The median level of support across all 11 fund groups is 46%. However, there is a significant range in the approval level that social investment funds gave these packages, ranging from 71% to 0% support. Green Century abstained from all the Say-on-Pay votes at those companies they held that are featured in this study, while Domini and Trillium voted against each one. Calvert held in its portfolio all of the companies covered and voted in favor of pay at only seven of the companies. Parnassus, on the other hand, supported 11 of the 16 overpaid CEO pay packages that it voted on and that are covered in this survey, and Boston Common voted for 12 out of 17.

PUBLIC PENSION FUNDS

While mutual funds are required to publicly disclose votes, there is not a similar requirement at this time for public pension funds. In the spirit of good governance and transparency, a number of pension funds do provide beneficiaries and the public with the opportunity to review their shareholder proxy votes. As the Canadian Pension Plan Investment Board states on its website, "One of the most effective mechanisms we have to engage with public companies is voting our proxies. As an engaged owner, we are transparent in our voting activities and implement the leading practice of posting our individual proxy vote decisions in advance of meetings."

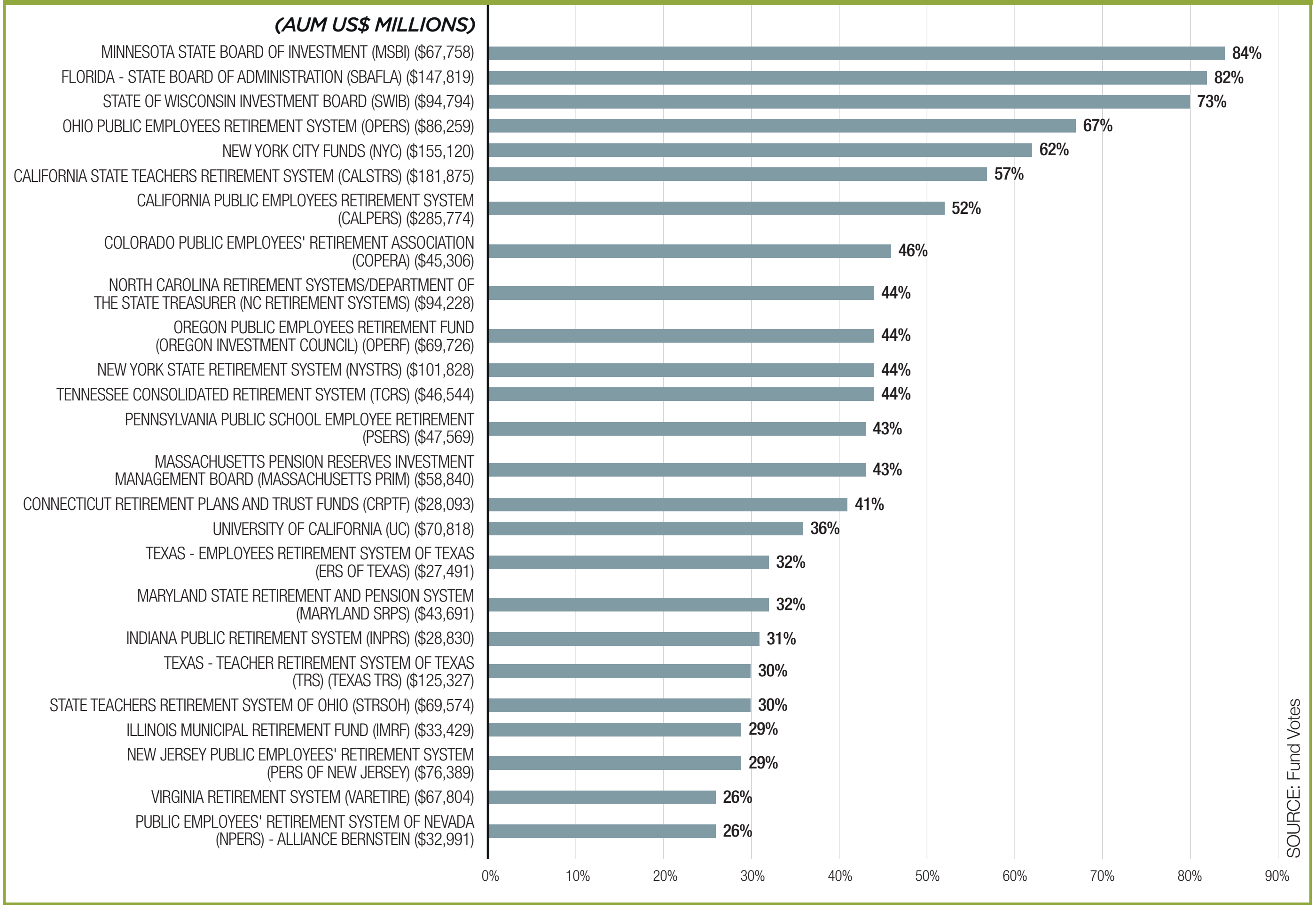
As can be seen in the Figure 10, the votes this year showed a stronger level of opposition to the pay packages than those in last year's report. In fact, of the funds for which we have year-over-year data, every US public fund improved their level of opposition to overpaid packages.

Among those with the most significant levels of change were the State of Wisconsin Investment board which had a level of opposition of 37% last year, and more than doubled to 73%. Last year Indiana Public Retirement System (INPRS) supported 83% of the overpaid companies for which it cast votes. This year their level of opposition increased from 17% to 31%.

CalPERS, among the largest pension funds with approximately $285.8 billion assets under management as of December 31, 2015, opposed more overpaid CEO pay packages than it supported – opposing 51 and supporting 47 – for the first time since we began tracking this data.

New York City Pension Funds made the broadest use of abstentions on these votes. Representatives of the fund informed us that in some cases staff abstain at companies that have made significant structural changes to pay in response to investor concerns about disconnect between pay and performance, but in which the impact of has not yet been seen in actual compensation.

FIGURE 10 – OPPOSITION TO "OVERPAID CEO" RESOLUTIONS AT LARGEST US PENSION FUNDS



** Fund domestic security holdings from Morningstar data as of November 2016.*

The Minnesota State Board of Investment opposition level of 84% was the highest among U.S. pension funds.

When we did the first report two years ago we analyzed votes cast by only nine large North American public pension funds. This year we sought to expand our disclosure and reached out to over 75 public pension funds, and have expanded our disclosure to include results from 59 funds. In addition, for the first time we have made a concerted effort to look at how non-US based funds vote on CEO pay.

We are now aware of 31 public pension funds that disclose their votes online.

This year, for pension funds that do not post their votes online, we again sought data using various specific open record requests, similar to those authorized on a federal level under the Freedom of Information Act, and often referred to by the acronym FOIA. *As You Sow* submitted dozens of requests, and found the challenges, costs of filing the requests, and the responsiveness to the requests to vary considerably. Some funds responded within a day of receiving the request, and others issued multiple 90-day delays.

Two states – Tennessee and Virginia – required that the FOIA be filed by a resident of the state. While most funds provided the material at no cost, there were some that required a payment. In one case, the Oklahoma Retirement System the cost was several hundred dollars.

Washington Governor Jay Inslee raised the issue of votes on executive compensation as part of his State of the State address, delivered on January 12, 2016. Inslee notes that the Washington State Investment board is a shareholder in many companies, and currently "votes against executive compensation packages if they do not align with the company's financial performance."

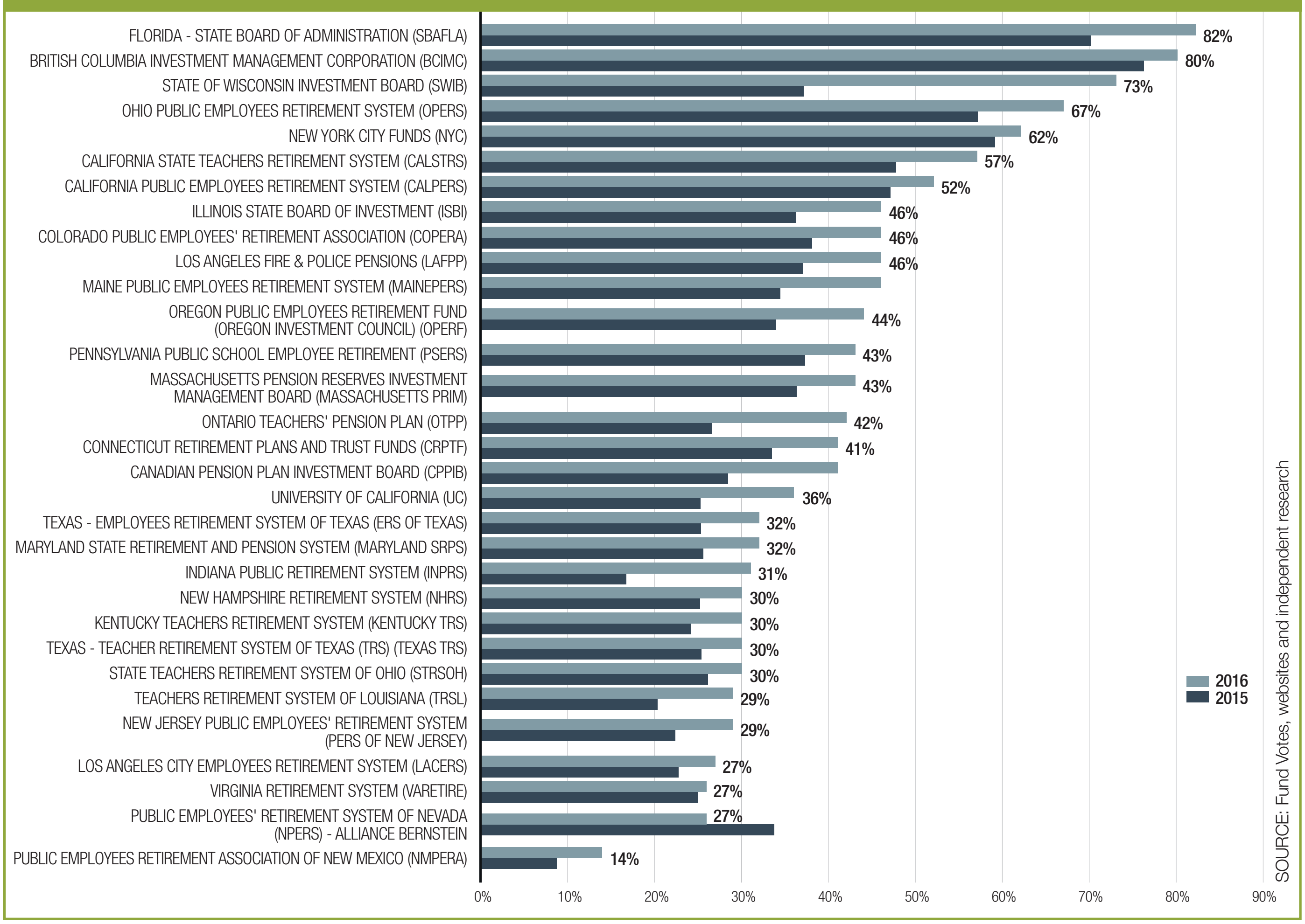
Inslee notes, "I've asked the investment board to go further and exercise its voting authority to reduce the widening pay gap between CEOs and their workers. I'm encouraging the board to promote this policy with other states and institutional investors."[20]

There are pension funds that leave voting entirely up to the individual managers of the various portions of their assets. Seven institutions (pension funds and endowments) submitted non-collated vote records, comprising multiple documents submitted by separate fund managers. The Texas Municipal Retirement System (TMRS) explained their policy this way: "All of TMRS's votes handled by large cap managers following their own internal voting guidelines."

In some cases, institutions' votes were cast at odds with each other on the same CEO pay package by their fund managers. For example, the Public Employees System of Nevada (NPERS) held 89 of the companies on the list through Blackrock and 85 through Alliance Bernstein, so there was a considerable level of overlap in the holdings between these two managers. As noted earlier in the report, Blackrock votes against only a small number of the overpaid CEO packages, 7% in this case. Using Alliance Bernstein, NPERS voted against 26% of the overpaid CEO proposals. Thus in some cases NPERS voted both for the overpaid CEO pay package and also against it.

Overall the data structure of disclosed votes has improved somewhat, but there are outliers. Alaska provided us with 50 different voting reports and 53 policy statements. The mixture was provided in a number of formats. The Public School Teachers Pension Fund in Chicago was only able to provide a partial record. The Missouri Public School and Education Employee Retirement System only referred to their external managers without providing a detailed vote count at all. Mississippi sent us data from 23 different funds.

FIGURE 11 – PUBLIC PENSION FUNDS WITH GREATEST YEAR OVER YEAR CHANGE



In some cases, we discovered that the pension funds themselves did not track the voting of their mutual funds. As we were told in response to request to Illinois Teacher Retirement System, "The FOIA law requires public bodies to provide responsive public records but does not require the public body to maintain or prepare new records the public body does not ordinarily keep to respond to information request."

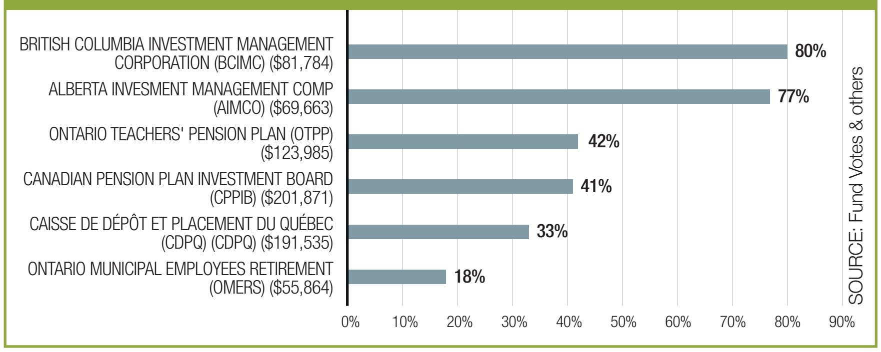
The majority of funds however provided data in PDF as opposed to Excel. Many used the web based Glass Lewis resource. PDF and Glass Lewis data requires tedious manual rekeying while Excel can be sorted. These data need to be made more accessible in a standardized format so teachers, policemen and other public servants can know how their money is being voted.

Given the difficulties of making sense of these disparate records, it is hard to imagine that the investment committees governing these assets have a clear understanding of how their assets are being voted and the impact of these votes on levels of pay disparity that affect so many beneficiaries of public funds.

INTERNATIONAL FUNDS

The degree of transparency on proxy voting practices and data accessibility covers a range as vast as the globe.

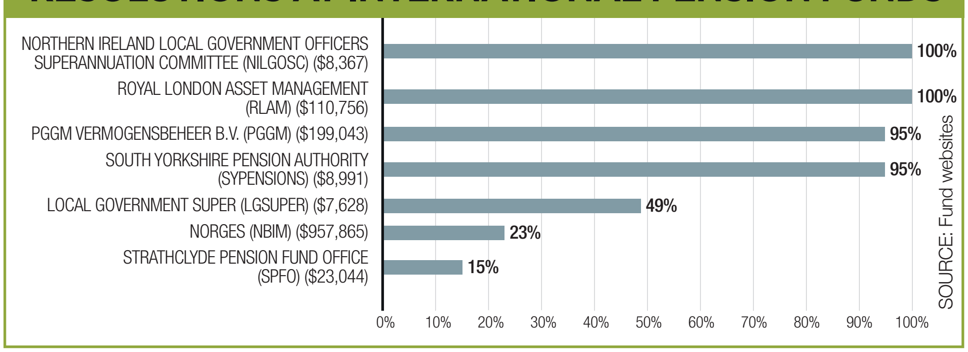
FIGURE 12 – OPPOSITION TO "OVERPAID CEO" RESOLUTIONS AT CANADIAN PENSION FUNDS



The preponderance of large Canadian public pension funds publishes their voting records in searchable databases. We included a few Canadian funds in the past, but expanded that list this year. Canadian crown asset managers (bcIMC, AIMCO, CDPQ, etc.) are organizations established by government at arms' length to manage assets for public sector pensions and to invest – and vote – the assets of more than one pension plan. In general, as can be seen in Figure 12, the level of opposition of these funds was slightly higher than the U.S. pension funds. We also looked at individual pension funds, which did not perform as well.

The funds with the highest percentages in opposition were all from the United Kingdom. The Northern Ireland Local Government Officers Superannuation Committee (NILGOSC) and South Yorkshire Pension Authority (SYPENSIONS) voted against all or nearly all the overpaid CEO packages. It may be that these funds subscribe to research and/or voting services from Pensions and Investments Research Consultant (PIRC). As one of the largest non-U.S. proxy advisory firms that cover U.S. companies, PIRC has a record of assiduously advising shareholders to vote against excessive compensation packages. Other funds that explicitly state that they follow PIRC's recommendations include the Greater Manchester Pension Fund, West Midlands Pension Fund, Merseyside Pension Fund, and the Lancashire County Pension Fund. However, in a number of cases there is language that allows for a case by case override of PIRC's recommendations, and there is no way to ascertain if or when such discretion is used.

FIGURE 13 – OPPOSITION TO "OVERPAID CEO" RESOLUTIONS AT INTERNATIONAL PENSION FUNDS



Australia is another country with funds that provide at least some disclosure on votes. Unisuper provides only an overview of its votes. The fund lists its votes on corporate governance resolutions, including pay. Most of those proposals are voted in favor, but several are marked as "combined," meaning an instance when multiple funds vote on the same proposal, but against each other. In instances in which there are opposing views and UniSuper takes a strong position on the matter, UniSuper will instruct its managers to vote in a specific way. However, there are instances in which mangers may have differing, though equally valid, views and UniSuper does not have a strong view on the issue at hand. In these instances, the fund managers may vote as they wish, resulting in a combined vote.

QSuper, based in Brisbane, Queensland delegates proxy voting to its, "externally mandated managers the right to vote in accordance with our managers' respective proxy voting policies." The fund has $4.62 billion invested in US traded shares.

First State Super has appointed CGI Glass Lewis to conduct its proxy research and voting.

Sovereign wealth funds (SWF) – created with government money, typically from earnings of natural resources such as oil – generally do not provide vote disclosure. One exception is Norway's central bank, Norges Bank, the largest such fund in the world, which has $180B invested in US equities and is the only sovereign fund of which we are aware that discloses its votes online. The fund, created in 1990, discloses its voting guidelines along with its proxy voting record in a database searchable by company name and ticker.

Norges level of opposition to US pay packages in 2015 voting is low compared to that of other funds. They held 93 of the companies we identified but voted against only 23 of the proposals. However, since last proxy season that may be changing. CEO Yngve Slyngstad has been speaking out more on the issue as noted in a May article, "Norwegian wealth fund to focus on executive pay at AGMs."[21]

"We have so far looked at this in a way that has focused on pay structures rather than pay levels," Slyngstad told Financial Times. "We think, due to the way the issue of executive remuneration has developed, that we will have to look at what an appropriate level of executive remuneration is as well."[22]

Most of the other largest sovereign asset funds by AUM are held in Asian or Arab countries and offer little or no disclosure of votes.

Dutch fund ABP discloses the why and how of their voting without getting into company-level specifics. For example, ABP discloses their aggregate voting data for executive compensation, noting that out of 1,700 remuneration resolutions, they voted "against" 54% of the time and "for" 45% of the time. This practice makes in-depth analysis and engagement on specific companies impossible.

Other international funds fail to exercise their fiduciary duty and do not vote at all. For example, Swiss Federal Pension Fund PUBLICA actively exercises voting rights for companies incorporated in Switzerland, and discloses "voting behavior" on its site. The Fund reports that, "Voting rights in respect of companies ex Switzerland are typically not exercised."

This is our first year examining international voting data at some depth and we plan to increase our research going forward.

COMPENSATION COMMITTEE DIRECTORS

It is the board of directors' responsibility to be the guardians of shareholders' interests. Often they delegate the most difficult decisions to management, yet the thorniest, most personal decision is how to pay executives who manage the company. As noted by former Labor Secretary Robert Reich, "CEOs play large roles in appointing their corporations' directors, for whom a reliable tendency toward agreeing with the CEO has become a prerequisite. Directors are amply paid for the three or four times a year they meet, and naturally want to remain in the good graces of their top executives."[23]

Or, as Lucien Bebchuk and Jesse Fried write in *Pay Without Performance*, "Compensation arrangements have often deviated from arm's-length contracting because directors have been influenced by management, sympathetic to executives, insufficiently motivated to bargain over compensation, or simply ineffectual in overseeing compensation." The authors add, "Executives' influence over directors has enabled them to obtain 'rents' — benefits greater than those obtainable under true arm's-length bargaining."[24] In other words, shareholders are paying more than they would need to, due to CEOs' relationships with board members.

Pay is the province of the compensation committee. Boards require a certain amount of collegiality to function well, but collegial too often blends into non-confrontational. In such cases, deferring to compensation consultants (who have their own potential conflicts of interest beyond the scope of this report) may be the simplest choice.

Up until 2003, CEOs could sit on the board nominating committee, essentially allowing them to hire their own bosses. Sarbanes Oxley made improvements in director independence requirements, but even under improved requirements, the interlocking network of relationships remains. This is not necessarily an explicit "you scratch my back, I'll scratch yours," as it is more so a broader connection of shared relationships that may extend across multiple companies and boards.

Another issue explored in *The Boston Globe* series was how serving on multiple boards related to the quality of director oversight. As the article noted, shareholders have raised concerns that over-committed individuals cannot adequately focus on the important work directors are charged to accomplish. While both Glass Lewis and ISS (the two largest US proxy advisory firms), changed their standard from defining over-committed directors from six to five, a survey of ISS clients showed a preference for an even lower number.[25] One reason individuals may be tempted to overextend themselves is the board compensation.

On the list we analyzed of compensation committee members at overpaying companies, there were several individuals who are or were themselves CEOs. As Reich points out, "CEOs...have considerable interest in ensuring their compatriots are paid generously.[26]"

FIGURE 14 – COMPENSATION COMMITTEE DIRECTORS AT THE TOP 10 MOST OVERPAID

RANK	COMPANY	COMPENSATION COMMITTEE MEMBER	PRIMARY EMPLOYMENT	OTHER PUBLIC COMPANY BOARDS
1	CBS Corporation	Bruce S. Gordon		Northrop Grumman Corporation, The ADT Corporation
		Charles K.Gifford, Chair	Chairman Emeritus of Bank of America Corporation	Eversource Energy
		Doug Morris	CEO, Sony Music	
		William S. Cohen	Chairman and Chief Executive Officer, The Cohen Group	
2	Salesforce.com	Craig Conway		Guidewire Software, Inc
		John V. Roos		Sony Corporation
		Maynard Webb		Yahoo! Inc.,Visa Inc
3	Discovery Communications Inc	Paul Gould		Ampco-Pittsburgh Corporation, Liberty Global, plc
		Robert J. Miron, Chair		
		Robert R. Beck		
4	Regeneron	Charles A. Baker		
		Christine A. Poon+	Executive-in-Residence, The Max M. Fisher College of Business	Prudential Financial, Inc., The Sherwin-Williams Company, the Supervisory Board of Royal Philips Electronics
		George L. Sing		
		Joseph L. Goldstein, M.D.		
		Marc Tessier-Lavigne, Ph.D., Chair+	President of Stanford University	
5	General GW. Props.	J Bruce Flatt	CEO, Brookfield	Brookfield
		John K. Haley		Amplify Snack Brands, Inc, Truck Hero, Inc
		Mary Lou Fiala	Co–Chairman, LOFT Unlimited	Regency Centers Corporation, Build–A–Bear Workshop, Inc.
6	Oracle	Bruce R. Chizen	Senior Adviser, Permira Advisers LLP; Venture Partner, Voyager Capital	Synopsys, Inc
		George H. Conrades		Harley-Davidson, Inc. and Ironwood Pharmaceuticals, Inc.
		H Raymond Bingham		Cypress Semiconductor Corporation, Flextronics International Ltd. and TriNet Group, Inc
		Naomi O. Seligman	Webb Investment Network	Accenture Ltd., LKQ Corporation, Sonoco Products Company
7	Viacom	Blythe J. Mcgarvie		Accenture Ltd., LKQ Corporation, Sonoco Products Company
		Charles E. Phillips, Jr.	CEO of Infor Global Solutions	
		Deborah Norville		
		Frederic V. Salerno		Akamai Technologies, Inc., IntercontinentalExchange, Inc., CBS Corporation, FCB Financial Holdings Inc.
		William Schwartz		
8	Vertex Pharmaceuticals Incorporated	Bruce I. Sachs	General Partner, Charles River Ventures	
		Elaine S. Ullian		Thermo Fisher Scientific Inc, Hologic, Inc.
		Terrence C. Kearney		Acceleron Pharma Inc., AveXis, Inc., Innoviva, Inc
		William D. Young	Venture Partner, Clarus Ventures	NanoString Technologies, Inc, Theravance BioPharma Inc
9	Honeywell International	Bradley T. Sheares		The Progressive Corporation, Henry Schein, Inc.
		Clive Hollick	Partner, GP Bullhound LLP and Advisor, Jefferies Inc.	
		D Scott Davis		
		Grace D. Lieblein	VP, Global quality of General motors	
		William S. Ayer		
10	CVS Health	C David Brown Ii		
		David W. Dorman	Partner, Centerview Capital Technology Fund	Yum! Brands, Inc, PayPal Holdings, Inc.
		Tony L. White		Ingersoll-Rand, C.R. Bard, Inc
		William C. Weldon		JPMorgan Chase & Co., Exxon Mobil Corporation, The Chubb Corporation

There are 13 directors who serve on two or more of the boards we highlight for overpay, and none who are more than two. This is an improvement from last year when 22 directors served on multiple overpaid board, including three directors who served on three such boards. See Appendix D to for the full list of 22 individuals who serve on the compensation committee of two or more companies with overpaid CEOs.

The pay directors receive may also be a factor in how vigilantly they oversee executive compensation, particularly in the case of individuals who rely on their board pay as a primary source of income. It is reasonable to speculate whether such fees are sufficient to make directors more acquiescent and less willing to rock the boat. An analysis by the Boston Globe found that pay for directors "has nearly doubled at the 200 largest US public companies since 2000 to a median of $258,000 last year."[27] That article cited Journal of Corporate Finance study from 2006 study that "found a strong correlation between excessive pay for directors and chief executives."[28]

Those directors who rely on their directorships as a primary source of income would be particularly vulnerable to subtle pressures. It is difficult to tell from the brief biographies of directors that appear in proxy statements who make being a director a profession, though they may offer hints.

> "You have to pay them, obviously, for their effort, time, and potential liability," said Elson, the University of Delaware professor, in *The Boston Globe*. "But when you start looking at director compensation that looks like managerial compensation, that's where you run into problems."[30]

One company that received particular attention from the *Boston Globe* was Vertex Pharmaceuticals, a company on our overpaid list. According to the *Boston Globe* study, "Financial filings show Vertex directors awarded themselves a median of $788,000 in total compensation last year, double the median for companies Vertex identified as its peers."[29] Is it surprising that such overpaid directors acquiesce to overpaying the CEO?

Since, as Reich notes, "being a board director is the best part-time job in America," directors ultimately face few downsides to approving packages, and the potential consequence of being labeled "difficult to work with."[31]

Many shareholders have already taken the step to move beyond voting "no" on management Say-on-Pay to the next step, which is also voting against the directors who approved the program, and have urged other shareholders to do so.

METHODOLOGY

The goal of this report is to identify the 100 S&P 500 companies with the most extreme CEO compensation issues, while highlighting the broken components of the spiraling system of executive pay.

HIP INVESTOR REGRESSION ANALYSIS

HIP Investor performed a systematic quantitative analysis on the S&P 500 as of June 30, 2016 to calculate a set of linear regressions among five-year financial performance and total executive compensation.

FIGURE 15 – TOP 25 MOST OVERPAID BY HIP INVESTOR REGRESSION ANALYSIS

RANK	MNEM	COMPANY	CEO PAY VALUE	REGRESSION PREDICTION	EXCESS RELATIVE TO REGRESSION
1	ORCL	ORACLE CORPORATION	$133,502,840	$12,098,357	$121,404,483
2	VIAB	VIACOM	$56,872,388	$12,509,379	$44,363,008
3	CBS	CBS	$56,773,822	$14,817,651	$41,956,171
4	REGN	REGENERON PHARMACEUTICALS	$52,232,055	$21,583,982	$30,648,073
5	DIS	THE WALT DISNEY COMPANY	$43,868,550	$14,265,242	$29,603,308
6	MDT	MEDTRONIC	$39,437,960	$12,559,407	$26,878,553
7	GGP	GENERAL GROWTH PROPERTIES, INC.	$39,247,559	$13,255,754	$25,991,805
8	CRM	SALESFORCE.COM INC	$36,278,759	$12,328,267	$23,950,492
9	DISCA	DISCOVERY COMMUNICATIONS	$35,290,135	$11,858,517	$23,431,617
10	YHOO	YAHOO! INC.	$36,203,214	$13,226,784	$22,976,430
11	CMCSA	COMCAST	$36,261,883	$14,207,832	$22,054,051
12	VRTX	VERTEX PHARMACEUTICALS INCORPORATED	$35,812,662	$14,153,966	$21,658,696
13	GM	GENERAL MOTORS COMPANY	$33,930,097	$12,676,451	$21,253,645
14	HON	HONEYWELL INTERNATIONAL INC.	$34,461,344	$13,332,422	$21,128,922
15	GE	GENERAL ELECTRIC COMPANY	$32,093,181	$12,391,005	$19,702,176
16	AON	AON, PLC	$30,633,043	$13,239,437	$17,393,606
17	PEP	PEPSICO, INC.	$29,169,017	$11,777,263	$17,391,754
18	TWX	TIME WARNER INC.	$30,796,289	$13,944,986	$16,851,303
19	XOM	EXXON MOBIL CORPORATION	$27,297,458	$11,593,918	$15,703,540
20	LMT	LOCKHEED MARTIN CORPORATION	$28,621,760	$13,449,947	$15,171,813
21	CVS	CVS HEALTH CORPORATION	$29,331,309	$14,234,480	$15,096,830
22	FOX	TWENTY-FIRST CENTURY FOX, INC.	$27,820,310	$13,632,147	$14,188,163
23	T	AT&T INC.	$25,272,896	$12,027,455	$13,245,441
24	BLK	BLACKROCK, INC.	$25,939,539	$13,143,153	$12,796,385
25	LB	L BRANDS, INC.	$27,704,127	$15,689,715	$12,014,412

See Appendix C for full data table of HIP Investor regression analysis.

SOURCE: HIP Investor

AS YOU SOW INDICATOR ANALYSIS

We began this report by having conversations with a variety of experts to identify a range of quantitative data points under which companies could be measured and ranked, and potential practices of concern.

In an effort to establish a comprehensive analysis that focused on most variables, those in the lowest fifth of the S&P 500 in most categories received a red flag – as our goal from the beginning has been to identify the 100 companies in the S&P 500 where CEO pay is of greatest concern. In addition, to give more weight to the worst outliers, in some categories the 10 most extreme companies received two points (or red flags). Some data points were calculated differently and those are described more fully as each item is discussed. In addition, we considered third party analysis of executive compensation.

The data points fall into a number of categories, defined more fully below, including issues with incentive and equity pay, practices that contribute to ever-increasing pay, and issues that we believe undermine long-term business sustainability at a company.

Some of these points are imperfect approximations, particularly those in which we grappled with opaque practices. A company with one or two red flags likely has compensation practices within the norm, and no single red flag indicts a company. Some of the elements may not in themselves represent significant outlays for these corporations, but may be indicators of a board more eager to placate an executive than perform its duties. While there is no universal consensus on specific criteria, and there is active debate around where the lines should be drawn, the companies selected for this study qualified on the basis of an accumulation of issues. The companies that appear on the top 100 list have an average of over 11 red flags each. In contrast, there were over 170 companies in the S&P 500 that had three or fewer flags.

1. ***Pay and performance: issues with incentive and equity pay***

   The largest component of executive compensation has been provided under so-called "performance pay" incentives, and through equity awards. Too often the metrics that drive pay are short-term (even those considered long-term are typically for three years or less), and provoke decisions with negative long-term impact (from financial engineering to underinvestment in growth). This section of the report analyzes some disconnects and distortions in executive pay as it relates to performance, particularly over a longer-term threshold.

2. ***Compensation inflators: contributors to the upward spiral***

   Throughout the report *As You Sow* considers the question of why executive pay has increased so significantly at a disproportionately higher rate than any other measure rate, including stock price, company value, and employee pay.

   The research highlights companies with practices that inflate pay.

3. ***High executive pay at the expense of long-term sustainability/other stakeholder concerns***

   High executive pay is a societal issue not just because of the numbers involved but because of the impacts as well. Decisions on executive pay represent priorities and can offer insight into whether plans are in place for long-term sustainable company success, which is of importance to long-term shareholders. Allocations of resources toward the pay of the top executives is also problematic.

4. ***Third-party compensation ratings***

   As You Sow also considered third party analyses, including those by proxy voting advisors and governance experts. Their proprietary models use different markers, and each adds value. The final point included in the tally was average shareholder vote for Say-on-Pay over the last three years. Since many of these data points are proprietary, we do not include that table. However, we do note that the companies with the highest possible level of concern were among the highest in the ultimate overpaid ranking.

Pay and Performance: Issues with Incentive and Equity Pay

No phrase has been trumpeted more by companies and consultants in the past decade than "pay for performance." The practice is largely an outgrowth of tax policy originally designed to reign in excessive pay.

In 1993, Congress passed Section 162(m) of the Internal Revenue code capping tax-deductibility of CEO salary at $1 million – in an attempt to curb increased executive pay – creating what many have called the "performance pay loophole." The rule prohibited corporate tax deductions for executive pay over $1 million unless that pay is rewarded for meeting performance goals. The broken tax system itself is a key factor in driving higher and higher pay, but that is a topic for another report.

In January 2017 Senators Jack Reed (D-R.I.) and Richard Blumenthal (D-Conn) introduced the "Stop Subsidizing Multimillion-Dollar Corporate Bonuses Act." On the House side, Rep. Lloyd Doggett has championed a companion bill that was re-introduced with 42 Democratic co-sponsors. If passed, the legislation would close a loophole in current corporate tax law which allows unlimited tax write-offs on performance-based executive pay – a costly loophole. If Congress were to pass this legislation, it would raise an estimated $5 billion per year. The act would only allow tax deductions for public companies of up to $1 million per employee.[32]

In his book *Capital in the 21st Century*, Thomas Piketty says, "If executive pay were determined by marginal productivity, one would expect its variance to have little to do with external variances and to depend solely or primarily on non-external variances. In fact, we observe just the opposite: it is when sales and profits increase for external reasons that executive pay rises most rapidly."[33]

It is in determining the metrics of the short-term and long-term performance pay packages that the board has its clearest obligation to consider company strategy. Every indication is that the pay for performance metric has been, at best, poorly executed. (The most recent reference is Michael Dorff's book *Indispensable*, which systematically takes apart the myths around pay, including such myths as causation, predictability, and alignment.)[34]

One reason has been a myopic focus on short-term performance criteria. One academic survey of 400 financial executives, including Chief Financial Officers, found that 80% would reduce research and development spending, delay maintenance, and limit marketing in order to meet short-term targets (these targets are often used to determine compensation).[35] A further point to add in this discussion is the depressingly short time period most incentive plans cover, as noted in "The Alignment Gap

Between Creating Value, Performance Measurement, and Long-Term Incentive Design," authored by Organizational Capital Partners and commissioned by the Investor Responsibility Research Center Institute.[36] Ideally a red flag should be awarded for companies with 'long-term' incentives that focus on only three years, but the practice is now so common that to award a red flag for companies with an inappropriate focus under the long-term incentive plan would be to essentially give a flag to practically every company in the S&P 500.

A final, and critical, consideration is the question of how much company performance is due to the one individual in the corner office. In addition to the many other executives and employees that contribute to corporate achievements, many market, industry, and technology forces outside the control of the CEO also contribute to the success and failure of any business.

The pay and performance comparisons below spotlight the lack of connection between corporate performance (separate from larger trends) and CEO pay, and illustrate high-pay in multiple contexts.

FIGURE 16 – OVERPAID BY PAY AND PERFORMANCE INDICATORS

COMPANY	PAY PREMIUM DOLLAR BY O'BYRNE	PAY PREMIUM PERCENTAGE BY O'BYRNE	HIGHEST NEIC LOWEST TSR	3/5 YEAR LOW ROIC & HIGH PAY MEASURE-MENT	ROIC DECLINE & PAY INCREASE	HIGHEST INCENTIVE IN 4/5 YEARS	GAAP TO GOLD & NEIC OVER 1 MILLION	GAAP TO GOLD & BONUS INCREASE	DECLINED BONUS GOALS	EXCESSIVE EQUITY AWARDS	8/ YEAR HIGH OPTIONS INCLUDING MOST RECENT	OPTIONS MORE THAN 60% OF TOTAL	HIGH NUMBER OF OPTIONS EXERCISED & HOLDINGS DECREASE	TOTAL
Salesforce.com Inc	🚩🚩	🚩🚩		🚩	🚩		🚩			🚩				8
Viacom	🚩🚩	🚩	🚩			🚩				🚩	🚩	🚩		8
CBS	🚩🚩	🚩								🚩	🚩	🚩	🚩	7
FedEx Corporation	🚩	🚩				🚩		🚩			🚩	🚩		6
Yahoo! Inc.	🚩🚩	🚩							🚩	🚩				5
General Electric Company		🚩		🚩	🚩				🚩					4
Bed Bath & Beyond Inc.										🚩	🚩	🚩		3
McKesson Corporation						🚩								1

Pay Premium Compared to Relative Return on Capital

Relative pay to relative performance is a widely accepted measure to identify overpaid CEOs. However, several experts make a compelling case for analysis using different data points. In June 2016, Stephen F. O'Byrne, president of Shareholder Value Advisors and Mark Van Clieaf, managing director at MVC Associates International, did an analysis for the New York Times of 200 companies based on return on capital. Byrne used return on corporate capital (ROCC) minus the industry average return on corporate capital. By analyzing peer pay as well the analysis produced a relative pay figure that could be compared to its relative return on capital over five years. The calculations were adjusted for company size.[37]

O'Byrne extended this analysis to the S&P 500 for *As You Sow's* analysis. The analysis compares a company's actual pay with fair pay for its relative ROCC. The fair reward for superior return on capital (and the discount for below average ROCC) is based on the trendline relationship between relative pay and relative ROCC for companies with rough positive alignment, (i.e. companies where the pay and performance premiums are both positive or both negative). This pay for performance trendline says that each percentage point premium in relative ROCC should increase pay by 6%. We awarded red flags to the 20% with the highest premiums in both absolute dollars and percentage points. As in other categories, the 10 most extreme outliers received two flags.

Lowest five-year TSR and highest total cash incentives

Total Shareholder Return is the most common measurement used today in incentive plans. Growing consensus suggests that it is problematic in the short-term, but over a longer term it is the truest measurement of the value shareholders gain in holding a stock. *As You Sow* compared the 100 S&P 500 companies with the five-year lowest TSR to the companies with the highest 20% cash incentives. In other words, despite their stock market under-performance these companies paid among the highest cash incentive bonuses. Thirteen companies received such red flags.

ROIC performance

Return on Invested Capital (ROIC) is regarded as a critical measure of efficient use of capital, a financial metric that may best reflect CEO strategy and execution in enhancing corporate value. ROIC is calculated using net income less dividends divided by total capital.

In our analysis of ROIC, using ratios provided by HIP Investor, we used two measurements. Any company that had the lowest ROIC in three of the last five years and met a high-pay measurement (either among the 100 companies with highest total disclosed pay or the highest NEIC). There were eight companies that received red flags under this measure.

In addition, HIP Investor identified the 20% of S&P companies with the greatest five-year decline in ROIC. Any long-term measure is time-point sensitive in that the outcome will vary by the selection point of measurement. (As we have noted, this is also true as related to option grant date.) The companies that were awarded red flags were those six with five-year ROIC decline and significant reported compensation increases over these two points in time.

Among companies granting highest annual incentive in four of last five fiscal years

There has been an explosion of the use of non-GAAP earnings. (GAAP stands for generally accepted accounting principles, and are the standard in the industry). By 2015, there were 380 companies in the S&P 500 who used non-GAAP figures in some element of their reporting, an increase of almost 50 companies. In addition to making cross-company comparison more challenging, the exclusions may allow executives to make targets that would not otherwise have been achieved. Another problem here is that systemic problems can be hidden by a mass of individual “non-recurring” costs or other adjustments. They muddy already confusing financial statements.

In March 2016, accounting research firm R.G. Associates, Inc. published an Analyst’s Accounting Observer report entitled, “Wonder Bread: Non-GAAP Earnings Keep Rising in the S&P 500.”

As part of his research Jack T. Ciesielski identified 30 firms “that had the most dramatic swing in GAAP to non-GAAP net income: under GAAP reporting, they reported net losses, but under non-GAAP net income reporting, they show profits,” calling these the “GAAP to Gold,” companies. A significant concern regarding GAAP is situations in which bonuses are paid out after figures have been goosed. Some critiques of overemphasis on performance-based pay is that it could incentivize financial engineering. We award red flags to those companies appearing on this table where the CEO received non-equity incentive pay last year of over $1 million. We note that a significant number of companies who had the GAAP to Gold accounting changes and did not award bonuses to their CEOs, or had smaller bonuses. The executives may have benefitted from increase in stock price, but there’s at least no transparent argument that bonuses were goosed.

The second chart of Ciesielski’s we looked at was “2015: Decliners in GAAP Net Income Sporting Increases in Non-GAAP Net Income.” For those, rather than a cut-off financial figure, we considered whether bonuses increased year over year from 2014 and found approximately 20 where they did. These companies received red flags as well.[38]

Declining bonus goals

True pay for performance rests upon the rigor of performance goals and commitment to honor them. Declining incentive goals year-over-year may suggest problems. We acquired from ISS a list of S&P 500 companies that lowered their short-term or long-term performance goals in FY2015 compared to FY2014 for absolute metrics. There were 156 companies in the S&P 500 that made such changes, and each was awarded a red flag.

Equity awards

The majority of wealth accumulation by CEOs over the past decades has come through equity compensation. The idea behind stock-based compensation initially is that it would increase the alignment of the interests of executives with that of shareholders. Yet that is true only up to a point, and for executives at most S&P 500 companies that have ownership guidelines in place, that point has already been crossed. Additional equity is not likely to promote extra effort.

In addition, as noted by Roger Martin in the *Harvard Business Review* study, “The Rise (and Likely Fall) of the Talent Economy,” Martin states, “Stock-based compensation motivates executives to focus on managing the expectations of market participants, not on enhancing the real performance of the company.”[39]

In this study, *As You Sow* looked at outliers for the most recent fiscal year. There were 59 companies that issued equity grants of over $10 million in the most recent fiscal year, a threshold that we considered to be extraordinarily large. This represents an increase from the prior year.

Consistently large stock option grants

A stock option grant is a form of award that allows an executive to buy stock at a particular price, usually the value on the date it is granted, at a set point in the future. If the value of the stock price increases the executive can exercise the right to purchase those shares and sell the share and pocket the difference. When stock options are granted judiciously they provide a form of compensation that can align the interests of executives and shareholders. Repeated use of large option grants, particularly when executives cash in those options and sell the shares (sometimes known as 'churn'), defeats that purpose.

In addition, because of the uncertainty around ultimate value – including the previous accounting illusion that there was no inherent value – options have historically been awarded in larger tranches than other forms of compensation. This has led to inappropriately high windfalls irrespective of executive action, a point we will touch on later in the report. We identified companies that had awarded significant options in eight or more of the past nine years, including the most recent year, and awarded red flags to those companies.

Overuse of options

Another concern with stock options is that the potential to reap great windfalls with no personal downside may exacerbate conflicts with the interests of long-term shareholders. As Reich notes, "This form of pay gives CEOs a significant incentive to pump of the value of their firms' shares in the short run, even if the pumping takes a toll over the long-term."[40] One important study was highlighted by *New York Times* reporter Gretchen Morgenson in a September 2015 article, "Safety Suffers as Stock Options Propel Executive Pay Packages." This study, entitled, "Throwing Caution to the Wind: The Effect of C.E.O. Stock Option Pay on the Incidence of Product Safety Problems" shows increased risk of product recalls at companies that rely heavily on options.[41] Using ISS data we gave red flags for those companies in which options were 60% or more of total pay. A total of 37 companies received this flag.

> "If expectations fall during the course of a given year, the options or deferred stock granted a year later will be priced low. To reap a big reward, all managers have to do is help expectations recover to the prior level."
>
> - Roger Martin, "The Rise (and Likely Fall) of the Talent Economy," Harvard Business Review[42]

This year, for the first time, we also looked at large option exercises. While summary compensation data is the universal tool for evaluating compensation, far more wealth is received with option exercises. There were 17 S&P 500 CEOs who realized over $50 million dollars through their exercises of options last year. We examined companies where executives realized value of over $10 million dollars through the exercise of options. We did not award flags, however, if the level of ownership increased or stayed the same. If the philosophy is that large shareholdings create alignment, then a significant reduction in alignment is of some significance to shareholders as well. We also looked at number of shares exercised and awarded flags if more than 500,000 shares were exercised and holdings down by 10%.

Compensation Inflators: Contributors to the Upward Spiral

There are several qualitative factors that play a key role in the increase of compensation, including particularly the collegial hyperconnected world of corporate directors, which we touch on below. This report will focus on those measures that we are able to quantify.

FIGURE 17 – OVERPAID BY UPWARD SPIRAL INDICATORS

COMPANY	CEO PAY TO ISS PEER	CEO PAY TO COMPANY IDENTIFIED PEER	BENCHMARK HIGHER THAN 50%	20% OR MORE SALARY INCREASE IN 1 YEAR	INCREASE OF OVER $300,000 IN PAST 5 YEARS (BUT NOT IF ALREADY %)	HIGHEST PERCENTAGE INCREASE IN SALARY	SALARY OVER $1.5 MILLION	BONUS NOT PERFORMANCE BASED	HIGHEST RETIREMENT	ALL OTHER OVER $500K	TOTAL
Discovery Communications	🚩	🚩	🚩			🚩	🚩 🚩		🚩	🚩	8
Morgan Stanley		🚩				🚩 🚩	🚩	🚩 🚩	🚩		7
Wyndham Worldwide Corp	🚩	🚩	🚩			🚩	🚩			🚩	6
Mattel, Inc.				🚩	🚩		🚩		🚩	🚩	5
BlackRock, Inc.	🚩	🚩				🚩		🚩 🚩			5
Activision Blizzard, Inc			🚩			🚩 🚩	🚩				4
Alexion Pharmaceuticals, Inc.	🚩					🚩					3
Netflix, Inc.						🚩 🚩					2

Paying significantly above peers

An important IRRC Institute report reiterated what many compensation observers have long noted: "Competitive executive pay is the dominant executive pay paradigm. This means that comparing the pay structure and levels of executives in other similar companies is the main driver of executive pay design."[43] In other words, pay is high at some companies because pay is high at other peer companies. If executive pay is ever to rebalance to more reasonable levels, that trajectory will need to be reversed. Those companies that pay above peers not only are individually problematic, but are drivers of moving the peer group median pay level higher. They will disproportionately affect median pay the following year.

ISS calculates ratio of CEO pay compared to peer median in companies identified by ISS as appropriate peers. (Information on ISS's peer selection process can be found on the company's website.)[44] *As You Sow* purchased this information from ISS and simply sorted from greatest to smallest. We identified the 20% of companies that paid higher than their ISS-identified peers and awarded them red flags. ISS does a similar calculation using data that the company discloses about its chosen peers. We did a similar analysis with these and awarded red flags on this basis.

> "Consultants typically establish benchmarks based on the pay of other CEOs, whose boards typically hire them for the same purpose. Since all boards want to demonstrate to their CEO as well as the analysts on Wall Street their willingness to pay generously for the very best, pay packages ratchet upward annually in this faux competition, conducted and directed by CEOs, for CEOs, in the interest of CEOs."
>
> - Robert B. Reich, *Saving Capitalism: For the Many, Not the Few*

Benchmarking at 50% or higher

There are two ways that peer benchmarking has contributed to the inflationary spiral of CEO pay. The first is when companies unjustifiably include in their peer group firms of a significantly larger size. The second problem, an over-reliance on benchmarking percentages, remains significant. Companies that benchmark at the average 50th percentile of their peers will increase based on outlier influence. Companies that base on the 50th percentile median will also be affected by the steadily changing, seemingly irreversible upward movement known as ratcheting. That is particularly true in the current environment of overuse of benchmarks.

FIGURE 18 – SUMMARY COMPENSATION TABLE FROM PROXY MATERIALS FOR GENERAL ELECTRIC

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	STOCK AWARDS	OPTION AWARDS	NON-EQUITY INCENTIVE PLAN COMPENSATION	CHANGE IN PENSION VALUE & NONQUALIFIED DEFERRED COMP. EARNINGS	ALL OTHER COMPENSATION	SEC TOTAL
Jeff Immelt *Chairman & CEO*	2015	$3,800,000	$5,400,000	$6,238,766	$2,964,000	$7,614,000	$6,336,805	$620,376	**$32,973,947**
	2014	$3,750,000	$5,400,000	$3,676,157	$2,565,000	$2,484,000	$18,568,983	$806,634	**$37,250,774**
	2013	$3,466,667	$5,000,000	$7,777,191		$2,380,000	$729,075	$423,783	**$19,776,716**
Jeff Bornstein *SVP & CFO*	2015	$1,600,000	$2,500,000	$2,746,623	$1,086,800	$3,351,200	$1,815,193	$161,000	**$13,260,816**
	2014	$1,450,000	$2,400,000	$2,585,000	$2,893,000	$1,080,000	$5,661,859	$180,850	**$16,250,709**
	2013	$1,325,000	$2,100,000		$2,486,000	$994,000	$154,341	$176,973	**$7,236,314**
John Rice *Vice Chairman*	2015	$2,537,500	$4,088,000	$2,991,242	$1,185,600	$5,844,600	$1,317,517	$1,695,689	**$19,660,148**
	2014	$2,450,000	$4,400,000		$3,419,000	$1,849,500	$13,216,460	$2,860,207	**$28,195,167**
	2013	$2,300,000	$4,100,000		$2,938,000	$1,834,000	$306,685	$1,435,274	**$12,913,959**
Keith Sherin *Vice Chairman*	2015	$2,500,000	$5,232,500	$2,991,242	$1,185,600	$6,750,550	$6,953,331	$292,836	**$25,906,059**
	2014	$2,300,000	$4,025,000		$3,419,000	$1,761,750	$12,982,498	$260,151	**$24,748,399**
	2013	$2,175,000	$3,780,000		$2,938,000	$1,702,400	$699,512	$233,449	**$11,528,361**
Brackett Denniston *Former SVP, General Counsel & Secretary*	2015	$1,837,500	$3,025,000	$2,259,029	$889,200	$4,081,800	$852,619	$207,435	**$13,152,583**
	2014	$1,775,000	$3,025,000		$2,893,000	$1,296,000	$4,049,639	$217,857	**$13,256,496**
	2013	$1,650,000	$2,875,000		$2,486,000	$1,302,000	$384,326	$171,158	**$8,868,483**

SOURCE: General Electric 2016 Proxy Statement (filed 3/14/2016)

* *The table above summarizes the total compensation paid to or earned by each of the named executive officers at General Electric for the fiscal years ended December 31, 2015; December 31, 2014; and December 31, 2013.*

A summary compensation table in company proxy statements provides the most consistent means of comparing compensation across companies. Note that if a bonus meets the IRS definition of performance-based, it generally appears in the non-equity incentive plan column.

So many companies set a benchmark at the 50th percentile that using this as a benchmark would have been impractical. Instead we focused on companies that set a floor of 50% or higher with an upward range. There were 36 S&P 500 companies that ISS reported as having a target of total compensation in that range.

Increase in non-performance based pay

Over-reliance on the "the other kids are doing it" excuse is most often evident in proxy statements when increases in salary or perquisites are justified. Each year as salaries ratchet up comparisons done by compensation consultants appear to show that a CEO's salary is lower than their peers', and the amount is increased again. The salaries of S&P 500 companies have a disproportionate influence on increases at other companies as well, since other companies point to them as "the other kids" they aspire to be.

Each category of pay listed under the summary compensation table shows this inflation over time, and the outliers encourage others. Some practices deserve special attention even when the amounts themselves may seem relatively insignificant given the size of the companies involved.

Companies paying the highest salaries

As discussed above, Congress passed Section 162(m) of the Internal Revenue code capping tax-deductibility of CEO salary at $1 million, in an attempt to curb increased executive pay. Throughout this report we note many failures of that policy, but we wish to highlight this here: the assumption in the 1990s was that few boards would assent to such an inefficient use of resources to increase salary when so many other forms of compensation were available.

There were at least 23 firms at the time that cut their salary for the explicit reason to place that component of compensation under the tax threshold. For many years CEO salary remained at or close to the $1 million threshold; but over the past decade, even as salaries for most employees remained flat, salaries for CEOs increased. The number of S&P 500 companies with salary over $1M increased by 55% from 2007 to 2013. In some cases, the increase has been incremental each year, over time overall salary has grown significantly. Because incentive compensation is typically based on a multiple of salary, the salary increases inflated compensation in that category as well. In addition, small increases in salary contribute to the ratcheting effect as it is the easiest figure to use in benchmarking.

State Street Global Advisors noticed a lack of variability in total CEO packages. In their report, "Guidelines for Mitigating Reputational Risk in C-Suite Pay," they observe, "When evaluated in the context of poor performance and shareholder returns of the past year, the stable nature of compensation payouts was surprising."[45] An increase in base salary that made up the decrease in short-term bonus payouts was one item they specifically emphasized to the companies to which they sent this report. After an analysis of the salary figures at S&P 500 companies, we awarded an outlier red flag to companies that paid salaries of $1.5 million or higher. There were 73 companies this year, a significant increase from the 56 companies we found when we first looked at this data point two years ago.

Non-performance based bonuses

While designing appropriate performance-based bonus programs is challenging, offering arbitrary non-deductible bonuses is a real cause for concern. Data in the summary compensation table can be confusing and misleading. Figures that appear in the 'bonus' column of the summary compensation table are discretionary cash bonuses awarded, yet not based on any performance criteria. The figure most people consider a bonus appears in the 'annual cash incentive' column. The "bonus" column in the summary compensation table reflects those awards that don't qualify under 162(m) and thus come at higher cost to the companies and shareholders. Of the S&P 500 companies, a significant minority reported any discretionary bonuses at all. In order to avoid flagging a bonus that appears in this column but may reflect a shared company-wide bonus, we reviewed that data. Ultimately we only considered bonuses over $150,000, though most were considerably higher, to eliminate these routine bonuses from our list. There were 39 S&P 500 companies that granted non-performance related cash bonuses of above that amount in the most recent fiscal year and received a red flag in this category.

Pension and tax-advantaged retirement plans

One prism for understanding income inequality in the recent history of the United States is to look at the decline of retirement security for most individuals. In 1983, 62% of employees had defined benefit pensions, today only 17% do.[46] There has been a decline of pensions among CEOs, but at a slower rate and those executives "grandfathered in" have both high-pay and long periods of service that create pension values in the millions.

In addition to pensions and 401(k)s available to employees, there are other tax-advantaged retirement saving vehicles available to CEOs. To call the accumulation of wealth "retirement savings" when the amount is well beyond what could be spent in the course of retirement is essentially a misnomer, and has thus essentially become tax-advantaged wealth accumulation plans for future generations.

> "Just 100 CEOs have company retirement funds worth $4.7 billion — a sum equal to the entire retirement savings of the 41% of U.S. families with the smallest nest eggs."

The benefits are provided under multiple complex systems including Supplemental Executive Retirement Plans, (SERPs), and special deferred compensation plans – including some that have guaranteed above market interest rates on any savings.

Companies are required to disclose in the summary compensation table only the change in pension value. However, a number of factors can affect the number on a given year, from changes in assumptions to a critical age change. For that reason, the use of that figure, particularly on a one-year basis, is not a clear indicator. While further information is provided elsewhere in the proxy, resources did not permit a case-by-case analysis of the retirement packages for the CEOs of the S&P 500. The Institute for Policy Studies tracks these figures and in December 2016 released its report, "The Tale of Two Retirements: As working families face rising retirement insecurity, CEOs enjoy platinum pensions."[47] That report, in addition to analyzing the problematic structures involved, ranked Fortune 500 CEOs by amount of retirement assets, and found that, "Just 100 CEOs have company retirement funds worth $4.7 billion — a sum equal to the entire retirement savings of the 41% of U.S. families with the smallest nest eggs." We gave red flags to the 100 highest.

All other compensation

The SEC-defined 'all other compensation' category, as presented in proxy statements, includes disclosure on perquisites (often known as perks, these special benefits for executives range from family use of company plane to home security systems) as well as other extraordinary payments. In general, we believe all of the executives in this study are sufficiently well compensated to allow them to cover the cost of many items, such as financial planning, rather than have shareholders pay. However, there are some items that appear in this column that are appropriate, including, for example, 401(k) matches and some relocation costs. Based on the data, we are determined to award flags to companies with 'all other compensation' over $500,000 in our data collection. The additional awards sometimes granted under this category, including additional severance and retirement benefits, are also not in the best interests of shareholders. There were 63 companies that met this criterion.

High Executive Pay at the Expense of Long-term Sustainability

This report focuses on executive compensation, not long-term corporate sustainability, and yet we believe one of the greatest problems with the current structure of pay plans is that it may focus executives on the short-term to the detriment of long-term shareholders and stakeholders. There were a number of factors under which companies received a flag only when they met two levels of concern, one related to pay and one related to sustainable performance that we considered only when coupled with particularly high-pay. To create a definition of the most highly paid, *As You Sow* used both highest total compensation as reported in the summary compensation table and highest NEIC.

The factors are detailed below. Ultimately, we believe sustainability requires thoughtful management and care of stakeholders including customers and employees.

A reinforcing downward spiral can develop between short-term actions that raise pay but are ultimately bad for the long-term health of the company and its shareholders. This year has seen increasing coverage of such issues. Some of the larger critique of pay in political circles has been around the issues of income inequality, but as the larger populace focuses more on the issue high-pay itself could damage a company's reputation or business. One recent study conducted by a Harvard Business School student found that customers were more interested in buying a product produced in a fairer context. The article referring to this study in the *Harvard Business Review* was aptly entitled, "Is Your CEO's High Salary Scaring Away Customers?"[48] Once again this year, we sought to look at several sustainability indicators.

FIGURE 19 – OVERPAID BY SUSTAINABILITY INDICATORS

COMPANY	HIP SUSTAINABILITY	VIOLATION TRACKER	TOTAL COMP AS % OF EBIT	TOTAL COMP AS % OF REVENUE	RATIO OF CEO PAY TO AVERAGE OFFICER	RATIO OF CEO PAY TO NEXT	TOTAL
Wynn Resorts	🚩		🚩	🚩	🚩 🚩	🚩	6
Waters Corporation			🚩	🚩	🚩 🚩	🚩 🚩	6
Autodesk, Inc.			🚩 🚩	🚩	🚩	🚩	5
Centene	🚩		🚩		🚩	🚩	4
Praxair, Inc.					🚩 🚩	🚩 🚩	4
Regeneron Pharmaceuticals			🚩	🚩 🚩			3
Red Hat, Inc.			🚩	🚩 🚩			3
Anadarko Petroleum Corporation	🚩	🚩					2

Overall sustainability

For overall sustainability, we applied HIP Investor's quantitative rating of leading indicators of systematic, long-term sustainability and expected financial performance. HIP rates 32,000 investments on all aspects of sustainability and how those factors link to future risk, potential return and net impact on society, people, and the environment, across 30 factors – including CEO pay, carbon emissions, and employee satisfaction. Whereas Morningstar's traditional five-star system rates historical risk and return, HIP Investor's forward-looking 100-point system rates the future risk and return, much of which is driven by people, natural resources and other knowable yet ignored factors. The HIP Rating is based on seven pillars – health, wealth, earth, equality, and trust, as well as management practices and products/services. We focused on companies with a HIP Investor ranking in the bottom quintile or lowest 20% that were also in the most overpaid CEO quintile (highest 20% by compensation). There were 12 companies that met these criteria.

Government Penalties may be an Indication of Poor Long-term Sustainability Management

In this year's report we were able to include a new metric under sustainability concerns: the companies that have paid the largest fines. Such high fines may be an indication of a dangerous lack of attention to key elements of a company's sustainable future.

In October 2015, Good Jobs First made available a new database, Violation Tracker, which offers enforcement data from 13 federal regulatory agencies with responsibility for environmental, health, and safety issues.

As noted in "BP & Its Brethren: Identifying the Largest Violators of Environmental, Health and Safety Laws in the United States," a report published by Good Jobs First, one example is the way that short-term decisions to cut costs contributed to the Deepwater Horizon disaster. Such incidents cause extraordinary harm to both the environment and to shareholder wealth.

Philip Mattera of Good Jobs First ran a separate analysis based only on penalties finalized in 2015. This list was compared to the high-pay list, and those eight companies that met both criteria received a red flag.

Sustainability requires wise decisions on asset allocation

One issue investors have with high executive compensation is use of shareholder assets, which would be better used elsewhere to build a sustainable future for the company. It is our belief that in most cases that excessive executive compensation is rarely an appropriate use of assets. ISS ranked companies in the S&P 500 for us based on total NEO compensation as a percentage of revenue. A similar ranking was done based on highest percentage of Earnings Before Interest, Tax, (EBITA). This popular indicator of profitability is also referred to as operating earnings.

Ratio of CEO pay to other executive officers

One of the duties of a CEO is to be involved in succession planning, ensuring that there are other executives that could fulfill his or her position. A firm driven by a CEO who sees himself as the very embodiment of the firm may create an environment that does not promote teamwork and trust. This qualitative characteristic of CEO ego-focused power is difficult to measure with a quantitative figure, but studies have found that firms where CEOs earn a disproportionate amount compared to other NEOs may experience lower firm value. ISS calculates CEO pay ratio against criteria including second highest active executive as well as average active NEO, and in this case we ranked them by these ratios and awarded red flags to the 100 most extreme. Many investors use this internal pay disparity figure as an indicator when evaluating compensation. Higher ratios may create morale issues, and encourage other executives to seek positions elsewhere. Executives hired from inside a company are generally less expensive and more effective than executives hired from outside the company. Good transitions are critical for the interests of long-term shareholders.

Third-Party Compensation Ratings

As You Sow also gathered the evaluations of experts in the field who do a thorough analysis of pay and performance each using his or her own proprietary models. Each adds value to an analysis of compensation. This year we included two additional proxy advisory services to the list below.

Institutional Shareholder Services: vote recommendation & quick score

ISS's analysis includes both a relative (compared to peers) and an absolute (compared to shareholder return) evaluation. ISS notes that, "All cases where the quantitative analysis indicates significant misalignment will continue to receive an in-depth qualitative assessment, to determine either the likely cause or mitigating factors."[49] We awarded a red flag to any company at which ISS recommended against a Say-on-Pay vote.

ISS compensation quick score

ISS's QuickScore 3.0 provides a single score that measures a company's level of overall corporate governance risk in four categories including compensation. The score is based on various factors, including analyses of equity plan policies and measures of equity risk mitigation (including stock ownership and anti-hedging policies). Those companies with scores in the bottom 20% received red flags under our analysis.

FIGURE 20 – COMPANIES MEETING EIGHT OR MORE THIRD-PARTY CONCERN MEASURES

Chesapeake Energy Corporation
Bed Bath & Beyond Inc.
SL Green Realty Corporation
FMC Corporation
Anadarko Petroleum Corporation
Schlumberger N.V.
BB&T Corporation
Chevron Corporation
Citigroup Inc.

Glass Lewis vote recommendation and Performance Evaluation

As You Sow also purchased a list of the companies that received scores of D or F in their Pay-for-Performance model from Glass Lewis. Their proprietary Pay-for-Performance model evaluates "five indicators of shareholder wealth and business performance: change in operating cash flow, earnings per share growth, total shareholder return, return on equity; and return on assets," and then evaluates compensation of the five NEOs as well as performance compared to those of peers. Glass Lewis states that, "Equilar has perfected a method of peer group development based directly on market data and social analytics. Glass Lewis utilizes the Equilar peer group as an invaluable monomer in its proprietary Pay-for-Performance Model."

Egan Jones Recommendation

Egan-Jones Proxy Services, established in 2002 by Egan-Jones Ratings Co., is a leading independent provider of proxy research, voting recommendations and voting services to a variety of institutional investors. The quantitative "raw score" for any issuers' Rating is derived from a combination of the issuer's performance or total shareholder return ("TSR") and market capitalization as compared to the issuer's total CEO compensation. The resulting ratio of pay versus performance, or "wealth creation," is than benchmarked against a group of well-known and widely-held issuers, with the resultant quintile equaling one of the five EJPS Ratings: "Needs Attention," "Some Concerns," "Neutral," "Good," or "Superior." Egan-Jones then looks at a series of qualitative factors and creates an "adjusted score" combining the two. More information can be found at: http://ejproxy.com/methodologies/.

PIRC

Pensions & Investment Research Consultants Ltd. (PIRC) is the largest independent non-US proxy advisory firm, which advises institutional investors with assets in excess of £1.5 trillion. The firm recommended votes against approximately 450 of the S&P 500 companies pay packages during the 2016 proxy season. The highest level of opposition from a proxy advisory firm.

PIRC uses a proprietary performance analysis to identify what they consider to be an appropriate level of pay and compares it to actual pay. Many advisory firms start with a presumption of voting for management, and vote against only when they see problems; PIRC instead only votes for company compensation plans that maintain best practices.

PIRC is concerned that the current compensation system is broken and incentivises executives to make risky short-term decisions, which are directly linked with the performance conditions attached to their variable pay, instead of properly aligning the executives' interest in providing sustainable long-term growth for shareholders.

PIRC argues that executives have a fiduciary duty to carry out their job in the best interests of shareholders. To 'align' their interest is a misconception, since this is essentially the core duty of an executive, for which they are already heavily compensated. On this basis, PIRC believes that variable pay should only be used to award exceptional performance, not as an expected supplement to an annual salary.

PIRC gives an example of this through the wide-spread use of total shareholder return as the sole performance criterion for many share awards. It states that often companies will use this metric in a relative context to a 'peer group' (selected by the company), and set threshold performance for these awards at below median performance. This practice essentially rewards the executives for performing on average worse than its peers.

In addition, PIRC opposes all forms of retention awards, which are not considered appropriate, as they do not link pay with performance.

Vote data

The remaining criteria we used under this category was related to past votes. We looked at both the most recent votes and the average three-year opposition to management advisory votes on compensation. We gave red flags to the 100 companies that received the lowest vote over the prior year. We also considered the three-year average to create longer-term context in this category. In the years since the right of shareholders to vote on compensation was established, the level of shareholder support has been generally quite high. Typically, when an S&P 500 company receives majority opposition it is a matter that is covered in the business press and in many cases the company does take some action. Votes that garner support in 80% range represent significant shareholder dissatisfaction, but continue to fly under the radar.

This year we added a third voting criteria by looking at those companies which received relatively low levels of support for other management sponsored equity proposals that appeared on their ballots. These plans are carefully structured and often reviewed with large investors, so votes tend to be quite high. In fact, there were more proposals that were supported by 98% of shares cast than those with support of less than 90%. There were 25 companies in the S&P 500 that had compensation plans on their most recent proxy statement that received support of less than 90%.

CONCLUSION

Everyone wants to be properly compensated for the work they do; it is part of the American dream and bedrock of the capitalist system. CEOs have a difficult job, make decisions daily that could impact millions of lives, and should be reasonably rewarded for the productive contributions they make to the economy and society. However, as shown in this report, by every pay-performance measure, many CEOs are being paid entirely too much, bringing us to the conclusion that the process by which CEO pay is determined is broken.

The Dodd-Frank act gives shareholders the right to cast an advisory vote on excessive CEO pay packages that misalign the incentives of executives and owners by voting against these plans and withholding votes for the members of the board's compensation committee. Shareholders need to use this right to make a statement that they want change. In addition, mutual fund owners and pension fund contributors must hold their funds managers accountable and insist that their representatives also exercise this right rigorously.

Members of the boards of directors, many who are CEOs or former CEOs themselves with potentially shared interests in high-pay, have a complicit role in escalating compensation. These directors may not actively collude to increase or even maintain such high compensation levels, but the effect is often the same as if they had.

Beyond the web of cronyism amongst those responsible for deciding and approving pay packages, this report shows that there is little alignment between pay and performance. Overall, these practices promote an unsustainable system. Too often CEOs have received windfalls based on purely external factors. Many metrics that drive pay are short-term (even those considered long-term are typically for three years or less), and provoke decisions with negative long-term impact (from financial engineering to underinvestment in growth).

RECOMMENDATIONS

The good news is that there are ways to curb excessive CEO pay before it becomes a more inexorable problem. CEOs should be compensated appropriately and for the good of the company rather than for their own personal gain or that of the interlocking web of executives who reinforce it. Responsible investors are leading the way in providing reasonable solutions:

- **Shareholders should make sure their assets are voted wisely.** Excessive CEO pay is money that is not being distributed as dividends or reinvested in the company.
- **Mutual fund owners and pension contributors must hold their fund managers accountable.** These intermediaries are legally required to vote their proxies and, with enough shareholder pressure, will cast large vote against wasteful pay packages. In addition, mutual funds should develop rigorous guidelines. Because the vast majority of companies have their fiscal year-end dates on December 31, the majority of proxies come out at the same time. It is critical to have guidelines in place and to address these issues throughout the year.
- **Shareholders must hold board directors accountable.** If directors design and approve excessive pay packages, sit on multiple boards of companies that overpay, or give complacent approval for inappropriately large packages, shareholder must withhold votes from these directors and remove them from the board.

When the boardroom doors are closed and collegiality reigns, it seems impossible to effect change and that much of this seems out of shareholder's control. But shareholders have their say at the ballot box through the proxy statement, and must wield their influence wisely.

APPENDIX A – 100 MOST OVERPAID CEOs

This table shows the 100 Most Overpaid CEOs, as calculated by combining HIP Investor's regression analysis and *As You Sow* indicator analysis. Where companies tied, the company with higher total disclosed compensation was ranked lower.

RANK	COMPANY	CEO	TOTAL DISCLOSED COMPENSATION
1	CBS	Leslie Moonves	$56,773,822
2	SALESFORCE.COM INC	Marc Benioff	$33,362,903
3	DISCOVERY COMMUNICATIONS	David M. Zaslav	$32,377,346
4	GENERAL GROWTH PROPERTIES, INC.	Sandeep Mathrani	$39,247,558
5	REGENERON PHARMACEUTICALS	Leonard S. Schleifer	$47,462,526
6	ORACLE CORPORATION	Safra A. Catz and Mark V. Hurd	$106,488,798
7	VIACOM	Philippe Dauman	$54,154,312
8	VERTEX PHARMACEUTICALS INCORPORATED	Jeffrey M. Leiden	$28,099,826
9	HONEYWELL INTERNATIONAL INC.	David M. Cote	$34,527,344
10	CVS HEALTH CORPORATION	Larry J. Merlo	$28,943,054
11	YAHOO! INC.	Marissa A. Mayer	$35,981,107
12	GENERAL ELECTRIC COMPANY	Jeffrey R. Immelt	$32,973,947
13	GENERAL MOTORS COMPANY	Mary T. Barra	$28,588,663
14	MORGAN STANLEY	James P. Gorman	$22,116,052
15	SL GREEN REALTY CORPORATION	Marc Holliday	$23,047,749
16	COMCAST	Brian L. Roberts	$36,248,269
17	EXXON MOBIL CORPORATION	Rex W. Tillerson	$27,297,458
18	BED BATH & BEYOND INC.	Steven H. Temares	$19,409,668
19	GOLDMAN SACHS GROUP, INC. (THE)	Lloyd C. Blankfein	$22,586,152
20	WYNN RESORTS	Stephen A. Wynn	$20,680,391
21	CHESAPEAKE ENERGY CORPORATION	Robert D. Lawler	$15,418,015
22	BLACKROCK, INC.	Laurence D. Fink	$25,792,630
23	RALPH LAUREN CORPORATION	Ralph Lauren	$23,957,577
24	UNIVERSAL HEALTH SERVICES	Alan B. Miller	$20,477,031
25	CITRIX SYSTEMS, INC.	Robert M. Calderoni	$19,631,434
26	THE WALT DISNEY COMPANY	Robert A. Iger	$44,913,614
27	L BRANDS, INC.	Leslie H. Wexner	$27,168,100
28	AT&T INC.	Randall Stephenson	$25,145,914
29	CHIPOTLE MEXICAN GRILL, INC.	Steve Ells and Monty Moran	$27398971
30	WYNDHAM WORLDWIDE CORP	Stephen P. Holmes	$14,972,307
31	ROPER TECHNOLOGIES, INC.	Brian D. Jellison	$23,214,580
32	CHEVRON CORPORATION	John S. Watson	$22,035,887
33	CAPITAL ONE FINANCIAL CORPORATION	Richard D. Fairbank	$18,015,174
34	AMERICAN EXPRESS COMPANY	Kenneth I. Chenault	$21,988,091
35	CONOCOPHILLIPS	Ryan M. Lance	$21,339,719
36	ULTA SALON, COSMETICS & FRAGRANCE, INC.	Mary N. Dillon	$18,562,988
37	LOCKHEED MARTIN CORPORATION	Marillyn A. Hewson	$28,566,044
38	SCHLUMBERGER N.V.	Paal Kibsgaard	$18,274,802
39	ANADARKO PETROLEUM CORPORATION	R. A. Walker	$17,084,382
40	TIME WARNER INC.	Jeffrey L. Bewkes	$31,493,211
41	DEERE & COMPANY	Samuel Allen	$18,701,330
42	INTERNATIONAL BUSINESS MACHINES CORPORATION	Virginia M. Rometty	$19,821,950
43	MERCK & COMPANY, INC.	Kenneth C. Frazier	$24,208,083
44	AMERIPRISE FINANCIAL SERVICES, INC.	James M. Cracchiolo	$20,670,971
45	MCKESSON CORPORATION	John H. Hammergren	$24,844,555
46	GENERAL DYNAMICS CORPORATION	Phebe N. Novakovic	$20,424,104
47	BORGWARNER INC.	James R. Verrier	$17,420,632
48	HALLIBURTON COMPANY	David J. Lesar	$15,871,329
49	APPLIED MATERIALS, INC.	Gary E. Dickerson	$18,092,808
50	NETFLIX, INC.	Reed Hastings	$16,629,014
51	THE GOODYEAR TIRE & RUBBER COMPANY	Richard J. Kramer	$19,307,800
52	AON, PLC	Gregory C. Case	$29,735,220
53	BAXTER INTERNATIONAL INC.	Robert L. Parkinson, Jr.	$17,883,684
54	PROLOGIS, INC.	Hamid R. Moghadam	$14,981,725
55	CELGENE CORPORATION	Robert J. Hugin	$22,472,912
56	PEPSICO, INC.	Indra K. Nooyi	$26,444,990
57	INVESCO PLC	Martin L. Flanagan	$15,875,975
58	CENTENE	Michael F. Neidorff	$20,755,103
59	DOW CHEMICAL COMPANY (THE)	Andrew Liveris	$21,428,875
60	THE TJX COMPANIES, INC.	Carol Meyrowitz	$19,559,697
61	WATERS CORPORATION	Christopher J. O'Connell	$12,232,667
62	TESORO CORPORATION	Gregory J. Goff	$23,254,554
63	PHILLIPS 66	Greg C. Garland	$22,931,139
64	ABBOTT LABORATORIES	Miles D. White	$19,401,704
65	3M COMPANY	Inge G. Thulin	$19,441,062
66	ALLERGAN	Brenton L. Saunders	$21,565,549
67	PRAXAIR, INC.	Stephen Angel	$15,079,525
68	SEMPRA ENERGY	Debra L. Reed	$16,135,772
69	MONDELEZ INTERNATIONAL, INC.	Irene Rosenfeld	$19,674,812
70	J P MORGAN CHASE & CO	James Dimon	$18,230,313
71	WAL-MART STORES, INC.	C. Douglas McMillon	$19,808,797
72	CITIGROUP INC.	Michael Corbat	$14,598,423
73	CHUBB	Evan G. Greenberg	$20,381,147
74	APACHE CORPORATION	John J. Christmann, IV	$15,139,831
75	JOHNSON & JOHNSON	Alex Gorsky	$23,795,866
76	RED HAT, INC.	James M. Whitehurst	$16,721,520
77	OMNICOM GROUP INC.	John D. Wren	$23,576,047
78	WELLS FARGO & COMPANY	John G. Stumpf	$19,318,604
79	INTUIT INC.	Brad Smith	$16,015,331
80	MICROSOFT CORPORATION	Satya Nadella	$18,294,270
81	MURPHY OIL CORPORATION	Roger W. Jenkins	$14,083,617
82	ADOBE SYSTEMS INCORPORATED	Shantanu Narayen	$18,357,186
83	LENNAR CORPORATION	Stuart A. Miller	$17,909,693
84	FIDELITY NATIONAL INFORMATION SERVICES, INC.	Gary A. Norcross	$12,950,336
85	NETAPP, INC.	Thomas Georgens	$9,391,544
86	MACERICH COMPANY (THE)	Arthur M. Coppola	$13,093,067
87	AUTODESK, INC.	Carl Bass	$12,176,677
88	EXELON CORPORATION	Christopher M. Crane	$15,961,245
89	MYLAN	Heather Bresch	$18,931,068
90	AFFILIATED MANAGERS GROUP, INC.	Sean M. Healey	$17,506,689
91	BB&T CORPORATION	Kelly S. King	$11,696,892
92	HP INC.	Margaret C. Whitman	$17,135,546
93	MATTEL, INC.	Christopher A. Sinclair	$9,744,329
94	JACOBS ENGINEERING GROUP INC.	Steven Demetriou	$12,132,672
95	NIKE, INC.	Mark G. Parker	$16,819,730
96	STARBUCKS CORPORATION	Howard Schultz	$20,091,353
97	WEC ENERGY GROUP, INC.	Gale E. Klappa	$13,826,768
98	VERIZON COMMUNICATIONS INC.	Lowell McAdam	$18,343,660
99	FEDEX CORPORATION	Frederick W. Smith	$13,807,175
100	RAYTHEON COMPANY	Thomas A. Kennedy	$20,377,815

APPENDIX B – OPPOSITION FOR SAY-ON-PAY RESOLUTIONS AT MUTUAL FUND FAMILIES

This table summarizes the Say-on-Pay votes of over 100 mutual fund families using two different measures of support. It shows the percentage of all votes (across all funds within a fund family) cast for, against, and abstained on the 100 Say-on-Pay resolutions that came to vote at 100 companies included in this survey during the 2016 proxy season.

It also shows a ‘unique effective’ vote count, and corresponding percent support, where a vote on each of the 100 resolutions is only counted once across a fund family, regardless of the number of individual funds holding that security within the fund family. Where funds within a fund family vote at odds with each other on the same resolution, the ‘effective’ vote assigned is the consensus vote of at least 75% of the funds voting on that resolution.

For example, Allergan’s Say-on-Pay resolution was voted on by thirteen of Eaton Vance’s funds. Three of these funds supported the resolution and 10 voted against it. The unique effective vote on Allergan’s-Say-on-Pay resolution across Eaton Vance’s family of funds is therefore ‘Against.’ All five Eaton Vance funds that voted on Abbott Laboratory’s Say-on-Pay resolution supported it. The unique effective vote by Eaton Vance on Abbott Laboratory’s Say-on-Pay resolution is therefore ‘For.’

Where the 75% consensus threshold is not met, a ‘Mixed Vote’ is assigned and not counted as contributing to that fund’s overall level of support for Say-on-Pay resolutions included in the survey.

As noted in the report, there were a total of seven companies that met our overpaid criteria, but did not hold votes during the time. In lieu of these the following companies, with an assortment of compensation issues, were added to the list: Activision Blizzard, DuPont, Freeport-McMoran, FMC Corporation, Kansas City Southern, Legg Mason, Pioneer Natural Resources.

		ALL VOTES				UNIQUE VOTES				
FUND FAMILY	NUMBER OF COMPANIES	ABSTAIN	AGAINST	FOR	OPPOSITION	ABSTAIN	AGAINST	FOR	MIXED VOTE	OPPOSITION
ABERDEEN	22		17	24	41%		8	14		36%
AFFILIATED MANAGERS	77		85	131	39%		25	41	11	38%
ALGER	55		98	179	35%		20	34	1	37%
ALLIANCEBERNSTEIN	98		197	627	24%		26	71	1	27%
ALLIANZ	77		79	162	33%		23	54		30%
ALLIANZ LIFE	100		96	478	17%		5	74	21	6%
ALPHA ARCHITECT	5			5	0%			5		0%
ALPINE	36		24	60	29%		11	25		31%
ALPS	72		24	87	22%		19	53		26%
AMERICAN BEACON	78		46	124	27%		15	45	18	25%
AMERICAN CENTURY	96		225	572	28%		29	67		30%
AMERICAN FUNDS/CAPITAL GROUP	80		129	444	23%		22	46	12	32%
AMERICAN INDEPENDENCE	9		4	6	40%		4	5		44%
AMM	11		2	9	18%		2	9		18%
APPLETON FUNDS	11		5	6	45%		5	6		45%
AQR	83		79	251	24%		23	60		28%
ARIEL	19		5	17	23%		4	14	1	22%
ARTISAN	31		9	31	23%		6	24	1	20%
ASPIRIANT	7		2	5	29%		2	5		29%
ASTON	54		32	77	29%		16	35	3	31%
AXA	100		403	1442	22%		5	67	28	7%
BAILLIE GIFFORD	4		2	2	50%		2	2		50%
BAIRD	24		5	19	21%		5	19		21%
BARON	12		11	5	69%		8	4		67%
BERKSHIRE	4			4	0%			4		0%
BLACKROCK	100		55	994	5%		7	93		7%
BMO	34		9	31	23%		8	25	1	24%
BNY MELLON	91		90	148	38%		34	57		37%
BOSTON COMMON	17		5	12	29%		5	12		29%
BOSTON TRUST & WALDEN FUNDS	30		43	46	48%		14	16		47%
BOYAR VALUE	12		3	9	25%		3	9		25%
BRANDES	12		6	11	35%		4	8		33%
BRIDGE BUILDER	95		17	147	10%		6	82	7	7%
BRIDGES	13			13	0%			13		0%
BRIDGEWAY	65		30	63	32%		21	44		32%
BROOKFIELD	9		6	9	40%		4	5		44%
BROWN ADVISORY	20		8	31	21%		5	15		25%
CALAMOS	79			395	0%			79		0%
CALVERT	100		337	34	91%		93	7		93%

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FUND FAMILY	NUMBER OF COMPANIES	ALL VOTES				UNIQUE VOTES				
		ABSTAIN	AGAINST	FOR	OPPOSITION	ABSTAIN	AGAINST	FOR	MIXED VOTE	OPPOSITION
CAMBRIA	13	1	8	6	53%	1	7	5		54%
CAPITAL GROUP	26		10	36	22%		5	21		19%
CAPSTONE	1			1	0%			1		0%
CAUSEWAY	7		4	3	57%		4	3		57%
CCA FUNDS	73		27	60	31%		23	50		32%
CGCM FUNDS (MORGAN STANLEY)	88		14	86	14%		7	74	7	9%
CLAYMORE	43		15	35	30%		13	30		30%
CLEARWATER	87			87	0%			87		0%
COHEN & STEERS	32		3	80	4%		2	30		6%
COLUMBIA	100		425	572	43%		45	55		45%
COMMERCE	24		11	20	35%		9	15		38%
CONCORDE FINANCIAL CORP	7			7	0%			7		0%
CORNERSTONE	44		28	47	37%		18	26		41%
CREDIT SUISSE	7		4	3	57%		4	3		57%
CROFT LEOMINSTER	13		6	10	38%		5	8		38%
CUSHING	8			8	0%			8		0%
DAVIS	17		6	49	11%		3	14		18%
DELAWARE	73		105	240	30%		21	50	2	30%
DEUTSCHE	100		177	425	29%		32	68		32%
DIAMOND HILL	16			43	0%			16		0%
DIMENSIONAL	94		473	405	54%		50	44		53%
DIREXION	77		32	78	29%		23	54		30%
DODGE & COX	15			45	0%			15		0%
DOMINI	19		19		100%		19			100%
DREYFUS	100		311	609	34%		38	62		38%
DRIEHAUS	2		4		100%		2			100%
DUFF & PHELPS	1			1	0%			1		0%
EATON VANCE	86		118	370	24%		9	66	11	12%
FEDERATED	99		45	346	12%		16	83		16%
FENIMORE	3			3	0%			3		0%
FIDELITY	100		235	2071	10%		7	89	4	7%
FIDELITY (GEODE)	99		178	397	31%		31	68		31%
FIDELITY (STRATEGIC ADVISERS)	91		169	545	24%		10	56	25	15%
FIRST EAGLE	17		8	37	18%		3	14		18%
FIRST TRUST	100		136	291	32%		32	68		32%
FMI	6		4	2	67%		4	2		67%
FOOL FUNDS	2		2	1	67%		1	1		50%
FORUM FUNDS	35		16	38	30%		9	23	3	28%
FORWARD	9		6	7	46%		3	6		33%
FRANKLIN TEMPLETON	82		169	375	31%		20	53	9	27%
FRONTIER FUNDS	7		2	10	17%		1	6		14%
GABELLI	76			391	0%			76		0%
GE	99		45	432	9%		3	82	14	4%
GLENMEDE	50		37	89	29%		17	33		34%
GMO	46		58	91	39%		17	29		37%
GOLDMAN SACHS	98		37	524	7%		3	92	3	3%
GOODHAVEN FUNDS	2			2	0%			2		0%
GOTHAM	69		110	176	38%		27	42		39%
GREAT-WEST FUNDS	100		94	211	31%		19	54	27	26%
GREEN CENTURY	43	50			0%	43				0%
GUGGENHEIM	99		130	309	30%		30	67	2	31%
GUIDEMARK	66		4	77	5%		3	62	1	5%
GUIDESTONE	95		27	289	9%			80	15	0%
HARBOR	42		6	46	12%		4	38		10%
HARDING LOEVNER	11		2	10	17%		2	9		18%
HARTFORD	80		59	442	12%		14	66		18%
HENDERSON	21		8	19	30%		7	14		33%
HENNESSY	55		14	86	14%		5	43	7	10%
HIGHLAND	19		19	12	61%		9	10		47%
HODGES	16			19	0%			16		0%
HOMESTEAD FUNDS	23		3	20	13%		3	20		13%
HOTCHKIS & WILEY	15			50	0%			15		0%
HSBC	8			19	0%			8		0%
ICON FUNDS	39		29	43	40%		18	21		46%
INTEGRITY	20		6	22	21%		5	15		25%
INVESCO	99		252	625	29%		32	65	2	33%
IRONBRIDGE	16		4	18	18%		3	13		19%

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FUND FAMILY	NUMBER OF COMPANIES	ALL VOTES				UNIQUE VOTES				
		ABSTAIN	AGAINST	FOR	OPPOSITION	ABSTAIN	AGAINST	FOR	MIXED VOTE	OPPOSITION
IVY	48		4	206	2%		2	46		4%
JACKSON	100	1	216	516	29%		14	46	40	23%
JAMES ADVANTAGE	15		6	20	23%		4	11		27%
JANUS	98	17	93	341	21%		20	70	8	22%
JOHN HANCOCK	100		221	553	29%		17	54	29	24%
JP MORGAN	100		158	1004	14%		16	84		16%
KEELEY	8		5	6	45%		5	3		63%
KP	79		16	64	20%		16	63		20%
LATTICE STRATEGIES	51		19	32	37%		19	32		37%
LAUDUS FUNDS	11		4	7	36%		4	7		36%
LAZARD	51		29	102	22%		11	40		22%
LEGG MASON	99	4	131	444	23%		19	59	21	24%
LEUTHOLD	20			42	0%			20		0%
LIBERTY	48		16	37	30%		15	33		31%
LKCM	34		19	47	29%		9	23	2	28%
LMP (LEGG MASON)	10		1	9	10%		1	9		10%
LONGLEAF	3			5	0%			3		0%
LOOMIS SAYLES	27		20	17	54%		13	14		48%
LORD ABBETT	68		17	252	6%		6	62		9%
MADISON	25		13	48	21%		4	21		16%
MAINSTAY	100		229	542	30%		28	68	4	29%
MAIRS & POWER	15			23	0%			15		0%
MANNING & NAPIER	2			2	0%			2		0%
MARISCO	11			24	0%			11		0%
MARKETOCRACY	11			11	0%			11		0%
MASSMUTUAL	99		164	426	28%		5	54	40	8%
MATRIX	15		6	9	40%		6	9		40%
MEEDER FUNDS	66		74	198	27%		17	49		26%
MERCER FUNDS	65		27	59	31%		14	41	10	25%
METROPOLITAN	99		32	67	32%		32	67		32%
MFS	69		180	322	36%		26	43		38%
MILLER/HOWARD	11		5	10	33%		4	7		36%
MORGAN STANLEY	87		58	80	42%		34	53		39%
MUTUAL OF AMERICA	99		147	294	33%		32	67		32%
NATIONWIDE	99		65	184	26%		7	59	33	11%
NATIXIS	78		61	164	27%		12	46	20	21%
NEEDHAM FUNDS	3			3	0%			3		0%
NEUBERGER BERMAN	85		121	220	35%		35	48	2	42%
NEW COVENANT FUNDS	49		20	29	41%		20	29		41%
NICHOLAS	13		5	16	24%		3	10		23%
NORTHERN	100		13	284	4%			90	10	0%
NORTHWESTERN	100		64	162	28%		21	63	16	25%
NUVEEN	100		153	420	27%		28	68	4	29%
OAKMARK	18			37	0%			18		0%
OLD WESTBURY	37		17	36	32%		13	24		35%
OLSTEIN	17		6	12	33%		6	11		35%
OPPENHEIMER	100		190	345	36%		31	62	7	33%
O'SHAUGHNESSY	20		10	13	43%		8	12		40%
PACER	5		1	4	20%		1	4		20%
PACIFIC (PACIFIC LIFE)	100		85	509	14%		5	80	15	6%
PARNASSUS	16		9	19	32%		5	11		31%
PAX	50		57	21	73%		38	11	1	78%
PEAR TREE	15		8	7	53%		8	7		53%
PIMCO	71		25	95	21%		5	64	2	7%
PIONEER	62		43	147	23%		16	46		26%
PNC	99		47	132	26%		32	67		32%
PRAXIS	72		26	49	35%		25	47		35%
PRIMECAP ODYSSEY	31		2	57	3%		1	30		3%
PRINCIPAL	100		297	643	32%		29	66	5	31%
PROFUNDS	100		310	680	31%		32	68		32%
PROSPECTOR FUNDS	10		3	10	23%		3	7		30%
PROVIDENT MUTUAL	2			2	0%			2		0%
PRUDENTIAL	100		122	408	23%		24	63	13	28%
PUTNAM	79		321	744	30%		23	56		29%
QUAKER	25		17	24	41%		10	15		40%
QUANTSHARES	46		11	35	24%		11	35		24%
RAINIER	19		7	23	23%		6	13		32%

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FUND FAMILY	NUMBER OF COMPANIES	ALL VOTES				UNIQUE VOTES				
		ABSTAIN	AGAINST	FOR	OPPOSITION	ABSTAIN	AGAINST	FOR	MIXED VOTE	OPPOSITION
RBC	13		5	9	36%		5	8		38%
REYNOLDS	58			58	0%			58		0%
RIDGEWORTH	45		30	27	53%		23	22		51%
ROCKEFELLER FUNDS	10		6	4	60%		6	4		60%
ROTHSCHILD	3		4	1	80%		2	1		67%
ROYCE	8	2		10	0%	1		7		0%
RS	99		55	119	32%		32	67		32%
RUSSELL	100		408	357	53%		55	45		55%
SCHRODER	60		27	52	34%		22	38		37%
SCHWAB	100		293	824	26%		26	74		26%
SCOUT	17		11	12	48%		8	9		47%
SEI	100		528	669	44%		46	54		46%
SENTINEL	35		40	89	31%		12	22	1	35%
SIT	42		28	94	23%		9	33		21%
SPROTT	2			2	0%			2		0%
STATE FARM	15		10	20	33%		5	10		33%
STATE STREET	100		55	222	20%		16	79	5	17%
STATE STREET (ELFUN)	29			41	0%			29		0%
STERLING CAPITAL	47		26	40	39%		20	27		43%
STEWARD	93			98	0%			93		0%
SUNAMERICA	98		192	405	32%		31	67		32%
T ROWE	100		161	1053	13%		15	84	1	15%
TCW	53		8	91	8%		4	48	1	8%
TD	40		22	66	25%		12	28		30%
THIRD AVENUE	5			7	0%			5		0%
THORNBURG	17		13	11	54%		8	9		47%
THRIVENT	100		278	460	38%		31	68	1	31%
TIAA-CREF	100		143	1269	10%		10	90		10%
TOCQUEVILLE	26		12	18	40%		9	17		35%
TOUCHSTONE	21		9	22	29%		5	15	1	25%
TOUCHSTONE (DSM CAPITAL PARTNERS)	6		3	11	21%		1	5		17%
TRANSAMERICA	98		128	565	18%		14	67	17	17%
TRILLIUM (PORTFOLIO 21)	11		12		100%		11			100%
TWEEDY BROWNE	10			22	0%			10		0%
UBS	75		54	162	25%		16	50	9	24%
US BANCORP FUND SERVICES	97		76	193	28%		21	49	27	30%
USAA	100		181	384	32%		32	68		32%
VALIC	96		163	369	31%		29	67		30%
VALUE LINE	25		37	38	49%		11	14		44%
VANECK	33		33	23	59%		18	15		55%
VANGUARD	100		233	2562	8%		9	91		9%
VANTAGEPOINT	23		8	15	35%		8	15		35%
VICTORY	99		174	442	28%		31	67	1	32%
VIRTUS	78		74	209	26%		22	54	2	29%
VOYA	100		135	785	15%		16	84		16%
WADDELL & REED	51		3	104	3%		3	48		6%
WASATCH	17		13	12	52%		9	8		53%
WBI SHARES	3		4		100%		3			100%
WELLS FARGO	100		177	543	25%		26	74		26%
WESTERN ASSET/LEGG MASON	2	7		10	0%	1		1		0%
WILLIAM BLAIR	35		17	42	29%		10	24	1	29%
WILMINGTON	92		35	77	31%		28	64		30%
WILSHIRE	73		48	73	40%		26	40	7	39%
WINTERGREEN	1			1	0%			1		0%
WISDOMTREE	91		188	322	37%		33	58		36%
ZWEIG	20		10	25	29%		6	14		70%

APPENDIX C – OPPOSITION FOR SAY-ON-PAY RESOLUTIONS AT PENSION AND OTHER FUNDS

INSTITUTION NAME	INSTITUTION TYPE	TOTAL ASSETS (US $ MILLIONS)	NUMBER OF PROXIES VOTED	OPPOSITION PERCENTAGE
AFL-CIO	US Fund	$600	97	70%
ALBERTA INVESTMENT MANAGEMENT COMPANY	Canadian Fund	$69,663	53	77%
AMALGAMATED BANK	US Fund	$4,061	99	46%
BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION	Canadian Fund	$81,784	87	80%
CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC	Canadian Fund	$191,535	94	33%
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM	US Pension Fund	$285,774	98	52%
CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM	US Pension Fund	$181,875	98	57%
CANADIAN PENSION PLAN INVESTMENT BOARD	Canadian Pension Fund	$201,871	98	41%
COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION	US Pension Fund	$45,306	100	46%
CONNECTICUT RETIREMENT PLANS AND TRUST FUNDS	US Pension Fund	$28,093	93	41%
EMPLOYEES RETIREMENT SYSTEM OF TEXAS	US Pension Fund	$27,491	93	32%
FLORIDA - STATE BOARD OF ADMINISTRATION	US Pension Fund	$147,819	100	82%
ILLINOIS MUNICIPAL RETIREMENT FUND	US Pension Fund	$33,429	90	29%
ILLINOIS STATE BOARD OF INVESTMENT	US Pension Fund	$19,079	97	46%
INDIANA PUBLIC RETIREMENT SYSTEM	US Pension Fund	$28,830	74	31%
KENTUCKY RETIREMENT SYSTEM	US Pension Fund	$15,109	92	29%
KENTUCKY TEACHERS RETIREMENT SYSTEM	US Pension Fund	$16,576	92	30%
LOCAL GOVERNMENT SUPER	International Pension Fund	$7,628	47	49%
LOS ANGELES CITY EMPLOYEES RETIREMENT SYSTEM	US Pension Fund	$14,005	83	27%
LOS ANGELES FIRE & POLICE PENSIONS	US Pension Fund	$18,052	87	46%
MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM	US Pension Fund	$12,764	96	46%
MARYLAND STATE RETIREMENT AND PENSION SYSTEM	US Pension Fund	$43,691	100	32%
MASSACHUSETTS PENSION RESERVES INVESTMENT MANAGEMENT BOARD	US Pension Fund	$58,840	100	43%
MINNESOTA STATE BOARD OF INVESTMENT	US Pension Fund	$67,758	94	84%
NEW HAMPSHIRE RETIREMENT SYSTEM	US Pension Fund	$7,460	92	30%
NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM	US Pension Fund	$76,389	91	29%
NEW YORK CITY FUNDS	US Pension Fund	$155,120	89	62%
NEW YORK STATE TEACHERS RETIREMENT SYSTEM	US Pension Fund	$101,828	89	44%
NORGES	International Fund	$957,865	93	23%
NORTH CAROLINA RETIREMENT SYSTEMS/DEPARTMENT OF THE STATE TREASURER	US Pension Fund	$94,228	99	44%
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS SUPERANNUATION COMMITTEE	International Pension Fund	$8,367	31	100%
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM	US Pension Fund	$86,259	94	67%
ONTARIO MUNICIPAL EMPLOYEES RETIREMENT	Canadian Pension Fund	$55,864	40	18%
ONTARIO TEACHERS' PENSION PLAN	Canadian Pension Fund	$123,985	86	42%
OREGON PUBLIC EMPLOYEES RETIREMENT FUND	US Pension Fund	$69,726	99	44%
PENNSYLVANIA PUBLIC SCHOOL EMPLOYEE RETIREMENT	US Pension Fund	$47,569	99	43%
PGGM VERMOGENSBEHEER B.V.	International Pension Fund	$199,043	92	95%
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO	US Pension Fund	$14,191	81	14%
PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA*	US Pension Fund	$32,991	85	26%
ROYAL LONDON ASSET MANAGEMENT	International Fund	$110,756	5	100%
SCHOOL EMPLOYEES RETIREMENT SYSTEM	US Pension Fund	$12,646	100	36%
SOUTH YORKSHIRE PENSION AUTHORITY	International Pension Fund	$8,991	59	95%
STATE OF WISCONSIN INVESTMENT BOARD	US Pension Fund	$94,794	100	73%
STATE TEACHERS RETIREMENT SYSTEM OF OHIO	US Pension Fund	$69,574	97	30%
STRATHCLYDE PENSION FUND OFFICE	International Pension Fund	$23,044	13	15%
TEACHER RETIREMENT SYSTEM OF TEXAS*	US Pension Fund	$125,327	96	0%
TEACHERS RETIREMENT SYSTEM OF LOUISIANA	US Pension Fund	$17,919	79	29%
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	US Pension Fund	$46,544	94	44%
TEXAS MUNICIPAL RETIREMENT SYSTEM	US Pension Fund	$24,010	100	0%
UNITED CHURCH FUNDS	US Pension Fund	$765	94	43%
UNIVERSITY OF CALIFORNIA	US Pension Fund	$70,818	83	36%
VIRGINIA RETIREMENT SYSTEM	US Pension Fund	$67,804	87	26%
WESPATH INVESTMENT MANAGEMENT	US Fund	$22,053	94	57%
WEST VIRGINIA MANAGEMENT BOARD	US Pension Fund	$12,772	64	41%

APPENDIX D – HIP INVESTOR REGRESSION ANALYSIS

This table shows the 100 Most Overpaid, as calculated by just the HIP Investor regression analysis.

Executive pay data series included:

- Raw data: Simply looking at every ISS-identified executive's pay package, in each year, as a single data point to be paired with performance for that year.
- CEO Pay, all years: The raw data is filtered based on ISS identification of the CEO. The series is supplemented using a Thomson Reuters Asset4 data set that captures the single largest pay package for each (company, year) pair. If ISS did not report a CEO for a given pair, and that pair was available in the Asset4 series, the Asset4 data was included. Where ISS identifies multiple co-CEOs, their pay packages are added together. Once the full set of pay packages is assembled, each (company, year) value is paired with the performance for that year, and this full set is used for the regression.
- CEO Pay, most recent available: Rather than using all (company, year) pairs, only the most recent available CEO pay package is used, along with performance trailing from that year.
- Summed: Aggregating all money paid out to ISS-identified executives for the year.
- Averaged: Dividing the previous summed data point by the number of distinct executives for the year.

Each type of executive pay could be reported in any year from 2007-2016, though not every company was reported for every year.

Financial performance series included:

- Return On Invested Capital (cash flow available to pay both debt and equity capital owners, adjusted for tax effects, divided by the total value of that capital). ROIC is sourced from Thomson Reuters WorldScope, which sources data from companies' annual reports and investor filings.
- Total Return (capital gains and dividends) on the company's primary equity. This is calculated from the ThomsonReuters DataStream Return Index series, using trailing periods behind June 30 of the year of the pay package as identified by ISS (or matching the year for the supplementary largest package data from Asset4).

Both performance factors were calculated across one-year, three-year, and five-year windows, trailing behind each possible pay year. Thus, data was considered as far back as 2002 (for the five-year window trailing pay data from 2007). With four pay series, and six performance series, a total of 24 total regression analyses were calculated.

Each regression identifies a best-fit line for predicting pay based on performance. Although we, like many other analysts, find at best weak links between pay and performance, the usual justification claimed for high executive pay is that they are connected to profits and capital appreciation for the shareholders who foot the bill. We grant the assumption that pay should be determined by performance, and then use a basic statistical technique to map actual performance outcomes to predicted levels of pay. This prediction is compared to actual pay, to see how much the package exceeded such a prediction. Those with highest excess are ranked in the table below.

At some time in the future it may be illuminating to re-run these analyses using the logarithm of the pay value, and performance measured as log (return index end value / return index start value). Additional independent variables could be added to a multiple regression. Of particular interest may be log (market cap, as measured at some point or averaged across some period), and log (number of employees for the relevant year).

RANK	MNEM	COMPANY	CEO PAY VALUE	REGRESSION PREDICTION	EXCESS RELATIVE TO REGRESSION
1	ORCL	Oracle Corporation	$133,502,840	$12,098,357	$121,404,483
2	VIAB	Viacom	$56,872,388	$12,509,379	$44,363,008
3	CBS	CBS	$56,773,822	$14,817,651	$41,956,171
4	REGN	Regeneron Pharmaceuticals	$52,232,055	$21,583,982	$30,648,073
5	DIS	The Walt Disney Company	$43,868,550	$14,265,242	$29,603,308
6	MDT	Medtronic	$39,437,960	$12,559,407	$26,878,553
7	GGP	General Growth Properties, Inc.	$39,247,559	$13,255,754	$25,991,805
8	CRM	Salesforce.com Inc	$36,278,759	$12,328,267	$23,950,492
9	DISCA	Discovery Communications	$35,290,135	$11,858,517	$23,431,617
10	YHOO	Yahoo! Inc.	$36,203,214	$13,226,784	$22,976,430
11	CMCSA	Comcast	$36,261,883	$14,207,832	$22,054,051
12	VRTX	Vertex Pharmaceuticals Incorporated	$35,812,662	$14,153,966	$21,658,696
13	GM	General Motors Company	$33,930,097	$12,676,451	$21,253,645
14	HON	Honeywell International Inc.	$34,461,344	$13,332,422	$21,128,922
15	GE	General Electric Company	$32,093,181	$12,391,005	$19,702,176
16	AON	Aon, Plc	$30,633,043	$13,239,437	$17,393,606
17	PEP	Pepsico, Inc.	$29,169,017	$11,777,263	$17,391,754
18	TWX	Time Warner Inc.	$30,796,289	$13,944,986	$16,851,303
19	XOM	Exxon Mobil Corporation	$27,297,458	$11,593,918	$15,703,540
20	LMT	Lockheed Martin Corporation	$28,621,760	$13,449,947	$15,171,813
21	CVS	CVS Health Corporation	$29,331,309	$14,234,480	$15,096,830
22	FOX	Twenty-First Century Fox, Inc.	$27,820,310	$13,632,147	$14,188,163
23	T	AT&T Inc.	$25,272,896	$12,027,455	$13,245,441
24	BLK	BlackRock, Inc.	$25,939,539	$13,143,153	$12,796,385
25	LB	L Brands, Inc.	$27,704,127	$15,689,715	$12,014,412
26	MCK	McKesson Corporation	$25,476,889	$13,897,997	$11,578,892
27	PSX	Phillips 66	$24,113,037	$12,657,764	$11,455,272
28	JNJ	Johnson & Johnson	$23,159,183	$12,041,505	$11,117,678
29	RL	Ralph Lauren Corporation	$23,063,264	$11,977,997	$11,085,267
30	OMC	Omnicom Group Inc.	$23,576,047	$12,542,863	$11,033,184
31	GS	Goldman Sachs Group, Inc. (The)	$22,586,152	$11,648,324	$10,937,828
32	MS	Morgan Stanley	$21,815,911	$11,750,816	$10,065,095
33	CTXS	Citrix Systems, Inc.	$21,529,457	$11,586,255	$9,943,202
34	ROP	Roper Technologies, Inc.	$23,214,580	$13,588,158	$9,626,422
35	IBM	International Business Machines Corporation	$20,834,612	$11,210,160	$9,624,451
36	WMT	Wal-Mart Stores, Inc.	$20,907,949	$11,411,111	$9,496,838
37	CELG	Celgene Corporation	$24,301,251	$14,827,807	$9,473,444
38	UHS	Universal Health Services	$23,676,601	$14,224,972	$9,451,629
39	ABBV	AbbVie Inc.	$22,059,796	$12,631,908	$9,427,888
40	CSCO	Cisco Systems, Inc.	$20,581,857	$11,160,963	$9,420,894
41	MRK	Merck & Company, Inc.	$21,443,107	$12,087,618	$9,355,489
42	CVX	Chevron Corporation	$20,972,708	$11,625,422	$9,347,286
43	HPQ	HP Inc.	$18,658,289	$9,504,566	$9,153,722
44	SLG	SL Green Realty Corporation	$21,474,223	$12,345,056	$9,129,167
45	WYNN	Wynn Resorts	$20,680,391	$11,755,190	$8,925,201
46	AXP	American Express Company	$21,026,056	$12,274,281	$8,751,775
47	CMG	Chipotle Mexican Grill, Inc.	$23,129,758	$14,723,290	$8,406,468
48	COP	ConocoPhillips	$20,214,035	$12,148,086	$8,065,948
49	BBBY	Bed Bath & Beyond Inc.	$19,730,612	$11,918,053	$7,812,560
50	RHT	Red Hat, Inc.	$20,739,926	$12,974,392	$7,765,534
51	DOW	Dow Chemical Company (The)	$20,554,068	$12,863,732	$7,690,336

Continued on next page

RANK	MNEM	COMPANY	CEO PAY VALUE	REGRESSION PREDICTION	EXCESS RELATIVE TO REGRESSION
52	PG	Procter & Gamble Company (The)	$18,886,624	$11,343,255	$7,543,369
53	RTN	Raytheon Company	$20,131,111	$12,604,760	$7,526,351
54	CHK	Chesapeake Energy Corporation	$16,078,789	$8,940,632	$7,138,157
55	CB	Chubb	$19,589,687	$12,478,849	$7,110,838
56	LYB	LyondellBasell Industries NV	$24,249,937	$17,342,206	$6,907,731
57	F	Ford Motor Company	$18,443,601	$11,548,382	$6,895,220
58	AMP	Ameriprise Financial Services, Inc.	$21,119,108	$14,228,355	$6,890,753
59	ULTA	Ulta Salon, Cosmetics & Fragrance, Inc.	$22,925,504	$16,195,856	$6,729,648
60	ABT	Abbott Laboratories	$19,514,380	$12,834,317	$6,680,062
61	MPC	Marathon Petroleum Corporation	$19,207,131	$12,652,771	$6,554,360
62	MMM	3M Company	$18,978,081	$12,438,103	$6,539,978
63	WFC	Wells Fargo & Company	$19,318,604	$12,782,670	$6,535,934
64	NFLX	Netflix, Inc.	$22,311,088	$15,862,347	$6,448,741
65	SLB	Schlumberger N.V.	$18,029,970	$11,625,062	$6,404,908
66	TJX	The TJX Companies, Inc.	$19,727,197	$13,537,221	$6,189,976
67	MDLZ	Mondelez International, Inc.	$19,021,417	$12,864,540	$6,156,877
68	GD	General Dynamics Corporation	$19,221,411	$13,124,508	$6,096,904
69	COF	Capital One Financial Corporation	$18,627,739	$12,552,959	$6,074,780
70	JPM	J P Morgan Chase & Co	$18,230,313	$12,262,290	$5,968,023
71	APA	Apache Corporation	$15,293,143	$9,336,870	$5,956,272
72	TSO	Tesoro Corporation	$22,629,946	$16,745,794	$5,884,152
73	MSFT	Microsoft Corporation	$18,294,270	$12,421,718	$5,872,552
74	GT	The Goodyear Tire & Rubber Company	$19,346,136	$13,494,414	$5,851,722
75	VZ	Verizon Communications Inc.	$18,343,660	$12,522,648	$5,821,012
76	BAX	Baxter International Inc.	$17,890,938	$12,087,909	$5,803,029
77	WYN	Wyndham Worldwide Corp	$20,441,567	$14,756,458	$5,685,109
78	EXC	Exelon Corporation	$15,961,245	$10,307,660	$5,653,585
79	PX	Praxair, Inc.	$17,359,010	$11,726,149	$5,632,861
80	SBUX	Starbucks Corporation	$20,546,838	$14,980,324	$5,566,514
81	SWK	Stanley Black & Decker, Inc.	$18,182,785	$12,624,165	$5,558,620
82	ADBE	Adobe Systems Incorporated	$19,017,756	$13,476,234	$5,541,522
83	DE	Deere & Company	$17,567,827	$12,063,929	$5,503,897
84	HCA	HCA Holdings, Inc.	$18,076,293	$12,663,251	$5,413,042
85	AA	Alcoa Inc.	$17,770,013	$12,441,489	$5,328,525
86	BBY	Best Buy Co., Inc.	$15,616,615	$10,564,943	$5,051,672
87	LLY	Eli Lilly and Company	$18,531,179	$13,485,778	$5,045,400
88	ESRX	Express Scripts Holding Company	$16,981,105	$11,967,542	$5,013,563
89	APC	Anadarko Petroleum Corporation	$17,423,633	$12,483,198	$4,940,435
90	AGN	Allergan	$21,565,549	$16,678,768	$4,886,781
91	MYL	Mylan	$19,175,040	$14,357,565	$4,817,475
92	HPE	Hewlett Packard Enterprise Company	$18,658,288	$13,865,507	$4,792,781
93	PFE	Pfizer, Inc.	$17,987,950	$13,216,604	$4,771,346
94	TGT	Target Corporation	$16,670,990	$11,942,097	$4,728,894
95	PRU	Prudential Financial, Inc.	$16,561,498	$11,962,290	$4,599,208
96	INTU	Intuit Inc.	$17,942,998	$13,425,811	$4,517,187
97	AMAT	Applied Materials, Inc.	$16,274,431	$11,829,595	$4,444,836
98	MET	MetLife, Inc.	$15,977,685	$11,618,036	$4,359,648
99	CNC	Centene	$21,033,353	$16,678,299	$4,355,054
100	IP	International Paper Company	$17,127,864	$12,792,770	$4,335,094

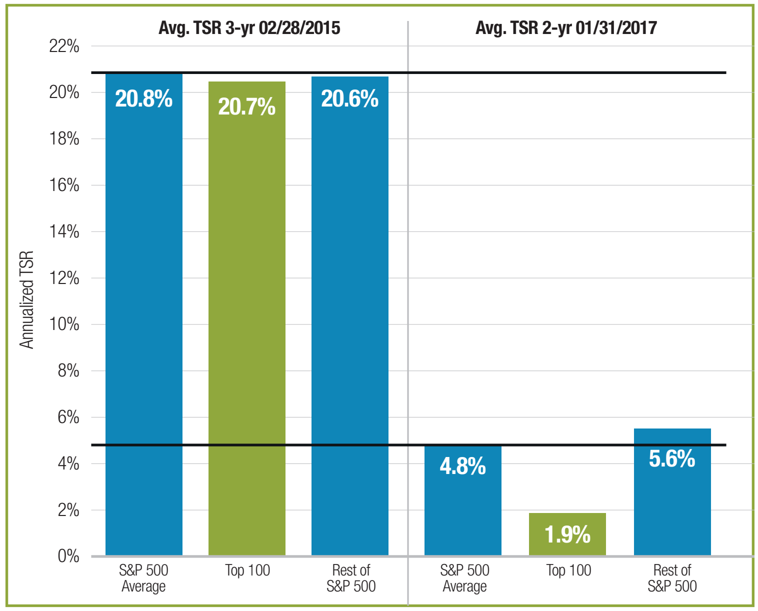
APPENDIX E – DIRECTORS ON MULTIPLE S&P 500 COMPENSATION COMMITEES

This table lists directors who serve on the compensation committees of multiple S&P 500 companies, as well as their professional affiliation.

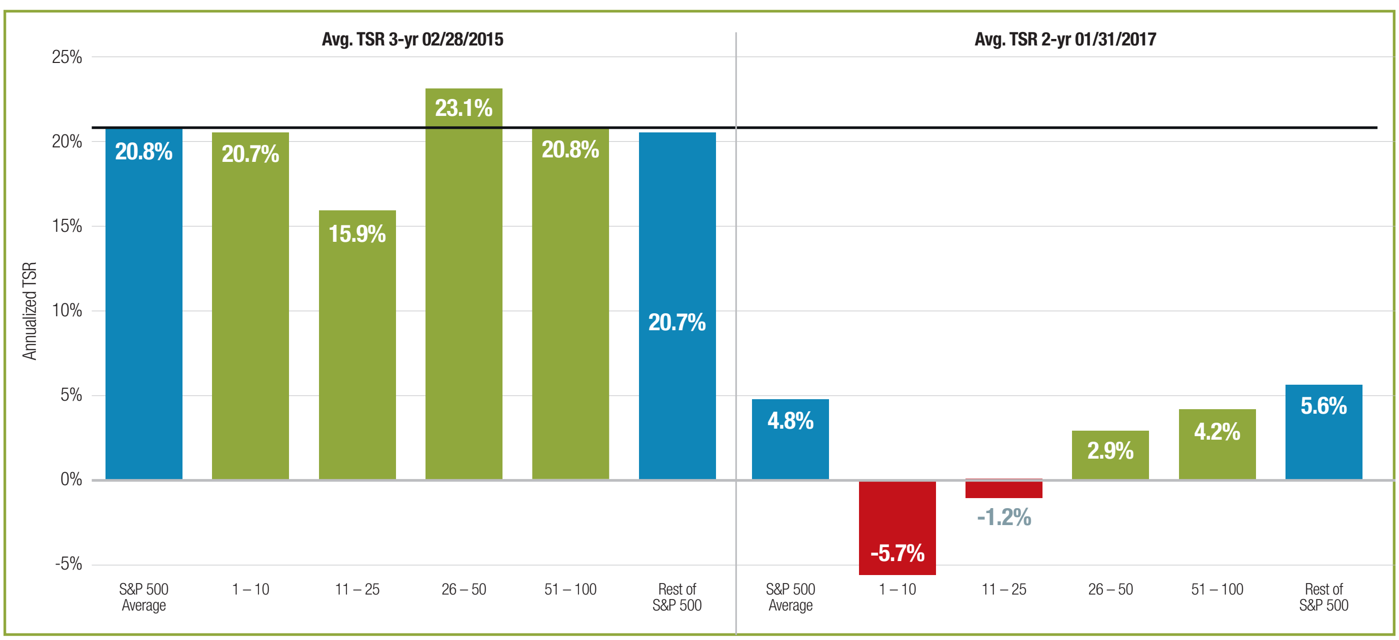
DIRECTOR	COMPENSATION COMMITTEES AT S&P 500 COMPANIES	OTHER BOARDS	PRIMARY AFFILIATION
EDWARD M. LIDDY	3M Company, Abbott Laboratories	AbbVie Inc., The Boeing Company	Retired CEO of The Allstate Corporation
LOIS D. JULIBER	Du Pont E.I. de Nemours, Mondelez International		Retired CEO of Colgate-Palmolive Company
MAYNARD WEBB	Salesforce.com, Yahoo	Visa Inc.	Former CEO of Ebay, Founder of Webb Investment Network
MURRY S. GERBER	Blackrock, Halliburton	U.S. Steel Corporation	Former CEO of EQT Corporation
PATRICIA F. RUSSO	Merck & Co, General Motors	Alcoa Inc., Hewlett Packard Enterprise, KKR Management LLC	Former CEO of Alcatel-Lucent S.A.
RICHARD B. MYERS	Aon, Deere	Northrop Grumman Corporation, United Technologies Corporation	Interim President of Kansas State University, Former Chairman of the Joint Chiefs of Staff
RODNEY SLATER	Verizon, Kansas City Southern	Transurban Group	Partner at Squire Patton Boggs LLP
RONALD A. WILLIAMS	American Express, Johnson & Johnson	The Boeing Company, Envision Healthcare	Retired CEO of Aetna, Inc.
SAMUEL J. PALMISANO	American Express,Exxon Mobil		Retired CEO of IBM
THOMAS T. STALLKAMP	Baxter International, Borgwarner		Founder and principal of Collaborative Management LLC
VANCE D. COFFMAN	3m Company, Deere	Amgen Inc.	Retired CEO of Lockheed Martin Corporation
WILLIAM A. OSBORN	Abbott Laboratories, General Dynamics	Caterpillar Inc.	Former CEO of Northern Trust Corporation
WILLIAM C. WELDON	JP Morgan Chase, CVS Health, Exxon Mobil		Retired CEO of Johnson & Johnson

APPENDIX F – THE 100 MOST OVERPAID CEOS UNDER-DELIVER ON PERFORMANCE FOR SHAREHOLDERS

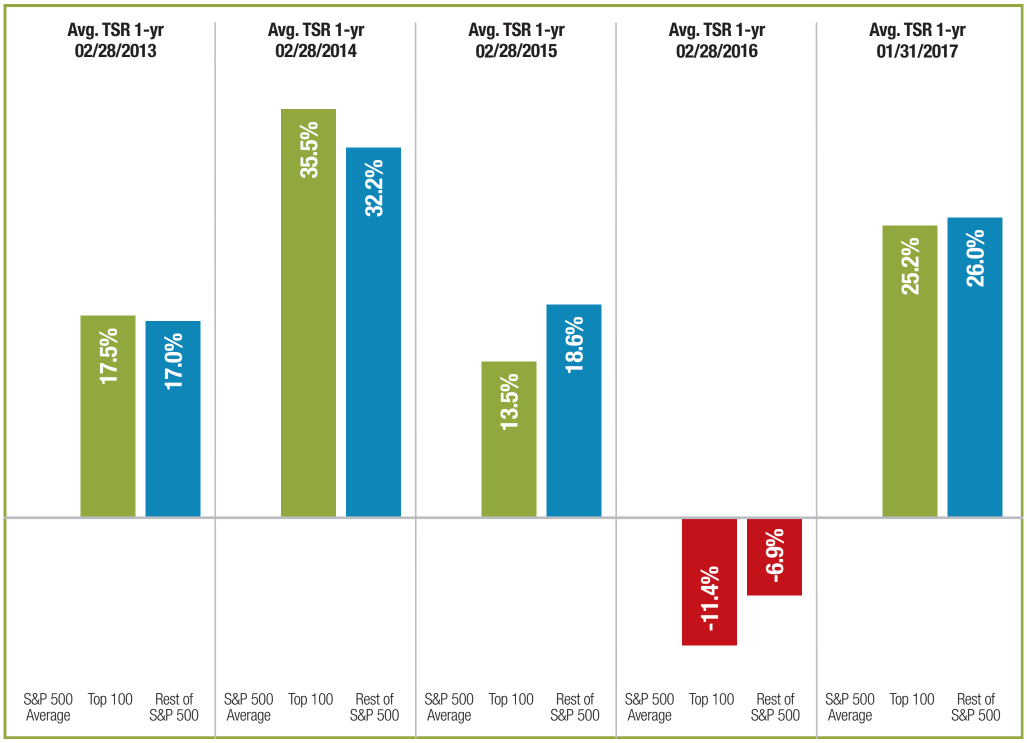
The allure of "pay for performance" is pervasive, as it intends to reward a share of positive gain for all shareholders to the leader of the company. Yet, this "pay for performance" link does not appear to be justified by the numbers. HIP Investor's regression analysis found at best single-digit correlations of CEO Pay to five-year Total Shareholder Value. To see if CEOs actually do create financial value, HIP Investor analyzed the 100 Most Overpaid CEO list from our 2015 report, and found that a portfolio of the 100 firms with overpaid CEOs only earned market returns in the three years leading up to the report, from 2/28/2012 to 2/28/2015. Shockingly, in the nearly two years subsequent to the report, those top 100 firms delivered negative **–60%** less than the S&P 500 average TSR (or 1.9% compared to 4.8%). If an S&P 500 index excluded the top 100 paid over this time period, investors would have done better financially.



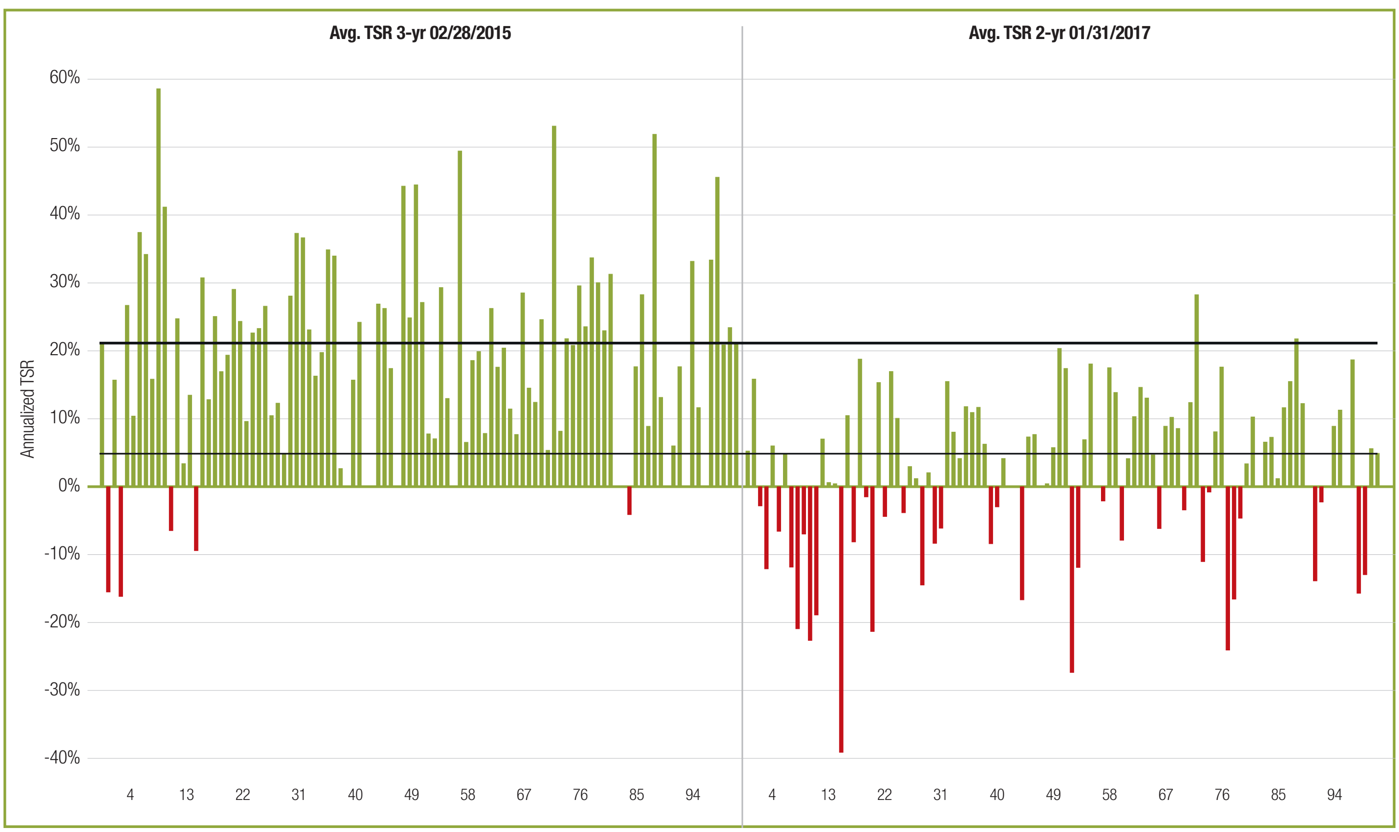
When HIP analyzed the top 10, and then ranks 11-25, 26-50, and 51-100, the mediocre performance leading up to the report and the dramatic under-performance since the report persisted. In fact, the top 10 most overpaid firms as a mini-portfolio would have done the same as the index pre-report, but actually lost money post-report. If investors short-sold, divested or underweighted the top 10 overpaid CEO firms, they would have avoided losses and made more money. All of the grouped segments of the top 100 under-performed the benchmark S&P 500 since the 1st report.



Looking at year-by-year annual TSR, the group of top 100 overpaid CEO firms had near-even performance in the 12 months ended 2013, outperformed in the next year, but in the year of receiving excess pay underperformed (a full 5 percentage points below the benchmark). Then after high CEO pay was granted for less than stellar multi-year performance, the overpaid 100 then lost money (beyond the S&P 500 benchmark) in the 12 months following their outsized pay, and slightly lagged leading up to this report. Again, why are CEOs compensated so highly for performance that is so mixed or even negative?



Finally, HIP Investor tested all 100 overpaid CEO firms from our 2015 report. In the three years previous to the first report, all companies made money, even though several lagged the benchmark. Surprisingly, five highly paid CEOs lost money in an era of 20% annual returns from the benchmark S&P 500. The five included Nabors, Chesapeake, and Freeport McMoRan (all linked to fossil-fuel companies). The other two that lost money yet overpaid their CEO were Ralph Lauren and IBM. In the two years since that report, then several of the top 100 overpaid lost money for shareholders, and most of the top 10 dramatically underperformed. Thus, many overpaid CEOs have not over-delivered for shareholders.



DISCLAIMER

The aggregated data comprising the Most Overpaid CEOs report should not be considered current or complete, or a substitute for financial data provided by a licensed financial advisor. *As You Sow* identified over 30 variables as potential signs of executive compensation excess and collected data from a range of sources (as identified within the report) within a conceptual framework. *HIP Investor Inc.*[50] was engaged by *As You Sow* to run several statistical analyses, including a regression weighted at 50% in the overall determination in the ranking process. Estimation methodologies are subject to limitations in modelling and measurement.

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